

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

INDEPENDENT AUDITORS' REPORTS 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 Directors
Palau Visitors Authority:

We have audited the financial statements of the Palau Visitors Authority (PVA) as of and for the year ended September 30, 2009, and have issued our report thereon dated June 19, 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 PVA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PVA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PVA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 PVA'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 PVA's financial statements that is more than inconsequential will not be prevented or detected by the PVA's internal control. We consider the deficiencies described as items 2009-2, 2009-5, 2009-6 and 2009-7 in the accompanying Schedule of Findings and Responses (pages 3 through 9) 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 PVA'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 believe items 2009-5 and 2009-7 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PVA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2009-1, 2009-3, 2009-4 and 2009-6.

We noted certain matters that we reported to management of PVA in a separate letter dated June 19, 2010.

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

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

Deloitte + Touche LLC

June 19, 2010

PALAU VISITORS AUTHORITY
Schedule of Findings and Responses
Year Ended September 30, 2009

Local Compliance

Finding No. 2009-1

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

Condition: Our tests of expenses noted the following:

- There was no evidence in file that price quotations were obtained for five items (voucher nos. 10996, 12091, 11773, 11982 and 11940); and
- There was no evidence in file of competitive bidding for two contracts (contract nos. 08-168 and 08-107).

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

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

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

Prior Year Status: Lack of adherence to procurement policies and procedures was reported as a finding in the audits of PVA for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Judy Sabino, Accountant I

Corrective Action: Immediate adherence to be in compliance with established procurement policies and procedures will be implemented. An initial meeting was held on June 25, 2010 with department heads to address the noncompliance. Moreover, the Accountant I and Accounting Clerk have been instructed not to process documents that are not in compliance.

Proposed Completion Date: June 25, 2010

PALAU VISITORS AUTHORITY

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

Journal Vouchers

Finding No. 2009-2

Criteria: Journal vouchers should be properly supported and evidenced as to review and approval by the Managing Director.

Condition: We noted that journal vouchers are recorded in the general ledger without approval of the Managing Director. Furthermore, a majority of journal vouchers tested were not supported by documents justifying the entry.

Cause: The cause of the above condition is lack of policies and procedures requiring journal voucher approval by the Managing Director and documentation justifying the entry.

Effect: The effect of the above condition is potential improper recordings to the general ledger.

Recommendation: We recommend that PVA establish policies and procedures to require approval by the Managing Director and documentation justifying all journal vouchers.

Prior Year Status: The lack of approved journal vouchers prior to posting in the general ledger and lack of documentation justifying the entry was reported as a finding in the audit of PVA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Judy Sabino, Accountant I

Corrective Action: The Accountant I and Accounting Clerk have been reminded of the Managing Director's written notice dated April 22, 2009 requiring that journal vouchers be properly supported and evidence review and approval by the Managing Director before being recorded in the general ledger. Both the Accountant I and Accounting Clerk are to ensure compliance without exception.

Proposed Completion Date: June 25, 2010

PALAU VISITORS AUTHORITY

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

Cash

Finding No. 2009-3

Criteria: Section 4.2 of the PVA Corporate Credit Card Policy states that the cardholder may not use the credit card to obtain cash advances.

Condition: Our tests of bank statements noted two instances totaling \$240 where the credit card was used to obtain cash advances.

Cause: The cause of the above condition is the lack of adherence to the PVA Corporate Credit Card Policy.

Effect: The effect of the above condition is potential malfeasance.

Recommendation: We recommend that PVA ensure compliance with its Corporate Credit Card policy.

Prior Year Status: Lack of adherence to the PVA Corporate Credit Card Policy was reported as a finding in the audits of PVA for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Darin De Leon, Managing Director

Corrective Action: The Managing Director will ensure compliance with PVA's Corporate Credit Card policy effective immediately.

Proposed Completion Date: June 25, 2010

PALAU VISITORS AUTHORITY

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

Liabilities

Finding No. 2009-4

Criteria: Recorded liabilities and related expenses should be properly documented and supported.

Condition: Our tests of accounts payable noted a \$629 liability to the Managing Director for excess payroll deductions related to a travel advance. We were informed that the amount is a result of travel advance reconciliations dating back to 2006; however, we were not provided a copy of this reconciliation. A second reconciliation determined the liability at \$470.

Cause: The cause of the above condition is lack of control over repayment of travel advances and payroll deductions and lack of support for recorded liabilities.

Effect: The effect of the above condition is the potential misstatement of liabilities.

Recommendation: We recommend that PVA follow procedures related to travel advances as detailed in its Policies and Procedures manual Section 3.6.3. We further recommend that PVA determine the appropriate amount of the above liability.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Judy Sabino, Accountant I

Corrective Action: We will comply with procedures related to travel advances as stated in PVA's Policies and Procedures manual Section 3.6.3 and complete the reconciliation to determine the appropriate amount of this liability.

Proposed Completion Date: January 31, 2011

PALAU VISITORS AUTHORITY

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

Revenues and Expenses

Finding No. 2009-5

Criteria: PVA should account for all its activities within its general ledger.

Condition: During the year ended September 30, 2009, PVA recorded journal vouchers to remove \$85,958 of revenue and expense items related to its Japan office. PVA represented that it was adjusting these amounts to a separate accounting system but a general ledger for this system was not provided. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is PVA's belief that a separate accounting system was necessary for its Japan office transactions.

Effect: The effect of the above condition is an understatement of revenue and expense.

Recommendation: We recommend that PVA account for all its activities within its general ledger.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Judy Sabino, Accountant I

Corrective Action: As of October 1, 2009, PVA ceased using a separate accounting system for its Japan office. Accounting for all of its revenues and expenses is within the general ledger.

Proposed Completion Date: June 25, 2010

PALAU VISITORS AUTHORITY

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

Republic of Palau Liability

Finding No. 2009-6

Criteria: Republic of Palau Public Law 7-25 appropriated \$925,000 to PVA for the year ended September 30, 2007, unobligated amounts of which lapsed at September 30, 2007. During the year ended September 30, 2007, PVA incurred \$813,477 of expenses, \$74,553 of commitments and \$12,560 of re-programming against the appropriation. The remaining \$24,410 was recorded as a liability to the Republic of Palau (ROP).

Condition: The liability to the ROP has not been liquidated at September 30, 2009.

Cause: The cause of the above condition is that PVA has not agreed with ROP as to the disposition of the funding.

Effect: The effect of the above condition is a potential uncertainty related to the liability.

Recommendation: We recommend that PVA resolve the lapsed funding with ROP.

Prior Year Status: The liability to ROP was reported as a finding in the audit of PVA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Judy Sabino, Accountant I

Corrective Action: The Managing Director will review the details that resulted in the \$24,410 liability to ROP and will establish a trail of communication with ROP for the proper disposition of the funding.

Proposed Completion Date: February 28, 2011

PALAU VISITORS AUTHORITY

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

Net Assets

Finding No. 2009-7

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

Condition: During the year ended September 30, 2009, PVA made entries directly to net asset accounts, did not record all proposed adjustments from the 2008 audit, and removed its \$24,410 liability to ROP by directly adjusting net assets.

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

Effect: The effect of the above condition is a misstatement of beginning net assets and other affected accounts. The condition was corrected through proposed audit adjustments.

Recommendation: We recommend that PVA determine the propriety of adjustments recorded to net asset accounts.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Judy Sabino, Accountant I

Corrective Action: PVA will ensure that all liabilities are recorded and that entries are not recorded directly to net assets.

Proposed Completion Date: June 25, 2010

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Unresolved Prior Year Comments
Year Ended September 30, 2009

The status of unresolved prior year internal control findings is disclosed within the Schedule of Findings and Responses section of this report (pages 3 through 9).