

REPUBLIC OF PALAU

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2012

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 Tommy Remengesau, Jr.
President
Republic of Palau:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the "Republic") as of and for the year ended September 30, 2012, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated November 14, 2013. Our report includes a reference to other auditors and an explanatory paragraph concerning restatements for the correction of misstatements. 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 grant agreements, and other matters did not include the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, the National Development Bank of Palau, the Palau International Coral Reef Center, the Palau Visitors Authority, the Public Utilities Corporation, and the Protected Areas Network, 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 the entities that were audited by us. Other auditors 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

Management of the Republic is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 11 through 65), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-08, 2012-09, 2012-11, 2012-16, 2012-21, 2012-23 and 2012-24 to be material weaknesses.

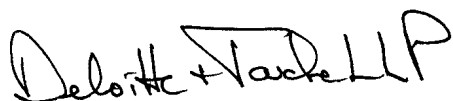
Compliance and Other Matters

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 2012-01, 2012-05, 2012-10, 2012-13, 2012-20, 2012-22, and 2012-25 through 2012-29.

We noted certain matters that we reported to management of the Republic in a separate letter dated November 14, 2013.

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 management, the Honorable Members of the Olbiil Era Kelulau, others within the entity, and the cognizant audit and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



November 14, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the Republic of Palau's (the "Republic's") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Republic's major federal programs for the year ended September 30, 2012. 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 11 through 65). Compliance with the requirements of laws, regulations, contracts, and grants 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, 2012. 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 of the Republic's compliance with those requirements.

As described in items 2012-02 through 2012-19 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, reporting, and special tests and provisions that are applicable to its Economic, Social, and Political Development of the Territories (CFDA # 15.875) major program; regarding cash management, and equipment and real property management that are applicable to its Airport Improvement Program (CFDA # 20.106) major program; regarding allowable costs/cost principles, and equipment and real property management that are applicable to its Special Education - Grants to States (CFDA # 84.027) major program; regarding 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; regarding eligibility, and reporting that are applicable to its College Access Challenge (CFDA # 84.378) major program; regarding allowable costs/cost principles, equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, program income, and reporting that are applicable to its Consolidated Health Centers (CFDA # 93.224) major program; and regarding allowable costs/cost principles, equipment and real property management, matching/level of effort/earmarking, and period of availability of federal funds that are applicable to its CDC 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

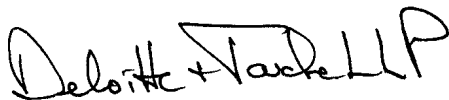
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-02 through 2012-19 to be material weaknesses.

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, 2012, and have issued our report thereon dated November 14, 2013, which contained an unqualified opinion on those financial statements and which report included a reference to other auditors and an explanatory paragraph concerning restatements for the correction of misstatements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Republic's financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 6 through 8) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 the responses.

This report is intended solely for the information and use of management, the Honorable Members of the Olbiil Era Kelulau, others within the entity, and the cognizant audit and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



November 14, 2013

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Grantor/ProgramTitle	Federal CFDA Number	Expenditures
U.S. Department of Agriculture:		
State Administrative Expenses for Child Nutrition	10.560	\$ -
Cooperative Forestry Assistance	10.664	135,228
Community Facilities Loans and Grants	10.766	<u>182,091</u>
Total U.S. Department of Agriculture		<u>317,319</u>
U.S. Department of Commerce:		
Pacific Fisheries Data Program	11.437	-
Unallied Management Projects	11.454	-
Special Oceanic and Atmospheric Projects	11.460	281,774
NOAA Donation to IRC Meeting	11.UNKNOWN	<u>-</u>
Total U.S. Department of Commerce		<u>281,774</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. Department of Justice:		
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	-
State Justice Statistics Program for Statistical Analysis Centers	16.550	<u>-</u>
Total U.S. Department of Justice		<u>-</u>
U. S. Department of Labor:		
WIA Adult Program	17.258	85,802
WIA Youth Activities	17.259	74,060
WIA Dislocated Workers	17.260	138,642
ARRA WIA Dislocated Workers	17.260	<u>-</u>
Total U.S. Department of Labor		<u>298,504</u>
U.S. Environmental Protection Agency:		
Construction Grants for Wastewater Treatment Works	66.418	-
Environmental Education Grants	66.951	<u>-</u>
Total U.S. Environmental Protection Agency		<u>-</u>
U.S. Department of Energy:		
State Energy Program	81.041	<u>-</u>
Total U.S. Department of Energy		<u>-</u>
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 Education:		
Adult Education - Basic Grants to States	84.002	32,291
Special Education - Grants to States	84.027	1,118,988
Career and Technical Education - Basic Grants to States	84.048	249,584
Special Education - Preschool Grants	84.173A	-
Byrd Honors Scholarships	84.185A	-
Supported Employment Services for Individuals with Significant Disabilities	84.187A	-
Bilingual Education Support Services	84.194Q	-
Freely Associated States - Education Grant Program	84.256A	939,164
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	-
Twenty-First Century Community Learning Centers	84.287B	-
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	88,560
Vocational Education - Occupational and Employment Information State Grants	84.346A	-
College Access Challenge	84.378A	<u>1,694,242</u>
Total U.S. Department of Education		<u>4,122,829</u>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards, Continued Year Ended September 30, 2012

Grantor/ProgramTitle	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services:		
Civil Rights and Privacy Rule Compliance Activities	93.001	5,373
Public Health Emergency Preparedness	93.069	249,865
Hospital Preparedness Program (HPP)	93.074	128,215
Maternal and Child Health Federal Consolidated Programs	93.110AR	165,977
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	133,972
Family Planning - Services	93.217	124,897
Consolidated Health Centers	93.224	775,732
Consolidated Knowledge Development and Application (KD&A) Program	93.230	-
State Capacity Building	93.240	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	79,288
Universal Newborn Hearing Screening	93.251	139,895
Immunization Grants	93.268	222,977
Drug Free Communities Support Program Grants	93.276	-
CDC and Prevention - Investigations & Technical Assistance	93.283	1,153,680
Capacity Building Assistance to Strengthen Public Health Infrastructure and Performance	93.507	257,516
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) and Emerging Infections Program	93.521	81,577
Coordinated Chronic Disease Prevention and Health Promotion Program	93.544	43,185
ARRA Health Center Integrated Services Development Initiative	93.703	382,548
ARRA-Immunization	93.712	66,088
ARRA DP09-902 ROP MOH	93.723	22,683
National Bioterrorism Hospital Preparedness Program	93.889	19,613
HIV Care Grants	93.917	47,472
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	80,799
Epidemiologic Research Studies of AIDS and HIV Infection in Selected Population Groups	93.943	211,840
HIV/AIDS Surveillance	93.944	23,452
Block Grants for Community Mental Health Services	93.958	45,951
Block Grants for Prevention and Treatment of Substance Abuse	93.959	121,078
Preventive Health Services - STD Control Grants	93.977	25,624
Preventive Health and Health Services Block Grant	93.991	-
Maternal and Child Health Services Block Grant to the States	93.994	195,216
Total Department of Health and Human Services		<u>4,804,513</u>
Total U.S. Federal Grants Fund (Fund 350100)		<u>\$ 9,824,939</u>
U.S. Department of the Interior:		
Social, Economic and Political Development of the Territories	15.875	\$ 681,134
Total U.S. Department of the Interior		<u>681,134</u>
Total OTIA Direct Grants Fund (Fund 350200)		<u>\$ 681,134</u>
U.S. Department of Homeland Security:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	\$ -
Total U.S. Department of Homeland Security		<u>-</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. Environmental Protection Agency:		
Construction Grants for Wastewater Treatment Works	66.418	-
Total U.S. Environmental Protection Agency		<u>-</u>
U.S. Department of Transportation:		
Airport Improvement Program	20.106	4,402,753
Total U.S. Department of Transportation		<u>4,402,753</u>
Total Non-DOI Capital Projects Fund (Fund 420100)		<u>\$ 4,402,753</u>

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

	<u>Authorizations</u>	<u>Expenditures and Transfers</u>	<u>Excess (Deficit) of Authorizations Over Program Expenditures</u>
<u>Compact of Free Association CFDA #15.875</u>			
<u>211(a) & 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000	\$ -
Compact Section 215	5,147,000	5,128,231	18,769
Total 211(a) & 215 Current Account	\$ 11,147,000	\$ 11,128,231	\$ 18,769
<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	\$ 5,000,000	\$ 5,000,000	\$ -
<u>221(b)(1) & (2) Special Block Grant & Education Special Grant</u>			
Ministry of Education	\$ 2,000,000	\$ 2,000,000	\$ -
Total 221(b) Special Block Grant	\$ 2,000,000	\$ 2,000,000	\$ -
Total Compact of Free Association CFDA #15.875		\$ 18,128,231	
Less Compact Section 211(a) Current Account		(6,000,000)	
Less Compact Section 215 Current Account		(5,128,231)	
Less Compact Section 211(f) Trust Fund Investment Earnings		(5,000,000)	
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing		\$ 2,000,000	

The above awards are received in a direct capacity.

See accompanying notes to schedule of expenditures of federal awards.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2012

(1) Scope of Audit

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

a. Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents 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 Energy
- U.S. Department of Homeland Security
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of the Interior
- U.S. Department of Transportation

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Republic and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. 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, 2012 basic financial statements; except that the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, 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, 2012.

c. Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule of Expenditures of Federal Awards.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2012

(2) Summary of Significant Accounting Policies, Continued

e. Indirect Cost Allocation

The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2012. The approved rate was 6.63%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

f. CFDA # 15.875

CFDA # 15.875 represents funding from the Office of Insular Affairs (OIA), U. S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the U.S. Department of the Interior, Office of the Inspector General (OIG) has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding has 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 OIG. The OIG took this position since there was no compliance requirement imposed on the abovementioned funds. The same is the case for the Section 211(f) Compact Trust Fund. There is no compliance requirement 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, 2012

Section I - Summary of Auditors' Results

Financial Statements

- | | | |
|----|-------------------------------------------------------|---------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weaknesses identified? | Yes |
| 3. | Significant deficiencies identified? | None reported |
| 4. | Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major programs:

- | | | |
|----|------------------------------------------------------------------------------------------------------------------------|---------------|
| 5. | Material weaknesses identified? | Yes |
| 6. | Significant deficiencies identified? | None reported |
| 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. | Identification of major programs: | |

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	Special Education - Grants to States
84.256	Freely Associated States - Education Grant Program
84.378	College Access Challenge
93.224	Consolidated Health Centers
93.283	CDC and Prevention-Investigations and Technical Assistance
15.875	Economic, Social, and Political Development of the Territories
20.106	Airport Improvement Program

- | | | |
|-----|--------------------------------------------------------------------------|------------|
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 507,265 |
| 11. | Auditee qualified as low-risk auditee? | No |

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-01	Procurement	13
2012-05	Procurement	18
2012-08	Allowable Costs/Cost Principles	23 - 24
2012-09	Equipment and Real Property Management	25 - 30
2012-10	Procurement	31 - 32
2012-11	Allowable Costs/Cost Principles	33 - 34

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Section II - Financial Statement Findings, Continued

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-13	Procurement	37 - 38
2012-16	Allowable Costs/Cost Principles	43 - 45
2012-20	Single Audit Reporting	51
2012-21	Fixed Assets	52
2012-22	Procurement	53 - 54
2012-23	Revenues	55 - 57
2012-24	Expenditures	58
2012-25	Equipment and Real Property Management	59
2012-26	Procurement	60
2012-27	Procurement	61 - 63
2012-28	Social Security Retirement Fund	64
2012-29	Civil Service Pension Trust Fund	65

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2012-04	15.875	Period of Availability of Federal Funds	\$ 50,867	17
2012-05	15.875	Procurement and Suspension and Debarment	-	18
2012-06	15.875	Reporting	-	19
2012-09	15.875	Equipment and Real Property Management	-	25 - 30
2012-19	15.875	Special Tests and Provisions	-	50
2012-07	20.106	Cash Management	117	20 - 22
2012-09	20.106	Equipment and Real Property Management	-	25 - 30
2012-08	84.027	Allowable Costs/Cost Principles	-	23 - 24
2012-09	84.027	Equipment and Real Property Management	-	25 - 30
2012-07	84.256	Cash Management	-	20 - 22
2012-09	84.256	Equipment and Real Property Management	-	25 - 30
2012-10	84.256	Procurement and Suspension and Debarment	94,013	31 - 32
2012-02	84.378	Eligibility	-	14
2012-03	84.378	Reporting	-	15 - 16
2012-07	84.378	Cash Management	-	20 - 22
2012-09	93.224	Equipment and Real Property Management	-	25 - 30
2012-11	93.224	Allowable Costs/Cost Principles	-	33 - 34
2012-12	93.224	Period of Availability of Federal Funds	39,279	35 - 36
2012-13	93.224	Procurement and Suspension and Debarment	25,706	37 - 38
2012-14	93.224	Program Income	-	39
2012-15	93.224	Reporting	-	40 - 42
2012-09	93.283	Equipment and Real Property Management	-	25 - 30
2012-16	93.283	Allowable Costs/Cost Principles	22,884	43 - 45
2012-17	93.283	Period of Availability of Federal Funds	13,625	46 - 48
2012-18	93.283	Matching, Level of Effort, Earmarking	20,000	49
2012-01	93.703	Procurement and Suspension and Debarment	<u>496,857</u>	13
			<u>\$ 763,348</u>	

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-01

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.703 CHC ARRA - Capital Improvement Program
Grant Number: C81CS14006
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$496,857

Criteria: Section 1605 of the American Recovery and Reinvestment Act of 2009 (ARRA) prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. ARRA provides for the waiver of these requirements under specified circumstances.

Condition: Of twelve fixed asset additions tested totaling \$12,302,102, one \$496,857 contract (# C10006) was to build a new Community Health Center. There was no evidence that the Community Health Center was constructed using iron, steel, and manufactured goods produced in the United States. Furthermore, change order no. 2 for the purchase of medical supplies and equipment totaling \$50,196 was included in the total cost of the building; and there was no evidence on file that the medical supplies and equipment were manufactured or produced in the United States. No waiver of this requirement was provided to us.

Cause: The cause of the above condition is that a waiver of the requirement was not obtained.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$496,857.

Recommendation: We recommend that the Republic establish procedures to assess the feasibility of using iron, steel, and manufactured goods produced in the United States and to obtain necessary waivers in accordance with applicable procurement requirements.

Auditee Response and Corrective Action Plan: ROP concurs with reservation. The program went through the procurement process and requirements were met to build a new Community Health Center and the purchase of medical supplies and equipment. Unfortunately, it was beyond our scope to identify whether these contractors/vendors that can provide such services will provide supplies and equipment that are produced in the United States. In that case, we should get to the bottom of it and ask the contractors/vendors to identify their products if it is produced in the United States. In the latter case, MOF will work with the program to ensure that waiver is obtained before constructing a building or purchase any materials, equipment and supplies under the ARRA Funds.

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

Darnelle W. Decherong, Program Coordinator, CHC
Gandhi Ngirmidol, Grants Manager, MOF
Caryn L. Koshiha, Chief Finance & Accounting

Date the corrective action plan will be implemented: On-going

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-02

Federal Agency: U.S. Department of Education
CFDA Program: 84.378 College Access Challenge
Grant Number: P378A110057
Requirement: Eligibility
Questioned Costs: \$0

Criteria: Title VII, Part E, Section 781(g)(2) of the Higher Education Act of 1965 requires prioritization of students and families who live below the poverty line applicable to the individual's family size.

Condition: The College Access Challenge program is made available to qualified students regardless of income level or student financial need. No evidence of waiver of this eligibility requirement by the Grantor Agency was made available.

Cause: The cause of the above condition is a lack of controls over eligibility requirements. It was represented that qualified students are all provided an opportunity to participate in program activities and services as program funding is sufficient to provide for all qualified applicants.

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

Recommendation: We recommend that the Program adequately document that only eligible applicants receive financial assistance.

Auditee Response and Corrective Action Plan: The Program concurs with this finding. The scholarships do have eligibility requirements, such as citizenship, full-time enrollment, certified financial aid statement, etc.; some applicants are therefore disqualified as being ineligible if they do not meet the eligibility requirements. The scholarship expenditures are based on certified financial statements from colleges where students attend. Such statements include cost of attending the college and how much financial assistance the student receives from other sources. Such information forms the basis for the determination of the amount of the scholarship that the student receives.

Having said this, we can still review eligibility requirements, but we really do not want to leave any Palauan student behind without CACG financial support and certainly do not want to deviate from the overall purpose of the grant (and the scholarships), which is to help all Palauan students succeed in college.

With that, the program will work closely with the grantor and the Attorney General's office on how to improve the criteria in order to be able to help all Palauan students in need of scholarships to help with their education expense.

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

Emery Wenty, Director Ministry of Education
Noe Yalap, Program Specialist
Edwel Ongerung, Administration Service Manager

Date the corrective action plan will be implemented: January 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-03

Federal Agency: U.S. Department of Education
CFDA Program: 84.378 College Access Challenge
Grant Number: P378A110057
Requirement: Reporting
Questioned Costs: \$0

Criteria: Title VII, Part E, Section 781(h)(2) of the Higher Education Act of 1965 requires that a grantee receiving a payment shall prepare and submit an annual report to the Secretary on the activities and services carried out under this section, and on the implementation of such activities and services. The report shall include the cost of providing each activity or service.

Condition: Of two annual performance reports tested, we noted the following:

1. Federally funded costs of activities and services on a 5/14/13 report are overstated by \$46,380 when compared against underlying accounting or performance records as follows:

	<u>Actual Expenditures</u>
10/1/11 - 9/30/12	\$ 1,264,832
10/1/12 - 4/15/13	<u>118,502</u>
Total per general ledger	1,383,334
Total per annual performance report	<u>1,429,714</u>
Overstatement	\$ <u>(46,380)</u>

2. The reported local match for scholarship grant aid is understated by \$499,031 and \$516,952 when compared against underlying accounting records for reports submitted on 05/08/12 and 5/14/13, respectively as follows:

	<u>FY 2011</u>	<u>FY 2012</u>	<u>Total</u>
Per annual performance report	\$ 600,000	\$ 600,000	\$ 1,200,000
Per general ledger	<u>1,099,031</u>	<u>1,116,952</u>	<u>2,215,983</u>
Understatement	\$ <u>(499,031)</u>	\$ <u>(516,952)</u>	\$ <u>(1,015,983)</u>

3. Local match expenditures of \$83,500 and \$37,500 are not detailed or supported by invoices or other authoritative documentation per performance reports submitted on 05/08/12 and 5/14/13, respectively.

Cause: The cause of the above condition is a lack of internal control over adequate file maintenance of underlying accounting records and documents to support reported program expenditures.

Effect: The effect of the above condition is noncompliance with the above criteria. No questioned costs result as only recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that the Program establish internal control procedures over adequate file maintenance so that underlying records exist to support reported program expenditures.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-03, Continued

Federal Agency: U.S. Department of Education
CFDA Program: 84.378 College Access Challenge
Grant Number: P378A110057
Requirement: Reporting
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: The program concurs with reservation. Item 1: The dollar figures in our APRs are based on our records at the time the APRs were prepared, which would be in early May. Our records do not necessarily match those of the Ministry of Finance. We would have requisitions recorded in our system, yet these same requisitions may have not been entered at the Ministry of Finance; hence, there would be differences in total expenditures and remaining balance(s). Also, open purchase orders may be closed and the remaining balances of the purchase orders returned to the appropriate accounts at the Ministry of Finance. This could explain the overstated costs as cited above.

Item 2: The total amount of local scholarships is \$1.2 million for one fiscal year: \$600,000 for Fall Semester and \$600,000 for Spring Semester. Because of the differences between the fiscal year, which is from October to September, and the school year, which is from August to December for Fall Semester and January to May for Spring Semester, the first batch of scholarships are awarded in January for Spring Semester while the second batch of scholarships are awarded in August for Fall Semester. When the APRs are prepared, only local scholarships for Spring Semester have been awarded; the Fall Semester scholarships are yet to be awarded – in August. From time to time, the Scholarship Office uses a portion of the \$600,000 scholarship allocation for administrative purpose, knowing that it has another \$600,000 available for more scholarships; and this is what happened to result in the understated local scholarship match. However, the scholarships awarded in August should be more than enough to provide the needed matching for scholarships.

Item 3: All local expenditures for the ministry are well documented with quotations, requisitions, purchase orders, and invoices as requirements for government expenditures. Nevertheless, our grant program may indeed not have an adequate file maintenance process as it would take a long time for us to assemble all the documentation for all matching expenditures. The grant program will therefore establish a file maintenance system to ensure records for matching expenditures as well as other program expenditures are adequately maintained and can be quickly retrieved.

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

Emery Wenty, Director Ministry of Education
Noe Yalap, Program Specialist
Edwel Ongerung, Administration Service Manager

Date the corrective action plan will be implemented: January 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-04

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Grant Number: TA-ROP-Airport-2010-4; MOU 2010
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$50,867

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

Condition: Of twenty-two non-payroll samples tested, totaling \$602,772 of a population of \$658,377, two expenditures (or 9%) were incurred after the grant period, and an approved grant extension was not evident.

<u>Check No.</u>	<u>Trans Date</u>	<u>Voucher No.</u>	<u>Cost Center</u>	<u>Grant Period End</u>	<u>Amount</u>
330267	08/16/2012	881603	R03872	07/31/2012	\$ 30,867
332600	09/29/2012	886734	F03844	07/01/2012	\$ 20,000

Cause: The cause of the above condition is inadequate monitoring of existing procedures to obligate and liquidate grant funds within the grant period.

Effect: The effect of the above condition is noncompliance with grant period of availability requirements and questioned costs of \$50,867.

Recommendation: We recommend that the Republic strengthen procedures to obligate and liquidate grant funds within the grant period.

Prior Year Status: Noncompliance with period of availability requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2009 and 2010 as items 2009-32 and 2010-13.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. For voucher 881603, the expiration date of the grant was July 31, 2012. The voucher was paid within the liquidation period. For voucher 886734, ROP communicated with the Grantor Agency by submitting the required reports. The Grantor Agency confirmed that the reports were received and went ahead with payment of the drawdown request.

Full name of the person responsible for the corrective action plan:
Ghandi Ngirmidol, Grants Manager

Date the corrective action plan will be implemented: On-going

Auditor Response: For voucher 881603, the expenditures were obligated on 8/16/12 while the grant period ended on 7/31/12. For voucher 886734, the expenditures were liquidated on 10/15/12 while the grant period ended on 9/30/12.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-05

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Grant Number: TA-ROP-OBGO-2010-5, TA-ROP-OPA-2010-2
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$0

Criteria: Procurements shall provide full and open competition among vendors.

Condition: Of twenty-two non-payroll expenditures tested, totaling \$602,772, of a total population of \$658,377, three transactions (or 14%) were not processed through established procurement procedures. The procurement file does not evidence competition. Furthermore, there was no evidence on file that the grantor approved non-competitive procurement procedures.

<u>Date</u>	<u>Voucher No.</u>	<u>Cost Center</u>	<u>Amount</u>
01/10/2012	857045	P03824	\$ 3,750
05/01/2012	870750	P03824	3,750
07/02/2012	876849	P03824	<u>3,750</u>
		Total	\$ <u>11,250</u>

Cause: The cause of the above condition is the Republic's failure to comply with applicable procurement requirements and absence of competitive procurement procedures for items less than \$10,000.

Effect: The effect of the above condition is noncompliance with procurement requirements. No questioned costs result as there was no drawdown made for these expenditures.

Recommendation: We recommend that the Republic implement procedures requiring compliance with procurement requirements.

Prior Year Status: Noncompliance with established procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2005 and 2008 through 2010 as items 2005-17, 2008-12, 2009-38 and 2010-24.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. These expenditures represent payment for services by a special advisor to the President of the Republic of Palau. In addition, Pursuant to Section 6, Public Law no. 7-8-8, and RPPL 1-37, Special Advisors are exempt from the National Public Service System. In this case, the regular procurement process or competition does not apply; however, we recognized that the process was not followed by not obtaining the grantor approval and we will take this into consideration when procuring services.

Full name of the person responsible for the corrective action plan:
Gandhi Ngirmidol, Grants Manager

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-06

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Grant Number: TA-ROP-Border Management Systems-2010-7
Requirement: Reporting
Questioned Costs: \$0

Criteria: In accordance with grant terms and conditions, the Program is required to semi-annually submit an SF-425 Federal Financial Report.

Condition: Of seven awards tested, the SF-425 was not provided for the following project:

<u>Cost Center</u>	<u>Grant Number</u>	<u>Grant Expiration</u>	<u>Expenditures Incurred during the Fiscal Year</u>
J03881	TA-ROP-Border Management Systems -2010-7	2/28/2013	\$14,989

Cause: The cause of the above condition is lack of controls over compliance with reporting requirements.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No questioned costs result because no excess federal funds were drawn as a result of this condition.

Recommendation: We recommend that applicable SF-425 reports be on file.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Reports have been brought up to date for FY 2013.

Full name of the person responsible for the corrective action plan:
Gandhi Ngirmidol, Grants Manager

Date the corrective action plan will be implemented: On-going

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-07

CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant
 CFDA Program: U.S. ED 84.378 College Access Challenge
 Grant Number: NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
 S256A090006-10
 P378A110057
 Requirement: Cash Management
 Questioned Costs: \$117

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: The Republic has Federal awards funded on a reimbursement payment basis. Program costs are paid from local funds before reimbursement is requested from the Federal government; however, we noted that upon each request for reimbursement from the Federal government, there remains some program costs unpaid that will be paid upon receipt of the requested reimbursement. Procedures in place do not minimize the time elapsed between the receipt of Federal funds and the payout of funds for program costs.

1. For 11 (or 58%) of 19 transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 5 to 7 days as follows:

<u>Grant Award No.</u>	<u>Cost Center no.</u>	<u>APV no.</u>	<u>Check no.</u>	<u>Check Clearing Date</u>	<u>Amount</u>	<u>Days Lapsed</u>
NAT- I-4416-1-1-14	T0APR1	851875	321764	2/14/2012	\$ 327,024	5
NAT- I-4416-1-1-14	T0APR1	855449	321755	2/14/2012	\$ 224,799	5
NAT- I-4416-1-1-14	T0APR1	860344	321554	2/14/2012	\$ 294,936	5
NAT- I-4416-1-1-14	T0APR1	863901	326006	05/09/2012	\$ 276,718	7
NAT- I-4416-1-1-14	T0APR1	868868	326006	05/09/2012	\$ 242,275	7
NAT- I-4416-1-1-14	T0APR1	871311	327455	06/19/2012	\$ 268,919	5
NAT- I-4416-1-1-14	T0APR1	878442	333500	10/30/2012	\$ 296,569	5
NAT- I-4416-1-1-14	T0APR1	881588	333500	10/30/2012	\$ 546,562	5
NAT- I-4416-1-1-15	T0APR1	873102	327455	06/19/2012	\$ 689,561	5
NAT- I-4416-1-1-15	T0APR1	874987	327455	06/19/2012	\$ 314,620	5
NAT- I-4416-1-1-15	T0APR1	883715	333500	10/30/2012	\$ 308,733	6

2. The reimbursement included unpaid program costs of which two accounts payable vouchers had not been paid as of July 2013, as follows:

<u>Grant award no.</u>	<u>Cost Center no.</u>	<u>APV nos.</u>	<u>Amount</u>	<u>Days Lapsed to 9/30/12</u>
S256A090006-10	E03595	840095	\$ 660	45
P378A110057	E13597	871168	\$ 1,311	45

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-07, Continued

CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant
 CFDA Program: U.S. ED 84.378 College Access Challenge
 Grant Number: NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
 S256A090006-10
 P378A110057
 Requirement: Cash Management
 Questioned Costs: \$117

Condition, Continued:

3. Four accounts payable vouchers were paid from five to forty-four days after the receipt of Federal funds as follows:

<u>Grant Award No.</u>	<u>Cost Center no.</u>	<u>APV no.</u>	<u>Check no.</u>	<u>Check Clearing Date</u>	<u>Amount</u>	<u>Days Lapsed</u>
S256A090006-10	E03595	880970	332113	10/02/12	\$ 386	44
S256A090006-10	E03595	881305	330262	08/24/12	\$ 390	5
P378A110057	E13597	881303	330361	08/28/12	\$ 585	9
P378A110057	E13597	881304	330361	08/28/12	\$ 204	9

Cause: The Republic represents that there are instances where accounts payable vouchers (APV) do not have complete supporting documents and are sent back to Accounts Payable section for completion of supporting documents prior to payments. That process further delays the timing of payments.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. Questioned costs of \$117 exist for CFDA # 20.106 as the resulting estimated interest liability exceeds the \$10,000 threshold. No questioned costs exist for CFDA # 84.256 and CFDA # 84.378 as the resulting estimated interest liability is less than the \$10,000 threshold.

Recommendation: We recommend that the Republic establish internal controls over cash management that confirms compliance with federal requirements. We further recommend that this matter be discussed with the applicable grantor officials and the Republic to perform a requisite analysis of its clearance patterns.

Prior Year Status: Lack of internal control over cash management was reported as a finding in the Single Audits of the Republic for fiscal years 2005 through 2010 as items 2005-40, 2006-15, 2007-16, 2008-08, 2009-25 and 2010-23.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Currently, MOF is working with the program managers to take corrective action to resolve this finding by encouraging them to provide invoices to MOF as soon as they receive them as well as encouraging the vendors to deposit/cash their checks immediately to be cleared.

In addition, MOF team is currently working on revising the Cash Management Policy which will include the clearance pattern analysis that should be effective in December of 2013.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-07, Continued

CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. ED 84.256 Territories and Freely Associated States Education Grant
CFDA Program: U.S. ED 84.378 College Access Challenge
Grant Number: NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
S256A090006-10
P378A110057
Requirement: Cash Management
Questioned Costs: \$117

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

Ruth Wong, MOF-Director/Controller,
Caryn L. Koshiba, Chief of Finance & Accounting, and
Gandhi Ngirmidol, Grants Manager/Senior Accountant

Date the corrective action plan will be implemented: December 2013

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-08

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A100006A
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria: In accordance with applicable allowable costs/cost principles requirements, if an employee is expected to work solely on a Federal program, the employee and/or supervisory official having first-hand knowledge of the work performed by the employee is required to prepare, at least semi-annually, a certification that the employee worked solely on that program for the period covered by the certification.

Condition: Tests of semi-annual certifications noted deficiencies as follows:

1. The semi-annual certifications for two employees (Check #s 1406080 and 1415760) were unavailable.
2. The semi-annual certifications for the period 4/1/12 to 9/30/12 for two employees (Check #s 1439824 and 1442201) were not certified by the employees' immediate supervisor.
3. The semi-annual certification for the period 4/1/12 to 9/30/12 for one employee (Check # 1401207) was signed by the employee and was certified on 5/6/12, which appears to indicate that the certification was prepared prior to the end of the specified period.

Cause: The cause of the above condition is the lack of controls over the timely completion and submission of employee certifications.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements. No questioned costs result due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the Republic require certifications from employees on a semiannual basis evidencing that employees are certifying time charged for federal related activities only.

Auditee Response and Corrective Action Plan: The Program concurs with reservation. We are very aware of this and we keep our employees certifications on file. Although eleven staff was reported as incomplete out of all Special Education staff, we were able to locate and file them except for two employees due to resignation and illness.

All employees of the program have a good understanding of this requirement, and they are aware that their reports must be submitted to the main office. However, challenges arise from the program employees stationed outside of Koror when submitting their reports to the main office that may cause delays for report submission.

The program coordinator and her staff will make an effort to monitor and ensure that all reports will be submitted on a timely manner. In addition, MOF will ensure that the program make certain that the employees time certifications are up to date and filed.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-08, Continued

Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education - Grants to States
Grant Number: H027A100006A
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

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

Helen Sengebau, Coordinator Special Education Program
Caryn L. Koshiba, Chief, Division of Finance & Accounting
Gandhi Ngirmidol, Grants Manager/Senior Accountant

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-09

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
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. DHHS 93.224 Community Health Centers Program
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: MOU-2008, MOU-2009
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
H027A100006A
S256A090006, S256A090006-10, S256A090006-11
6H80CS02467-26-03, 5H80CS02467-27-00
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01
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:

1. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two year.
2. 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.
3. Adequate maintenance procedures must be developed to keep property in good condition.

Condition: For all major federal programs the following were noted:

1. The latest biennial inventory was conducted in July 2009, therefore the next inventory should have been conducted in fiscal year 2011; however it was represented that there was no inventory performed in fiscal year 2011. A scheduled biennial inventory in 2013 was ongoing as of July 2013.
2. There was no evidence that equipment was maintained in good condition.

Specifically, the following were noted:

CFDA # 15.875

Of twenty-four fixed assets listed as program equipment, totaling \$440,995, acquired between 2003 and 2012, fourteen items, totaling \$387,170, were selected for verification. Related software costs were not included in the fixed asset listing provided for the following information systems:

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
 CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. DOE 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. DHHS 93.224 Community Health Centers Program
 CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance
 Grant Number: MOU-2008, MOU-2009
 NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
 H027A100006A
 S256A090006, S256A090006-10, S256A090006-11
 6H80CS02467-26-03, 5H80CS02467-27-00
 1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01
 Requirement: Equipment and Real Property Management
 Questioned Costs: \$0

Condition, Continued:

CFDA # 15.875, Continued

<u>Cost Center</u>	<u>Cumulative Expenditures</u>	<u>System</u>
H63863/H83863	\$ 807,334	Hospital Collection and Billing System (Phase I & II)
E73877	235,372	Computer Maintenance and Management System
E73877	30,972	Networked Computer System
Total	\$ <u>1,073,678</u>	

CFDA # 20.106

Of four listed program assets totaling \$1,391,359, the following were noted:

1. One item (TAG# LP 1165) had a purchase cost that differed from underlying property records, and there was no evidence of a reconciliation for the following:

<u>Listed cost.</u>	<u>Correct cost</u>	<u>Variance</u>
\$150,400	\$376,000	\$225,600

2. Existing property records do not include infrastructure assets totaling \$40,364,309.

CFDA # 84.027

Of twenty-two fixed assets listed as program equipment, totaling \$336,119, acquired between 1996 and 2012, ten items, totaling \$271,500, were selected for verification. Three assets (Tag #s RP-2827, RP-3329, RP-3588) were not operable as of September 30, 2012, but are recorded in the fixed asset records. There was no official survey report to disclose that the assets were not operable.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
 CFDA Program: U.S. DOT 20.106 Airport Improvement Program
 CFDA Program: U.S. DOE 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. DHHS 93.224 Community Health Centers Program
 CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance
 Grant Number: MOU-2008, MOU-2009
 NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
 H027A100006A
 S256A090006, S256A090006-10, S256A090006-11
 6H80CS02467-26-03, 5H80CS02467-27-00
 1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01
 Requirement: Equipment and Real Property Management
 Questioned Costs: \$0

Condition, Continued:

CFDA # 93.224

Of fifteen fixed assets listed as program equipment totaling \$200,315 acquired between 2001 and 2011, eleven items, totaling \$143,887 were selected for verification and the following noted:

1. We could not verify the existence of an asset as program personnel represented that they did not know the location. Additionally, it was represented by the Property and Supply Office that they were unaware that the asset was surveyed as no official report of survey to dispose of the asset.

<u>Tag no.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-2688	02/06/2001	Pick-up, LP# 787, Chassis No.	\$ 6,900

2. We could not verify the existence of an asset as it was represented the asset was inoperable; therefore, it was moved to a storeroom. However, the asset was accidentally disposed of. There was no official survey report to acknowledge the disposal.

<u>Tag no.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-3326	01/10/2003	Copier, Digital, Canon	\$7,517

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. DOE 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. DHHS 93.224 Community Health Centers Program
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: MOU-2008, MOU-2009
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
H027A100006A
S256A090006, S256A090006-10, S256A090006-11
6H80CS02467-26-03, 5H80CS02467-27-00
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Condition, Continued:

CFDA # 93.283

Of fifteen fixed assets listed as program equipment, totaling \$329,746, which were acquired between 2004 and 2012, ten items, totaling \$296,857, were tested for verification. We could not verify the existence of one asset. We were informed that the asset was not operable and was surveyed in a prior year. Property and Supply Office staff represented that they were not aware that the asset was surveyed. An official survey report was not filed to support the disposal.

<u>Tag no.</u>	<u>Purchase date</u>	<u>Description</u>	<u>Cost</u>
RP-3492	12/15/2004	Mammography Processor, AGFA	\$25,250

Cause: For all major federal programs:

1. It was represented that there was an inventory task force committee assigned by the President to conduct an inventory during 2011; however, the results of the inventory counts were not reconciled to property records.
2. There is a lack of a developed control system at the program level over the maintenance of property and equipment.

CFDA # 20.106

No responsibility for maintaining complete records of property acquired under the Airport Improvement Program has been assigned.

CFDA # 93.224

There is no mechanism in place to capture all categories of program assets and to determine that all assets are operable and in use.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. DOE 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. DHHS 93.224 Community Health Centers Program
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: MOU-2008, MOU-2009
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
H027A100006A
S256A090006, S256A090006-10, S256A090006-11
6H80CS02467-26-03, 5H80CS02467-27-00
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Cause, Continued:

CFDA # 93.283

There is no mechanism in place to determine that Program assets are operable.

Effect: The effect of the above condition is noncompliance with federal equipment management requirements. No questioned costs result as the fixed assets that are specifically identified above have reached their estimated useful lives and are considered inoperable.

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

Prior Year Status: Weakness in controls over fixed assets was reported as findings in the Single Audits of the Republic for fiscal years 1988 through 2011.

Auditee Response and Corrective Action Plan: ROP concurs with the finding. MOF are working closely with MOH and MOE to gather all relevant information to be able to capitalize the assets.

CFDA # 93.224

1. ROP concurs with the finding. This fixed asset is obsolete and is beyond its useful life and it is no longer operable. Therefore, MOF and MOH will go through the process of surveying it out of the fixed asset listing.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-09, Continued

CFDA Program: U.S. DOI 15.875 Economic, Social, and Political Development of the Territories
CFDA Program: U.S. DOT 20.106 Airport Improvement Program
CFDA Program: U.S. DOE 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. DHHS 93.224 Community Health Centers Program
CFDA Program: U.S. DHHS 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: MOU-2008, MOU-2009
NAT-1-4416-1-1-14, NAT-1-4416-1-1-15
H027A100006A
S256A090006, S256A090006-10, S256A090006-11
6H80CS02467-26-03, 5H80CS02467-27-00
1U58SO000023-01, 5U58S000023-02, 3U50CI923972-05S3, 5U58DP000776-04, 5U58DP000776-05, 1U58DP003939-01
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

CFDA # 93.224, Continued

2. ROP concurs with the finding. This equipment was determined inoperable. Therefore, the Program will be filing an incident report for file and will work with MOF to survey it out on the fixed asset listing.

In addition, Chief of Property and Supply Div. will ensure that appropriate survey action is taken to ensure Survey Board have the opportunity to review both cases and take appropriate action to address them. Hence, MOF will work closely and cohesively with the Survey Board to update the fixed asset listing.

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

Darnelle Decherong, Executive Director, CHC
Millan Isack, Chief, Property & Supply
Ruth Wong, Director-BNT
Caryn L. Koshiba, Chief Finance & Accounting

Date the corrective action plan will be implemented: January 2014

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-10

Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant Number: S256A090006, S256A090006-10, S256A090006-11
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$94,013

Criteria: 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 or her 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.

Condition: Of thirty-six non-payroll expenditures tested totaling \$468,930, of a population of \$860,613, we noted the following:

1. Two disbursements (or 6%) did not go through the procurement process as it was represented that the grant has specific staff development objectives and activities involving the vendor, and the vendor is the only post-secondary institution in the Republic that could provide the service. The procurement file does not contain evidence of any competition, which would have been practicable under the circumstances. Furthermore, there was no evidence on file that the grantor approved the suspension of procurement requirements.

<u>Date</u>	<u>Voucher No.</u>	<u>Cost Center</u>	<u>Amount</u>
06/25/2012	876227	13595	\$ 47,116
09/20/2012	885038	13595	<u>42,827</u>
		Total	<u>\$ 89,943</u>

2. There was no evidence on file that quotations were obtained from an adequate number of qualified sources for the following.

<u>Date</u>	<u>Voucher No.</u>	<u>Cost Center</u>	<u>Amount</u>
07/30/2012	879925	13595	4,070

Cause: The cause of the above condition is failure to comply with applicable procurement requirements and the absence of competitive procurement for items less than \$10,000.

Effect: The effect of the above condition is noncompliance with procurement requirements and questioned costs of \$94,013.

Recommendation: We recommend that the Republic comply with procurement requirements.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-10, Continued

Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant
Grant Number: S256A090006, S256A090006-10, S256A090006-11
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$94,013

Prior Year Status: Noncompliance with established procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2005, 2008 and 2009 as items 2005-24, 2008-11 and 2009-36.

Auditee Response and Corrective Action Plan: Item 1: ROP concurs with this finding. MOF will work cohesively with MOE that this will never occur again and that the procurement process will be followed.

Item 2: ROP concurs with this finding. MOF will collaboratively work with the Programs to make sure that quotations from available vendors who can provide such service have been obtained to meet the requirement

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

Gandhi Ngirmidol, Grants Manager
Caryn L. Koshiba, Chief Finance & Accounting
Millan Isack, Chief Procurement & Supply

Date the corrective action plan will be implemented: On-going

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-11

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-26-03, 5H80CS02467-27-00
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria: In accordance with applicable allowable costs/cost principle requirements, the following apply:

- If an employee works less than 100% 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.
- Where employees are expected to work solely on the program, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee and the supervisory official having firsthand knowledge of the work performed by the employee.

Condition: Of 33 employees tested, totaling \$17,359, of a total population of \$510,215, we noted the following:

- a. Not all personnel appear to work 100% on the Community Health Center Program. Salaries unrelated to the program could not be determined based on available evidence, and therefore, no questioned costs could be estimated. (Check #s 1439968, 1394061, 1418323, 1430384, 1391627 and 1396491).
- b. For 24 (or 73%), the employee charged 100% of his or her time to the program, but there was no evidence of semiannual certification.
- c. For 1 (or 3%), the employee appears to have charged 100% of his or her time to the program; however, per corroborative inquiry, the employee did not spend 100% of the time on the program. (check nos. 1394055, 1411048 and 1439953).

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

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles. No questioned costs result because amounts not relating to program activities could not be determined.

Recommendation: We recommend that the Republic strengthen procedures over the maintenance of adequate documentation to support program expenditures.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-11, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-26-03, 5H80CS02467-27-00
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$0

Prior Year Status: Noncompliance with allowable costs/cost principle requirements was reported as a finding in the Single Audits of the Republic for fiscal year 2010 as item 2010-12.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. MOF will work closely with the Program to implement the time certification policies to ensure time certifications are completed and filed.

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

Darnelle Decherong, Executive Director, CHC; Regis Emesiochel, Comptroller, MOH; Gandhi Ngirmidol, Grants Manager, MOF; Caryn L. Koshiba, Chief Finance & Accounting, MOF

Date the corrective action plan will be implemented: November 1, 2013

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-12

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-26-03
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$39,279

Criteria: A grantee must liquidate all obligations incurred under the grant award no 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 Federal Financial Report (SF-425). The Federal agency may extend this deadline at the request of the grantee.

Condition: Period of availability of federal funds testing noted the following:

1. Expenditures of \$21,894 were charged to grant no. 6H80CS02467-26-03 (cost enter no. H13690) one to eight months after the grant period ended on December 31, 2011. There was no evidence that a grant extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. The expenditures should have been charged to the new grant applicable to this period. Subsequent to test date, an adjustment was posted to move the expenditures from Cost Center no. H13690 to the General Fund Org. # 1540, and therefore, no questioned costs result from this finding. Details of the incorrectly charged expenditures are as follows:

<u>Cost Center no.</u>	<u>Acct. no.</u>	<u>Description</u>	<u>Amount</u>
H13690	1011	Salaries & Waged	\$ 19,085
H13690	1016	Living Quarters Allowance	125
H13690	1019	Social Security	1,146
H13690	1034	Civil Service Pension Plan	1,060
H13690	1080	Other Employment Benefits	478
			<u>\$ 21,894</u>

2. One Federal Financial Report (FFR) submitted was not finalized on the last day of liquidation (grant no. 6H80CS02467-26-03; cost enter no. H13690). It was represented that the final FFR will not be finalized until all obligations are liquidated; therefore, the submitted report was not final. However, there was no documentation from the grantor agency indicating approval, and expenditures were liquidated later than ninety days after the end of the funding period. Questioned costs of \$38,905 result.
3. Expenditures totaling \$374 were charged to grant no. 6H80CS2467-26-03 (cost enter no. H13690) one to six months after the budget period ended on December 31, 2011. There was no evidence that a grant extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. The expenditures should have been charged to the new grant applicable to this period. Questioned costs of \$374 result.

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

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-12, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-26-03
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$39,279

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$39,279.

Recommendation: We recommend that the Republic strengthen procedures to maintain adequate documentation on file to support program expenditures and implement control procedures so that the cost of local and/or other Federal grants are not charged to the grant after the period of availability expires.

Auditee Response and Corrective Action Plan: Items 1, 2, and 3: The Program concurs with reservations. Grant Terms and Conditions specifically states *“If the FFR is not finalized by the due date, an interim FFR must be submitted, marked “NOT FINAL,” and an amount of un-liquidated obligations should be annotated to reflect unpaid expenses.”* ROP assumed this implies liquidation beyond the 90 days liquidation period is allowable unless it is the end of the Project Period. MOF will clarify this issue with grantor agency. MOF will also work closely with Program to make sure grantor approval is obtained if the assumption above does not apply.

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

Gandhi Ngirmidol, Grants Management Officer
Caryn Koshiba, Chief, Division of Finance & Accounting
Darnelle Decherong, Executive Director, CHC

Date the corrective action plan will be implemented: November 1, 2013

Auditor Response: Reporting requirement # 1 on page 7 of the abovementioned grant stipulates that the grantee must submit a Federal Financial Report (FFR) within 90 days after the budget period end date. This report should reflect cumulative reporting within the project period and must be submitted using the Electronic Handbook. Failure to comply with this reporting requirement will result in deferral or additional restrictions of future funding decisions.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-13

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-26-03, 6H80CS02467-26-02, 6H80CS02467-26-00
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$25,706

Criteria: It is the policy of the Republic that all procurement and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economical, practical procurement. 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 bid shall be announced on all radio or television stations and shall be made in 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. Procurement files should contain public notice, invitation for bids or request for proposal, notice of unsuccessful bidder or offeror, basis for cost or price and determination.

Condition: Of sixteen expenditures tested totaling \$63,421, there were two purchase orders issued under request for proposal (RFP) no. 17-11 for the purchase of pharmaceutical and medical supplies. It appears that the awards went to four vendors without documentation or comparative analysis to evidence the basis of selection and the basis for determining the award. Therefore, known questioned costs of \$25,706 results.

<u>Check no.</u>	<u>P O no.</u>	<u>PO Amount</u>	<u>FY 2012 Expenditures</u>	<u>Cost Center</u>	<u>Description</u>
332581	P20006	\$ 23,981	\$ 22,898	H13690	Pharmaceutical supplies
331453	G20037	\$ 83,400	2,808	H13690	Medical Supplies
Total			\$ <u>25,706</u>		

It appears there are additional potential questioned costs incurred per the RFP that similarly occurred during fiscal year 2012; however, the system is unable to capture all expenditures recorded pursuant to the request for proposal (RFP) no. 17-11.

Cause: The cause of the above condition is weaknesses in controls over compliance with applicable procurement requirements. In addition, there was no tracking system in place so that expenditures do not exceed awarded or purchase order amount.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-13, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-26-03, 6H80CS02467-26-02, 6H80CS02467-26-00
Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$25,706

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$25,706.

Recommendation: We recommend that the Republic strengthen controls over procurement procedures to maximize competition while maintaining the best interest 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 established procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004, 2005, and 2007 through 2010 as items 2004-14, 2005-27, 2007-17, 2008-9, 2009-34 and 2010-16.

Auditee Response and Corrective Action Plan: ROP concurs with the finding. All medical supplies and drugs go through a proper bidding process. Prospective vendors are selected based on a series of factors including price, payment arrangement, flexibility, etc. It is also noted on the recommendation letter that the price does not constitute total obligation. This will allow for greater flexibility if unforeseen circumstances are faced by each vendor.

In addition, the Chief of Property and Supply Division is currently working with both MOH Procurement Officer and MOH Pharmacist (she is in-charge of MOH warehouse now) to develop a methodology for determining the awarded amount based on competitive analysis as well as other relevant factors. The Supply Office has also put in place a mechanism to capture all expenditures pursuant to each respective RFP.

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

Darnelle Decherong, Executive Director, CHC
Tasya Worswick, Procurement Officer, MOH
Millan Isack, Procurement Officer

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-14

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 6H80CS02467-26-03, 5H80CS02467-27-00
Requirement: Program Income
Questioned Costs: \$0

Criteria: In accordance with standard operating procedures, non-grant funds (i.e., State, Local and other operational funding and fees, premiums, and third-party reimbursements) which the program 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 furthers 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 in the Hospital Trust Fund Account, which is a Special Revenue Fund. There is no evidence available that program-related fees collected are used to further the objective of the program.

The Executive Director has represented that the program monitors collections; however, the collections are comingled 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 the current fee structure and collections that are centralized at the Ministry of Health, and the lack of control over the tracking of program income.

Effect: The effect of the above condition is potential noncompliance with program requirements. No questioned costs result as we were unable to determine the dollar amounts of the potential program income.

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

Prior Year Status: Noncompliance with program income requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2008 through 2010 as items 2008-22, 2009-41 and 2010-30.

Auditee Response and Corrective Action Plan: The Program concurs with the finding. Effective April 2013, the program established a specific account for which all collections from the Community Health Centers will be deposited. The Program will work with the Procurement Office, MOH to ensure funds are spent toward medical supplies and drugs as identified in the budget narrative for the grant.

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

Darnelle Decherong, Executive Director, CHC
Analee Rose Maidesil, Budget/Fiscal Manager, Billing & Collections, MOH
Ruth Wong, Director, Bureau of National Treasury

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-15

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 5H80CS02467-27-00, 5H80CS02467-27-01
Requirement: Reporting
Questioned Costs: \$0

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

Condition: The 2012 universal data system (UDS) report due on February 15, 2013, reported program revenues and expenditures. The Program provided various reports utilized to prepare the UDS report. We examined the reports and traced the amounts to the general ledger (DILOG System), noting the following:

1. The total accrued cost reported in the UDS report totaling \$1,613,084 is comprised of the total medical care, other clinical services, other services and total facility and other non-clinical services including personnel costs aggregating \$554,732. However, the underlying records provided indicated personnel costs of \$509,093, resulting in a variance of \$45,639.
2. We further noted medical and pharmaceutical supplies aggregating \$851,905, of which only \$80,000 could be agreed to the general ledger.

<u>Description</u>	<u>Per UDS Report 2012</u>	<u>Per General Ledger</u>	<u>Difference</u>
Non-Pharmaceuticals	\$ 437,541	\$ 40,000	\$ 397,541
Pharmaceuticals	414,364	40,000	374,364
Total	\$ <u>851,905</u>	\$ <u>80,000</u>	\$ <u>771,905</u>

3. The Program also reported donated facility and services of \$711,805 but no underlying accounting records were provided to support the amount.
4. There was no underlying accounting record for revenues reported representing self-pay of \$748,728. It was represented that the amount is the difference between the full charge of the service and the sliding discount and that the full charge derives from all encounter forms during the fiscal year. Such forms are maintained in a separate database. No report was provided to support the stated amount.

Cause: The cause of the above condition is the lack of internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program revenues and expenditures.

Effect: The effect of the above condition is noncompliance with above criteria. No questioned costs result as only the recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that management establish internal control procedures over file maintenance and underlying records to support reported program revenues and expenditures.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-15, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 5H80CS02467-27-00, 5H80CS02467-27-01
Requirement: Reporting
Questioned Costs: \$0

Prior Year Status: Noncompliance with reporting requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2010 and 2011 as items 2010-18 and 2011-12.

Auditee Response and Corrective Action Plan: ROP concurs with reservation based on the following:

Item 1:

The salary amount reported on the 2012 UDS was based on the individuals' most recent salary rate (December 31st, 2012). The total cost is slightly higher as some of the individuals' might have had a change in salary between January 1st, 2012 and December 31st, 2012. We will take into consideration for the next UDS report to calculate the salaries using the average for the year to match the personnel cost with the cost on the GL.

Item 2:

For Non-Pharmaceuticals: Of the \$397,541; \$374,364 is a portion of the amount recorded on the 2012 UDS Report, Table 9D, Row 14, Column B (\$748,728) as the Patient Related Revenue calculated during that budget period less any sliding discounts associated with each patient, to support Non-Pharmaceuticals. The remaining amount of \$23,177 (amount under General Supplies subaccount on the HHS Report for H23690) was added to the Non-Pharmaceuticals line erroneously as it had already been included in the 2012 UDS Report, Table 8A, Line 15 (Non-Clinical Support Services).

For Pharmaceuticals, the amount of \$374,364 is a portion of the amount recorded on the 2012 UDS Report, Table 9D, Row 14, Column B (\$748,728) as the Patient Related Revenue calculated during that budget period. The amount was calculated based on the full charges during the period less any sliding discounts associated with each patient, to support Pharmaceuticals (Medical Drugs).

Item 3:

Donated Facility = \$100,800. This amount was calculated based on the square footage of 8 Health Center locations. Each location was calculated, based on their floor plan at 2,100 ft². The following was our calculations:

60ft x 35ft = 2,100 ft²
2,100 ft² x \$6/ ft² = \$12,600 (\$6 is the standard average cost per ft² used by the Ministry of Health to calculate square footage)

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-15, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Community Health Centers Program
Grant Number: 5H80CS02467-27-00, 5H80CS02467-27-01
Requirement: Reporting
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

\$12,600 x 8 Health Centers = \$100,800.

The 8 Health Centers consist of Kayangel Dispensary, Northern Community Health Center (Ngarchelong), Eastern Community Health Center (Melekeok), Western Community Health Center (Ngaremlengui), Airai Dispensary, Southern Community Health Center (Peleliu), Angaur Dispensary and the Out-Patient Department located at Belau National Hospital.

Donated Services = \$611,005. This amount was calculated based on the salaries of all non-CHC paid providers and support staff who work at CHC and all its dispensaries. The spreadsheet is provided separately.

Item 4:

No report was provided as the information on the encounter report includes patient information that would breach the patient confidentiality clause. The amount was calculated based on the full charges during the period less any sliding discounts associated with each patient. The database used when reporting 2012 UDS was created using all encounter reports entered into the Health Information Systems (HIS) database and the Public Health Information System (PHIS) database. The data was then filtered to remove clinical data that is not applicable to CHC. This was filtered using ICD9 Coding.

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

Darnelle Decherong, Executive Director, CHC
Everdil Rechebei, Budget Officer, CHC
Regis Emesiochel, Comptroller, MOH

Date the corrective action plan will be implemented: Ongoing

Auditor Response: It appears that program revenues and expenditures were not based on underlying accounting records. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-16

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: 5U58DP001952-03
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$22,884

Criteria: In accordance with applicable allowable costs/cost principles requirements, the following should be in place for effective grant administration:

- An effective system of internal control includes policies and procedures requiring that expenditures be authorized, supported and approved prior to incurrence.
Costs charged to the program should have a direct or indirect benefit to the grant. In addition, capital expenditures as defined by OMB A-87, in excess of \$5,000, require prior approval of the grantor agency.
If an employee works less than 100% 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-four expenditures tested totaling \$218,594, we noted the following:

- 1. For one (or 4%), no receiving report or certification of completion was on file from the Ministry of Health or other authorizing officer certifying that goods/services were received and/or completed. This instance is payment for what is essentially a meeting room, but no evidence of the multiple use of this facility was provided to substantiate the relevance of this charge to the program.

Table with 5 columns: Check no., Voucher no., Cost Center, Amount, Description. Row 1: 319985, 854627, K13660, \$3,500, Meeting Room rental

- 2. For one (or 4%), an expenditure was recorded and paid twice. It was represented that an erroneous remaining balance in the underlying encumbrance report resulted from the first payment, which caused the second payment to be issued for the following:

Table with 5 columns: Check no., Voucher no., Cost Center, Amount, Description. Row 1: 328352, 866971, H13660, \$2,900, Professional Services

- 3. For one (or 4%), certain services were performed from June 30, 2011 through June 29, 2012; however, the contract term started upon contract signing which was on February 26, 2012 and expired on June 29, 2012. It was represented that the period (per a memo dated July 3, 2012) was incorrect and that the contract period should have been the period requested for payment. However, per the Palau Year 5 Interim Progress Report Summary, it appears that the services performed were during FY 2011 through FY 2012. We calculated the total expenditures incurred prior to the contract term, which aggregated \$16,484 for the following:

Table with 5 columns: Check no., Voucher no., Cost Center, Value, Description. Row 1: 328922, 877563, I13683, \$25,000, Professional Services

The \$16,484 of costs incurred prior to the effective date of the contract represents questioned costs.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-16, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: 5U58DP001952-03
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$22,884

Condition, Continued:

Of twenty-seven employees tested totaling \$20,021 of a total population of \$526,783, we noted the following:

4. Not all personnel appear to work 100% of their time on the National Comprehensive Cancer Control Program, Prostate Cancer and Colorectal program, Cancer Prevention and Control Programs for State Territorial and Tribal Organization Program. Salaries unrelated to the program could not be determined based on available evidence, and therefore, no questioned cost could be estimated for the programs.
5. For 18 (or 67%), the employee worked 100% for the program, but there was no evidence of periodic, or at least semiannual certification that 100% of the employee's time was expended in connection with the program.

Cause: The cause of the above condition is lack of conformance with existing procedures that require adequate documentation be maintained to support program expenditures and lack of an alternative system that has been developed and been approved by the grantor agency.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and questioned costs of \$22,884.

Recommendation: We recommend that the Republic strengthen procedures to maintain adequate documentation on file supporting program expenditures and implement control procedures to prevent cost of local and/or other Federal grants from charging the grant.

Prior Year Status: Noncompliance with established procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2006 through 2010 as items 2006-23, 2007-21, 2008-17, 2009-18 and 2010-32.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-16, Continued

Federal Agency: U.S. Department of Human Health Services
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: 5U58DP001952-03
Requirement: Allowable Costs/Cost Principles
Questioned Costs: \$22,884

Auditee Response and Corrective Action Plan:

Item 1, ROP does not concur with the finding. A certified invoice serves the same purpose as the receiving report meaning that an authorized officer from Ministry of Health did certify that goods/services were received/completed based on his signature on the invoice.

Item 2, ROP concurs with the finding. The vendor has returned the duplicate payment.

Item 3, The Program concurs with the finding. The request for proposal stated in the period of performance for one year with an option to renew each year for the period of five years. While this ongoing collaboration continued to implement activities toward deliverables under this agreement, a formal contract renewal took longer as expected. The program will consider this and will ensure that costs incurred for professional services will be based on the effective dates of the contracts.

Items 4 and 5, ROP concurs with this finding. MOF will ensure that the Program will implement the time certification policy to ensure time certifications are completed and filed.

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

Edolm Ikerdey, Program Coordinator; Regis Emesiochel, MOH Comptroller
Damian Wally, Program Coordinator;
Gandhi Ngirmidol, Grants Manager, MOF

Date the corrective action plan will be implemented: On-going

Auditor Response: For item 1, an invoice was provided in the amount of \$3,500 for multiple rentals of a meeting room; however, there was no evidence of multiple use of the meeting room to substantiate relevance of this charge to the program. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-17

Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance
 Grant Number: 1U58DP003939-01
 Requirement: Period of Availability of Federal Funds
 Questioned Costs: \$13,625

Criteria: A grantee must liquidate all obligations incurred under the grant award no 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 Federal Financial Report (SF-425). The Federal agency may extend this deadline at the request of the grantee.

Condition:

- Expenditures totaling \$37,637 were charged to grant no. 5U58DP000776-05 (cost center no. H13683/I13683) one to three months after the grant period ended on June 29, 2012. There was no evidence that a grant period extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. Subsequent to our tests, adjustments were recorded by the Republic to move the expenditures from cost center #s H13683 and I13683 to cost center #s H23683 and I23683; thus, no questioned costs result from this finding. Details of the incorrectly charged expenditures are as follows:

<u>Cost Center no</u>	<u>Acct. no</u>	<u>Description</u>	<u>Amount</u>
H13683	1011	Salaries & Wages	\$ 27,658
H13683	1019	Social Security	1,356
H13683	1034	Civil Service Pension Plan	1,519
H13683	1080	Other Employee Benefits	701
H13683	1321	Communications	664
I13683	1011	Salaries & Wages	2,600
I13683	1019	Social Security	697
I13683	1034	Civil Service Pension Plan	585
I13683	1080	Other Employee Benefits	446
I13683	1321	Communications	<u>1,411</u>
Total			\$ <u>37,637</u>

- Expenditures of \$3,650 were charged to grant no. 5U58DP001952-03 (cost enter no. H13660) one to six months after the grant period ended on March 30, 2012. There was no evidence that a grant period extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. The expenditures should have been charged to a new grant applicable to this period. Subsequent to our tests, adjustments were recorded by the Republic to move the expenditures from cost center # H13660 to cost center # H23660; thus, no questioned costs result from this finding. Details of the incorrectly charged expenditures are as follows:

<u>Cost Center no</u>	<u>Acct. no</u>	<u>Description</u>	<u>Amount</u>
H13660	1321	Communication	\$ 3,490
H13660	1019	Social Security	82
H13660	1034	Civil Service Pension Plan	44
H13660	1080	Other Employee Benefits	<u>34</u>
Total			\$ <u>3,650</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-17, Continued

Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance
 Grant Number: 1U58DP003939-01
 Requirement: Period of Availability of Federal Funds
 Questioned Costs: \$13,625

Condition, Continued:

3. Expenditures of \$1,084 were charged to grant no. 1UR3DD000809-01 (cost center no. H13682) one to four months after the grant period ended on June 30, 2012. There was no evidence that a grant period extension was obtained. It was represented that the expenditures were erroneously charged to the expired grant. The expenditures should have been charged to a new grant applicable to this period. Subsequent to our testing, adjustments were recorded by the Republic to move the expenditures from cost center # H13682 to cost center # H23682; thus, no questioned costs result from this finding. Details of the incorrectly charged expenditures are as follows:

<u>Cost Center no</u>	<u>Acct. no</u>	<u>Description</u>	<u>Amount</u>
H13682	1321	Communication	\$ <u>1,084</u>

4. Expenditures totaling \$13,625 were charged to various grants after the grant period ended. There was no evidence that a grant period extension was obtained. It was represented that the Republic consulted with the Grantor agency and was informed that the amount may be liquidated after the budget period provided the FFR is filed showing that non-liquidated obligated amounts exist. No documentation from the grantor agency was provided to support that representation.

<u>Grant no.</u>	<u>Cost Center no.</u>	<u>Grant Budget Period</u>	<u>Amount</u>
5U58DP000776-05	H13683	06/30/11 - 06/29/12	\$ 5,249
5U58DP001952-03	H13660	03/31/11 - 03/30/12	6,922
1UR3DD000809-01	H13682	07/01/11 - 06/30/12	338
1U58SO000023-01 Revised	H13668	03/29/11 - 03/28/12	<u>1,116</u>
Total			\$ <u>13,625</u>

Cause: The cause of the above condition is a lack of control over period of availability compliance. There are no records on file evidencing grantor approval of a grant extension. There is also no mechanism in place to lock expired grant accounts to prevent their usage.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$13,625.

Recommendation: We recommend that management establish policies and procedures to comply with period of availability requirements.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-17, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: 1U58DP003939-01
Requirement: Period of Availability of Federal Funds
Questioned Costs: \$13,625

Prior Year Status: Noncompliance with period of availability requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2006 through 2010 as items 2006-24, 2007-23, 2008-19, 2009-31 and 2010-34.

Auditee Response and Corrective Action Plan: Program concurs with reservations. Grant Terms and Conditions specifically states *"If the FFR is not finalized by the due date, an interim FFR must be submitted, marked "NOT FINAL," and an amount of un-liquidated obligations should be annotated to reflect unpaid expenses."* ROP assumed this implies liquidation beyond the 90 days liquidation period is allowable unless it is the end of the Project Period. MOF will clarify this issue with grantor agency. MOF will also work closely with the Program to make sure grantor approval is obtained if the assumption above does not apply.

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

Date the corrective action plan will be implemented: 9/30/2013

Auditor Response: The grant terms and conditions further indicate that failure to submit the required information in a timely manner may adversely affect the future funding of the project. Therefore, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-18

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.283 CDC and Prevention - Investigations and Technical Assistance
Grant Number: 1U58DP003939-01
Requirement: Matching, Level of Effort, Earmarking
Questioned Costs: \$20,000

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 required match occurs solely during the grant application. It appears that the local match of \$20,000 per the grant award notification is not otherwise documented, monitored or valued throughout the fiscal year or during the grant period (cost center no. H13683, H23683).

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

Effect: The effect of the above condition is the lack of records to evidence compliance with the criteria and questioned costs of \$20,000.

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

Prior Year Status: Noncompliance with matching requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2006 through 2010 as items 2006-25, 2007-24, 2008-20, 2009-28 and 2010-33.

Auditee Response and Corrective Action Plan: The Program concurs with this finding. Procedures have been implemented to begin corrective action. The Program has made it a requirement to record events and amount of hours that partners, including Cancer Coalition members, put in as contributions to the Program. The Program will also work with MOH and MOF personnel to come up with a formula to put a value on in-kind hours and other contributions.

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

Edolem Ikerdeu, Program Coordinator, CHC-MOH
Ruth Wong, Director Bureau of National Treasury, MOF
Caryn L. Koshiba, Chief Finance & Accounting

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-19

Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic Social, and Political Development of the Territories
Grant Number: Compact of Free Association
Requirement: Special Tests and Provisions
Questioned Costs: \$0

Criteria: The Compact of Free Association, Section 211 (a), allows a maximum annual distribution of \$5 million from the trust fund for operations and maintenance purposes.

Condition: The Republic withdrew \$7,000,000, or \$2,000,000 in excess of the minimum allowed, in fiscal year 2012.

Cause: The cause of the above condition is cash shortage.

Effect: The effect of the above condition is noncompliance with the above criteria. No questioned costs result as the Republic reimbursed the trust fund subsequent to September 30, 2012.

Prior Year Status: The Republic withdrew \$7,000,000, or \$2,000,000 in excess of the minimum allowed, in 2011 and reimbursed the trust fund within the same year.

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

Auditee Response and Corrective Action Plan: ROP concurs with this finding. In order to comply with the terms and conditions of the Compact of Free Association (COFA), Section 211 (a), it is important that all parties involved with the COFA funds will be informed when the withdrawal will be made and in what amount and how much is available for the next drawdown/withdrawal. Therefore, ROP is currently going through this process when withdrawing COFA funds quarterly, not exceeding the minimum annual distribution and complying with 40 PNCA Section 409 (a)(2)(3). The process of withdrawing funds is as follows:

1. A letter with the amount requested for drawdown is sent to the Senate President and the Speaker of House of Delegates from the Minister of Finance, attached with Certification of Budget Authority approved by the Director of Budget and Planning and the Director of Bureau of National Treasury;
2. A letter from the Minister of Finance to the Honorable President requests approval of the drawdown;
3. The President's letter to the Investors authorizes the drawdown; and
4. The President's letter to the Institutional Client Services authorizes the transfer.

MOF will ensure that withdrawals/drawdowns not go beyond the minimum annual distribution.

Full name of the person responsible for the corrective action plan:
Ruth Wong, Director, Bureau of National Treasury

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-20

Single Audit Reporting

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 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, summary schedule of prior audit findings, and auditors' 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 2012 audit reporting package to the Federal Audit Clearinghouse within the required timeline.

Cause: The cause of the above condition is primarily due to turnover in management and the lack of adequate human resources within the accounting function of the Ministry of Finance.

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

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

Prior Year Status: The lack of timely transmittal of the annual audit reporting package was reported as a finding in the Single Audits of the Republic for fiscal years 2009 through 2011 as items 2009-11, 2010-08 and 2011-10.

Auditee Response and Corrective Action Plan: ROP concurs with this finding and acknowledges that we are behind schedule for our Annual Single Audit Reports due to the turnover in management and inadequate staff to perform such tasks.

Hence, MOF are working hard to achieve our goal of making the Single Audit report current by training our staff to duly perform such tasks and be able to work as a team to meet the deadline of the Single Audit Reports required in the Single Audit Act.

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

Ruth Wong, Director, Bureau of Treasury, MOF

Caryn L. Koshiba, Chief of Finance & Accounting, MOF

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-21

Fixed Assets

Criteria: A reconciliation process should occur monthly or quarterly to confirm that all significant balance sheet accounts are reconciled and supported by valid detailed schedules. Reconciling items should be adequately explained and documented so that persons other than the preparer (e.g., management auditors, etc.) can readily understand the basis for the reconciling items.

Condition: Capital asset schedules were prepared at auditor requests and were received at various dates from May 24 through September 6, 2013. Adjustments made to the schedules were necessary based on actual fiscal year 2012 additions and disposals. The net fixed assets presented for audit were overstated by \$41,485,914. Audit adjustments were proposed to correct these misstatements.

Cause: There appears to be a lack of resources dedicated to facilitating timely reconciliation of capital asset schedules.

Effect: The effect of the above condition is weaknesses in the financial reporting process.

Recommendation: We recommend that management implement internal control policies and procedures to determine that the above criteria are adhered to.

Prior Year Status: Weaknesses in controls over capital asset schedules was reported as a finding in the Single Audits of the Republic for fiscal years 2007, 2009 and 2010 as items 2007-10, 2009-09 and 2010-01.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Appropriate steps are being taken to ensure balance sheet adjustments take place to address these misstatements. Effective FY 2014, periodic reconciliation will take place to ensure our balance sheet accounts are reconciled and supported by valid detailed schedules.

Full name of the person responsible for the corrective action plan:
Millan Isack, Chief of Procurement & Supply, MOF

Date the corrective action plan will be implemented: October 2013

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-22

Local Noncompliance - Procurement

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. Purchases over \$10,000 require a formal bidding process. A public notice of the invitation for bids shall be made at 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 list within the previous twelve 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 publically posted for at least fifteen 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. A bidding time of at least thirty (30) calendar days shall be provided unless the Procurement Officer makes a written and substantiated determination that a shorter time period is reasonable and necessary. The contract must be awarded with reasonable promptness, but in no event later than 30 days after opening of the bids, by written notice to responsible bidder whose bid fully meets the requirements of the invitation for bids.

Condition: Of twelve fixed assets additions tested totaling \$12,302,102, of a total population of \$25,731,800, the following were noted:

1. The public notice of the request for proposal was advertised less than 15 days. There was no evidence in file that a lesser time period is reasonable. Furthermore, there was no evidence in file that public notice was announced on all the radio and television stations within the Republic. Although public notice was not in compliance with procurement requirements, there were more than one vendor who submitted a proposal for the following contracts:

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C10011	Koksai-Ngchesar Compact Connecting Road Project Phase III	\$ 2,265,000
C10013	Package-A: T-Dock Road Rehabilitation Project: Package-B: M-Dock Road Rehabilitation Project	\$ 481,427
C10015	Design/Build of the Ngermid Road Rehabilitation Project	\$ 360,000
C10012	Malakal Marine Resource Project Phase II	\$ 516,645

2. The contract was awarded after thirty (30) days for the following:

<u>Contract no.</u>	<u>Description</u>	<u>Amount</u>
C10011	Koksai-Ngchesar Compact Connecting Road Project Phase III	\$2,265,000
C10015	Design/Build of the Ngermid Road Rehabilitation Project	\$ 360,000
C20024	Ngermid Road Additiions (Phase II)	\$ 288,000
C10012	Malakal Marine Resource Project Phase II	\$ 516,645
C10006	Design Build of the New Community Health Center Project	\$ 496,857

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-22, Continued

Local Noncompliance - Procurement

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

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

Recommendation: We recommend that the Republic strengthen procedures to confirm compliance with local procurement requirements. We also recommend that exceptions to the procurement requirements be documented in contract files.

Prior Year Status: Noncompliance with local procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2010 as items 2004-02, 2005-09, 2006-10, 2007-13, 2008-05, 2009-12 and 2010-36.

Auditee Response and Corrective Action Plan: ROP concurs with this finding.

Item 1: At the time, this was huge cluster of project advertisements that happened on February 11, 2010. The responsible agency overlooked the 45 day benchmark on these. Effective immediately, the BPW will implement a check list system of monitoring our procurement activities to ensure that each and every procurement, whether they be single advertisement or multiple ads combined into one or several cluster, comply with all applicable statutes. BPW personnel have started this work by going over all relevant requirements under 40 PNC Ch.6 to develop this check list. Additionally, BPW will start advertising its projects on the radio and television.

Item 2: In competitively negotiated contracts, negotiations can sometimes go beyond the 30 days requirement. As exceptions, the BPW should have recorded these instances for the project files. This will be a part of the check list above as a pre award check list item. The exceptions coming about shall also be noted in the Record of Decision that BPW generates as a timeline of events, discussions, actions from Pre-bid period to Contract Award period.

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

Brian Melairei, Acting Director
Bureau of Public Works
Procurement Officer

Date the corrective action plan will be implemented: Corrective actions will take place immediately starting October 2013.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23

Revenues

Criteria: An audit trail should exist for all cash receipts. Collectability of receivables should be monitored and collection efforts should be enforced so that account balances are current. In addition, billing/statements of account (SOA) should be sent to customers in a timely manner.

Condition: Of \$2,928,908 in Hospital Trust Fund revenues, seventy-one receipts, totaling \$289,923, were tested, and the following exceptions were noted:

1. Variances were noted between cash receipts and invoices. The variance represents uncollected balances owed to the National Hospital as of September 30, 2012. There was no evidence that statements of patient accounts and/or collection notice letters were prepared and sent, and there was no evidence that timely follow up was performed during fiscal year 2012.

<u>Receipt Date</u>	<u>Receipt No.</u>	(A) <u>Receipt Amount</u>	<u>Invoice No.</u>	(B) <u>Invoice Amount</u>	(A) – (B) <u>Balance Owed</u>
01/06/2012	15254	\$ 386	1407	\$ 392	\$ (6)
01/30/2012	16582	4,247	46356	5,309	(1,062)
02/29/2012	18243	1,350	43501	1,550	(200)
05/07/2012	21507	2,007	54334	2,207	(200)
05/16/2012	21948	243	41298	294	(51)
09/27/2012	28208	361	70560	879	(518)
08/24/2012	26666	23,000	71958	29,772	(6,772)
05/15/2012	21886	24,000	55140	29,805	(5,805)
06/22/2012	23741	13,844	68743	18,249	(4,405)
07/30/2012	25433	22,595	67738	24,944	(2,349)
02/26/2012	18062	17,524	36863	19,524	(2,000)
01/06/2012	15230	24,000	36099	27,188	(3,188)
12/02/2011	13509	22,000	19885	27,239	(5,239)
04/07/2012	20175	18,032	49720	22,032	(4,000)
03/25/2012	19457	21,000	45549	47,009	(26,009)
01/30/2012	16582	4,247	46356	5,309	(1,062)
06/08/2012	23091	4,765	69393	6,227	(1,462)
03/21/2012	19250	3,000	56091	26,448	(23,448)
04/09/2012	20237	3,000	59243	5,319	(2,319)
02/10/2012	17202	2,857	49720	22,032	(19,175)
01/19/2012	15903	2,738	45549	47,009	(44,271)
04/17/2012	20570	2,725	60516	18,024	(15,299)
04/24/2012	20904	3,000	61659	29,586	(26,586)
09/11/2012	27446	2,468	84876	7,990	(5,522)
03/21/2012	19286	2,000	56172	11,156	(9,156)
09/11/2012	27433	1,000	84831	15,380	(14,380)
12/22/2011	14518	2,000	27954	13,680	(11,680)
04/27/2012	21101	1,000	62229	15,919	(14,919)
05/08/2012	21615	2,000	64201	5,716	(3,716)
05/08/2012	21620	<u>2,000</u>	64201	<u>5,716</u>	<u>(3,716)</u>
		<u>\$ 233,389</u>		<u>\$ 491,904</u>	<u>\$ (258,515)</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23, Continued

Revenues

Condition, Continued:

2. For eight receipts, invoices documenting service dates, types of services rendered and rates charged could not be provided. In addition, the amounts included in accounts receivable could not be determined.

<u>Receipt No.</u>	<u>Amount</u>
224364	\$ 50
255680	50
255950	50
236893	50
255807	100
255725	50
255935	50
256000	30
Total	\$ <u>430</u>

3. The following invoices were paid prior to September 30, 2012, but were not reflected in patient outstanding balances:

<u>Receipt Date</u>	<u>Receipt No.</u>	(A) <u>Receipt Amount</u>	<u>Invoice No.</u>	(B) <u>Invoice Amount</u>	(A) – (B) <u>Balance Owed</u>
01/20/2012	16059	\$ 1,082	41982	\$ 1,282	\$ (200)
10/07/2011	10542	1,000	27954	16,680	(15,680)
10/07/2011	10556	1,828	20616	2,028	(200)
11/14/2011	12531	3,493	27279	3,693	(200)
12/14/2011	14073	1,141	34036	1,341	(200)
01/06/2012	15259	2,117	38411	2,317	(200)
02/29/2012	18239	140	30805	157	(17)
05/16/2012	21976	1,000	65699	8,918	(7,918)
09/27/2012	28209	508	71594	550	(42)
09/27/2012	28201	<u>3,518</u>	76983	<u>3,758</u>	<u>(240)</u>
		\$ <u>15,827</u>		\$ <u>40,724</u>	\$ <u>(24,897)</u>

Cause: The Ministry of Health does not have a process to determine that an audit trail exists for National Government cash receipts. The Hospital Information System, which contains patient data and related invoices, was not available or operating as of our test dates. In addition, there is a lack of evidence that patient outstanding balances are monitored and that collection attempts occur.

Effect: The effect of the above condition is potential misstatements of National Hospital revenues and lack of collections.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23, Continued

Revenues

Recommendation: We recommend that the Ministry of Health establish a systematic method of filing and maintaining invoices and relevant documents. We also recommend that statements of account (SOA) and collection notices be timely sent.

Prior Year Status: Lack of control procedures over National Hospital cash receipts and timely monitoring of statements of accounts sent to patients was reported as a finding in the Single Audits of the Republic for fiscal years 2004 through 2007, 2009 and 2010 as items 2004-08, 2005-03, 2006-04, 2007-04, 2009-02 and 2010-03.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. Currently, MOH are working on improving the AR collection by securing promissory notes with customers to create a payment plan in order to pay off their debts. In addition, they are also working vigorously to obtain payments from private insurance companies and Medical Savings Accounts-Health Care Fund (MSA-HCF) for customers who are under these insurance so that collections can be retrieved in a timely manner.

However, previous collections should be considered and MOH will work closely with MOF and the higher management to write off uncollectible receivables.

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

Rose A. Maidesil, Budget & Finance Officer
Ruth Wong, Director, BNT-MOF
Caryn L. Koshiha, Chief Finance & Accounting

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-24

Expenditures

Criteria: An effective system of internal control includes policies and procedures so that transactions are substantiated by proper and valid documentations.

Condition: Of forty Other Government Fund expenditures tested totaling \$2,058,620, of a total population of \$2,802,048, invoices and receiving reports or the equivalent for fourteen disbursements totaling \$1,225,000 for the Manila Medical Referral Program were not provided.

Cause: The cause of the above condition is a lack of control procedures over the expenditure cycle.

Effect: Invalid expenditure transactions may be recorded, and expenditure accounts may be misstated.

Recommendation: We recommend the Republic strengthen controls surrounding the expenditure cycle.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. MOF are currently working with MOH to ensure that Medical Referral Program financial report summaries will be provided to MOF for all payments made to the Medical Referral Program.

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

Regis Emesiochel, Comptroller, MOH

Rose A. Maidesil, Budget & Finance Officer, MOH

Caryn L. Koshiba, Chief of Finance & Accounting, MOF

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-25

Local Noncompliance - Equipment and Real Property Management

Criteria: The Republic's Property Management Policies and Procedures Manual (RPPM) Chapter IV stipulates in Section 203.7, "Accountable officers will maintain complete property management records and a physical inventory must take place annually."

Condition: There was no evidence of an annual physical inventory or reconciliation performed by an accountable officer for the fiscal year ended September 30, 2012.

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

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

Recommendation: We recommend that the Republic comply with the property management policies and procedures.

Prior Year Status: Noncompliance with annual physical inventory requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2010 and 2011 as items 2010-35 and 2011-03.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. A series of meetings between MOF and all the other ministries took place in FY2013 where MOF instructed all ministries to compile their own asset list. This list will be compared and reconciled to the MOF Asset Master List. In addition, the Chief of Property and Supply will work with the Property Survey Board regarding disposal of old and inoperable assets to update the fixed assets listing of the government.

Full name of the person responsible for the corrective action plan:
Millan Isack, Chief, Division of Property and Supply

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-26

Local Noncompliance - Procurement

Criteria: Republic of Palau Public Law (RPPL) 3-54 Section 24.1 requires that contracts be awarded with reasonable promptness, and in no event later than 30 days after opening of the bids.

Condition: Of nineteen non-federal Grants Fund non-payroll expenditures tested, totaling \$4,320,373, we noted that Contract #s C1000401 and C2000301, totaling \$11,995,000, were awarded 113 days after the opening of the bid due to verification and the negotiation process.

Cause: The cause of the above condition is the law does not anticipate extended contract negotiations.

Effect: The effect of the above condition is unimplemented procurement policies and procedures.

Recommendation: The Republic should review the above provision and assess whether an amendment is appropriate.

Auditee Response and Corrective Action Plan: ROP does not concur with this finding. Grants for these CIP projects are based on bids received. ROP receives bids and forwards them to the Grantor Agency. The Grantor Agency reviews, concurs with selections, and proceeds to award Grants based on the bids received. This process takes longer than the 30 day requirement as stated above.

MOF and BPW will work with the Attorney General's office on revising the procurement law as well as this particular law and recommend changes for amendment.

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

Brian Melairei, Acting Director, Bureau of Public Works-CIP Manager
Gandhi Ngirmidol, Grants Manager, MOF
Caryn Koshiba, Chief of Finance & Accounting
Ruth Wong, Director, National Treasury

Date the corrective action plan will be implemented: Ongoing

Auditor Response: The abovementioned contracts were awarded later than 30 days as required by RPPL 3-54; thus, the finding remains.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-27

Local Noncompliance - Procurement

Criteria: It is the policy of the Republic that all purchase and procurement actions be executed in a manner that provides open and free competition and avoids purchasing unnecessary or duplicative items. When appropriate, an analysis shall be made of lease and purchase alternatives to determine which would be the most economic practical procurement. 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 at 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 shall be promptly notified. Procurement files should contain public notice, invitation for bids or request for proposal, notice to unsuccessful bidder or offeror, basis for cost or price and determination.

In addition, the President acting under Article VIII, Section 14 of the Constitution and 34 PNC 5305, may authorize the Procurement Officer concerned to make an emergency procurement when the President determines the existence of a threat to public health, welfare, or safety. An emergency procurement shall be as competitive as practicable under the circumstances. A detailed and substantiated written determination describing the emergency, the extent of the competition obtained if any, and the basis for the selection of a particular contractor shall be prepared by the Procurement Officer concerned and made part of the contract file.

Condition: Of thirty-eight hospital expenditures tested totaling \$306,728 of a total population of \$3,144,824, the following exceptions were noted:

1. The award for procurement of medical supplies was issued under one request for proposal (RFP no. 14-10) in which the following exceptions were noted:
 - a. An award for purchase of medical supplies was also awarded to three bidders without documentation or comparative analysis to evidence the basis of selection and the basis for determining the award amount:

	Medical Supplies	
<u>Vendor no.</u>	<u>Proposed Amount</u>	<u>Awarded Amount</u>
30196	\$ 680,900	\$ 150,000
225	\$ 405,830	\$ 350,000
3752	\$ 1,476,193	\$ 100,000

- b. There was no evidence of notice of award to unsuccessful bidders in the procurement file.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-27, Continued

Local Noncompliance - Procurement

Condition, Continued:

- c. There was no evidence that shows the entity kept track of the total purchase order amount to confirm that it was within the awarded amount.
- 2. The award for procurement of medical supplies was issued under one request for proposal (RFP no. 17-11) in which the following exceptions were noted:
 - a. An award for purchase of medical supplies was also awarded to three bidders without documentation or comparative analysis to evidence the basis of selection and the basis for determining the award amount:

	Medical Supplies	
<u>Vendor no.</u>	<u>Proposed Amount</u>	<u>Awarded Amount</u>
30196	\$ 2,607,902	\$ 250,000
225	\$ 404,243	\$ 400,000
3752	\$ 1,108,240	\$ 50,000
26007	\$ 2,012,921	\$ 75,000

- b. There was no evidence of notice of award to unsuccessful bidders in the procurement file.
- c. There was no evidence that shows the entity kept track of the total purchase order amount to confirm that it was within the awarded amount.

Cause: The cause of the above condition is weakness in controls over compliance with applicable procurement regulations.

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

Recommendation: We recommend that the Republic strengthen controls on procurement procedures to maximize competition while maintaining the best interest of the Republic. If exceptions are allowed by procurement requirements, they should be reviewed and be approved, and the reasons should be documented in the procurement files.

Prior Year Status: Noncompliance with local procurement requirements was reported as a finding in the Single Audits of the Republic for fiscal years 2007 through 2010 as items 2007-13, 2008-05, 2009-13 and 2010-22.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-27, Continued

Local Noncompliance - Procurement

Auditee Response and Corrective Action Plan: ROP concurs with the finding. All medical supplies and drugs go through proper bidding process. Prospective vendors are selected based on a series of factors to include price, payment arrangement, flexibility, etc. It is also noted on the recommendation letter that the price does not constitute the total obligation. This will allow for greater flexibility if unforeseen circumstances are faced by each vendor. In addition, the Chief of Property and Supply Division is currently working with both MOH Procurement Officer and MOH Pharmacist (she is in-charge of MOH warehouse now) to develop a methodology for determining awarded amounts based on competitive analysis as well as other relevant factors. The Supply Office has also put in place a mechanism to capture all expenditures pursuant to each respective RFP.

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

Darnelle Decherong, Executive Director, CHC; Tasya Worswick, Procurement Officer, MOH; Millan Isack, Procurement Officer

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding 2012-28

Local Noncompliance - Social Security Retirement Fund

Criteria: According to 41 PNC §772, if any contribution imposed by the Social Security Administration (SSA) is not paid on or before the date prescribed for such payment, SSA shall collect interest on the unpaid balance of contribution. The SSA currently requires payment of contributions within a month after each calendar quarter.

Condition: Payments of contributions to the SSA were not timely paid during and prior to fiscal year 2012. The payable to SSA of \$2,955,413 as of September 30, 2012 represents unpaid contributions covering 22 of the 26 pay periods in fiscal year 2012. As a result, interest on late payments aggregated \$422,406 as of September 30, 2012. However, the Republic did not recognize the related interest expenditure in its financial statements. The related interest expenditure was considered by management to be immaterial to the financial statements, and therefore, no audit adjustment was proposed.

Cause: The cause of the above condition is lack of timely payments to the SSA and compliance with the above criteria.

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

Recommendation: We recommend that the Republic comply with 41 PNC §772.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. MOF acknowledges this problem and will work cohesively with higher management to reserve funds for this specific purpose. In addition, we will work closely with SSA to implement a payment plan to be adhered to in order for payments of contributions to be current.

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

Ruth Wong, Director Bureau of National Treasury-MOF
Caryn L Koshiba, Chief Finance & Accounting-MOF

Date the corrective action plan will be implemented: On going

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding 2012-29

Local Noncompliance - Civil Service Pension Trust Fund

Criteria: According to 33 PNC §2030, delinquent sums owed to Civil Service Pension Plan (CSPP) shall accrue interest at the rate of 18% annually commencing three calendar days following the distribution of the payroll upon which such sum is owed.

Condition: Payments of contributions to the CSPP were not timely paid during and prior to fiscal year 2012. The payable to CSPP of \$3,147,716 as of September 30, 2012 represents unpaid contributions covering 22 of the 26 pay periods in fiscal year 2012. As a result, interest on late payments aggregated \$1,408,874 as of September 30, 2012. However, the Republic did not recognize the related interest expenditure in its financial statements. The related interest expenditure was recorded through proposed audit adjustment.

Cause: The cause of the above condition is lack of timely payments to the CSPP and compliance with the above criteria.

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

Recommendation: We recommend that the Republic comply with 33 PNC §2030.

Auditee Response and Corrective Action Plan: ROP concurs with this finding. MOF acknowledges this problem and will work cohesively with higher management to reserve funds for this specific purpose. In addition, we will work closely with CSPP to implement a payment plan to be adhered to in order for payments of contributions to be current.

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

Ruth Wong, Director Bureau of National Treasury-MOF
Caryn L Koshiba, Chief Finance & Accounting-MOF

Date the corrective action plan will be implemented: On going

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2012:

	<u>Questioned Costs</u>		
	<u>Republic</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of the Republic as previously reported:			
Fiscal year 2008 Single Audit	\$ 577,977	\$ -	\$ 577,977
Fiscal year 2009 Single Audit	967,990	-	967,990
Fiscal year 2010 Single Audit	1,668,099	-	1,668,099
Fiscal year 2011 Single Audit	<u>336,302</u>	<u>-</u>	<u>336,302</u>
	<u>3,550,368</u>	<u>-</u>	<u>3,550,368</u>
Less questioned costs resolved in fiscal year 2012:			
Questioned costs of fiscal year 2008 Single Audit reported in:			
Finding No. 2008-09 (1)	(62,326)	-	(62,326)
Finding No. 2008-10 (1)	(40,292)	-	(40,292)
Finding No. 2008-11 (1)	(36,924)	-	(36,924)
Finding No. 2008-12 (1)	(366,661)	-	(366,661)
Finding No. 2008-14 (1)	(3,960)	-	(3,960)
Finding No. 2008-16 (1)	(23,231)	-	(23,231)
Finding No. 2008-19 (1)	(22,083)	-	(22,083)
Finding No. 2008-20 (1)	<u>(22,500)</u>	<u>-</u>	<u>(22,500)</u>
	<u>(577,977)</u>	<u>-</u>	<u>(577,977)</u>
Questioned costs of fiscal year 2009 Single Audit reported in:			
Finding No. 2009-15 (2)	(12,600)	-	(12,600)
Finding No. 2009-16 (2)	(41,755)	-	(41,755)
Finding No. 2009-19 (2)	(726)	-	(726)
Finding No. 2009-20 (2)	(7,423)	-	(7,423)
Finding No. 2009-21 (2)	(7,378)	-	(7,378)
Finding No. 2009-22 (2)	(51,744)	-	(51,744)
Finding No. 2009-24 (2)	(339,548)	-	(339,548)
Finding No. 2009-28 (2)	(22,000)	-	(22,000)
Finding No. 2009-29 (2)	(30,654)	-	(30,654)
Finding No. 2009-30 (2)	(25,000)	-	(25,000)
Finding No. 2009-31 (2)	(13,967)	-	(13,967)
Finding No. 2009-32 (2)	(46,000)	-	(46,000)
Finding No. 2009-34 (2)	(40,441)	-	(40,441)
Finding No. 2009-35 (2)	(43,940)	-	(43,940)
Finding No. 2009-36 (2)	(142,640)	-	(142,640)
Finding No. 2009-37 (2)	(44,381)	-	(44,381)
Finding No. 2009-38 (2)	(14,630)	-	(14,630)
Finding No. 2009-44 (2)	<u>(83,163)</u>	<u>-</u>	<u>(83,163)</u>
	<u>(967,990)</u>	<u>-</u>	<u>(967,990)</u>

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Questioned Costs, Continued

	Questioned Costs		Total
	Republic	Subrecipient	
Questioned costs of fiscal year 2011 Single Audit reported in:			
Finding No. 2011-06 (3)	(13,451)	-	(13,451)
Questioned costs of fiscal year 2012 Single Audit	1,990,950 763,348	- -	1,990,950 763,348
Unresolved questioned costs of the Republic at September 30, 2012	\$ 2,754,298	\$ -	\$ 2,754,298
<p>(1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as the Republic considers these findings are no longer valid as they were reported to federal agencies on July 30, 2009, which is in excess of the two year threshold.</p> <p>(2) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as the Republic considers these findings are no longer valid as they were reported to federal agencies on December 8, 2010, which is in excess of the two year threshold.</p> <p>(3) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Education, dated September 25, 2013.</p>			

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 11 through 65).