

REPUBLIC OF PALAU
NATIONAL GOVERNMENT

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

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, 2009, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated November 30, 2010. 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, the Palau National Communications Corporation 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 other 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 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. Other auditors also issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority. 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 13 through 115) as items 2009-1 through 2009-9 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 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 2009-1, 2009-2, 2009-4, 2009-5 and 2009-6 to be material weaknesses.

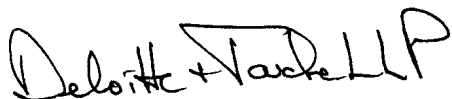
Compliance and Other Matters

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 or other matters 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 2009-10 through 2009-14.

We also noted certain matters that we reported to management of the Republic in a separate letter dated November 30, 2010.

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, the Honorable Members of the Olbiil Era Kelulau, 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.



November 30, 2010

**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, 2009. 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 13 through 15). 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, 2009. 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 2009-15 through 2009-18, 2009-22 through 2009-37, and 2009-39 through 2009-44 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; and procurement and suspension and debarment that are applicable to its Community Facilities Loans and Grants (CFDA # 10.766) major program; allowable costs/cost principles; cash management; equipment and real property management; period of availability of federal funds; reporting; and subrecipient monitoring that are applicable to its OTIA Direct Grants (CFDA # 15.875) major program; eligibility; equipment and real property management; and reporting that are applicable to its WIA Cluster (CFDA # 17.258-60) major program; allowable costs/cost principles; cash management; and equipment and real property management that are applicable to its Airport Improvement Program (CFDA # 20.106) major program; allowable costs/cost principles; equipment and real property management; matching, level of effort, earmarking; and procurement and suspension and debarment that are applicable to its Special Education - Grants to States (CFDA # 84.027) major program; cash management; equipment and real property management; and procurement and suspension and debarment that are applicable to its Freely Associated States - Education Grant Program (CFDA # 84.256) major program; equipment and real property management; procurement and suspension and debarment; and program income that are applicable to its Community Health Centers (CFDA # 93.224) major program; and allowable costs/cost principles; equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; procurement and suspension and debarment; and reporting that are applicable to its Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA # 93.283) 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 Community Facilities Loans and Grants (CFDA # 10.766) major program, its OTIA Direct Grants (CFDA # 15.875) major program, its WIA Cluster (CFDA # 17.258-60) major program, its Airport Improvement Program (CFDA # 20.106) major program, its Special Education - Grants to States (CFDA # 84.027) major program, its Freely Associated States - Education Grant Program (CFDA # 84.256) major program, its Community Health Centers (CFDA # 93.224) major program, and its Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA # 93.283) major program for the year ended September 30, 2009. 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 2009-11, 2009-19 through 2009-21, 2009-38 and 2009-45.

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 2009-15 through 2009-45 to be significant deficiencies.

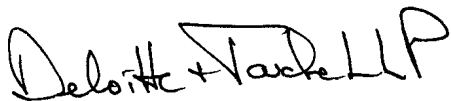
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-16, 2009-18, 2009-22, 2009-23, 2009-27, 2009-31, 2009-33, 2009-36, 2009-37 and 2009-44 to be material weaknesses.

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, 2009, and have issued our report thereon dated November 30, 2010. Our report was modified to include a reference to other auditors. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Republic's basic financial statements. We did not audit the financial statements of the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, which represent 35%, 10% and 40%, respectively, of the assets, net assets and operating revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Palau Community College, the Palau National Communications Corporation, and the Palau District Housing Authority, are based on the reports of the other auditors. The accompanying Schedule of Expenditures of Federal Awards (pages 6 through 10) 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, the Honorable Members of the Olbiil Era Kelulau, 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.



November 30, 2010

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2009

Fund 350100 Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
State Administrative Expenses for Child Nutrition	10.560	-
Cooperative Forestry Assistance	10.664	155,422
Community Facilities Loans and Grants	10.766	124,745
Total U.S. Department of Agriculture		<u>280,167</u>
U.S. Department of Commerce		
Special Oceanic and Atmospheric Projects	11.460	306,485
Pacific Fisheries Data Program	11.437	-
Unallied Management Projects	11.454	1
NOAA Donation to IRC Meeting	11.UNKNOWN	-
Total U.S. Department of Commerce		<u>306,486</u>
U.S. Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	-
Total U.S. Department of Housing and Urban Development		<u>-</u>
U.S. Department of Justice		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	1
State Justice Statistics Program for Statistical Analysis Centers	16.550	-
Total U.S. Department of Justice		<u>1</u>
U. S. Department of Labor		
WIA Adult Program	17.258	112,403
WIA Youth Activities	17.259	143,749
WIA Dislocated Workers Program	17.260	246,601
Total U.S. Department of Labor		<u>502,753</u>
U.S. Environmental Protection Agency		
Construction Grants for Wastewater Treatment Works	66.418	-
Environmental Education Grants	66.951	-
Total U.S. Environmental Protection Agency		<u>-</u>
U.S. Department of Energy		
State Energy Program	81.041	-
Total U.S. Department of Energy		<u>-</u>
U.S. Department of Homeland Security		
Public Assistance Grants	83.544	-
Total U.S. Department of Homeland Security		<u>-</u>
U.S. Department of Education		
Direct Programs:		
Adult Education - State Grant Program	84.002A	29,038
Special Education - Grants to States	84.027A	859,119
Special Education - Grants to States	84.027B	122,755
Special Education - Pre-School Grants	84.173A	-
Byrd Honors Scholarships	84.185A	46,500
Supported Employment Services for Individuals with Severe Disabilities	84.187A	-
Bilingual Education Support Services	84.194Q	-
Freely Associated States - Education Grant Program	84.256A	1,309,324
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	-
Twenty-First Century Community Learning Centers Program	84.287B	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	198,205
Vocational Education - Occupational and Employment Information State Grants	84.346A	-
Total Direct Programs		<u>2,564,941</u>
Pass-Through Pacific Resources for Education and Learning:		
Vocational Education - Basic Grants to States	84.048	81,703
Total Pass-Through Pacific Resources for Education and Learning		<u>81,703</u>
Total U.S. Department of Education		<u>2,646,644</u>

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2009

Fund 350100 Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services		
Civil Rights and Privacy Rule Compliance Activities	93.001	12,620
Public Health Emergency Preparedness	93.069	343,717
Material and Child Health Federal Consolidated Programs	93.110AR	201,257
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	116,313
Family Planning - Services	93.217	171,235
Consolidated Health Centers	93.224	564,525
Consolidated Knowledge Development and Application (KD&A) Program	93.230	55,430
DEH-PHCI	93.240	72,266
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	431,171
Universal Newborn Hearing Screening	93.251	95,591
Immunization Grants	93.268	113,372
Drug Free Communities Support Program Grants	93.276	12,759
CDC and Prevention - Investigations & Technical Assistance	93.283	976,068
ARRA - Grants to Health Center Programs	93.703	20,990
National Bioterrorism Hospital Preparedness Program	93.889	387,003
HIV Care Grants	93.917	38,249
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	67,785
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	260,367
HIV/Aids Surveillance	93.944	19,372
Block Grants for Community Mental Health Services	93.958	58,245
Block Grants for Prevention and Treatment of Substance Abuse	93.959	111,340
Preventive Health Services - STD Control Grants	93.977	48,079
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation and Surveillance Systems	93.988	44,845
Preventive Health and Health Services Block Grant	93.991	17,375
Maternal and Child Health Services Block Grant to the States	93.994	149,718
Total Department of Health and Human Services		4,389,692
Total Federal Grants (Fund 350100)		\$ 8,125,743

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)

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2009

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
Fund 350200		
Non-Capital:		
U.S. Department of the Interior		
Social, Economic and Political Development of the Territories	15.875	<u>628,346</u>
Total U.S. Department of the Interior		<u>628,346</u>
Total Non-Capital		<u>628,346</u>
Fund 420100		
U.S. Federal (CIP Project):		
U.S. Department of Homeland Security		
Public Assistance Grants	83.544	<u>-</u>
Total U.S. Department of Homeland Security		<u>-</u>
U.S. Department of Housing and Urban Development		
Emergency Shelter Grants Program	14.231	<u>-</u>
Total U.S. Department of Housing and Urban Development		<u>-</u>
U.S. Environmental Protection Agency		
Construction Grants for Wastewater Treatment Works	66.418	<u>-</u>
Total U.S. Environmental Protection Agency		<u>-</u>
U.S. Department of the Interior, Capital		
Social, Economic and Political Development of the Territories	15.875	<u>-</u>
Total U.S. Department of the Interior Capital		<u>-</u>
U.S. Department of Transportation		
Airport Improvement Program	20.106	<u>4,309,960</u>
Total U.S. Department of Transportation		<u>4,309,960</u>
Total U.S. Federal (CIP Project)		<u>4,309,960</u>
Fund 430100		
Capital Improvement Projects:		
U.S. Department of the Interior		
Social, Economic and Political Development of the Territories	15.875	<u>-</u>
Total U.S. Department of the Interior		<u>-</u>
Total Capital Improvement Projects		<u>-</u>

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2009

<u>Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>FY 2009 Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>211(a) & 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000	\$ -
Compact Section 215	3,960,000	4,260,000	(300,000)
Total 211(a) & 215 Current Account	<u>\$ 9,960,000</u>	<u>\$ 10,260,000</u>	<u>\$ (300,000)</u>
<u>211(b) & 215 Energy Production</u>			
Investment Management Fees, 211(b) Funds	\$ 1,494	\$ 1,494	\$ -
Total 211(b) & 215 Energy Production	<u>\$ 1,494</u>	<u>\$ 1,494</u>	<u>\$ -</u>
<u>211(c) & 215 Communications</u>			
Executive Branch	\$ 249,000	\$ 249,000	\$ -
Investment Management Fees, 211(c) Funds	89	89	-
Total 211(c) & 215 Communications	<u>\$ 249,089</u>	<u>\$ 249,089</u>	<u>\$ -</u>
<u>211(d) Maritime/Health/Scholarship</u>			
Patrol boat operations	\$ 631,000	\$ 631,000	\$ -
Investment Management Fees, 211(d) Funds	67	67	-
Total 211(d) Maritime/Health/Scholarship	<u>\$ 631,067</u>	<u>\$ 631,067</u>	<u>\$ -</u>
<u>211(e) Maritime</u>			
Investment Management Fees, 211(e) Funds	\$ 158	\$ 158	\$ -
Total 211(e) Maritime	<u>\$ 158</u>	<u>\$ 158</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	\$ 8,198	\$ 8,198	\$ -
Executive Branch	-	-	-
Total 213 Defense	<u>\$ 8,198</u>	<u>\$ 8,198</u>	<u>\$ -</u>
<u>212(b) & 215 Capital Account</u>			
Investment Management Fees	\$ 41	\$ 41	\$ -
Total 212(b) & 215 Capital Account	<u>\$ 41</u>	<u>\$ 41</u>	<u>\$ -</u>

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
YEAR ENDED SEPTEMBER 30, 2009

<u>Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>FY 2009 Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>221(b)(1) & (2) Special Block Grant & Education Special Grant</u>			
Transfer to Palau Community College	\$ 2,000,000	\$ 2,000,000	\$ -
Investment Management Fees, 221(b) Funds	<u>164</u>	<u>164</u>	<u>-</u>
Total 221(b) Special Block Grant	<u>\$ 2,000,164</u>	<u>\$ 2,000,164</u>	<u>\$ -</u>
Total Compact of Free Association CFDA #15.875		\$ 18,150,211	
Less Compact Section 211(a) Current Account		(6,000,000)	
Less Compact Section 215 Current Account		(4,260,000)	
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>\$ 2,890,211</u>	

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2009

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

(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, 2009 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, 2009.

c. Indirect Cost Allocation

The Republic entered into an approved indirect cost negotiation agreement covering fiscal year 2009. The approved rate was 8.34%. 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, 2009

(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, 2009, none of the States had provided prior years 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, 2009, 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, 2009

Section 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 are not considered to be 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 are not considered to be material weakness(es)? | Yes |
| 7. Type of auditors' report issued on compliance for 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(s)</u> | <u>Name of Federal Program or Cluster</u> |
| 10.766 | Community Facilities Loans and Grants |
| 17.258 - 60 | WIA Cluster |
| 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 & Technical Assistance |
| 15.875 | OTIA Direct Grants |
| 20.106 | Airport Improvement Program |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$478,628 |
| 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, 2009

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>
2009-1	Revenues
2009-2	Revenues
2009-3	Revenues
2009-4	Payroll
2009-5	Revenues/Expenditures
2009-6	Federal and Non-federal Grants Receivables
2009-7	Travel Advances
2009-8	Prepays
2009-9	Fixed Assets
2009-10	Local Noncompliance
2009-11	Single Audit Report
2009-12	Local Noncompliance
2009-13	Local Noncompliance
2009-14	Local Noncompliance

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2009-6	Nonmajor	Cash Management	\$ -
2009-11	All Major	Single Audit Report	\$ -
2009-15	93.283	Allowable Costs/Cost Principles	\$ 12,600
2008-16	93.283	Allowable Costs/Cost Principles	\$ 41,755
2009-17	93.283	Allowable Costs/Cost Principles	\$ -
2009-18	84.027	Allowable Costs/Cost Principles	\$ -
2009-18	93.283	Allowable Costs/Cost Principles	\$ -
2009-19	84.027	Allowable Costs/Cost Principles	\$ 726
2009-20	17.258-60	Allowable Costs/Cost Principles	\$ 7,423
2009-21	17.258-60	Allowable Costs/Cost Principles	\$ 7,378
2009-22	15.875	Allowable Costs/Cost Principles	\$ 51,744
2009-23	15.875	Allowable Costs/Cost Principles	\$ -
2009-24	20.106	Allowable Costs/Cost Principles	\$339,548
2009-25	15.875	Cash Management	\$ -
2009-25	20.106	Cash Management	\$ -
2009-25	84.256	Cash Management	\$ -
2009-26	17.258-60	Eligibility	\$ -
2009-27	All Major	Equipment and Real Property Management	\$ -
2009-28	93.283	Matching, Level of Effort, Earmarking	\$ 22,000
2009-29	84.027	Matching, Level of Effort, Earmarking	\$ 30,654
2009-30	10.766	Matching, Level of Effort, Earmarking	\$ 25,000
2009-31	93.283	Period of Availability of Federal Funds	\$ 13,967
2009-32	15.875	Period of Availability of Federal Funds	\$ 46,000
2009-33	10.766	Period of Availability of Federal Funds	\$ -
2009-34	93.224	Procurement and Suspension and Debarment	\$ 40,441
2009-35	93.283	Procurement and Suspension and Debarment	\$ 43,940
2009-36	84.256	Procurement and Suspension and Debarment	\$142,640
2009-37	84.027	Procurement and Suspension and Debarment	\$ 44,381

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Section III - Federal Award Findings and Questioned Costs, Continued

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2009-38	15.875	Procurement and Suspension and Debarment	\$ 14,630
2009-39	84.256	Procurement and Suspension and Debarment	\$ -
2009-40	10.766	Procurement and Suspension and Debarment	\$ -
2009-41	93.224	Program Income	\$ -
2009-42	93.283	Reporting	\$ -
2009-42	15.875	Reporting	\$ -
2009-43	17.258-60	Reporting	\$ -
2009-44	15.875	Subrecipient Monitoring	\$ 83,163
2009-45	93.224	Special Tests and Provisions	\$ -

Section III - Federal Award Findings and Questioned Costs (Sorted by CFDA Number)

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2009-6	Nonmajor	Cash Management	\$ -
2009-27	All Major	Equipment and Real Property Management	\$ -
2009-11	All Major	Single Audit Report	\$ -
2009-30	10.766	Matching, Level of Effort, Earmarking	\$ 25,000
2009-33	10.766	Period of Availability of Federal Funds	\$ -
2009-40	10.766	Procurement and Suspension and Debarment	\$ -
2009-22	15.875	Allowable Costs/Cost Principles	\$ 51,744
2009-23	15.875	Allowable Costs/Cost Principles	\$ -
2009-25	15.875	Cash Management	\$ -
2009-32	15.875	Period of Availability of Federal Funds	\$ 46,000
2009-38	15.875	Procurement and Suspension and Debarment	\$ 14,630
2009-44	15.875	Subrecipient Monitoring	\$ 83,163
2009-20	17.258-60	Allowable Costs/Cost Principles	\$ 7,423
2009-21	17.258-60	Allowable Costs/Cost Principles	\$ 7,378
2009-26	17.258-60	Eligibility	\$ -
2009-43	17.258-60	Reporting	\$ -
2009-24	20.106	Allowable Costs/Cost Principles	\$339,548
2009-25	20.106	Cash Management	\$ -
2009-18	84.027	Allowable Costs/Cost Principles	\$ -
2009-19	84.027	Allowable Costs/Cost Principles	\$ 726
2009-29	84.027	Matching, Level of Effort, Earmarking	\$ 30,654
2009-37	84.027	Procurement and Suspension and Debarment	\$ 44,381
2009-25	84.256	Cash Management	\$ -
2009-36	84.256	Procurement and Suspension and Debarment	\$142,640
2009-39	84.256	Procurement and Suspension and Debarment	\$ -
2009-34	93.224	Procurement and Suspension and Debarment	\$ 40,441
2009-41	93.224	Program Income	\$ -
2009-45	93.224	Special Tests and Provisions	\$ -
2009-15	93.283	Allowable Costs/Cost Principles	\$ 12,600
2008-16	93.283	Allowable Costs/Cost Principles	\$ 41,755
2009-17	93.283	Allowable Costs/Cost Principles	\$ -
2009-28	93.283	Matching, Level of Effort, Earmarking	\$ 22,000
2009-31	93.283	Period of Availability of Federal Funds	\$ 13,967
2009-35	93.283	Procurement and Suspension and Debarment	\$ 43,940
2009-42	93.283	Reporting	\$ -

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues

Finding No. 2009-1

Criteria: An effective system of internal control includes policies and procedures to ensure the completeness of cash receipts issued.

Condition: Approximately 63,256 cash receipts were issued by the Bureau of National Treasury during the year ended September 30, 2009, of which eighty (80) were out of sequential order and could not be provided or explained by the Republic (cash receipt nos. 1049259-1049264, 1054836, 1062489, 1069503, 1069505, 1069507, 1069509-10, 1069512-13, 1069515, 1071051, 1073612-13, 1073621, 1073655, 1073658, 1073695, 1074225, 1074256, 1074259, 1074486, 1074649, 1075365, 1076861-1076869, 1077367-1077373, 1078821, 1080271-72, 1080274-1080276, 1080907, 1081564, 1082856-57, 1082940-41, 1083110-12, 1084187, 1088909, 1090093, 1092265-66, 1093696, 1100979, 110339-43, 1103768-69, 1105043, 1105128-1105131, and 1105882).

Cause: The cause of the above condition is the lack of control procedures over ensuring the completeness of issued cash receipts.

Effect: The inability to provide or explain the cash receipts out of sequence is a control weakness whereby the Republic's collections may be subject to malfeasance.

Recommendation: We recommend that the Republic establish policies and procedures to ensure that cash receipts are issued in sequential order. Exceptions to the sequential order should be documented and be approved by an immediate supervisor.

Auditee Response and Corrective Action Plan: ROP acknowledges the need for an approved internal controls, including guidelines and procedures for the overall Bureau of National Treasury operations; however, the gaps in the cash receipt numbering sequences will continue to be the DILOG system report deficiency until the system is fixed. (please refer to the attached IDC's email response to this particular problem). ***This finding should be removed as ROP has no control over the system capabilities.***

Full name of the person responsible for the corrective action plan: Director-Bureau of National Treasury and BNT Collection Staff

When will the corrective action plan be implemented: ROP will continue to work with the system provider on resolution to this problem.

Auditor Response: We understand the situation with the DILOG receipt generation; however, exceptions to the sequential order of daily receipts should be documented and be approved by an immediate supervisor. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues

Finding No. 2009-2

Criteria: An audit trail should exist for National Hospital cash receipts wherein discounts are applied based on a Sliding Scale Fee schedule and allotment payments are made based on approved agreements. The number of family members, including dependents provided, should be supported by an independent source. Patients' financial information as the basis for determining discounts should be updated to reflect current year income. In addition, billings/statements of accounts (SOA) should be sent to customers in a timely manner. Good internal control provides for monitoring of billings/SOAs sent to ensure that billings/SOAs were sent to all patients with outstanding balances and that timely follow up is performed by sending necessary collection notices/letters.

Condition: Of \$1,662,485 in Hospital Trust Fund revenues, twenty-three receipts, totaling \$321,492, were tested and the following exceptions were noted:

1. For three receipts, senior citizen patients were automatically charged 5% of the total charges regardless of employment status when the Sliding Scale Fee schedule should be used for senior citizens who are employed. Details are as follows:

<u>Patient No.</u>	<u>Receipt No.</u>	<u>Invoice No.</u>	<u>Invoice Amount</u>	<u>% of Total Cost Charged</u>	<u>Correct Percentage based on Sliding Fee Scale</u>
00372	486441	620556	\$ 931	5%	20%
06397	485178	677883	\$ 574	5%	20%
03338	450299	647449	\$ 513	5%	20%

2. For two receipts, patients' service dates were dated 2006 and 2007; however, the hospital billing system only maintains current period patients' family income, which was from 2007 income data. Therefore, recalculation of billed services from prior years, which were collected in 2009, could not be accurate without appropriate period income data.

<u>Patient No.</u>	<u>Receipt No.</u>	<u>Invoice No.</u>	<u>Billed Amount</u>	<u>Correct Amount</u>	<u>Variance</u>
29821	461740	531404	\$ 1,313	\$ 1,575	\$ 262
08236	455642	560596	\$ 1,397	\$ 1,575	\$ 178

No independent source supports the number of dependents in the patient individual/master record provided. Further, the recorded income in the patient individual/master record currently shows 2007 data and the master record has not been updated.

3. For one receipt, the patient was charged the 20% discount amount instead of the invoice amount, net of the 20% discount for one service tested as follows:

<u>Patient No.</u>	<u>Receipt No.</u>	<u>Billed Amount</u>	<u>Correct charge, net of discount</u>	<u>Understatement of revenues</u>
90773	187667	\$ 76	\$ 304	\$ 228

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues, Continued

Finding No. 2009-2, Continued

Condition, Continued:

4. For one receipt, a 50% discount was applied to a patient billing based on an agreement with a certain community association; however, the agreement expired on 12/31/07 and no approved extension could be located. Further, a list of community association members eligible for the discount could not be provided.

<u>Patient No.</u>	<u>Receipt No.</u>	<u>Invoice No.</u>	<u>Invoice Date</u>	<u>Invoice Amount</u>
90308	454715	652662	01/16/09	\$ 1,515

5. For one receipt, a discount of \$592 was given to the patient but the discount amount could not be verified in the Sliding Scale Fee schedule. We were informed that the discount was given based on the Minister of Health's authorization to charge a maximum of \$1,000 to the patient; however, the supporting authorization could not be provided.

<u>Patient No.</u>	<u>Receipt No.</u>	<u>Invoice No.</u>	<u>Invoice Amount</u>
91951	444234	641519	\$ 575

6. For one daily cash collection (National Treasury cash receipt no. 1105788 dated 09/28/2009), the related detailed cash receipts listing could not be provided; thus, we could not examine individual cash receipts and related invoices. We were informed that the cash collections were from 09/05/2009 or 23 days earlier that were not deposited until the related collection reports were recovered from the hospital cash receipts system that crashed on 09/06/2009.

7. For two receipts, the supporting invoice documenting service dates, types of services rendered and rates charged could not be provided.

<u>Patient No.</u>	<u>Receipt No.</u>	<u>Invoice No.</u>	<u>Invoice Amount</u>
08114	453858	108506	\$ 4,196
03338	452088	292271	\$ 15,064

8. For five receipts, original copies of the supporting invoice could not be provided:

<u>Patient No.</u>	<u>Receipt No.</u>	<u>Invoice No.</u>	<u>Invoice Amount</u>
00372	486441	620556	\$ 931
29821	461740	531404	\$ 1,841
08236	455642	560596	\$ 2,028
90308	454715	652662	\$ 1,515
03338	450299	647449	\$ 513

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues, Continued

Finding No. 2009-2, Continued

Condition, Continued:

9. For one collection (receipt no. 1059807 dated 01/13/2009), a copy of the validated deposit slip was not available.
10. Statements of account and/or collection notice letters are not regularly prepared and sent to patients and there was a lack of evidence that timely follow up was performed during fiscal year 2009.

Cause: The cause of the above condition is lack of control procedures to ensure audit trails exist for National Hospital cash receipts. There is lack of evidence that patients' outstanding balances are monitored and followed-up for collection.

Effect: The effect of the above conditions is a misstatement of National Hospital revenues and a lack of revenue collection.

Recommendation: We recommend that the Republic ensure that discounts of a patient's billings are within the applicable Sliding Scale Fee schedule, are supported by an approved agreement and are properly authorized and documented. We also recommend that the number of family members, including dependents, be supported by an independent source. We further recommend that the Republic implement procedures whereby financial information provided for discounts is updated to reflect current year income. We recommend that statements of account (SOA) and collection notices be sent to customers in a timely manner. Finally, we recommend that the National Hospital establish a systematic filing system to ensure that supporting invoices and other relevant documents are filed and maintained to support cash receipts and the basis of discounts.

Auditee Response and Corrective Action Plan: Auditee concurs with these findings and agrees that these findings are actually symptoms of a bigger problem that hasn't been addressed over the years. One of the main reasons why these problems are happening is that there are no written operation policies and procedures for billing & collection department. Other than the sliding fee schedule, there is no set of document that outlines daily work for billing & collection staff. At the same time, the current billing and collection system is very unstable and in a number of occasion have crashed or even stopped working. The Office of Budget & Finance is currently working toward the establishment of this document and at the same time work with HIS Department to develop the new health information system.

In terms of the operational policies and procedures, discussion is underway with external consultant to assist with the review of existing regulations for billing & collections and to develop a comprehensive document to include billing & collection procedural manual. We are hoping that work on this manual will be initiated in January 2011 and hopefully will be implemented before April 2011, in anticipation of the implementation of the Health Insurance.

In terms of the health information system, the system has been developed but pending final modification requested from all department including billing & collection staff. Vendor will be meeting with billing & collection staff this month (November) to review the modifications including demonstration of this program. We are hoping for a beta testing to take place sometimes in January with implementation hopefully on or before April.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues, Continued

Finding No. 2009-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Aside, from these ongoing projects, billing and collections have taken several initiatives to address the problems at hand. In terms of agreement with community association, the department has reviewed all agreement and has instituted a voucher policy that is equitable for all participating organizations. In terms of collection notices, office has referred the entire accounts receivable to Attorney General to hopefully to be collected through amnesty program. Additionally, as a temporary solution has been implemented at all billing post to ensure patient encountered who have pending bills to be presented with billing statement. This approach has proved to be cost effective, compared to sending notices through postal services, which often times get returned.

Full name of the person responsible for the corrective action plan: Minister of Health, MoH Comptroller & Budget Officer and MoH Billing&Collection Staff, with final corrective action plan to be reviewed and approved by the Minister of Finance and Director of Bureau of National Treasury.

When will the corrective action plan be implemented: FY2011 (by April 2011).

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues

Finding No. 2009-3

Criteria: An effective system of internal control includes policies and procedures to ensure that the integrity of financial data is maintained in the Palau CCS, the application system that processes tax revenue data.

Condition: Of three user workstations observed at the Division of Revenue & Taxation, two users, a senior tax officer and a tax officer, were granted excessive rights that allow them to access user and utilities profiles, view, add and edit users access rights as well as system master data.

Cause: The cause of the above condition is the lack of control policies and procedures to grant access rights on a need-to-do and a need-to-know basis.

Effect: Users could unintentionally modify or manipulate tax revenue data. The integrity of data could be affected. As a result, recorded tax revenues could be misstated.

Recommendation: We recommend that management implement policies and procedures to grant access rights on a need-to-do and a need-to-know basis.

Auditee Response and Corrective Action Plan: In the absence of an in-house IT person, the Senior Tax Officer was granted access to the system to allow her to make changes such as editing and adding user rights or canceling reports when checks bounce. The second person was also given such access as back up for the Senior Officer should she become sick or for any other reasons, she will not make it to work. Those are the only two, besides the person in place of the chief and Director, that were given such access. This was strongly recommended at the inception of the CCS especially when continuity of service to taxpayers is one of our top concerns. (We didn't want to be sending back taxpayers because the IT for the Ministry of Finance is at the capitol or not in or otherwise occupied.)

However, please be assured that there is an Audit Trail component of the CCS which the Chief and or the Director can access daily to see where all users have been. Every day we review where users have been and how long they have been in any area of the CCS. In fact, it is in this section, that if unauthorized access and or use have taken place, such user is identified and is dealt with appropriately and immediately.

Although, there is valid justification for the above practice and it is highly monitored to ensure appropriate use, BCRT Director or designee will implement policies and procedures to grant appropriate access rights on a need-to-do and need-to-know basis as recommended to ensure that the integrity of tax data is not compromised. ROP concurs with the finding and ensures that management and appropriate staff will review and implement the auditor's recommendation immediately.

Full name of the person responsible for the corrective action plan: Director- Bureau of Rev, Customs & Tax and designated Tax Officers.

When will the corrective action plan be implemented: Immediately, but no later than January 2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Payroll

Finding No. 2009-4

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.

Prior Year Status: Lack of independent review of changes to the payroll master files was reported as a finding in the Single Audit of the Republic for fiscal year 2008.

Auditee Response and Corrective Action Plan: ROP concurs with the finding and ensures that management and appropriate staff will implement the auditor's recommendation immediately.

Full name of the person responsible for the corrective action plan: Bureau of Public Service System Director, and /or designated BPSS staff.

When will the corrective action plan be implemented: Immediately – November 2010, BPSS Director has begun the review and approval process on all data entries done by the BPSS staff.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues/Expenditures

Finding No. 2009-5

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. Without adequate explanation, an outside party has substantial difficulty trying to understand the basis of the entry.

1. Of forty three General Fund disbursements tested, totaling \$1,685,193, five journal vouchers did not contain adequate support and explanation.

<u>Voucher no.</u>	<u>Amount</u>
DF900071	\$ 2,499,763
DF900206	\$ 133,401
DF900204	\$ 568,944
DF900209	\$ 25,121

2. Of ten CIP disbursements tested, totaling \$1,385,834, one journal voucher did not contain adequate support and explanation.

<u>Voucher no.</u>	<u>Amount</u>
DF900203	\$ 1,377,884

3. Tests of an outstanding loan and related interest expense noted an overstatement of \$57,040 which was the result of a journal voucher entry that did not contain adequate support and explanation.

<u>Voucher no.</u>	<u>Amount</u>
DF900160	\$ 57,040

4. Of nine General Fund revenue transactions tested totaling \$10,440,777, seven journal vouchers did not contain adequate support and explanation.

<u>Voucher no.</u>	<u>Amount</u>
DC900001	\$ 1,800,000
DC900001	\$ 4,140,000
DC900005	\$ 1,800,000
DC900011	\$ 1,200,000
DC900015	\$ 120,000
DF900072	\$ 75,000
DC900015	\$ 1,200,000

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues/Expenditures, Continued

Finding No. 2009-5, Continued

Cause: The cause of the above condition is a lack of control procedures over initiating journal vouchers.

Effect: Transactions recorded through journal vouchers, although signed as to approval, are not adequately supported.

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

Prior Year Status: The lack of control procedures over initiating journal vouchers was reported as a finding in the Republic's 2008 Single Audit.

Auditee Response and Corrective Action Plan: ROP concurs with the findings and that management will review and establish internal guidelines and procedures to address these internal control deficiencies

Full name of the person responsible for the corrective action plan: Bureau of National Treasury Director, Division of Finance & Accounting Chief, and appropriate Sections staff supervisors.

When will the corrective action plan be implemented: Corrective action has been implemented in FY2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Federal and Non-federal Grants Receivables/Cash Management

Finding No. 2009-6

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

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

1. Three Capital Improvement Project awards (CFDA #15.875) have been closed and have been inactive for over five years. A balance of \$180,453 due to the grantor agency remains on the books at September 30, 2009 (grant nos. T-233, T-269, T-231).
2. Thirteen grant awards from the U.S. Department of Agriculture (CFDA #10.664) with a balance of \$259,964 due from the grantor agency, have not been collected as of September 30, 2009, and there were no records provided to determine their status:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Agriculture	CFHP Invasive Species	R53725	\$ 302
Agriculture	Conservation Education	R63723	6,952
Agriculture	Coop. Forestry Health Protection	R63724	3,310
Agriculture	CFA-Conservation Education	R78700	6,598
Agriculture	CFA-Coop Forest Hlth Protection	R78701	29,948
Agriculture	CFA-CFH Invasive	R78702	28,557
Agriculture	CFA-Forest Stewardship	R78703	35,000
Agriculture	CFA-Conservation Education	R88700	6,990
Agriculture	Coop. Forestry Health Protection	R88701	18,821
Agriculture	CFH Invasive Plants	R88702	28,927
Agriculture	Forest Stewardship	R88703	35,000
Agriculture	Urban & Community Forest	R88704	50,938
Agriculture	Coop. Land Forest Health Protection	R98701	239
Agriculture	Invasive Species Plants	R98702	130
Agriculture	Forest Restoration	R98703	940
Agriculture	Urban & Community Forestry	R98704	3,415
Agriculture	Savanna Restoration Project	R98705	<u>3,897</u>
			\$ <u>259,964</u>

3. Four grants from the U.S. Department of Agriculture (CFDA #10.664) have been closed and have been inactive for over three years. A balance of \$11,691 due to the grantor agency remains on the books:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Agriculture	Rural Fire Prev/Control	J63630	\$ (1,505)
Agriculture	Palau Fire Prev/Control	J93630	(600)
Agriculture	Forest Stewardship	R63713	(5,595)
Agriculture	Urban Community Forestry	R03712	<u>(3,991)</u>
			\$ <u>(11,691)</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

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

Finding No. 2009-6, Continued

Condition, Continued:

4. Two grant awards from the U.S. Department of Agriculture (CFDA #10.766) with a balance of \$123,932 due from the grantor agency have not been collected as of September 30, 2009, and there were no records available to determine the grant status:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Agriculture	PHS Fencing	E73733	\$ 74,222
Agriculture	EQPB Econ Fac Grant	R53728	<u>49,710</u>
			\$ <u>123,932</u>

5. One award from the U.S. Department of Agriculture (CFDA #10.766) has a balance of \$27,500 due to the grantor agency and this balance has been inactive during the year ended September 30, 2009 and there were no records available to determine the grant status:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>Amount</u>
Agriculture	Emergency communications equipment	J83642	\$ <u>(27,500)</u>

6. One award from the U.S. Department of Commerce (CFDA # 11.437) with a balance of \$26,036 due from the grantor has not been collected as of September 30, 2009, and there were no records on file to determine the grant status:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Commerce	Fish & Wild Life Project	A33601	\$ <u>26,036</u>

7. Three grant awards from the U.S. Department of Commerce (CFDA #11.460), with an aggregate balance of \$91,964 due from the grantor agency, have not been collected as of September 30, 2009, and there were no records on file to determine the grant status:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Commerce	National Weather Service	A23600	\$ 33,107
Commerce	National Weather Service	A73600	35,337
Commerce	National Weather Service	F83600	<u>23,520</u>
			\$ <u>91,964</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

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

Finding No. 2009-6, Continued

Condition, Continued:

8. Two grant awards from the U.S. Department of Commerce (CFDA #11.460) have closed; however, a balance of \$46,867 due to the grantor agency has not been returned as of September 30, 2009:

<u>U.S. Department</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Commerce	National Weather Service	A33600	\$ (15,106)
Commerce	National Weather Service	A83600	<u>(31,761)</u>
			\$ <u>(46,867)</u>

9. One grant from the U.S. Department of Labor (CFDA #17.259) was closed and appeared to be inactive during the year ended September 30, 2009. A balance of \$1,320 due to the grantor agency remains on the books; however, receipt records noted that grants funds in the same amount were received on October 16, 2008 (ref # DD090001/Cost Center no. A73506).

10. Two grant awards from the U.S. Department of Education (CFDA #84.002A) with a balance of \$15,550 due from the grantor, have not been collected as of September 30, 2009, and there were no records on file to determine the grant status:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Education	Adult Education Program 1996	E63583	\$ 12,271
Education	Adult Education Program	E63583	<u>3,279</u>
			\$ <u>15,550</u>

11. Five grants from the U.S. Department of Education (CFDA # 84.185A) were inactive during the year ended September 30, 2009. A balance of \$23,250 due to the grantor agency remains on the books and there were no records on file to determine the grant status:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Education	BYRD Scholarship Program	E83579	\$ (3,000)
Education	BYRD Scholarship Program	E13579	(7,500)
Education	BYRD Scholarship Program	E33579	(6,750)
Education	BYRD Scholarship Program	E63579	(4,500)
Education	BYRD Scholarship Program	E83579	<u>(1,500)</u>
			\$ <u>(23,250)</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

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

Finding No. 2009-6, Continued

Condition, Continued:

12. Nine grants from U.S. Department of Education (CFDA #84.048) had grantor approval in fiscal year 2008 to use the remaining funding as soon as possible. However, the funding had not been used as of September 30, 2009. Unused funding remains on the books as follows:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/09 Balance</u>
Education	Voc Ed Impr Program	E63591	\$ 104
Education	Voc Ed Impr Program	E73591	1,617
Education	Voc Ed Impr Program	E93591	18
Education	Voc Ed Impr Program	E23591	895
Education	Voc Ed Impr Program	E33591	605
Education	Voc Ed Impr Program	E43599	11,216
Education	Voc Ed Impr Program	E53591	2,077
Education	Voc Ed Impr Program	E63591	29,460
Education	Voc Ed Impr Program	E73591	<u>67,172</u>
			<u>\$ 113,164</u>

13. Receipt records could not be provided for the following grant from the U.S. Department of Education (CFDA #84.185A):

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>2009 Receipts</u>
Education	BYRD Scholarship Program	E93579	\$ 48,000

14. A grant award under the U.S. Department of Health and Human Services (CFDA #84.187A – Cost Center #H63689) was inactive during the year ended September 30, 2009. A balance of \$3,754 due to the grantor remains on the books;

15. Four grant award notifications could not be provided:

<u>U.S. Department of</u>	<u>Grant</u>	<u>CFDA no.– Cost Center no.</u>	<u>Award</u>
Health and Human Services	Real Time Disease Detection	93.069 - I73679	\$ 32,415
Commerce	National Weather Service	11.460 - F93600	\$ 334,694
Commerce	Fish & Wild Life Project	11.437 - A33601	\$ 31,000
Education	Adult Education Program 1996	84.002A - E63583	\$ 100,000

16. A grant in 2005 from the U.S. Department of Education (CFDA #84.256A) was closed and has been inactive for over three years. A balance of \$13,451 due to the grantor agency remains on the books as of September 30, 2009.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

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

Finding No. 2009-6, Continued

Condition, Continued:

17. 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, 2009:

<u>Public Assistance Grants CFDA #83.544</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
FEMA DPIG Program FY95	A53710	\$ (9,460)
FEMA (HMGP-AG's Office)	A93514	(211)
Narrard Typhoon Shelter	A93516	(3,290)
Ngchesar Typhoon Shelter	A93517	(5)
Typhoon Shelter School	A93518	(1,386)
Harde (4) Typhoon Shelter	D93515	<u>(172)</u>
		\$ <u>(14,524)</u>

18. Twelve grants from OTIA, U. S. Department of the Interior (CFDA #15.875) have been inactive for over three years, with balances due to and from the grantor agency as of September 30, 2009 as follows:

<u>U.S. Department of</u>	<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
Interior	PIRRAF Grants Balance	A33833	\$ 15,000
Interior	Fixed Asset Accounting System	A13850	34,735
Interior	Health Information Sys Impr MCI-6	H23851	10,869
Interior	PUC GRT OMIP-PPUC-200101	R13871	3,840
Interior	Palau Wastewater Collection System	R33876	26,000
Interior	ROP / PCC Joint Training	R23880	6,988
Interior	Voc Educ Trng (Pcc)	R53880	<u>45,256</u>
	Total due from grantor agency		\$ <u>142,688</u>
Interior	PPUC OMIP Drawdown's Holding Acct.	A33871	(17,180)
Interior	Highway O&M Engineer	R23886	(30,302)
Interior	Gis Development & Training PAL-85	R23897	(2,946)
Interior	Trmnt/Prev Block Grants	J53836	(14,880)
Interior	Voc Educ Trng (Pcc)	R63880	<u>(74,819)</u>
	Total due to grantor agency		\$ <u>(140,127)</u>

19. One grant award from the U.S. Department of the Interior (CFDA #15.875) closed and was inactive during the year ended September 30, 2009 with a balance of \$34,145 due to the grantor agency (cost center no. 4680).

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

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

Finding No. 2009-6, Continued

Condition, Continued:

20. Twenty non-federal grant awards were inactive during the year ended September 30, 2009, with a balance due to the grantor agency as follows:

<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
PAL Capacity Dev for NPP	F83929	\$ (4,024)
National Biodiversity Plan	A23930	(11,870)
Climate Change Interim	A43930	(313)
Energy Support ASST-OPER	A88984	(231,000)
WHO APW Health Career Trng	H43927	(958)
WHO APW Health Career Trng	H63927	(830)
WHO Health Work Place	H9WHO6	(7,000)
WHO Injury Prevention	H9WHO7	(12,500)
FAA Recrit Qualiry Pers	A13971	(1,154)
FFA Sonsorol Fishing Boat	S53971	(2,337)
Boundary Delimitation Pro	S73971	(362)
FFA (PDF Conference)	S83971	(1,159)
FFC59 Meeting in Majuro	R53971	(27)
55th Tuna Conference	R43971	(190)
PI Forum Leaders Meeting	S8FFA1	(7,816)
Humanitarian Assistance to PSB	F78974	(51,616)
Curriculum Frameworks	E7PRI1	(1,053)
Palau Achievement Tests	E7PRI2	(70,829)
Palauan Textbook	E7PRI3	(3)
Contintal Shelf	R98988	<u>(78,076)</u>
		\$ <u>(483,117)</u>

21. Five non-federal grant awards were inactive during the year ended September 30, 2009, with a balance due from the grantor agency as follows:

<u>Grant</u>	<u>Cost Center no.</u>	<u>9/30/2009 Balance</u>
UNDP Public Sector Program	A73929	\$ 9,961
National Biosafety Framework	A23931	42,350
UNDP (Global Env. Mgmt.)	A33939	24,838
TAIYO (TAOCH) Clearing	B91401	25,000
Fisheries & Maritime Cons.	R23971	<u>25</u>
		\$ <u>102,174</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

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

Finding No. 2009-6, Continued

Condition, Continued:

22. Two non-federal grant awards per the schedule of expenditures of federal awards could not be agreed to an underlying grant award notification.

<u>Cost Center no.</u>	<u>Grant</u>	<u>Award Amount</u>
F53929	UN DEVEL PROGRAMME (UNDP)	\$ 161,000
R93951	QSP Trust Fund - SAICM	\$ 125,000

23. Three non-federal grant awards were not signed by a grantor:

<u>Cost Center no.</u>	<u>Grant</u>	<u>Award Amount</u>
A93930	PAC ADAPT TO CLIMATE CHNG	\$ 800,000
A23931	National Biosafety Framework	\$ 131,000
A33939	UNDP (Global Env. Mgmt.)	\$ 25,000

24. The grant award notifications could not be provided for the following sixteen non-federal grants:

<u>Cost Center No.</u>	<u>Grant</u>	<u>Award Amount</u>
A73929	UNDP Public Sector Program	\$ 447,642
A23930	National Biodiversity Plan	\$ 330,000
A43930	Climate Change Interim	\$ 15,000
H9WH06	WHO Healthy Work Place	\$ 7,000
R23971	Fisheries & Maritime Cons.	\$ 30,000
J8FFA1	Marine Law Observer	\$ 25,000
S53971	FFA Sonsorol Fishing Boat	\$ 114,975
S73971	Boundary Delimitation Pro	\$ 16,985
S83971	FA (PDF Conference)	\$ 4,980
R53971	FFC59 MEETING IN MAJURO	\$ 4,348
R43971	55th Tuna Conference	\$ 16,203
S8FFA1	PI Forum Leaders Meeting	\$ 100,000
R98988	Contintal Shelf	\$ 154,765
R83971	FFA-Palau PDF Fund- 15%	\$ 165,940
Various	State Economic Stimulus Package 2005	\$ 2,273,000
R44962	Capitol Phase III - Sewer	\$ 2,783,000

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

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

Finding No. 2009-6, Continued

Condition, Continued:

25. Five non-federal grant amounts per the supporting schedule did not agree with grant awards as follows:

<u>Grant</u>	<u>Cost Center no.</u>	<u>Grant amount Per Schedule</u>	<u>Grant Award</u>	<u>Variance</u>
State Economic Stimulus Package 2003	various	\$1,909,000	\$2,000,000	\$ (91,000)
State Economic Stimulus Package 2004	various	\$3,027,449	\$2,800,000	\$ 227,449
State Economic Stimulus Package 2006	various	\$4,990,000	\$4,400,000	\$ 590,000
BPS Equip Imprv Grant	J34920	\$ 664,000	\$ 600,000	\$ 64,000
Inter-Island Water Trans	R44893	\$ 791,000	\$ 600,000	\$ 191,000

26. There were no records to determine the grant status of eight non-federal grant awards as of September 30, 2009 and a balance of \$1,129,759 due to the grantor agency remains on the books as follows:

<u>Grant</u>	<u>Cost Center no.</u>	<u>9/3/2009 Balance</u>
State Economic Stimulus Package 2004	various	\$ (309,605)
School Facilities FY'06	R64873	(543)
Airport-Nerikiil Rd. FY06	R64898	(580,029)
Peleliu Concrete Rd Ext	R34891	(142,709)
Inter-Island Water Trans	R44893	(322)
BPS Equip Imprv. Grants	J34920	(10,874)
Hosp Solar Lighting Proj	H84854	(56,388)
Okotol Dock Improve Ph II	R74845	<u>(29,289)</u>
		\$ <u>(1,129,759)</u>

27. There were no records to determine the grant status as of September 30, 2009 for three non-federal grants with balances due from the grantor agency as follows:

<u>Grant</u>	<u>Cost Center</u>	<u>Balance</u>
Phase IV-Final A/N Road	R84898	\$ 1,231,065
Capital Ph III-Sewer	R44962	49,000
Ngaraard Road FY'06	R64899	<u>150,000</u>
Total due from grantor agency		\$ <u>1,430,065</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

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

Finding No. 2009-6, Continued

Condition, Continued:

For amounts presented in condition #s 2, 4, 6, 7, 10, 18 and 21 as due from grantor agencies, collectability of such do not appear uncertain; however, the Republic has not taken effective measures to timely collect outstanding grant receivables, which will continue to exacerbate the Republic's cash flows. Further failure by the Republic to collect these grant receivables could result ultimately in uncollectible accounts receivable.

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 a systematic filing system for grant-related documents, such as approved grant extensions, grant drawdown requests and recorded expenditures supporting the drawdown request. In addition, balances due to grantor agencies are not returned after program completion while balances due from grantor agencies are not periodically followed up on.

Effect: The effect of the above condition is a potential misstatement of federal and non-federal grant receivables.

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 and resolution of federal and non-federal grant receivables was reported as a finding in the Republic's 2005 through 2008 Single Audits.

Auditee Response and Corrective Action Plan: ROP concurs with the finding, and Ministry of Finance along with the grantee program managers will working together with the appropriate grantor agency to resolve the balances of the closed grants. Some of these grants have been closed for more than ten years. Some of these grants were advance by grantor agency, projects have been completed. The filing system for grant related files are being set up and updated regularly. Additionally, Presidential Directive which created the Grant Office Clearing House to oversee the Grant and Budget offices will work closely with the Grantees and Ministry of Finance on operating guidelines and policies to address such matters.

Full name of the person responsible for the corrective action plan: Bureau of National Treasury Director, Division of Finance & Accounting Chief, Grant Coordinator & Staff, to work closely with Grant Office Clearing House.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Travel Advances

Finding No. 2009-7

Criteria: An effective system of internal control includes policies and procedures to ensure the validity and completeness of travel advance transactions.

Condition: Tests of travel advances noted the following exceptions:

1. Of \$390,802 of travel advances at September 30, 2009, 18% or \$69,684 are recorded in general ledger account no. 251 which is no longer used:

<u>Fund</u>	<u>9/30/2009 Balance</u>
General Fund	\$ 44,893
Grants Fund	<u>24,791</u>
	<u>\$ 69,684</u>

2. A schedule of travel advances initially provided was tested and it was noted that the August and September 2009 advances were not included. In addition, of seven travel advances tested, totaling \$10,027, the following exceptions were noted:
 - a. Four travel advances were liquidated through travel claim reports during fiscal year 2009 but these advances were still listed as outstanding at September 30, 2009:

<u>TA no.</u>	<u>Amount</u>
T9056102	\$ 2,000
T9049602	3,172
T9005102	625
T8087502	<u>433</u>
	<u>\$ 6,230</u>

- b. Two travel advances were listed under TA nos. T8087502 and T8068401; however, supporting travel authorizations and claim reports listed actual TA nos. as T9087502 and T9087401, respectively. The schedule was not reviewed to ensure that it was mechanically correct and free of typographical errors.
3. A third and final revised schedule of travel advances was provided for the purpose of including August and September 2009 advances. Of six travel advances tested from the revised schedule, totaling \$17,920, the following exceptions were noted:
 - a. Four travel advances were liquidated through travel claim reports during fiscal year 2009 but were listed as outstanding at September 30, 2009:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Travel Advances, Continued

Finding No. 2009-7, Continued

Condition, Continued

<u>TA no.</u>	<u>Amount</u>
T90489	\$ 6,435
T90509	1,700
T90547	725
T90723	<u>2,146</u>
	\$ <u>11,006</u>

- b. Three travel advances represented airfare costs for which travel occurred in fiscal year 2009. These amounts were recorded as expenditures and were also included in the schedule of travel advances at September 30, 2009:

<u>TA no.</u>	<u>Amount</u>
T90489	\$ 6,435
T90547	725
T90723	<u>2,146</u>
	\$ <u>9,306</u>

- c. Further scrutiny of the schedule of travel advances noted a total of \$122,614 in airfare costs that were recorded as expenditures and were included in the travel advance schedule:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 111,031
Gants Fund	10,857
Other Funds	725

Cause: The cause of the above condition is the lack of policies and procedures to reconcile travel advances. The travel advance schedule was provided three times due to a lack of supervisory review ensuring that the schedule was valid, complete and free of mechanical errors.

Effect: The effect of the above condition is potential misstatements of travel advances.

Recommendation: We recommend that management implement policies and procedures to reconcile travel advances on a monthly basis.

Auditee Response and Corrective Action Plan: MOF management and appropriate staff are currently reviewing the overall process and will implement necessary policies and procedures to correct the deficiencies.

Full name of the person responsible for the corrective action plan: Bureau of National Treasury Director, Division of Finance & Accounting Chief, and appropriate staff.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Prepays

Finding No. 2009-8

Criteria: An effective system of internal control includes policies and procedures to ensure that prepaid items are recorded in the proper period. The prepaids general ledger balance should be reconciled to the subsidiary ledger and differences should be resolved in a timely manner.

Condition: Our tests of prepaid noted the following exceptions:

1. Of eight prepaid items tested, totaling \$1,157,081, three items did not have status reports or an equivalent as of September 30, 2009 and there were no subsequent receiving reports available:

<u>Date</u>	<u>Voucher no.</u>	<u>P.O. no.</u>	<u>Amount</u>
4/13/2009	718077	D90069	\$ 60,000
8/21/2006	584377	D60129	\$ 20,000
3/28/2008	676720	D80068	\$ 280,000

Further investigation resulted in a proposed adjustment to remove invalid prepaid items of \$280,000 (Voucher no. 676720).

2. The prepaids general ledger account balance does not appear to have been reconciled at September 30, 2009. Of total prepaids of \$1,646,487 at September 30, 2009, 25% or \$415,418 dated from 2006 to 2008.

Cause: The cause of the above condition is the lack of control procedures to ensure that prepaid items are adequately supported. There is no mechanism in place to ensure that information related to the receipt of items or the completion of services is forwarded to the responsible person to update the subsidiary ledger.

Effect: The effect of the above condition is the potential for misstatements of prepaid items.

Recommendation: We recommend that the Division of Finance and Accounting establish a system whereby the responsible person for maintaining the prepaid subsidiary ledger is notified of each prepayment and the receipt of items or the completion of services. We recommend that management implement policies and procedures to ensure that prepaid items are timely reconciled.

Auditee Response and Corrective Action Plan: ROP concurs with the finding and ensures that management and staffs will establish and implement operating guidelines and policies to correct these deficiencies. Appropriate staffs are being trained to review and correct any and all deficiencies being addressed herein.

Full name of the person responsible for the corrective action plan: Bureau of National Treasury Director, Division of Finance & Accounting Chief, appropriate Accounts Payable & Procurement Staffs.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Fixed Assets

Finding No. 2009-9

Criteria: The Property Management Policies and Procedures manual dated September 17, 2003, Chapter IV, section 203.4 § (d) stipulates that the total value of capitalized property recorded in the property accountability records will be compared with the related balances shown in the general ledger control account at least quarterly. Property records must be integrated with or reconciled with the related general ledger account. Any differences will be documented, reconciled, and adjusted in accordance with sound accounting practices to bring the two records into complete agreements.

The Republic of Palau Property Management (RPPM) section of the Property and Supply Division should have a mechanism in place to capture transactions affecting the Republic's investment in property acquired by purchase, transfer, donation or other means.

Condition: There is a lack of evidence that capitalized property was reconciled at least quarterly during the year ended September 30, 2009. Property schedules were prepared at the request of auditors during fieldwork. Our examination of property records at September 30, 2009 noted the following exceptions:

1. The schedule of construction work in progress (CWIP) was overstated by \$10,011,856 as certain additions did not pertain to fiscal year 2009. Details follow:

<u>Asset Description</u>	<u>Cost Center</u>	<u>2009 Additions Cost</u>
PIA Secondary Rehab Apron	T9APR1	\$ 428,256
Airport-Ngerikiil Compact Rd. PhseV	R84898	1,250,000
Koksai-Ngchesar Rd. to Compact Rd.	R94824	4,500,000
Light Up Palau Project (LED)	J94826	800,000
NEMO Emergency Operations Center		500,000
Melekeok Main Rd Rehab. Phase V	B90701	850,000
Ngaremlengui-Ngarmeskang Culvert Rd.	B91101	600,000
Ngiwal-Imekang Dock Improv Project	R94823	945,000
Ngarchelong- 50K Gals. Concrete Water Storage Tank_Package C	B90901	<u>138,600</u>
		<u>\$ 10,011,856</u>

The CWIP schedule was subsequently corrected and a revised schedule was provided in which 2009 additions were reduced by \$8,352,875.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Fixed Assets, Continued

Finding No. 2009-9, Continued

Condition, Continued

2. Four additions to CWIP were overstated by \$1,263,929 as follows:

<u>CWIP Description</u>	<u>2009 addition</u>	<u>Per audit</u>	<u>Overstatement</u>
PIA Security Fence	\$ 1,519,654	\$ 1,129,518	\$ 390,136
PIA Master Plan	850,000	351,650	498,350
Ngarchelong -Mengellang-Ngriil Rd Rehab-Pckg B	327,710	55,582	272,128
Ngardmau State Road Phase I	250,000	239,000	11,000
Ngchesar RIP RAP Work & Road Paving Proj	<u>200,000</u>	<u>107,685</u>	<u>92,315</u>
	\$ <u>3,147,364</u>	\$ <u>1,883,435</u>	\$ <u>1,263,929</u>

Adjustments were proposed to correct the overstatement.

3. Four assets were not captured by the fixed asset record system. Adjustments were proposed to record the following:

<u>CWIP Description</u>	<u>Addition</u>
PIA Secondary Rehab Apron – Design	591,730
PIA Loading Bridges & Convey	1,683,390
Capitol Network upgrade/Labor System	<u>376,200</u>
	\$ <u>2,651,320</u>

4. For road infrastructure, the following was noted:

- a. Additions to the Ollei Road Rehab Project- Package B in 2009 were based on contract amounts rather than actual costs incurred. An adjustment was proposed to correct the overstatement of \$219,484.
- b. Additions to Ngchesar RIP RAP Work & Road Paving Project were based on the contract rather than actual costs incurred. An adjustment was proposed to correct the overstatement of \$92,315.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Fixed Assets, Continued

Finding No. 2009-9, Continued

Condition, Continued

- c. Beginning balances per the schedule did not agree to audited balances and there were no explanations to support the variances. Adjustments were proposed to correct the following misstatements:

<u>Road description</u>	<u>Beginning balance per schedule</u>	<u>Per Audit</u>	<u>Overstatement (Understatement)</u>
Cost:			
Peleliu	\$ 4,337,913	\$ 4,009,582	\$ 328,331
Ngaraard	1,163,287	1,189,006	\$ (25,719)
Compact	<u>143,000,000</u>	<u>143,274,385</u>	<u>(274,385)</u>
	\$ <u>148,501,200</u>	\$ <u>148,472,973</u>	\$ <u>28,227</u>
Accumulated depreciation:			
Peleliu	\$ <u>3,224,969</u>	\$ <u>3,253,317</u>	\$ <u>(28,348)</u>

5. The Sewer System Infrastructure schedule accepted was the seventh revision. There were significant expenditures charged to the sewer account; however, there were no current year additions. There was no evidence of reconciliation between the asset schedule and the expenditures account. Per an audit request, reconciliation was performed. Management examined the expenditures and agreed that a significant amount represented current year additions. The schedule was revised and the following represents current year additions:

<u>Sewer system</u>	<u>Amount</u>
Koror Sewer	\$ 979,837
Capitol Sewer	<u>249,455</u>
Total Additions	\$ <u>1,229,292</u>

6. In the Machinery and Equipment schedule, the beginning cost by function did not agree with an independent recalculation as it appears that certain costs and accumulated depreciation were not included:

<u>Ministry</u>	<u>Beginning Balance per schedule</u>	<u>Per Audit</u>	<u>Overstatement (Understatement)</u>
Cost:			
MPIIC	468,287	2,549,326	(2,081,039)
MNRET	907,465	62,189	845,276
Capitol	5,290,763	4,055,000	1,235,763
Accumulated depreciation:			
MPIIC	1,199,715	1,188,289	11,426
MOE	437,990	460,515	(22,525)
MOH	2,095,026	2,121,841	(26,815)

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Fixed Assets, Continued

Finding No. 2009-9, Continued

Condition, Continued

In addition, two fixed assets reflected a zero net book value. It was represented that the assets are no longer utilized and the office has closed. Furthermore, the assets were fully depreciated and were no longer operable yet they remained in the fixed asset schedule. An adjustment was proposed to remove the following assets:

<u>Asset</u>	<u>Tag no.</u>	<u>Cost</u>
Ice making machine	RP-96061	\$ 1,313,754
Ice making machine	RP-96062	<u>1,313,754</u>
		\$ <u>2,627,508</u>

7. For vehicles, the following were noted:

- a. The vehicle schedule accepted was the fifth revision. The initial schedule provided included 2009 additions which were invalid based on test of physical verification; and total additions of \$1,490,726 did not agree to recorded expenditures in the vehicles account. Management's subsequent review resulted in a revised schedule reflecting total 2009 additions of \$263,257, a reduction of \$1,227,469. Further examination of the vehicles schedule and tests of physical verification noted \$255,004 of retired vehicles remained on the schedule as of September 30, 2009.
- b. Two fire trucks acquired in prior year were added to the prior year machinery and equipment schedule and were again added to the current year vehicles schedule. Therefore, the fire trucks were double posted in the fixed asset schedules. An adjustment was proposed to remove the 2009 additions from the vehicles schedule:

<u>Description</u>	<u>Asset Tag</u>	<u>Year Purchased</u>	<u>9/30/09 Net Book Value</u>
Vehicles schedule:			
Fire Truck, LP#1078	RP-3721	2009	\$ 494,306
Fire Truck, LP#1077	RP-3720	2009	\$ 494,306
Machinery and equipment schedule:			
ARFF VEHICLE	RP-3720	2008	370,729
ARFF VEHICLE	RP-3721	2008	370,297

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Fixed Assets, Continued

Finding No. 2009-9, Continued

Condition, Continued

8. Of additions tested of \$18,012,880, three assets donated during the year ended September 30, 2009 were not captured by the fixed asset record system. An adjustment was proposed to record the following donated assets:

<u>Asset Description</u>	<u>Cost</u>
Solar Energy System	\$ 1,522,402
Garbage Trucks, LP# 1167 RP-3972	5,000
Garbage Trucks, LP# 1166 RP-3973	<u>5,000</u>
	<u>\$ 1,532,402</u>

9. We noted one \$2,115,295 asset that was completed in prior year but was not transferred from CIP to the fixed assets account. An adjustment was proposed to correct this matter.

Cause: The cause of the above condition is the absence of a reconciliation of the fixed assets schedule throughout the year ended September 30, 2009 until the audit request.

Effect: The effect of the above condition is a material misstatement of fixed assets.

Recommendation: We recommend that the Republic establish procedures to periodically reconcile fixed assets.

Prior Year Status: Lack of reconciliation of fixed schedules was reported as a finding in the Single Audits of the Republic for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan: ROP will continue to work closely with appropriate staffs within the line ministries and agencies to correct these deficiencies, and to establish guidelines and procedures in conformance with the established Procurement Policies.

Full name of the person responsible for the corrective action plan: Director-Bureau of National Treasury Director, Chief-Property & Supplies, Chief-Finance & Accounting and appropriate staffs.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-10

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

Section 203.3: The RPPM section will be responsible for the receipt and inspection of all government property received by the Republic. These duties, among others, include tagging items received with an MP or RP sticker.

Section 207.2: Action is required to document the circumstances described (e) Damage to a Government-held vehicle resulting from a motor accident that is investigated and reported in order to determine whether or not an employee should be financially responsible for the damage (determinations as to financial liability for motor vehicle damage should be based on the official police report of the incident).

Condition: Tests of physical verification noted the following exceptions:

1. One asset (network upgrade/labor system) recorded as CWIP in the prior year was completed in the current year; however, there was no tag and the asset had not been transferred from CWIP. An adjustment was proposed to move the asset with a net book value of \$784,500 to the fixed asset account;
2. A vehicle with a net book value of \$20,400 had a large dent on its right side (tag no. RP-3902). It was represented that the vehicle was involved in an accident; however, there was no evidence that the accident was reported and investigated to determine whether or not an employee should be financially responsible for the damage.

Cause: The cause of the above condition is a lack of control over fixed assets.

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

Recommendation: We recommend that compliance occur with property management policies and procedures.

Auditee Response and Corrective Action Plan: ROP concurs with the finding and ensures that management and appropriate staffs will work with the Ministries and Agencies to conform and adhere to any property management policies and procedures in place.

Full name of the person responsible for the corrective action plan: Director-Bureau of National Treasury Director, Chief-Property & Supplies, and appropriate staff.

When will the corrective action plan be implemented: Immediately, but no later than FY2011

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Single Audit Report

Finding No. 2009-11

Criteria: The Single Audit Act Amendments of 1996 requires an entity that expends a total amount of Federal awards equal to or in excess of \$500,000 in any fiscal year to have a single audit made for such fiscal year. The entity shall transmit the reporting package, which shall include the entity's financial statements, schedule of expenditures of Federal awards, corrective action plan, and auditor's reports to the Federal clearinghouse and make it available for public inspection 9 months after the end of the period audited, or within a longer timeframe as authorized by the Federal agency when the 9-month timeframe would place an undue burden on the entity.

Condition: The Republic did not transmit the 2009 audit reporting package to the Federal clearinghouse within the required timeline and there was no evidence of authorized extension.

Cause: The cause of the above condition is primarily due to current management's first year in office during the year ended September 30, 2009.

Effect: The effect of the above condition is noncompliance with the Single Audit Act Amendments of 1996.

Recommendation: We recommend that the Republic ensure compliance with the above criteria.

Auditee Response and Corrective Action Plan: ROP acknowledge the late submission of FY2009 audit report, which was due to the delay of audit funding confirmation and approval from the grantor, which cause the late signing of the auditor's contractual service agreement and commencement of audit work, along with current management being new, and first year with the audit process.

Full name of the person responsible for the corrective action plan: Minister of Finance, Public Auditors Office Manager, ROP President, and Grant Office Clearing House.

When will the corrective action plan be implemented: MOF will ensure that FY2010 audit report will meet the deadline.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-12

Criteria: Pursuant to Republic of Palau Public Law (RPPL) 3-54 Section 16, Public Notice, a public notice of the invitation for bids shall be made a reasonable time at least fifteen (15) days prior to the date of the initial day of the bidding time. The notice shall be furnished to all state governments and to all persons who have requested to be included in bidders mailing lists within the previous 12 months; be published in a newspaper of general circulation in the Republic or in a foreign newspaper if the Procurement Officer determines that publication would benefit the government; and shall be publicly posted for at least fifteen (15) days at the office of the Procurement Officer concerned, the post office building, the Courthouse, the Bureau of Domestic Affairs office, and announced on all radio and television stations within the Republic.

Further, RPPL 3-54, Section 24, states that the contract must be awarded in accordance with this act with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders also shall be promptly notified.

Condition: Our tests of expenditures noted the following exceptions:

1. For nine disbursements derived from five contracts, a copy of the award letter was not available; thus, awarding of the contract within a reasonable time could not be verified.

<u>Contract No.</u>	<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
D80016	275589	713082	\$18,000
D80016	275589	713472	\$13,500
D80016	275589	713473	\$13,500
D90082	280617	726642	\$24,640
D90080	284464	736928	\$17,200
D90080	284464	736931	\$12,900
D90080	284464	736929	\$12,900
D90091	284464	736927	\$14,000
D90091	284464	736926	\$10,500

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance, Continued

Finding No. 2009-12, Continued

Condition, Continued

2. There was lack of documentation that the public notice and/or related request for proposal was adequately advertised and publicized as required by the above criteria for the following disbursements:

<u>Contract/P.O. no</u>	<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
Q80050-PE	267044	DF900002	\$ 38,165
N80091-CO	267410	DF900006	51,154
Q8005401	75113284	710527	19,615
Q80058-HO	79571752	DF900054	64,899
Q80055-MC	71230438	DF900078	63,499
Q80054-LA	74115888	DF900078	58,846
Q9000101	74235527	721980	27,466
Q90031-HA	71233965	DF900100	88,275
Q9003001	79145484	734883	28,371
Q9003001	79144557	734881	22,742
D9008001	284464	736928	17,200
N80092-CO	267410	DF900006	12,839
N8009105	271476	703256	2,550
N8009202	271957	703254	3,668
Q8005501	79121296	717956	5,436
D9008301	282405	733021	16,963
Q9003001	79144940	734882	7,315
D9008003	284464	736931	12,900
D9008002	284464	736929	12,900
D9009101	284464	736927	14,000
D9009101	284464	736926	10,500
C7002001	284190	738928	2,807

3. Of twenty-eight expenditures tested, totaling \$4,126,505, the following were noted:

- a. For six disbursements relating to two contracts, there was no evidence that a public notice of invitation was furnished at all required public sites and all radio and television stations.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Contract No.</u>
272725	706446	\$ 317,513	C9000901
277535	716493	155,337	C9000901
280370	722006	87,736	C9000901
78230917	726064	64,000	C9002001
72209106	733591	64,000	C9002001
72209527	733592	94,500	C9002001
		<u>\$ 783,086</u>	

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance, Continued

Finding No. 2009-12, Continued

Condition, Continued

4. For three disbursements relating to one contract (C9000901), a copy of the contract award letter was not available. Thus award of the contract within a reasonable time could not be verified. In addition, evaluation forms used as a basis for selection were not on file.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>
272725	706446	\$ 317,513
277535	716493	155,337
280370	722006	87,736
		<u>\$ 560,586</u>

Cause: The cause of the above condition is inadequate procurement documentation and noncompliance with existing procurement requirements.

Cause: The cause of the above condition is lack of procedures to ensure that procurement regulations are adhered to.

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

Recommendation: We recommend that ROP strengthen procedures to ensure compliance with local procurement regulations. If exceptions are allowed by procurement regulations, they should be reviewed and be approved and the reasons should be documented in the procurement files.

Auditee Response and Corrective Action Plan: ROP concurs with the finding and ensures that management and appropriate staffs will work with the Ministries and Agencies to conform and adhere to the established procurement policies and procedures in place.

Full name of the person responsible for the corrective action plan: Director-Bureau of National Treasury Director, Director of Bureau of Public Service System, Chief-Property & Supplies, and appropriate staff.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance

Finding 2009-13

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. Purchases over \$10,000 require a 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. Contracts must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to the responsible bidder whose bid fully meets the requirements of the invitation for bids. Unsuccessful bidders also shall be promptly notified. Requirements for professional services shall be publicly announced and contracts shall be negotiated on the basis of demonstrated competence and qualifications at the fair and reasonable price. The procurement officer shall maintain files of current statements of qualifications of professional firms for a period of one year, after which time the person should file a new statement.

For small purchases over \$2,000, and for the purchase of event hosting services over \$5,000 not bid out, the concerned procurement officer or their 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 for small purchases under \$10,000 if there is adequate documentation that there are fewer than three suppliers of the items within the Republic.

Sole source procurement requires the following:

1. Contracts which require an expenditure of \$10,000 or less may be awarded for a supply, service, or construction item 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.
2. The written determination shall be included in the contract file and shall contain the following information:
 - (a) the unique capabilities of the source that are required, why they are required, and the degree of consideration given to other sources;
 - (b) the facilities or equipment of the source that are required and why they are required; and
 - (c) whether the work experience of the source on similar efforts will eliminate unnecessary expense for time or duplication of effort required to bring another source up to that level of experience.
3. Other potential suppliers of the supply, service or construction item may protest the determination of the Procurement Officer. Upon showing that such potential suppliers can qualify as responsible offerors and bidders any future procurement of such items shall be conducted using a method other than single source procurement.

Condition: Our test of expenditures noted the following exceptions:

1. Of forty-three General Fund expenditures tested, totaling \$1,685,193, the following were noted:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance, Continued

Finding 2009-13, Continued

Condition, Continued

- a. Lack of evidence of competitive bidding process was noted for eight items:

<u>Ref. No</u>	<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
D9006607	281707	729730	\$ 6,000	Legal services
F9042401	284200	738542	\$ 13,481	Supplies
K8000274	276321	710410	\$ 20,573	Medical supplies
D9007501	282284	733149	\$ 22,266	Workmen's comp premium
C9000501	276677	707212	\$ 76,085	Capitol maintenance
C8004401	270423	701624	\$ 44,923	Furnishing and equipment
None noted	276548	717980	\$ 13,225	Shipping cost
F9041801	288626	736309	\$ 22,092	Food supplies

- b. There was no evidence of an award letter for two bid invitations. Therefore, we were unable to determine if contracts were awarded within thirty days of the bid openings.

<u>RFP no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Description</u>
RFP 01-8	282346	\$ 25,500	Medical supplies
PCS-2007-010	270400	\$ 9,600	Rent for office

- c. There was no evidence that three invitations for bid were advertised.

<u>RFP no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Description</u>
RFP 33-7	284155	\$ 30,420	1200 bags of Aluminum Sulfate
RFP 01-8	282346	\$ 25,500	Medical supplies
PCS-2007-010	270400	\$ 9,600	Rent for office of the special prosecutor

- d. There was no evidence of price quotations for three items as follows:

<u>Ref. No</u>	<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
F9024801	278536	721437	\$ 7,003	Gasoline
None noted	275541	714815	\$ 8,998	Travel
L9135601	279631	723750	\$ 1,000	Reception expense

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance, Continued

Finding 2009-13, Continued

Condition, Continued

- e. Two instead of the minimum three price quotations were without adequate justification for the following:

<u>P.O. No.</u>	<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
L9190601	284082	735104	\$ 4,500	Concrete land markers

- f. There was no justification of sole source procurement noted as set forth in the above criteria for the following:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
271667	706309	\$ 9,995	Drydock, Slipway Rental and other services

2. Of seventeen Hospital Trust Fund expenditures tested, totaling \$349,712, there was no evidence of price quotations obtained for one item as follows:

<u>Voucher no.</u>	<u>Amount</u>	<u>Check no.</u>	<u>Description</u>
723511	\$ 6,012	278783	Diesel

Cause: The cause of the above condition is a lack of procurement procedures that comply with established procurement regulations.

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

Recommendation: We recommend that the Republic strengthen 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 be approved and the reasons should be documented in the procurement files.

Auditee Response and Corrective Action Plan: ROP concurs with the finding and ensures that management and appropriate staffs will work with the Ministries and Agencies to conform and adhere to the established procurement policies and procedures in place.

Full name of the person responsible for the corrective action plan: Director-Bureau of National Treasury Director, Director of Bureau of Public Service System, Chief-Property & Supplies, and appropriate staff.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance

Finding No. 2009-14

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 bank loan of \$160,000. Although the loan was due on May 30, 2004, inclusive of interest at 7.00% per annum, \$198,142 remains outstanding at September 30, 2009.

Cause: The cause of the above condition is the lack of authorized loan repayments.

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 authorized loan payments was reported as a finding in the Single Audits of the Republic for fiscal years 2002 through 2008.

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, 2009

Finding No.: 2009-15
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: 3U58/DP922936-05W1, 1U58DP000776-02, U58/DP000776-01
 Program Name: Chronic Disease Prevention and Health Promotion Programs; National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal,
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$12,600

Criteria: Expenditures must be supported by invoices and other pertinent documents.

Condition: Of forty-four expenditures tested, totaling \$254,623, of a total population of \$633,606, there was no evidence on file that supporting invoices and receiving reports or their equivalent was obtained for two items:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
722010	277943	\$2,000	1U58DP000776-02	H83683	Meals for workshop
DF900033	262993	<u>12,600</u>	U58/DP000776-01	H73683	Pap smear
		\$14,600			
		Less: questioned costs at finding 2009-35			
		<u>(2,000)</u>			
		<u>\$12,600</u>			

Cause: The cause of the above condition is a failure to obtain necessary documentation to support the expenditures.

Effect: The effect of the above condition is questioned costs of \$12,600 result.

Recommendation: We recommend that the Republic ensure that all expenditures and disbursements are supported by invoices and receiving reports or equivalent.

Auditee Response and Corrective Action Plan: The Republic of Palau does not concur with this finding and questioned cost because funds were expended to support program plans and activities that are allowable and for the best interest of the Federal Program and Palau residents. Documentations such as invoices and receiving reports are currently submitted to Ministry of Finance for disbursement processing. Ministry of Finance will improve their process to ensure required documentation to support disbursements are submitted by the departments before payment vouchers are processed.

Full name of the person responsible for the corrective action plan: BNT Director, BPSS Director, Chief of Finance and Accounting, Chief of Procurement and Supply, Grant Coordinator, MoF appropriate staff, and departments program managers.

When will the corrective action plan be implemented: The process was implemented in October 1, 2009.

Auditor Response: For voucher no. 722010 for \$2,000, there was no evidence of the receipt of catered food to ensure that the program received the \$2,000 of services it paid for. For voucher no. DF900033 in the amount of \$12,600, there was no invoice provided to substantiate the cost. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-16
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: 1U58DP000776-02, 5U58DP000776-03
 Program Name: National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$41,755

Criteria: Costs charged to the grant should have direct or indirect benefit to the grant. In addition, capital expenditures as defined by OMB Circular A-87, in excess of \$5,000 require prior approval of the grantor agency.

Condition: Of six expenditures tested, totaling \$44,234, of a total population of \$73,723, the following were noted and did not appear to have either a direct or indirect program benefit:

- Two items were for equipment costs of the Ministry of Health but were not specified in the grant award and prior grantor approval was not evident:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>
269838	700220	\$ 39,675	Freight costs of new incinerator/ two used garbage trucks

- Although certified timesheets and approved change account forms were on file, the employees did not spend 100% of their time on the program but their entire payroll costs were charged to the program.

<u>Org #</u>	<u>Pay Period End</u>	<u>Employee #</u>	<u>Amount</u>	<u>Position</u>
1501	03/14/2009	38451	\$ 1,292	Minister, Ministry of Health
1501	08/01/2009	75405	<u>788</u>	Assist Minister of Health on admin matters
			<u>\$ 2,080</u>	

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

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

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

Prior Year Status: Noncompliance with administrative costs was reported as a finding in the Single Audit of the Republic for fiscal year 2008.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-16, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 1U58DP000776-02, 5U58DP000776-03
Program Name: National Comprehensive Cancer Control Program, Prostate Cancer and
Colorectal,
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$41,755

Auditee Response and Corrective Action Plan:

- ROP believes that prior grantor approval was not necessary for this purchase because the Program Manager used her authority to re-budget between line items but not to exceed 25% of the total budget and not to exceed \$250,000. We also do not agree with the questioned cost because funds were expended for the best interest of the Ministry of Health and program requirement for quality assurance.
- The administrative cost for the program is considered local revenue to Palau. It was approved by the President of the Republic of Palau to be used at the discretion of the Minister of Health to implement his plans and programs, thus, we do not agree with the questioned cost because funds were spent for the best interest of the Republic. Employees who are in the support service department perform functions to support all federal programs and that programs and Ministry of Finance will have to come up with a plan to ensure cost are reimbursable by federal program.

The Ministry of Finance is to review the administrative cost requirement and to make sure that use of the allocated administrative cost becomes local revenue that can be expended by support service department.

Full name of the person responsible for the corrective action plan: BNT Director, BPSS Director, Chief of Finance and Accounting, Grant Coordinator, Minister of Health, MoH Finance Controller, Departments program managers, and MoH Budget Officer.

When will the corrective action plan be implemented: October 1, 2010.

Auditor Response:

1. The freight cost of \$39,675 is considered part of the equipment cost and would require prior grantor approval as the amount exceeds \$5,000, regardless of budget reprogramming to fund the disbursement. Therefore, the finding remains.
2. Administrative costs of the National Breast and Cervical Cancer Early Detection Program (NBCCEDP) are based on U.S. Public Law 101-354 which requires programs to spend no more than ten (10) percent of the grant for administrative expenses.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-17
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 5U58/DP000776-02, 5U90TP921820-08, 5U90TP921820-07,
5U58/CI923972-04, 1UR3DD000416-01
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, 2009 were not documented and filed. No questioned costs result from this finding as we could not determine the cumulative amount of transfers based on available evidence (cost center nos. H83683, I83683, H83679, H88652, H83682).

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 costs 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 through 2008.

Auditee Response and Corrective Action Plan: A budget allotment form is used to request sub-account fund shifting and redirection of funds. The information is entered to the Ministry of Finance Financial and Management System using Transaction Codes. A report can be extracted using budget entry transaction code that provides cumulative amount of budget re-direction. Furthermore, Ministry of Health Controller is tasked to monitor budget redirection and to note on the allotment form whether it is a request for re-direction or shifting of funds between sub-accounts.

Full name of the person responsible for the corrective action plan: BNT Director, BPSS Director, Chief of Finance and Accounting, Grant Coordinator, Minister of Health, MoH Finance Controller, Departments program managers, and MoH Budget Officer.

When will the corrective action plan be implemented: This process was implemented in 2008.

Auditor Response: There was a lack of an audit trail between the approved grant budget and the Republic's internal program budget for cost center nos. H83683, I83683, H83679, H88652 and H83682. Therefore, effective implementation of corrective action is not evident in FY 2009 and the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-18
Federal Agency: U.S. Department of Health and Human Services/U.S. Department of Education
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: 5U58/DP000776-02, 1UR3DD000416-01, 5U90TP921820-08, H027A070006-A, 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 served, unless an alternative method has been authorized by the funding agency.

Condition: Of twenty-seven employees tested, totaling \$24,248, of a total population of \$342,462 (CFDA #93.283), we noted that not all personnel appear to spend 100% of their time on the Chronic Disease Prevention and Health Promotion Programs, National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal, Early Hearing Detection & Intervention (EHDI) Tracking and Surveillance, and Bioterrorism. Salaries unrelated to the program could not be determined based on available evidence and therefore, no questioned costs are estimated for the programs (check nos. 1246176, 1217681, 1223941, 1252086, 1207830, 1199063, 1227586, 1249680, 1241363, 1217717).

Of forty-six payroll expenditures tested, totaling \$21,061, of a total population of \$668,600 (CFDA #84.027), ten classroom teachers did not spend 100% of their time working for the Special Education program but the entire salaries were charged to the program (employee nos. 401170, 400328, 407797, 424642, 77885, 432596, 421648, 67265, 54619 and 415805).

Cause: The cause of the above condition is the lack of policy to maintain contemporaneous records documenting the time per applicable program and an alternative system has not been developed and been approved by the grantor agency.

Effect: The effect of the above condition is potential noncompliance with applicable cost allocation principles. Salaries unrelated to the program could not be determined based on available evidence and therefore, no questioned costs are estimated for the program.

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 2008.

Auditee Response and Corrective Action Plan: The Ministry of Health activities are integrated and it is a challenge to disintegrate work performed specifically to each program. We believe that the cost to comply with this administrative requirement outweighs its benefits and with limited funding for both federal program and local funding, Ministry of Health programs will continue to collaborate and implement their activities to ensure the required outcome for program activities are met in compliance with program work plan and are within their budget and that the outcome of the project is for the best interest of Palau residents and that administrative cost for the program is at minimum.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-18, Continued
Federal Agency: U.S. Department of Health and Human Services/U.S. Department of Education
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: 5U58/DP000776-02, 1UR3DD000416-01, 5U90TP921820-08, H027A070006-A, H027B030001-05
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued

All Special Education Teachers at public schools service students with disabilities wherever they may be or need to be for special education. There are times when students are being integrated into general education activities. In such cases, special education teachers should be there to support the general education teachers and provide educational services to students with special needs. Special Education Teachers misunderstood this part of their duties during their interview with auditors.

Special Education Program has implemented their semi-annual personnel activity reports which are signed by employees and their immediate supervisors. This report shows employees time allocations.

Full name of the person responsible for the corrective action plan: Ministry of Finance will work with the respective ministries, Minister of MOE, Director of MOE, Minister of Health, MoH Finance Controller, Director of BPSS, and Program Managers to establish and maintain better record keeping and cost allocation by program activities.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

Auditor Response: During our corroborative inquiry, we noted the employees did not spend 100% of their time teaching special education students (i.e there were non-special education students in some of the classes during the day), but the entire salaries were charged to the program. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-19
Federal Agency: U.S. Department of Education.
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070006-A, H027B030001-05
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$726

Criteria: The Republic’s Public System Service System Rules and Regulations (1996) Part 2.2 subsection (e) indicates that appropriate management officials shall develop and establish a time keeping system for employees within their respective branches or departments. Exceptions to this policy should be authorized and documented.

Condition: Of forty-six payroll expenditures tested, totaling \$21,061, of a total population of \$668,600, variances between hours per timecards and approved timesheets existed for ten employees.

<u>Employee No.</u>	<u>Check No.</u>	<u>Payroll Period Ended</u>	<u>Regular Hours in Excess of Timecard</u>	<u>Excess Payment</u>
38591	1205237	12/06/08	4	\$ 30
39562	1207732	12/20/08	15	148
403205	1207759	12/20/08	20	82
46583	1210221	01/03/09	4	16
49749	1215154	01/31/09	24	83
406331	1215182	01/31/09	15	97
407605	1217647	02/14/09	25	82
43250	1256874	09/26/09	13	40
423259	1256917	09/26/09	18	59
426535	1256919	09/26/09	29	<u>89</u>
				\$ <u>726</u>

Cause: The cause of the above condition is noncompliance with the criteria.

Effect: The effect of the above condition is questioned costs of \$726 since the projected questioned costs exceeded \$10,000.

Recommendation: We recommend that the Republic ensure that hours recorded on approved timesheets represent actual time worked.

Auditee Response and Corrective Action Plan: ROP concurs with the finding. Special Education Program Office will closely monitor all employees time cards and make sure there are no variances. An employee of Special Education Program has been briefed on this finding and instructed to make sure this does not happen again.

Full name of the person responsible for the corrective action plan: Ministry of Finance will work with the respective ministry, Minister of MOE, Director of MOE, Program Managers and appropriate staff.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-20
 Federal Agency: U.S. Department of Labor
 CFDA Program: 17.258 - 60 WIA Cluster
 Grant Number: AA-17162-08-55-A-70; AA-18682-09-55-A-70
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$7,423

Criteria: Expenditures should be recorded to the proper account in the general ledger, authorized, be supported by certified accounts payable vouchers, invoices and other relevant documents, and be approved prior to incurrence.

Condition: Of total Program expenditures of \$502,753 for the year ended September 30, 2009, payroll expenditures of \$69,142 were tested. Our tests noted that advances to employees of \$7,423 were recorded as payroll expenditures. In addition, no subsequent collection of the advances was provided; thus, we were not able to determine whether these advances were collected. Details are as follows:

<u>Employee No</u>	<u>Annual Salaries per employment contract</u>	<u>Recorded annual salaries</u>	<u>Variance</u>
1	\$ 11,081	\$ 12,344	\$ 1,263
2	9,379	9,879	500
3	24,384	27,009	2,625
4	8,933	11,929	2,996
5	<u>7,942</u>	<u>7,981</u>	<u>39</u>
	\$ <u>61,719</u>	\$ <u>69,142</u>	\$ <u>7,423</u>

Cause: The cause of the above condition is a lack of established policies and procedures to ensure proper recording of expenditures and use of federal funds.

Effect: The effect of the above condition is possible use of federal funds for invalid expenditures and questioned costs of \$7,423 result.

Recommendation: We recommend that the filing system be improved to provide an adequate audit trail for recorded payroll expenditures.

Auditee Response and Corrective Action Plan: The WIA State Board's Executive Committee concurs to the findings and financial management policies shall be established to ensure proper recordings of expenditures and use of federal funds.

Full name of the person responsible for the corrective action plan: Executive Director, Palau WIA Office.

When will the corrective action plan be implemented: Cost Allocation Plan has been prepared and duly signed by the Director and Chairman of the State Board that sets forth type of accounting system mandated to be used by the Palau WIA Office, budget, and allocation methodology used in compliance with federal requirements.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-21
Federal Agency: U.S. Department of Labor
CFDA Program: 17.258 - 60 WIA Cluster
Grant Number: AA-17162-08-55-A-70; AA-18682-09-55-A-70
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$7.378

Criteria: Expenditures should be authorized, be supported by certified accounts payable vouchers, invoices and other relevant documents, and be approved prior to incurrence

Condition: Of twenty-three expenditures tested, totaling \$62,070, of a total population of \$246,844, the following exceptions were noted:

- a. One \$2,500 disbursement (check no. 19282) was an employee loan and documentation indicating program benefit was not on file. In addition, there was no evidence to indicate that the loan was subsequently collected. No questioned cost results from this finding as the disbursement is locally funded;
- b. One disbursement (check no. 20417) represented communications cost and the following did not have specific documentation indicating why the cost was program related:

<u>Amount</u>	<u>Description</u>
\$ 52	Long distance calls without a log sheet
<u>1,326</u>	Two months of charges for the use of 12 mobile phones
1,378	
<u>6,000</u>	Mobile phone usage for ten months in 2009
\$ <u>7,378</u>	

Cause: The cause of the above condition is a lack of monitoring controls for allowable costs. There was no evidence of a phone log to substantiate that long distance calls and calls from mobile phones are related to the program. In addition, it was not clear why there exists 12 personnel who require use of mobile phones (including all board members) and there was no evidence of a policy to apportion personal costs of charges for mobile phones.

Effect: The effect of the above condition is noncompliance with allowable costs and questioned costs of \$9.878 result.

Recommendation: We recommend that the Program ensure that expenditures are valid and are supported by documentation supporting program relevancy.

Auditee Response and Corrective Action Plan: Palau WIA Office shall take into consideration, auditor's recommendation, and will immediately use log books for all long distance calls.

Mobile phone plan is allowed under communications as follows:

Necessary – Palau WIA staff monitors program within Koror, Babeldaob, Peleliu, Angaur, and Kayangel with the Board members, who volunteers their time to perform their roles and responsibilities.

Reasonable – Each mobile cost \$50.00 per month. Existing Palau laws allows a Board to receive meeting compensation of up to \$35.00 per meeting. The Palau WIA State Board's Executive Committee members serves on a voluntary basis.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-21, Continued
Federal Agency: U.S. Department of Labor
CFDA Program: 17.258 - 60 WIA Cluster
Grant Number: AA-17162-08-55-A-70; AA-18682-09-55-A-70
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$7,378

Auditee Response and Corrective Action Plan, Continued

Allocable – Cost of communication is allocated to the three funding sources under WIA Youth, Adult, and Dislocated Workers Funds.

Full name of the person responsible for the corrective action plan: Executive Director, Palau WIA Office.

When will the corrective action plan be implemented: Immediately.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-22
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant Number: PAL-115 Amendment, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$51,744

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

Condition: Of thirty-two expenditures tested, totaling \$506,836, of a total population of \$608,006, the following exceptions were noted:

1. One accounts payable voucher #721790 (Cost center no. H83863) in the amount of \$574 could not be provided and we were not able to determine whether the underlying cost was allowable.
2. For one disbursement, there was no supporting invoice and certificate of completion evidencing receipt of services:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
270446	702921	\$ 44,000	F83826	Tax system upgrade

3. Our examination did not note enough information to demonstrate that these expenditures directly benefit program

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
275420	713954	\$ 1,080	R93835	Advertising expense
282941	734656	3,736	H83863	Per diem (network security training)
284186	734407	1,480	R93835	Computer unit and accessories
284253	736925	874	R93835	Website design
		<u>\$ 7,170</u>		

Cause: The cause of the above condition is lack of conformance with existing procedures that ensure that adequate documentation is maintained to support program expenditures.

Effect: The effect of the above condition is questioned costs of \$51,744 result.

Recommendation: We recommend that the Republic strengthen procedures to ensure that adequate documentation supporting program expenditures is maintained on file. We further recommend that ROP ensure that program budgets are maintained and that expenditures incurred are included in those approved program budgets.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-22, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: PAL-115 Amendment, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$51,744

Auditee Response and Corrective Action Plan:

1. ROP concurs with this finding with reservations. This voucher is for machinery and equipment repair, cost allocable to the federal program. Ministry of Finance will try to locate this voucher. If this voucher is not located, Ministry of Finance will contact vendor for copy of invoice so that it may be able to pay this voucher.
2. ROP concurs with finding. ROP is actively pursuing legal action against the vendor. This matter has been brought to the attention of the Attorney General. ROP will refund grantor agency.
3. ROP does not concur with this finding. There are no detailed budget breakdowns (SF424) in ROP files for these grants. Ministry of Finance will communicate with Grantor Agency to check if they have the information on file. ROP does not concur with the questioned cost because they are necessary and reasonable, allocable, and in the best interest of the federal program and ROP.

Full name of the person responsible for the corrective action plan: BNT Director, BPSS Director, Chief of Finance and Accounting, Grant Coordinator, and Department Heads/Managements

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

Auditor Response: For item # 3, due to inadequate information on file to demonstrate that these expenditures directly benefit the program, we could not determine whether the expenditures are allowable under the program. Thus the finding and questioned cost remain.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-23
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: PAL-115, 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 equipment/property, regardless of the method or source of acquisition. This includes, but is not limited to, equipment/property that is acquired from commercial sources, fabricated in the government shops, donated, recovered or obtained by transfer. Equipment/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: A comprehensive electronic healthcare patient record and billing system for the Ministry of Health commenced in prior years and was substantially completed in December 2009 with minor modifications. However, there was a lack of evidence of progress reports obtained to ensure that services for disbursements made were received and that the status of work completion was monitored. The system was not in use as of May 2010.

<u>Cost Center</u>	<u>Description</u>	<u>Amount</u>	<u>Grant no.</u>
H63863	Phase I	\$ 425,975	PAL-115
H83863	Phase II	<u>379,845</u>	PAL-115
		<u>\$ 805,820</u>	

No questioned costs result from this finding since the overall contract has not been completed as of report date.

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

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

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

Prior Year Status: The lack of implementation for the acquisition of equipment/property based on executed contracts was reported as a finding in the Single Audit of the Republic for fiscal year 2008.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-23, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: PAL-115, 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. ROP will submit final progress report to grantor agency by the end of August 2010. August 2010 is the end of liquidation period for this grant and all required reports will be submitted to grantor agency. ROP has two procurement officers, one for equipment and property, and one for contractual services. This project was implemented under contractual services which presented some challenges for ROP to extract equipment and property purchased under this contract. ROP is now aware of this challenge and both procurement officers are now communicating with each other regarding this issue to prevent future findings.

Full name of the person responsible for the corrective action plan: BNT Director, BPSS Director, Chief of Property and Supply

When will the corrective action plan be implemented: Implemented in June 2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-24
 Federal Agency: U.S. Department of Transportation
 CFDA Program: 20.106 Airport Improvement Program
 Grant Number: NAT-I-4416-1-1-07, NAT-1-4416-1-1-09, NAT-1-4416-1-1-10, NAT-I-4416-1-1-06, NAT-I-4416-1-1-05
 Requirement: Allowable Costs/Cost Principles
 Questioned Costs: \$339,548

Criteria: Expenditures should be charged to the corresponding grant award. Grantor approval should be obtained prior to using grants for other construction projects.

Condition: Of twenty-eight expenditures tested, totaling \$4,126,505, the following exceptions were noted:

1. Expenditures relating to cost center no. T6BDC1 to construct an aircraft rescue and firefighting building (ARFF Phase II - Agreement no. NAT-I-4416-1-1-07), were charged to different grants as follows:

<u>Cost Center</u>	<u>Grant Agreement no.</u>	<u>Grant Description</u>	<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount charged</u>
T8APR1	NAT-1-4416-1-1-09	Rehabilitation of Airport Apron - Phase II	277536	DF900148	\$ 97,872

2. Expenditures relating to cost center no. T8RWR1 to construct an airport apron (Construct Apron Phase 1 - Agreement no. NAT-I-4416-1-1-06) were charged to a different grant as follows:

<u>Cost Center</u>	<u>Grant Agreement no.</u>	<u>Grant Description</u>	<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount charged</u>
T6RWR1	NAT-I-4416-1-1-05	Rehabilitation of Runway 9/27	282976	DF900178	\$ 102,212
T6RWR1	NAT-I-4416-1-1-05	same as above	283142	DF900178	<u>139,464</u>
					<u>\$ 241,676</u>

Cause: Evidence of grantor approval to charge the projects to alternative grants was not provided.

Effect: The effect of the above condition is potential noncompliance with allowable costs requirement and potential questioned costs of \$339,548 result.

Recommendation: We recommend that the Republic ensure that expenditures are charged to appropriate grants and that grantor approval is obtained prior to charging expenditures to alternative grants.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-24, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Grant Number: NAT-I-4416-1-1-07, NAT-1-4416-1-1-09, NAT-1-4416-1-1-10, NAT-I-4416-1-1-06, NAT-I-4416-1-1-05
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$339,548

Auditee Response and Corrective Action Plan:

- ROP does not concur with this finding. These are legitimate expenditures for AIP projects. Due to the timing of the awards and amendments, ROP had to move expenditures from one grant to another so that AIP projects can proceed without delay. ROP has communicated such transfers to Grantor Agency and awaiting response.
- ROP does not concur with this finding. These are legitimate expenditures for AIP projects. Due to the timing of the awards and amendments, ROP had to move expenditures from one grant to another so that AIP projects can proceed without delay. These expenditures were moved to cover amendments to grants awarded to ROP.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance and Accounting, Grant Coordinator, with respective Ministry and CIP Project Manager

When will the corrective action plan be implemented: July 2010.

Auditor Response: Each grant agreement under the Airport Improvement Program is specific to a project and there is no stipulation or communication from the grantor agency that one grant agreement for a specific project can fund another project. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. : 2009-25
 Federal Agency: U.S. Department of the Interior/U.S. Department of Transportation/U.S. Department of Education
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 CFDA Program: 20.106 Airport Improvement Program
 CFDA Program: 84.256 Territories and Freely Associated States Education Grant
 Grant Number: S256A060001, S256A060001-07, S256A060001-08
 MOU-2007, MOU- 2008, TA-ROP-CSP-2008-3, PAL-115 Amendment, OMIP-PPUC-2009-2, TS-ROP-REP-2008-2, NAT-I-4416-1-1-02, NAT-I-4416-1-1-07, NAT-I-4416-1-1-06
 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: Our tests of cash management noted the following exceptions:

1. For 25 (or 24%) of 106 transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 2 to 56 days as follows:

<u>CFDA # no.</u>	<u># of Transactions</u>
15.875	6
20.106	3
84.256	16

2. Federal funds in the amount of \$128,210 were overdrawn in the request for reimbursement covering expenditures as of September 29, 2009, received on November 6, 2009, due to an error or oversight (CFDA #84.256). No additional request for reimbursement has been made after this drawdown and ROP management was not aware of the overdrawn funds until the matter was raised during the audit. Further, the overdrawn funds have not been returned or communicated to the federal grantor agency as of April 15, 2010. The projected interest liability from the time the funds were received to date is \$130.
3. For one disbursement wherein federal funds were received, there was no evidence that the services paid for were received (CFDA no. 15.875). The estimated interest liability from the date the federal funds were received to the date of the test amounted to \$318.

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Reimbursement Date</u>	<u>Test Date</u>	<u>Interest Liability</u>
270446	702921	\$ 44,000	07/13/09	04/22/10	\$ 318

4. Receipt of Federal funds for two expenditures could not be traced and therefore, we were not able to determine whether the transactions were paid within three days of the receipt of Federal funds (CFDA no. 15.875):

<u>Check No.</u>	<u>Voucher No.</u>	<u>Transaction Date</u>	<u>Amount</u>
282941	734656	09/14/09	\$ 3,736
Unpaid	721790	05/20/09	\$ 574

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. : 2009-25, Continued
Federal Agency: U.S. Department of the Interior/U.S. Department of Transportation/U.S. Department of Education
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
CFDA Program: 20.106 Airport Improvement Program
CFDA Program: 84.256 Territories & Freely Associated States Education Grant
Grant Number: S256A060001, S256A060001-07, S256A060001-08
MOU-2007, MOU- 2008, TA-ROP-CSP-2008-3, PAL-115 Amendment, OMIP-PPUC-2009-2, TS-ROP-REP-2008-2 , NAT-I-4416-1-1-02, NAT-I-4416-1-1-07, NAT-I-4416-1-1-06
Requirement: Cash Management
Questioned Costs: \$0

Cause: The cause of the above condition is a lack of internal controls over cash management and a lack of an audit trail for requesting reimbursements.

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 is less than \$10,000.

Recommendation: We recommend that the Republic establish internal controls over cash management that ensure compliance with federal requirements. Cash drawdowns, related expenditures and other supporting documentation should be filed adequately and completely to improve audit trail. We further 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 2008.

Auditee Response and Corrective Action Plan:

1. And 2. ROP concurs with this finding. Ministry of Finance will make sure that all draw downs are disbursed immediately upon receipt. List of all payments due are submitted to the National Treasury the day before draw downs are requested. ROP continues to encourage off island vendors to provide their bank information so that Treasury can wire payments instead of mailing checks. The Republic continues to utilize its best efforts to comply with the criteria.
3. ROP concurs with finding. ROP is actively pursuing legal action against the vendor. This matter has been brought to the attention of the Attorney General. ROP will refund agency for the draw down received.
4. ROP does not concur with this finding. These expenditures have not been reimbursed yet by grantor agency. Although ROP recognizes the importance of the cash management compliance and the general practice of internal controls, ROP does not have control over check clearing date after the check release or disbursement date. ROP can only continue to encourage its vendors to make timely deposits or provide ROP/MOF with bank accounts for ACH transactions processing.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance and Accounting, Grant Coordinator.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

Auditor Response: For item # 4, there was no indication on whether the expenditures have been reimbursed or not therefore the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-26
Federal Agency: U.S. Department of Labor
CFDA Program: 17.258-60 WIA Cluster
Grant Number: AA-17162-08-55-A-70; AA-18682-09-55-A-70
Requirement: Eligibility
Questioned Costs: \$0

Criteria: In accordance with the Workforce Investment Act (WIA) of 1998, all participants who receive services funded under WIA Title I other than self-service or informational activities must be registered and be determined eligible based on criteria set forth in WIA Policy Number 07-003-2000 for adult and dislocated workers and 07-008-2000 for youth participants.

Condition: Tests of twenty five (25) participant files noted the following exceptions:

- a. Eligibility review and information forms for all participants tested were not signed by the Program Staff and no evidence of review was noted by the Program Director.
- b. The career strategy plan forms for eight participants were either not completely filled-out or were not on file, as follows:

<u>Application No.</u>	<u>Starting Date</u>	<u>Termination Date</u>
52484	4/13/2009	6/19/2009
787	9/29/2008	1/2/2009
52501	1/12/2009	6/19/2009
52488	4/6/2009	6/19/2009

- c. Assessments/examinations given seven participants were not checked/verified as to results by program staff, as follows:

<u>Application No.</u>	<u>Starting Date</u>	<u>Termination Date</u>
52592	3/30/2009	6/19/2009
51930	6/22/2009	9/25/2009
53026	7/6/2009	10/9/2009
52951	6/8/2009	8/28/2009
52997	7/6/2009	10/9/2009
52708	5/4/2009	8/14/2009
52964	6/22/2009	9/25/2009

Cause: The cause of the above condition is a lack of control over eligibility requirements.

Effect: The effect of the above condition is potential noncompliance with eligibility requirements pursuant to WIA Policy Numbers 07-003-2000 and 07-008-2000.

Recommendation: We recommend that the WIA Program comply with established policies and procedures to ensure that only eligible individuals receive WIA Program assistance and benefits. Complete eligibility verification documents should be on file.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-26, Continued
Federal Agency: U.S. Department of Labor
CFDA Program: 17.256-60 WIA Cluster
Grant Number: AA-17162-08-55-A-70; AA-18682-09-55-A-70
Requirement: Eligibility
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: The WIA State Board's Executive Committee and the Management do not concur to some of the conditions noted above and as follows:

- a. WIA Office has an automated system (WIASRD) and eligibility determinations are reviewed by the Director through the system.
- b. Household Compositions were in file.
- c. Status and Referral Forms were in file.
- d. Career Strategy Form is processed when an individual is determined eligible through the PIR (Priority Index Rating) and is a living and breathing document and changes are made for each workforce activity that may be viewed through the database audit trail.
- e. Assessment/examinations of basic skills is one of the eligibility requirement. Eligibility determination may be viewed in the PIR within the WIASRD.

Full name of the person responsible for the corrective action plan: Ulengchong, Executive Director, WIA Office.

When will the corrective action plan be implemented:

Auditor Response: Although the auditee does not concur, the finding remains for the following reasons:

- a. There was no evidence of review.
- b. Subsequent examination of the files noted the following:

<u>Application No.</u>	<u>Starting Date</u>	<u>Termination Date</u>	
52484	4/13/2009	6/19/2009	Career Strategy Plan did not agree as period was from 6/22/09 – 9/25/09
787	9/29/2008	1/2/2009	Career strategy plan could not be provided
52501	1/12/2009	6/19/2009	Career strategy plan could not be provided
52488	4/6/2009	6/19/2009	Career strategy plan could not be provided

- c. There was still no evidence of verification by Program staff.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27
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 and Freely Associated States Education Grant
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: Procedures for managing equipment, whether acquired in whole or in part with grant funds, should meet the following requirements:

- Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who hold title, the acquisition date, the cost of the property, percentage of Federal participation in the cost of the property, the location use and condition of property, and any ultimate disposition data including the date of disposal and sale price of the property;
- A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
- A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
- Adequate maintenance procedures must be developed to keep property in good condition; and
- If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Specifically, 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.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, 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 and Freely Associated States Education Grant
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
 CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
 CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
 CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
 Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
 Requirement: Equipment and Real Property Management
 Questioned Costs: \$0

Condition: Our test of fixed assets noted the following exceptions:

1. Of the fourteen assets listed as program equipment, totaling \$108,037, and acquired between 2003 and 2009 (CFDA #15.875), nine items, totaling \$78,931, were tested and the following noted:
 - a. A complete reconciliation of fixed assets to count sheets from the biennial physical inventory in 2009 was not performed. Two assets were not included in the inventory count sheets but we were able to sight their existence. No questioned costs result since the assets were verified. Details are as follows:

<u>Tag No.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
RP-3779	4/17/2008	Scanner, Ricoh IS 300E	\$ 12,000
RP-3743	1/14/2008	Computer, Dell	5,672

- b. There was no evidence of an effective maintenance plan throughout the year ended September 30, 2009.
 - c. In addition, related software costs were not included in the fixed asset listing provided for the following information systems:

<u>Cost Center</u>	<u>Cumulative Expenditures</u>	<u>System</u>
H63863/H83863	\$ 805,820	Hospital Collection and Billing System (Phase I and II)
E73877	<u>166,000</u>	Computer Maintenance and Management System
	<u>\$ 971,820</u>	

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, 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 and Freely Associated States Education Grant
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Condition, Continued

2. Of eighteen fixed assets listed as program equipment, totaling \$217,345, and acquired between 1996 and 2009 (CFDA #84.027), twelve items, totaling \$189,385, were selected for verification and the following was noted:
 - a. One \$6,385 asset (tag no. RP-98406, purchase date 3/26/1996) could not be located and there was no indication whether the asset has been retired.
 - b. There was no evidence to indicate annual physical inventory performance by accountable officers at the department level for the fiscal year ended September 30, 2009 and 2008; thus, reconciliation with property records is also not evident. Attendant physical inventory records do not appear complete.
 - c. There was no evidence of an effective maintenance plan throughout the year ended September 30, 2009.
3. Of twenty-three fixed assets listed as program equipment, totaling \$237,304, acquired between 1996 and 2009 (CFDA #84.256), thirteen items, totaling \$172,579, were selected for verification and the following was noted:
 - a. A complete reconciliation of fixed assets to count sheets from the biennial physical inventory in 2009 was not performed. The twelve assets tested were not included in the inventory count sheets. We were able to verify the existence of nine of the assets and three remain unlocated. Details are as follows:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, 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 and Freely Associated States Education Grant
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
 CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
 CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
 CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
 Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
 Requirement: Equipment and Real Property Management
 Questioned Costs: \$0

Condition, Continued

- Ten assets were not counted by ROP personnel but were sighted in the audit process (no questioned costs result since the assets were verified):

<u>Tag No.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
RP-2001	03/04/99	Pick-up, LP# 639, Nissan 4-DR	\$ 18,895
RP-2014	03/31/99	Duplo Duplicator	26,700
RP-99637	01/28/98	Disc Player w/ Bar Code Reader	12,147
RP-99636	01/28/98	Disc Player w/ Color Television	12,146
RP-99639	01/28/98	Disc Player w/ Color Television	12,146
RP-99640	01/28/98	Disc Player w/ Color Television	12,146
RP-99641	01/28/98	Disc Player w/ Color Television	12,146
RP-2807	06/30/01	Public Address Sytem	16,800
RP-3479	07/30/04	CPU/Hard Drive, Xserve Dual	7,099
RP-2956	11/16/00	Outboard Engine, Motor	8,070

- Two unlocated assets were noted as follows:

<u>Tag no.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
RP-99647	02/04/1998	Video disc player	\$ 5,642
RP-99650	02/04/1998	Video disc player	\$ 5,642

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, 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 and Freely Associated States Education Grant
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
 CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
 CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
 CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
 Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
 Requirement: Equipment and Real Property Management
 Questioned Costs: \$0

Condition, Continued

- We could not verify the existence of one asset as we were informed that the asset was transferred to a government office unrelated to the program. Further investigation revealed that the asset was brought to a repair shop. However, it was later concluded that the asset was beyond repair. An official transfer of property form or equivalent documentation supporting the transfer was not available. In addition, there has been no official survey to dispose of the asset:

<u>Tag No.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
RP-98467	06/25/96	Jeep, LP# 556, Grand Cherokee	\$ 23,000

- There was no evidence of an effective maintenance plan throughout the year ended September 30, 2009.
- One asset was not operable as of September 30, 2009; however, there has been no official report of survey as of May 2010.

<u>Tag no.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
RP-2014	3/31/1999	Duplo Duplicator	\$26,700

- Of twenty-five fixed assets listed as program equipment, totaling \$ 392,325, acquired between 2004 and 2009 (CFDA #93.283), nineteen items, totaling \$347,827, were selected for verification and the following was noted:
 - A complete reconciliation of fixed assets to count sheets from the biennial physical inventory in 2009 was not performed. One asset was not included in the count sheets from the physical inventory; however, the asset was sighted during audit tests.

<u>Tag no.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>
RP-3598	04/10/2006	Mammo Bucky for GE800T System	\$ 6,250

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, 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 and Freely Associated States Education Grant
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
 CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
 CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
 CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
 Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
 Requirement: Equipment and Real Property Management
 Questioned Costs: \$0

Condition, Continued

5. Of thirteen fixed assets listed as program equipment, totaling \$109,379, acquired between 2001 and 2009 (CFDA #93.224), nine items, totaling \$82,400, were selected for verification and the following was noted:

a. A complete reconciliation of fixed assets to count sheets from the biennial physical inventory in 2009 was not performed. Three assets could not be located of which two were not included in the inventory count sheets:

<u>Tag no.</u>	<u>Purchase Date</u>	<u>Description</u>	<u>Amount</u>	<u>Comment</u>
RP-3408	12/29/2003	Nissan Terrano	\$ 9,250	Not located, not on count sheet
RP-2688	02/06/2001	Pick-up Truck	6,900	Not located
RP-3387	04/07/2003	Procart 1	<u>6,765</u>	Not located, not on count sheet
			<u>\$ 22,915</u>	

b. One vehicle has been at a repair shop for approximately five years. Further inquiries revealed that the vehicle has been repaired before but the program failed to pay the repair costs to claim the vehicle. The vehicle is unserviceable due to the length of time that it has been idle.

<u>Tag no.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Amount</u>
RP-2689	2/9/2001	PICK-UP, DUTSUN 4X4	\$ 7,000

6. A complete reconciliation of fixed assets to count sheets from the biennial physical inventory in 2009 was not performed (CFDA #20.106). Our tests of fixed assets noted five assets that were not included in the fixed asset listing. Details are as follows:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, 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 and Freely Associated States Education Grant
 CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
 CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
 CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
 CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
 Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
 Requirement: Equipment and Real Property Management
 Questioned Costs: \$0

Condition, Continued

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C7003202	Rapid intervention vehicle	\$ 376,000
C7001301/02	Aircraft Rescue and Fire Fighting Building	3,020,782
C6001001	Airport Runway	18,077,044
C8000103	Construction of Apron (In progress)	1,920,330
C8002701	Perimeter Security Fence (in progress)	<u>1,488,884</u>
		<u>\$ 24,883,040</u>

- It was represented that the program (CFDA #10.766) did not have a fixed asset listing as of September 30, 2009. However, construction supplies, totaling \$74,222, were purchased during the year for fencing of a public school campus. We verified through inspection the construction of the fence of April 2010; however, there were no records to indicate construction in progress as of September 30, 2009.
- It was represented that a biennial physical inventory was performed by September 30, 2009; however, there was no evidence of reconciliation with property records.

CFDA
Number
 84.027
 84.256
 93.283
 93.224
 20.106
 10.766

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, 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 and Freely Associated States Education Grant
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Cause: The cause of the above condition is a lack of controls over fixed assets. There is no mechanism in place to capture all categories of assets purchased under each grant.

For CFDA #20.106, it was represented by the Division of Property and Supply that documents were not available to include the rapid intervention vehicle in the fixed asset listing. In addition, it is not clear as to who is responsible to maintain building records.

Effect: The effect of the above condition is noncompliance with federal equipment management regulations.

Recommendation: We recommend that the Republic strengthen control procedures to ensure compliance with federal equipment management regulations.

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 2008.

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. For condition # 8. Above, ROP Gov't does not concur with this finding, as ROP Gov't conducted a government wide physical inventory as required by our policy (once every two year- "every odd year") at fiscal year ended September, 2009. However, we do concur that quarterly and biennial physical inventory reconciliation was not performed and therefore, it is part of current plan of action to adhere to and comply with the policy in place. ROP Govt concur with the lack of effective maintenance plan. For the last ten years, there has never been a budget allocation for maintenance of ROP assets and without funding, it appears that it is not a priority. With the exception of few ministries who utilize open purchase order with local auto service shop for preventive maintenance of their vehicles, there is no budget to fund the government wide preventive maintenance plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, 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 and Freely Associated States Education Grant
CFDA Program: U.S. HHS 93.283 CDC and Prevention – Investigations and Technical Assistance
CFDA Program: U.S. HHS 93.224 Consolidated Health Centers
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. DOA 10.766 Community Facilities Loans and Grants
CFDA Program: U.S. DOL 17.258 - 60 WIA Cluster
Grant Number: MOU-2008, MOU-2007, MOU-Supplemental, PAL-118, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, OMIP-PPUC-2009-2, TA-ROP-CSP-2008-3, OMIP-ROP-2007-02, H027A070006-A, H027B030001-05, S256A060001, S256A060001-07, S256A060001-08, U55/CCU922043-04; U55/CCU922043-02, 2H80CS02467, NAT-I-4416-1-1-08, NAT-I-4416-1-1-07, 62-003-942940238, AA-17162-08-55-A-70
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued

For CFDA#17.256-60, The Palau WIA State Board's Executive Committee and the Management of Palau WIA Office takes the auditor's recommendations and shall take immediate action for corrective actions.

Full name of the person responsible for the corrective action plan: For CFDA#17.256-60, Executive Director- Palau WIA Office will be responsible. The Minister of Finance, BNT Director, Chief of Property and Supply, Chief of Finance & Accounting will be responsible for the Property Management recordkeeping, accountability, and reconciliation and implementation of policies and procedures.

When will the corrective action plan be implemented: The Palau WIA Office has adopted forms from the Division of Property and Supply of the National Government to be used for effective equipment and real property management.

Auditor Response: For condition # 8. We do not dispute compliance with the requirement for a biennial physical inventory. The issue is there was no evidence that inventory results were reconciled with property records. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-28
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 5U58DP000776-03
Requirement: Matching, Level of Effort, Earmarking
Questioned Costs: \$22,000

Criteria: Non-federal financial participation in the form of in-kind contribution (office space, equipment use, nurses, etc.) which is provided on an on-going basis should be appropriately documented and valued to determine that the required match has been made in accordance with program requirements.

Condition: The determination of the in-kind contribution to meet the matching requirement is done solely during the grant application. It appears that the local match of \$22,000 per the grant award notification is not otherwise documented, monitored or valued throughout the fiscal year or the grant period (cost center no. H83683, H93683).

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 \$22,000 exists.

Recommendation: We recommend that management establish procedures to document and appropriately value in kind non-federal contributions.

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 through 2008.

Auditee Response and Corrective Action Plan: ROP/MOH concurs with the findings and will implement the recommendations as stated.

Full name of the person responsible for the corrective action plan: MoH Finance Controller and MoH Budget Officer.

When will the corrective action plan be implemented: October 1, 2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-29
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070006-A, H027B030001-05
Requirement: Matching, Level of Effort, Earmarking
Questioned Costs: \$30,654

Criteria: Pursuant to the 2009 Compliance Supplement, a local educational agency (LEA) may receive funds under an applicable program only if the State educational agency (SEA) finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by US Department of Education. Further, the required level of effort (LOE) should be controlled to ensure that contributions must be from a non-Federal source and may not involve Federal funding or be used for another federally-assisted program.

Condition: Information is not available regarding the Republic’s overall program financial support. It was represented that Special Education recipients also receive services from the Ministry of Health; however, information supporting this representation was not available. In addition, our calculation of the level of effort for the year ended September 30, 2009 indicates a deficiency of \$30,654 as follows:

	<u>FY 08</u>	<u>FY 09</u>
1. Ministry of Education budget	\$ 6,563,798	\$ 6,178,893
2. Total enrollment	2,914	2,804
3. Financial support per student [1. / 2.]	\$ 2,253	\$ 2,204
4. Total Special Education enrollment	<u>172</u>	<u>150</u>
5. Annual financial support made available [3. x 4.]	\$ <u>387,431</u>	\$ <u>330,540</u>
6. Dedicated Special Education classrooms	17	17
7. Rent value per classroom per month	\$ <u>455</u>	\$ <u>350</u>
8. Annual Classrooms Rent [6. x 7. X 12 mos]	\$ <u>92,820</u>	\$ <u>71,400</u>
9. Special Education Router	\$ 198	\$ 200
10. Dedicated land use	1	1
11. Rent value per month	\$ <u>425</u>	\$ <u>350</u>
12. Annual Other Cost [10. x 11. x 12 mos]	\$ <u>5,100</u>	\$ <u>4,200</u>
Total annual financial support made available [5.+8.+9+12.]	\$ 485,549	\$ <u>406,340</u>
Minimum LOE percentage	<u>90%</u>	
Minimum LOE value	\$ <u>436,994</u>	
Deficiency [\$436,994 – \$ 406,340]		\$ <u>30,654</u>

Cause: The cause of the above condition is lack of records to support the level of effort calculation throughout the year ended September 30, 2009.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-29, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070006-A, H027B030001-05
Requirement: Matching, Level of Effort, Earmarking
Questioned Costs: \$30,654

Effect: The effect of the above condition is noncompliance with LOE requirements and questioned costs of \$30,654 result.

Recommendation: We recommend that the Republic strengthen policies and procedures to ensure that the criteria are met.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. Special Education Office submitted their Level of Effort calculation for Fiscal Year 2009 with the amount of \$474,111.

Full name of the person responsible for the corrective action plan: MoE Director, Special Education Program Coordinator, and MOE Budget Specialist.

When will the corrective action plan be implemented: July 2010.

Auditors Response: The data used by the auditor for the calculation was provided by the Ministry of Finance and the Ministry of Education. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-30
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.766 Community Facilities Loans and Grants
Grant Number: 62-003-942940238
Requirement: Matching, Level of Effort, Earmarking
Questioned Costs: \$25,000

Criteria: Non-federal financial participation should be verifiable from the non-Federal entity's records.

Condition: We could not determine whether the required matching contribution of \$25,000 or equivalent was met.

Cause: The cause of the above condition is lack of records to evidence that matching requirement was met.

Effect: The effect of the above condition is noncompliance with matching requirement and questioned costs of \$25,000 result.

Recommendation: We recommend that management establish procedures to document non-federal contributions.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. This project received a grant award from USDA for seventy five thousand dollars with twenty five thousand dollars local matching. ROP/MOE has spent USDA funding to purchase materials for this project. This project is still ongoing with the construction phase to be completed. Construction phase is expected to exceed the twenty five thousand dollars matching share. ROP/MOE will submit status report with documented local share to grantor agency. ROP does not concur with the questioned cost as the grant award funding has not been drawn yet.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance and Accounting, Grant Coordinator and grant program managers.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

Auditors Response: Although the grantor agency has not reimbursed the project, the project incurred \$74,222 or 99% of the grant amount and there were no records available to evidence that the Republic met its matching requirement or will meet its \$25,000 matching share. In addition, the construction phase of the project is being performed by the United States Civic Action Team in Palau, at no cost to the project. Therefore, the finding and questioned cost remain.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-31
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 1U58DP000776-02; U58/DP000776-01
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$13,967

Criteria: A grantee must liquidate all obligations incurred under the award not later than ninety 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: Our test of expenditures noted the following exceptions:

1. Of twenty expenditures tested, totaling \$34,313, six items were expended later than ninety days after the end of the funding period:

<u>Cost Center</u>	<u>Last day of liquidation</u>	<u>Check Date</u>	<u>Check No.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Grant No.</u>	<u>Description</u>
H83683	9/30/09	11/13/09	284672	739024	\$2,400	1U58DP000776-02	Editing service
I83683	9/30/09	10/08/09	283476	737470	3,546	1U58DP000776-02	Per diem
I83683	9/30/09	10/08/09	283477	737469	1,968	1U58DP000776-02	Per diem
I83683	9/30/09	10/07/09	283218	737468	1,000	1U58DP000776-02	Lodging
H83683	9/30/09	12/04/09	285916	736132	253	1U58DP000776-02	Per diem
H83683	9/30/09	02/01/10	289061	760264	<u>1,200</u>	1U58DP000776-02	Printing
					<u>\$10,367</u>		

2. Of forty-four expenditures tested, totaling \$254,623, of a total population of \$633,606, two items were expended after the end of the funding period:

<u>Cost Center</u>	<u>Last day of liquidation</u>	<u>Check Date</u>	<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Description</u>
H83683	9/30/09	11/13/09	284672	739024	\$ 3,600	1U58DP000776-02	Editing service
H73683	9/30/08	05/20/08	262993	DF900033	<u>12,600</u>	U58/DP000776-01	Paps smear
					16,200		
					<u>(12,600)</u>		
					<u>\$ 3,600</u>		

The \$12,600 was prepaid on 5/20/08 (check no. 262993) and was expended on 01/28/09.

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

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

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

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-31, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 1U58DP000776-02
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$13,967

Prior Year Status: Lack of controls over the period of availability of funds was reported as a finding in the Single Audits of the Republic for fiscal years 2006 through 2008.

Auditee Response and Corrective Action Plan: The Ministry of Finance has been meeting with each ministry and has provided written procedures and steps to reconcile and liquidate obligated funds. Ministry of health has assigned a staff to perform monthly reconciliation of un-liquidated funds and to work with Ministry of Finance to ensure that expended program funds are liquidated when goods/services are received. Although we agree with weak controls to monitor obligated program funds, we do not agree with the questioned cost because funds were expended to support activities in the program plans.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance and Accounting, Grant Coordinator and MoH grant program manager, MoH Finance Controller and MoH appropriate staff.

When will the corrective action plan be implemented: The corrective action plan was implemented in February, 2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-32
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant Number: MOU-2007, TA-ROP-CSP-2008-3, MOU-2008
 Requirement: Period of Availability of Federal Funds
 Questioned Costs: \$46,000

Criteria: Expenditures should be obligated and liquidated within the grant period stated in the grant terms and conditions.

Condition: Of thirty-two expenditures tested, totaling \$506,836, of a total population of \$608,006, the following exceptions were noted:

1. Four expenditures were not liquidated within the grant period; however, an approved grant extension was not evident.

<u>Check No.</u>	<u>Voucher No.</u>	<u>Grant Period End</u>	<u>Check Date</u>	<u>Cost Center</u>	<u>Amount</u>
279757	705391	01/01/09	07/14/09	F73844	\$ 18,000
283845	728011	06/30/09	10/16/09	A83868	83,163
273541	705981	01/01/09	02/05/09	F73844	5,000
273541	705982	01/01/09	02/05/09	F73844	<u>5,000</u>
					\$ 111,163
Less costs already questioned at 2009-44					<u>(83,163)</u>
					\$ <u>28,000</u>

2. One subsequent expenditure was not liquidated within the grant period:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Grant Period End</u>	<u>Check Date</u>	<u>Cost Center</u>	<u>Amount</u>
289434	758354	01/01/10	02/05/10	F83844	\$ 18,000

Cause: The cause of the above condition is inadequate monitoring of existing procedures to ensure that grant funds are obligated and liquidated within the grant period.

Effect: The effect of the above condition is noncompliance with grant period of availability requirements and questioned costs of \$46,000 result.

Recommendation: We recommend that ROP strengthen procedures to ensure that grant funds are obligated and liquidated within the grant period.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-32, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: MOU-2007, TA-ROP-CSP-2008-3, MOU-2008
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$46,000

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. Expenditures were incurred within the grant budget period. Drawdown and payment to vendors were beyond the expiration date, however, there is a 90 days liquidation period for federal grants. ROP does not concur with the questioned cost because they are allocable, reasonable and necessary, and in the best interest of the federal program and ROP.

ROP does not concur with this finding. There is a 90 days liquidation period for federal programs to liquidate and submit final reports to grantor.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance and Accounting, Grant Coordinator and appropriate staff.

When will the corrective action plan be implemented: The corrective action plan was implemented in July 2010.

Auditor Response:

1. The Memorandum of Understanding Between the Office of Insular Affairs, U.S. Department of the Interior and the Republic of Palau for a Single Audit for FY 2007 (Cost center F73844), Article V – Time Period, stipulates that this period of performance for this project shall be from the date of execution to January 1, 2009. Any funds not drawn by that date will be de-obligated. Since the liquidation occurred after January 1, 2009, the finding remains.
2. The Memorandum of Understanding Between the Office of Insular Affairs, U.S. Department of the Interior and the Republic of Palau for a Single Audit for FY 2008 (Cost center F83844), Article V – Time Period, stipulates that this period of performance for this project shall be from the date of execution to January 1, 2010. Any funds not drawn by that date will be de-obligated. Since the liquidation occurred after January 1, 2010, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-33
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.766 Community Facilities Loans and Grants
Grant Number: 62-003-942940238
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$0

Criteria: Internal control procedures should exist to provide reasonable assurance that Federal funds are used only during the authorized period of availability.

Condition: The grant purchased materials amounting to \$74,222 to construct public high school fencing during the year ended September 30, 2009. The fencing project was not completed while the grant has expired as of report date and there was no evidence of request for an extension of the grant period. No questioned costs result from this finding as the Republic has not received reimbursement of the expended funds.

Cause: The cause of the above condition is lack of internal control procedures to ensure grant projects are completed during the authorized grant period.

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

Recommendation: We recommend that management establish internal control procedures to ensure that federal funds are used only during the authorized period of availability.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. This project received a grant award from USDA for seventy five thousand dollars with twenty five thousand dollars local matching. ROP/MOE has spent USDA funding to purchase materials for this project. This project is still ongoing with the construction phase to be completed. Construction phase is expected to exceed the twenty five thousand dollars matching share. ROP/MOE will submit status report with documented local share to grantor agency. ROP- Ministry of Finance plans to establish and implement internal control procedures this coming fiscal year and to improve areas of deficiencies and weakness with the appropriate departments.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance and Accounting, Grant Coordinator and grant program managers.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-34
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.224 Consolidated Health Centers
 Grant Number: 2H80CS02467-23-00, 2H80CS02467
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$40,441

Criteria: In accordance with applicable procurement requirements, procurements 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 bid out, 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. When appropriate, an analysis shall be made of purchase alternatives to determine which would be the most economical practical procurement.

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 twenty-four expenditures tested, totaling \$92,986, of a total population of \$261,202, the following exceptions were noted:

1. There was no evidence on file that quotations were obtained from an adequate number of qualified sources (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>
DF900078	271438	\$ 9,940	2H80CS02467-23-00	H83690	Medical beds

2. A contract was awarded to three bidders (RFP No. 01-08) without documentation or analysis to evidence the basis of selection:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
738994	284463	\$ 2,505	2H80CS02467	H93690	Medicine
738993	284463	1,599	2H80CS02467	H93690	Medicine
719976	277633	3,292	2H80CS02467-23-00	H83690	Medical supplies
724847	279124	<u>23,105</u>	2H80CS02467-23-00	H83690	Medical supplies
		<u>\$ 30,501</u>			

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-34, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 2H80CS02467-23-00, 2H80CS02467
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$40,441

Condition, Continued:

Cause: The cause of the above condition is inadequate documentation of 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.

In addition, there was no comparative analysis or written documentation to ensure that the basis of the award was the most economically 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 bid requirements.

Effect: The effect of the above condition is noncompliance with applicable Federal and local procurement regulations and questioned costs of \$40,441 result.

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 2008.

Auditee Response and Corrective Action Plan: The Republic of Palau does not concur with this finding and questioned cost because funds were expended to support program plans and activities that are allowable and for the best interest of the Federal Program and Palau residents. There are limited vendors on island supplying medical supplies, pharmaceutical supplies and drugs, including medical equipment. Although this is a challenge, we have implemented steps and procedures to ensure minimum essential medical supplies, pharmaceutical supplies and drugs, equipment are purchased according to established pre-qualification criteria. Pre-qualification criteria are now used to screen vendors and are incorporated to contract agreements when bidding awards are certified.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Property and Supply, MoH Finance Controller, and grant program managers.

When will the corrective action plan be implemented: Implementation began in June 2009.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-34, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 2H80CS02467-23-00, 2H80CS02467
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$40,441

Auditor Response: We do not dispute the allowability of costs. This is a procurement issue.

1. At least one vendor on island can order supplies if the item solicited is currently not in stock; however, there was no evidence that such vendor was solicited. There was no evidence of an attempt to obtain quotes online or off island.
2. The contract was awarded to three vendors (RFP 01-08) without comparative analysis or written documentation to ensure that the basis of the award was the most economical or practical procurement.

Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-35
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 Grant Number: 1UR3DD000416-01/ 5U58DP000776-03/ 1U58DP001952-01/
 5U580CI923972-04
 Requirement: Procurement and Suspension and Debarment
 Questioned Costs: \$43,940

Criteria: In accordance with applicable procurement requirements, procurements shall provide full and open competition among vendors. 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 bid out, 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. 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.

Condition: Of forty-four expenditures tested, totaling \$254,623, of a total population of \$633,606, the following were noted:

1. There was no evidence on file that quotations were obtained from an adequate number of qualified sources. In addition, there was no evidence on file that inquiries were made of other available vendors on island:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
728823	281038	\$ 1,995	1UR3DD000416-01	H83682	Desktop computer
738528	284391	2,000	5U58DP000776-03	I83683	Newspaper advertisement
703040	270636	<u>1,260</u>	1UR3DD000416-01	H83682	Fuel charges
		<u>\$ 5,255</u>			

2. Specifications provided in support of a request for proposal specified a brand name 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>
DF900163	268079	\$ 36,685	5U580CI923972-04	H88652	Laboratory supplies

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-35, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
Grant Number: 1UR3DD000416-01/ 5U58DP000776-03/ 1U58DP001952-01/
5U580C1923972-04
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$43,940

- 3. Written justification on file did not appear to substantiate sole source as there could be more than one service provider:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Grant Number</u>	<u>Cost Center</u>	<u>Description</u>
722010	277943	\$ 2,000	5U58DP000776-03	H83683	Meals for workshop

Cause: The cause of the above condition is inadequate documentation of small purchases 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 of \$43,940 result.

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 2005 through 2008.

Auditee Response and Corrective Action Plan: The Republic of Palau does not concur with this finding and questioned cost because funds were expended to support program plans and activities that are allowable and for the best interest of the Federal Program and Palau residents. In regards to documentation required in accordance with the procurement regulation, Ministry of Finance is responsible to ensure program request submitted for processing are sufficient to prior to approval and processing of purchase order and that proper invoices are in place before payments are disbursed. The Ministry of Finance with the assistance from the program managers has established process to ensure local procurement regulation is complied with. The procedures and process to comply with the procurement law should incorporate issues and challenges faced with limited local vendors. Regarding the purchase of airline tickets, there is only one reliable airline in the region in which the government prefers to utilize.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance & Accounting, Chief of Property and Supply, Grant Coordinator, and MoH Finance Controller, and grant program managers.

When will the corrective action plan be implemented: Implementation began in June 2009.

Auditor Response: Disbursements may be allowable; however; such disbursements did not comply with applicable federal and local procurement requirements. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-36
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant Number: S256A060001, S256A060001-07, S256A060001-08
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$142,640

Criteria: In accordance with applicable procurement requirements, procurements 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 bid out, 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 on 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, 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 contain.
- 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, 2009

Finding No.: 2009-36, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant Number: S256A060001, S256A060001-07, S256A060001-08
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$142,640

Condition: Of forty-six expenditures tested, totaling \$967,152, of a total population of \$1,240,128, the following exceptions were noted:

1. For three disbursements related to one purchase, the related request for proposal and public notice were advertised in only one radio station and documentation that it was publicized in at least one newspaper and posted in all required sites is not evident.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost Center</u>	<u>Grant no.</u>	<u>Description</u>
275589	713082	\$ 18,000	E73595	S256A060001-07	Professional services
275589	713472	13,500	E73595	S256A060001-07	Professional services
275589	713473	<u>13,500</u>	E73595	S256A060001-07	Professional services
		<u>\$ 45,000</u>			

2. For the following, invoices on file supported advertisement in two radio stations and on local TV; however, the invoices did not document or specify the related request for proposal number or project name. Thus, we could not verify if such advertising invoices related to the purchase tested. Further, there was a lack of evidence that the request for proposal and public notice was posted at all required sites. Since there was a lack of evidence of open competition, related costs are questioned.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost Center</u>	<u>Grant no.</u>	<u>Description</u>
280617	726642	\$ 24,640	E83595	S256A060001-08	Professional services

3. For two disbursements, a specific brand name was noted in the request for proposal specifications but there was no supporting justification provided.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost Center</u>	<u>Grant no.</u>	<u>Description</u>
270430	702692	\$ 18,250	E63595	S256A060001	Computers and accessories
268844	DF900006	<u>54,750</u>	E63595	S256A060001	Computers and accessories
		<u>\$ 73,000</u>			

Cause: The cause of the above condition is inadequate procurement documentation and noncompliance with existing procurement requirements.

Effect: The effect of the above condition is noncompliance with applicable federal and local procurement regulations and questioned costs of \$142,640 result.

Recommendation: We recommend that the Republic adhere to existing procurement regulations. If exceptions are allowed by procurement regulations, the exceptions should be reviewed and approved and the reasons should be documented in file.

Prior Year Status: Noncompliance with local procurement policies was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2008.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-36, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant Number: S256A060001, S256A060001-07, S256A060001-08
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$142,640

Auditee Response and Corrective Action Plan:

1. ROP does not concur with this finding. This contract was initiated in fiscal year 2008. RFP was advertised on two major newspapers in fiscal year 2008 (Voucher no. 697694 and 699501). During this time, ROP has not implemented the Supplemental to Internal Controls which instructs all procurement officers to use a "check list" that contains all required documents for contacts. ROP has implemented the checklist at this time to make sure all required documents are in file before processing contracts. This contract was for "Reviewing and aligning the content standards and benchmarks of the current English reading test for grades 7 to 8 and conduct professional development to Ministry of Education staff in test item development, analysis, and reporting. ROP does not concur with the questioned cost as it was necessary, reasonable, and allocable to the federal program.
2. ROP does not concur with the finding. There is not a written policy for ROP to use as a tool for procurement and internal control enforcement on this particular issue, however; ROP normally request vendor to include Purchase Order No. on invoices, for validation and justification of charges. During this time, ROP has not implemented the Supplemental to Internal Controls which instructs all procurement officers to use a "check list" that contains all required documents for contacts. ROP has implemented the checklist at this time to make sure all required documents are in file before processing contracts. This contract was for an external evaluator to the T&FASEGP Grant from USDOE. ROP does not concur with the questioned cost as it was necessary, reasonable and allocable to the federal program.
3. ROP does not concur with this finding. RFP was adequately advertised and publicized. Two major computer companies submitted their proposals. Palau Ministry of Education is currently using Apple Computers running MAC operating systems. This is the reason why RFP contained specific brand names. ROP does not concur with the questioned cost as this purchase was necessary, reasonable, and allocable to the federal program.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance & Accounting, Chief of Property and Supply, Grant Coordinator, and MoH Finance Controller.

When will the corrective action plan be implemented: Immediately, but no later FY2011.

Auditor Response: Disbursements may be allowable; however; such disbursements did not comply with applicable federal and local procurement requirements. Therefore, the finding remains.

1. There was no evidence that the RFP was advertised in two newspapers.
2. There was no evidence that the specific request for proposal was openly advertised.
3. 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.

Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-37
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070006-A, H027B030001-05
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$44,381

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. 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 bid out, 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 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 for small purchases 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, 2009

Finding No.: 2009-37, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070006-A, H027B030001-05
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$44,381

Condition: Of twenty-four expenditures tested, totaling \$114,667, of a total population of \$313,274, the following exceptions were noted:

- For two disbursements related to contract #D90022, a copy of the contract award letter was not available; thus, awarding of the contract within a reasonable time could not be verified. 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>Grant no.</u>	<u>Cost Center</u>	<u>Description</u>
278230	720934	\$ 19,250	H027A070006-A	E73561	Professional services
280486	725714	<u>19,250</u>	H027A070006-A	E73561	Professional services
		\$ <u>38,500</u>			

- For one disbursement, the lowest price quote was not selected but there was no justification documented in the file. The amount of the questioned cost reflects the difference between the lowest and the selected bids.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Grant no.</u>	<u>Cost Center</u>	<u>Description</u>
274945	DF900136	\$ 606	H027B030001-05	E63586	Wheelchair

- For two disbursements, the related procurement documents evidencing competitive procurement were not available.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Grant no.</u>	<u>Cost Center</u>	<u>Description</u>
276602	717132	\$ 5,275	H027A070006-A	E83561	Professional services

Cause: The cause of the above condition is potentially inadequate procurement documentation and inadequate compliance with laws.

Effect: The effect of the above condition is noncompliance with applicable federal and local procurement regulations and questioned costs of \$44,381 result.

Recommendation: We recommend that the Republic comply with the criteria. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement file.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-37, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070006-A, H027B030001-05
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$44,381

Auditee Response and Corrective Action Plan:

1. ROP does not concur with this finding. Procurement Officer believes that by sending the contract to a vendor for final signature serves the same purpose as an award letter. The new procurement officer has been briefed with this finding and is now aware that an award letter is required under local procurement policies. In addition, only one company responded to the request for proposal. ROP documented that Request for Proposal was advertised in all three major newspaper, local television, and posted at Post Office, the Judiciary (Court) bulletin, and at the National Treasury bulletin. ROP does not concur with questioned cost because it was necessary and reasonable, allocable, and in the best interest of the program. Procurement Officer will make sure to send out award letters to vendors.
2. ROP concurs with this audit findings. Spread sheet for price analysis was based on conversion done by JICA representative who was assigned to Special Education at the time. Due to unfamiliarity with the manner in which Japanese Yen are converted and stated on price evaluation sheet, data provided by requestor was accepted at the face value. Thus, justification noted on purchase requisition did not take note of the lower price by the fourth vendor. It must be noted here that even though there was a lower quote from the fourth vendor, I still would have selected the vendor who supplied the wheel chair, as this is the vendor that was recommended by JICA volunteer. He was familiar with vendor product and based on his knowledge that chosen vendor can indeed provide “made to order” wheel chair. Whereas, he was not familiar with fourth company who has lower price.

Starting in Oct. 1, 2010 any orders that involve foreign country currency should be routed thru Director of the Bureau of National Treasury to ensure correct exchange rate is applied and stated accordingly.

When corrective action plan to be implement: Oct. 1, 2010.

3. ROP does not concur with this finding. This contract is a renewal of a prior year contract for analysis of parent survey forms. In October of 2009, Special Education Program initiated a new contract with the same company. There was no evidence of competition because the Program requested to use the same company they contracted with last year. This same company created the survey forms that are being utilized by the program. ROP does not concur with the questioned cost as it was necessary and reasonable, allocable, and in the best interest of the program.

ROP does not concur with this finding. Four construction companies submitted their proposal to ROP. ROP Design and Engineering Office for Capital Improvement Programs reviewed all proposals and ranked them accordingly. Ranking criteria included Contractor’s ability to complete the design and construction within the time specified, financial capacity of Contractor, Environmental approach, Contactor’s present workload, Contractor’s previous performance, and Cost proposal contingent with the available funding for this project. ROP does not concur with the questioned cost as this was necessary, reasonable and allocable to the federal program.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-37, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A070006-A, H027B030001-05
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$44,381

Auditee Response and Corrective Action Plan, Continued:

Full name of the person responsible for the corrective action plan: BNT Director, BPSS Director, Chief of Finance & Accounting, Chief of Property and Supply.

When will the corrective action plan be implemented: July 2010.

Auditor Response: Disbursements may be allowable; however; such disbursements did not comply with applicable federal and local procurement requirements.

1. 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.
3. There was no documentation on file to substantiate exceptions to procurement requirement.

Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-38
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: OMIP-PPUC-2009-2, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, MOU-Supplemental
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$14,630

Criteria: In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. 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 bid out, 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, 2009

Finding No.: 2009-38, Continued
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant Number: OMIP-PPUC-2009-2, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, MOU-Supplemental
 Requirement: Procurement, Suspension and Debarment
 Questioned Costs: \$14,630

Condition: Of thirty-two expenditures tested, totaling \$506,836, of a total population of \$608,006, the following exceptions were noted:

1. For one contract procured under emergency procurement, although there was a detailed and substantiated written determination describing the emergency, the extent of competition obtained if any, and the basis for selection of a particular contractor were not made part of the contract file. Further, the contract did not contain provisions concerning kickbacks and corrupt practices, access to vendor records and retention of all required records for three years.

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
75224223	728725	\$ 14,630	A93871	Power system emergency assessment

2. For one disbursement, the related procurement documents evidencing competitive procurement were not available. However, no questioned costs result as the amount was already questioned in Finding 2009-23:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Cost center</u>	<u>Description</u>
270446	702921	\$ 44,000	F83826	Tax system upgrade

Cause: The cause of the above condition is inadequate procurement documentation and noncompliance with 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 of \$14,630 result.

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:

1. ROP does not concur with this finding. Vendor was recommended by grantor agency.
2. ROP concurs with this finding. ROP will refund grantor agency for the drawdowns received.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Finance & Accounting, Chief of Property and Supply, and Grant Coordinator.

When will the corrective action plan be implemented: September 2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-38, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: OMIP-PPUC-2009-2, TS-ROP-REP-2008-2, TA-ROP-EQPB-2008-4, MOU-Supplemental
Requirement: Procurement, Suspension and Debarment
Questioned Costs: \$14,630

Auditor Response: Disbursements may be allowable; however, such disbursements did not comply with applicable federal and local procurement requirements.

1. No such grantor recommendation was evident on grant file. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-39
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.256 Territories and Freely Associated States Education Grant
 Grant Number: S256A060001, S256A060001-07, S256A060001-08
 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 forty-six expenditures tested, totaling \$967,152, of a total population of \$1,240,128, the related request for proposals issued for the following disbursements did not indicate the amount and percentage of federal funds for the project.

<u>Check no.</u>	<u>Reference no.</u>	<u>Amount</u>	<u>Cost Center</u>	<u>Grant No.</u>	<u>Description</u>
267044	DF900002	\$ 38,165	E63595	S256A060001	Books and periodicals
267410	DF900006	51,154	E73595	S256A060001-07	Books and periodicals
75113284	Q8005401	19,615	E73595	S256A060001-07	Books and periodicals
79571752	DF900054	64,899	E73595	S256A060001-07	Books and periodicals
71230438	DF900078	63,499	E73595	S256A060001-07	Books and periodicals
74115888	DF900078	58,846	E73595	S256A060001-07	Books and periodicals
74235527	Q9000101	27,466	E73595	S256A060001-07	Books and periodicals
71233965	DF900100	88,275	E73595	S256A060001-07	Books and periodicals
267410	DF900006	12,839	E73595	S256A060001-07	Books and periodicals
271476	N8009105	2,550	E73595	S256A060001-07	Books and periodicals
271957	N8009202	3,668	E73595	S256A060001-07	Books and periodicals
79121296	Q8005501	5,436	E73595	S256A060001-07	Books and periodicals
79145484	Q9003001	28,371	E83595	S256A060001-08	Books and periodicals
79144557	Q9003001	22,742	E83595	S256A060001-08	Books and periodicals
79144940	Q9003001	7,315	E83595	S256A060001-08	Books and periodicals

Cause: The cause of the above condition is that the Republic did not appear to consider the criteria when engaging in related procurement awards

Effect: The effect of the above condition is noncompliance with grant terms and conditions. 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 applicable terms and conditions.

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 through 2008.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-39, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant Number: S256A060001, S256A060001-07, S256A060001-08
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: Concur with this audit findings: Public Notice for both RFP 03-8 and RFP 06-9, Instructional materials did specify percentage funded by federal grant which was 100%. At that time I did not know that it was required by grantor that dollar amount and percentage to be funded by other source must be noted in the bidding documents. My understanding was that only the percentage of the total cost to be funded by federal funds must be noted in Public Notice, thus public notice for both RFP 03-8 and RFP 06-9 reflect this understanding. Future public notice for any RFP will reflect this requirement. This requirement will be noted in RFP Check List so that before public notice are sent out they can be checked.

Full name of the person responsible for the corrective action plan: BNT Director and Chief of Property and Supply.

When will the corrective action plan be implemented: During Fiscal Year 2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-40
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.766 Community Facilities Loans and Grants
Grant Number: 62-003-942940238
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$0

Criteria: In accordance with applicable procurement requirements, procurements shall provide full and open competition among vendors. Allowable exceptions should 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 bid out, 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 costs should be based on 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.

Condition: Of seven expenditures tested, totaling \$73,994, of a total population of \$74,222, the following exceptions were noted:

1. For one purchase, the related request for proposal and public notice were advertised in only two radio stations and documentation that it was publicized in at least one newspaper and posted in all required sites was not evident:

<u>Voucher no</u>	<u>Check date</u>	<u>Check No.</u>	<u>RFP No.</u>	<u>Amount</u>
716437	4/3/2009	276279	RFT 05-8	\$ 38,050

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-40, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.766 Community Facilities Loans and Grants
Grant Number: 62-003-942940238
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$0

Condition, Continued

2. For three expenditures of one purchase request, there were invoices on file to support advertisement in one radio station, one newspaper and in the local TV; however, the invoice for local TV did not document or specify the related request for proposal number or project name. Thus, we could not verify if the invoice related to the purchase tested. Further, there was a lack of evidence that the request for proposal and public notice was posted at all required sites. Details are as follow:

<u>Voucher No.</u>	<u>PO No.</u>	<u>Invoice No.</u>	<u>Amount</u>
736968	L9152801	23577560	\$ 5,679
736970	L9152801	23577120	20,237
736971	L9152801	37500957	<u>7,141</u>
Total			\$ <u>33,057</u>

Cause: The cause of the above condition is inadequate procurement documentation and noncompliance with existing procurement requirements. No questioned costs are presented from this finding as expenditures have not been reimbursed by the grantor agency as of September 30, 2009.

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

Recommendation: We recommend that the Republic adhere to existing procurement regulations. If exceptions are allowed by procurement regulations, the exceptions should be reviewed and be approved and the reasons should be documented in the procurement file.

Auditee Response and Corrective Action Plan:

1. Concur with audit findings, future Public Notice will be processed in accordance with Procurement Policy. As far as public place, we have started taking pix of each posted public notice and file the pix with of respective bid file as evidence of public posting. I've also created an RFP Check list for each bid file, this check list would serve as a reminder as to which specific procurement actions are needed and notations as to how it was done.
2. Concur with audit findings on not noting on invoice from local TV station related RFP number which is RFP 09-9. My staff has been instructed to note RFP number on any invoices relating to advertising any future RFP's. I do not concur with second part of this finding that there is no evidence on file that copy of RFP was posted on public place. In bid file are copies of pix of Public Notice for RFP 09-9 which was posted at various public places.

Full name of the person responsible for the corrective action plan: BNT Director and Chief of Property and Supply.

When will the corrective action plan be implemented: Immediately, but no later than FY2011.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-41
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 2H80CS02467-23-00, 2H80CS02467-24-00
Requirement: Program Income
Questioned Costs: \$0

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: The program does not perform its own billing and collection. Rather, the Ministry of Health performs this function. All fees collected are deposited and recorded at Hospital Trust Fund Account under Special Revenue Fund. Further, there is no evidence available to prove that the program related fees collected are used to further the objective of the program.

We noted in the board minutes that there have been discussions to monitor the collections and to open a separate bank account. Monitoring of collections started in July 2009 according to the Executive Director; however, the collections were still deposited to a Hospital Trust Fund Bank Account. As a result, fees collected are still commingled with nonfederal funds without evidence to prove that collections are being used to further the objective of the program.

Cause: The cause of the above condition is recording of program income to nonfederal funds and a lack of evidence documenting use of program income to further program objectives.

Effect: The effect of the above condition is noncompliance with program requirements. No questioned costs result from the above condition as we were not able to determine the dollar amount of potential program income.

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

Prior Year Status: The lack of compliance with the program income requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004, 2005 and 2008.

Auditee Response and Corrective Action Plan: Program income of Palau Community Health Center Program are collected and deposited to the Hospital Trust Fund in accordance with the local law. The law was created to account for all Ministry of Health collections and earmarked to purchase medical supplies and rugs for the entire ministry. Although program income is commingled with non-federal funds, an analysis of expenditures indicate that the amount collected from the program activities is insufficient to cover costs incurred to operate all Community Health Centers. As such, we believe that we have satisfied the program income requirements by using collections to support program activities. Furthermore, a new Executive Director was appointed in November 2008 and is currently working with appropriate personnel from Ministry of Health to ensure controls are in place to meet program requirements.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-41, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 2H80CS02467-23-00, 2H80CS02467-24-00
Requirement: Program Income
Questioned Costs: \$0

Full name of the person responsible for the corrective action plan: MoH Director of Palau Community Health Center Program and MoH Finance Controller.

When will the corrective action plan be implemented: MoH implemented their plans in January 2009.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-42
 Federal Agency: U.S. Department of Health and Human Services/U.S. Department of the Interior
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance
 CFDA Program: 15.875 Economic, Social and Political Development of the Territories
 Grant Number: 1U58DP000776-02, 1UR3DD000416-01, 5U50C1923972-05, MOU 12/17/08, PAL-115 Amendment
 Requirement: Reporting
 Questioned Costs: \$0

Criteria: Reports submitted to a grantor agency or pass-through entity should include all activity of the reporting period, should be supported by underlying accounting or performance records, and be fairly presented in accordance with program requirements

Condition: Our tests of financial status reports (FSR) noted the following exceptions:

1. Of five financial status reports (FSR) tested (CFDA #93.283), three reports reflect variances when compared to general ledger (GL) expenditure details.

<u>Cost Center</u>	<u>Period</u>	<u>Per FSR</u>	<u>Per GL</u>	<u>Variance</u>
H83683/ I83683	06/30/08 -06/29/09	\$ 572,611	\$ 637,196	\$ 64,585
H83682	07/01/08-06/30/09	\$ 78,882	\$ 80,193	1,311
H98652	01/01/09-12/31/09	\$ 48,602	\$ 49,322	720
				<u>\$ 66,616</u>

2. Of nine FSR tested (CFDA #15.875), two reports have variances when compared to GL expenditure details.

<u>Cost Center</u>	<u>Period</u>	<u>Per FSR</u>	<u>Per GL</u>	<u>Variance</u>
F83844	Up to 09/30/09	\$ 308,000	\$ 316,000	\$ 8,000
H83863	Up to 12/31/08	\$ 11,365	\$ 7,119	\$ (4,246)

Cause: The cause of the above condition is the delay in recording expenditures and adjustments in the general ledger.

Effect: The effect of the above condition is noncompliance with reporting requirements. No questioned costs result from this finding as recorded expenditures exceed amount reported on the FSR.

Recommendation: We recommend that management ensure that reports submitted to the Federal Awarding Agency are supported by underlying accounting records.

Auditee Response and Corrective Action Plan: The Ministry of Finance concurs with this finding and will implement the recommendations as stated.

Full name of the person responsible for the corrective action plan: Ministry of Finance Management team.

When will the corrective action plan be implemented: FY2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-43
 Federal Agency: U.S. Department of Labor
 CFDA Program: 17.258 - 60 WIA Cluster
 Grant Number: AA-17162-08-55-A-70; AA-18682-09-55-A-70
 Requirement: Reporting
 Questioned Costs: \$0

Criteria: In accordance with the applicable Financial Reporting requirements, accurate, current, and complete disclosure of the financial results of financially assisted activities must be made. Further, the records shall be maintained in accordance with Generally Accepted Accounting Principles (GAAP). Expenditures must be reported in an accrual basis. If records are maintained on a cash basis, a set of linking records, typically accrual spreadsheets, should be maintained so that reported costs are traceable during monitoring or audit to the official accounting records or to the books of account.

Condition: During reporting testing, we noted the following exceptions:

- a. Financial reports (ETA 9130) for the year ended September 30, 2009 did not agree with recorded program expenditures. A variance of \$106,933 was noted. The funds drawn, however, correspond with expenditures recorded in the ROP Finance general ledger. Therefore, no questioned costs result from this condition. Details are as follows:

<u>Federal Grant Identifying No.</u>	<u>Recorded Expenditures</u>	<u>Expenditures per ETA</u>	<u>Variance</u>
AA171623Z0	\$ 58,995	\$ 56,956	\$ 2,039
AA171622K0	4,246	13,018	(8,772)
AA171625K0	49,162	19,351	29,811
AA171622M0	22,330	31,264	(8,934)
AA171625Q0	128,027	32,875	95,152
AA171622G0	29,809	74,981	(45,172)
AA171625M0	81,112	38,259	42,853
AA186826F0	32,828	16,427	16,401
AA16069XY0	0	1,320	(1,320)
AA16069ZL0	0	13,452	(13,452)
AA16069ZN0	<u>0</u>	<u>1,673</u>	<u>(1,673)</u>
	\$ <u>406,509</u>	\$ <u>299,576</u>	\$ <u>106,933</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-43, Continued
 Federal Agency: U.S. Department of Labor
 CFDA Program: 17.258 - 60 WIA Cluster
 Grant Number: AA-17162-08-55-A-70; AA-18682-09-55-A-70
 Requirement: Reporting
 Questioned Costs: \$0

Condition, Continued

- b. The grant expenditure summary per grant codes (GC) did not agree with total expenditures per the cash disbursements journal (CDJ) and with expenditures per the schedule of expenditures of federal awards (SEFA). Unknown variances were noted in the amounts of \$18,918 and \$22,220, respectively. The funds drawn, however, correspond with expenditures recorded in the ROP Finance general ledger. Therefore, no questioned costs result from this condition. Details are as follows:

<u>Expenditures by Grant Codes</u>	<u>Expenditures per CDJ</u>	<u>Variance</u>
\$ <u>524,973</u>	\$ <u>506,056</u>	\$ <u>18,918</u>

<u>Expenditures by Grant Codes</u>	<u>Expenditures per SEFA</u>	<u>Variance</u>
\$ <u>524,973</u>	\$ <u>502,753</u>	\$ <u>22,220</u>

- c. Tests of quarterly ETA 9130 reports noted administrative costs which could not be agreed to the cash disbursement journal or to the general ledger detail. The funds drawn, however, correspond with expenditures recorded in the ROP Finance general ledger. Therefore, no questioned costs result from this condition. Details are as follows:

<u>Quarter Ended</u>	<u>Amount</u>
12/30/08	\$ 3,510
03/31/09	12,494
06/30/09	66,672
09/30/09	<u>(38,812)</u>
	\$ <u>43,864</u>

Cause: The cause of the above condition is a lack of adequate support for reported expenditures.

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

Recommendation: We recommend that steps be taken to ensure that expenditures reported to the grantor agency are based on underlying accounting records.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-43, Continued
Federal Agency: U.S. Department of Labor
CFDA Program: 17.258 - 60 WIA Cluster
Grant Number: AA-17162-08-55-A-70; AA-18682-09-55-A-70
Requirement: Reporting
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: The WIA State Board Chairman and members as well as the Executive Director of WIA Office shall take auditor's recommendations and reconciliation of records shall immediately be made in the Peachtree Accounting System of the Palau WIA Office.

Full name of the person responsible for the corrective action plan: Executive Director of Palau WIA Office.

When will the corrective action plan be implemented: Efforts are ongoing to contract an expert on Peachtree Accounting System to reconcile all accounting records from the manual cash receipt and disbursement journal, the Ministry of Finance Payment Management Records and the ETA-9130 reports.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-44
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: TA-ROP-CSP-2008-3
Requirement: Subrecipient Monitoring
Questioned Costs: \$83,163

Criteria: Pursuant to 43 CFR Part 12.77, grantees shall (1) ensure that every subgrant includes a provision for compliance with this Part; (2) ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations; and (3) ensure that subgrantees are aware of the requirements imposed by them by Federal statutes and regulations. Further, grantees must establish and implement subrecipient monitoring policies and procedures.

Condition: For one reimbursement made to a subrecipient, there is no documentation on file evidencing that ROP performed subrecipient monitoring procedures to ensure that the subgrantee complied with applicable federal requirements.

<u>Check No.</u>	<u>Voucher No.</u>	<u>Transaction Date</u>	<u>Cost Center</u>	<u>Amount</u>
283845	728011	07/20/09	A83868	\$ 83,163

Cause: The cause of the above condition is inadequate monitoring controls over subrecipients.

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

Recommendation: We recommend that ROP strengthen subrecipient monitoring procedures.

Auditee Response and Corrective Action Plan: In this case, the sub recipient is the Social Security Office which is a component unit of the ROP Government with its own set of procurement policies and regulations. ROP monitors progress of the project when invoices are submitted to Ministry of Finance for reimbursement. ROP also receives copies of the progress reports. ROP will review its sub-recipient monitoring procedures and take appropriate action to make sure applicable federal requirements are complied with.

Full name of the person responsible for the corrective action plan: BNT Director, Chief of Property and Supply, Chief of Finance and Accounting, and Grant Coordinator.

When will the corrective action plan be implemented: August 2010.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-45
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Consolidated Health Centers
Grant Number: 2H80CS02467-23-00, 2H80CS02467-24-00
Requirement: Special Tests and Provisions
Questioned Costs: \$0

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 exceptions:

1. We examined the board minutes from October 29, 2008 through March 26, 2010 and there was no evidence that the board approved the annual fiscal year 2009 budget.
2. The board did not meet during the month of January 2010.
3. The board did not have representatives from Aimelik, Airai and Kayangel States.

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.

Prior Year Status: The above condition was reported as a finding in the Single Audits of the Republic for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan: The Community Health Center Program had issues and challenges in the past, however, the new Executive Director appointed in November 2008. With the current management team for Palau CHC, governing board, does more than just policy. They assist the program by conducting many community outreaches and as a liaison between the community and the program. Board of Directors meets once a month and quarterly, however, scheduled meeting maybe postponed depending on the board members availability. The appointment of board member is conducted by traditional systems whereby the candidate is proposed by the traditional leaders with membership to be determined by majority vote of the board and the present time, all representative have been appointed, approved, and participates in Board of Directors activities.

Full name of the person responsible for the corrective action plan: MOH-CHC Executive Director, and Board of Directors.

When will the corrective action plan be implemented: March 2010.

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2009

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, 2009:

Questioned costs as previously reported	\$ 1,384,880
Questioned costs for the year ended September 30, 2009	<u>967,990</u>
Unresolved questioned costs at September 30, 2009	\$ <u>2,352,870</u>

Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 13 through 115).