

**REPUBLIC OF PALAU**

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

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**YEAR ENDED SEPTEMBER 30, 2014**

**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 E. Remengesau Jr.  
President  
Republic of Palau:

We have audited, 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements, and have issued our report thereon dated June 30, 2015. Our report includes a reference to other auditors and emphasis-of-matters paragraphs regarding implementation of new accounting standards and an uncertainty. Other auditors audited the financial statements of National Development Bank of Palau, Palau Community College, Palau National Communications Corporation, and Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Republic of Palau Social Security Retirement Fund, the Republic of Palau Civil Service Pension Trust Fund, Palau International Coral Reef Center, Palau Visitors Authority, Public Utilities Corporation, and 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 these entities. 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 National Development Bank of Palau, Palau Community College, Palau National Communications Corporation, and Palau District Housing Authority. The findings, if any, included in those reports are not included herein.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Republic's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Republic's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001, 2014-012 and 2014-013, which we consider to be material weaknesses.

## Compliance and Other Matters

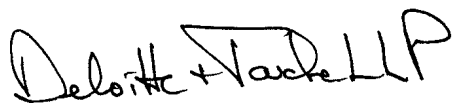
As part of obtaining reasonable assurance about whether the Republic's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 item 2014-014.

## The Republic's Response to Findings

The Republic's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 30, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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

### **Report on Compliance for Each Major Federal Program**

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, 2014. The Republic's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2014. 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.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Republic's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Republic's compliance.

**Basis for Qualified Opinion on Certain Major Federal Programs**

As described in items 2014-002 to 2014-006 and 2014-008 to 2014-011 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding the following:

<b><i>Finding #</i></b>	<b><i>CFDA #</i></b>	<b><i>Program (or Cluster) Name</i></b>	<b><i>Compliance Requirement</i></b>
2014-008	15.875	Economic, Social and Political Development of the Territories	Equipment and Real Property Management
2014-008	84.027	Special Education - Grants to States	Equipment and Real Property Management
2014-008	84.256	Territories and Freely Associated States Education Grant Program	Equipment and Real Property Management
2014-010	84.256	Territories and Freely Associated States Education Grant Program	Reporting
2014-003	84.378	College Access Challenge Grant Program	Eligibility
2014-004	84.378	College Access Challenge Grant Program	Special Tests and Provisions
2014-006	84.378	College Access Challenge Grant Program	Reporting
2014-008	84.378	College Access Challenge Grant Program	Equipment and Real Property Management
2014-002	93.224	Consolidated Health Centers	Activities Allowed or Unallowed
2014-002	93.224	Consolidated Health Centers	Allowable Costs/Cost Principles
2014-008	93.224	Consolidated Health Centers	Equipment and Real Property Management
2014-009	93.224	Consolidated Health Centers	Reporting
2014-011	93.224	Consolidated Health Centers	Program Income
2014-005	93.283	CDC and Prevention-Investigations and Technical Assistance	Procurement and Suspension and Debarment
2014-008	93.283	CDC and Prevention-Investigations and Technical Assistance	Equipment and Real Property Management

Compliance with such requirements is necessary, in our opinion, for the Republic to comply with the requirements applicable to each program.

**Qualified Opinion on Certain Major Federal Programs**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Republic complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social, and Political Development of the Territories, CFDA 84.027 Special Education - Grants to States, CFDA 84.256 Territories and Freely Associated States Education Grant Program, CFDA 84.378 College Access Challenge Grant Program, CFDA 93.224 Consolidated Health Centers, and CFDA 93.283 CDC and Prevention-Investigations and Technical Assistance for the year ended September 30, 2014.

**Unmodified Opinion on CFDA 20.106 Airport Improvement Program**

In our opinion, the Republic complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.106 Airport Improvement Program for the year ended September 30, 2014.

## **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-007. Our opinion on each major federal program is not modified with respect to this matter.

The Republic's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## **Report on Internal Control Over Compliance**

Management of the Republic is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Republic's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 2014-002 to 2014-006 and 2014-008 to 2014-011 to be material weaknesses.

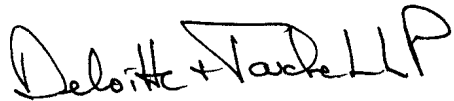
*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as item 2014-007 to be significant deficiencies.

The Republic's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Republic's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

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, 2014, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We issued our report thereon dated June 30, 2015, which contained unmodified opinions on those financial statements, and which report included a reference to other auditors and emphasis-of-matters paragraphs regarding implementation of new accounting standards and an uncertainty. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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 basic 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 basic 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

June 30, 2015

# REPUBLIC OF PALAU

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2014

Grantor/ProgramTitle	Federal CFDA Number	Expenditures
<b>U.S. Department of Agriculture:</b>		
Grants for Agricultural Research, Special Research Grants	10.200	\$ 6,551
Cooperative Forestry Assistance	10.664	73,160
Community Facilities Loans and Grants	10.766	<u>61,648</u>
<b>Total U.S. Department of Agriculture</b>		<u>141,359</u>
<b>U.S. Department of Commerce:</b>		
Special Oceanic and Atmospheric Projects	11.460	<u>409,554</u>
<b>Total U.S. Department of Commerce</b>		<u>409,554</u>
<b>U. S. Department of Labor:</b>		
WIA Cluster:		
WIA Adult Program	17.258	74,863
WIA Youth Activities	17.259	79,565
WIA Dislocated Workers	17.278	<u>120,010</u>
<b>Total U.S. Department of Labor</b>		<u>274,438</u>
<b>U.S. Department of Education:</b>		
Adult Education - Basic Grants to States	84.002	7,013
Special Education - Grants to States	84.027	908,547
Career and Technical Education - Basic Grants to States	84.048	238,091
Territories and Freely Associated States Education Grant Program	84.256A	1,379,805
College Access Challenge Grant Program	84.378A	<u>1,127,431</u>
<b>Total U.S. Department of Education</b>		<u>3,660,887</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, 2014

Grantor/Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Health and Human Services:</b>		
Civil Rights and Privacy Rule Compliance Activities	93.001	(2,100)
Public Health Emergency Preparedness	93.069	306,611
Comprehensive Community Mental Health Services for Children with SED	93.104	118,366
Maternal and Child Health Federal Consolidated Programs	93.110AR	212,165
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	336,114
Emergency Medical Services for Children	93.127	46,536
Family Planning - Services	93.217	86,362
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	920,599
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	158,931
Universal Newborn Hearing Screening	93.251	169,504
Immunization Cooperative Agreements	93.268	288,970
CDC and Prevention - Investigations and Technical Assistance	93.283	1,158,921
PPHF 2012 National Public Health Improvement Initiative	93.507	232,254
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in ELC and EIP Cooperative Agreements; PPHF	93.521	92,014
ACA authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544	98,799
National Bioterrorism Hospital Preparedness Program	93.889	220,059
HIV Care Formula Grants	93.917	46,589
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	8,999
Block Grants for Community Mental Health Services	93.958	50,283
Block Grants for Prevention and Treatment of Substance Abuse	93.959	144,959
Preventive Health and Health Services Block Grant	93.991	9,432
Maternal and Child Health Services Block Grant to the States	93.994	130,593
<b>Total Department of Health and Human Services</b>		<u>4,834,960</u>
<b>Total U.S. Federal Grants Fund (Fund 350100)</b>		<u>\$ 9,321,198</u>
<b>U.S. Department of the Interior:</b>		
Economic, Social, and Political Development of the Territories	15.875	<u>\$ 829,717</u>
<b>Total U.S. Department of the Interior</b>		<u>829,717</u>
<b>Total U.S. Federal Grants Fund (Fund 350200)</b>		<u>\$ 829,717</u>
<b>U.S. Department of Transportation:</b>		
Airport Improvement Program	20.106	<u>4,011,850</u>
<b>Total U.S. Department of Transportation</b>		<u>4,011,850</u>
<b>Total U.S. Federal Grants Fund (Fund 420100)</b>		<u>\$ 4,011,850</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, 2014

<u>Economic, Social and Political Development of the Territories Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>Expenditures and Transfers</u>
<u>211(a) &amp; 215 Compact Current Account</u>		
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000
Compact Section 215	<u>5,147,000</u>	<u>5,147,000</u>
Total 211(a) & 215 Current Account	<u>\$ 11,147,000</u>	<u>\$ 11,147,000</u>
<u>211(f) Trust Fund</u>		
Executive Branch	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Total 211(f) Trust Fund	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
<u>221(b)(1) &amp; (2) Special Block Grant &amp; Education Special Grant</u>		
Ministry of Education	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Total 221(b) Special Block Grant	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>
Total Compact of Free Association CFDA #15.875		\$ 18,147,000
Less Compact Section 211(a) Current Account		(6,000,000)
Less Compact Section 215 Current Account		(5,147,000)
Less Compact Section 211(f) Trust Fund Investment Earnings		<u>(5,000,000)</u>
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing		<u>\$ 2,000,000</u>
Total Federal Awards		<u>\$ 16,162,765</u>

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, 2014

#### (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.

##### • 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 Labor
- 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, 2014 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, 2014. The following component units incurred federal expenditures during the year ended September 30, 2014:

Republic of Palau Social Security Retirement Fund	\$ 142,575
Palau Community College	\$ 3,132,779
Public Utilities Corporation	\$ 45,000

## REPUBLIC OF PALAU

### Notes to Schedule of Expenditures of Federal Awards, Continued Year Ended September 30, 2014

#### (2) Summary of Significant Accounting Policies, Continued

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.

d. Indirect Cost Allocation

The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2014. The approved rate was 7.87%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

e. 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, 2014

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |    |   |            |
|----|---|------------|
| 1. | Type of auditors' report issued:                      | Unmodified |
|    | Internal control over financial reporting:            |            |
| 2. | Material weakness(es) identified?                     | Yes        |
| 3. | Significant deficiency(ies) identified?               | None noted |
| 4. | Noncompliance material to financial statements noted? | Yes        |

*Federal Awards*

Internal control over major federal programs:

- |    |  |                         |
|----|--|-------------------------|
| 5. | Material weakness(es) identified?  | Yes                     |
| 6. | Significant deficiency(ies) identified?  | Yes                     |
| 7. | Type of auditors' report issued on compliance for major federal programs:<br>CFDA 20.106<br>All other major federal programs | Unmodified<br>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 federal programs:  |                         |

CFDA

Number(s)    Name of Federal Program or Cluster

84.027	Special Education - Grants to States
84.256	Territories and Freely Associated States Education Grant Program
84.378	College Access Challenge Grant Program
93.224	Consolidated Health Centers
93.283	CDC and Prevention-Investigations and Technical Assistance
20.106	Airport Improvement Program
15.875	Economic, Social, and Political Development of the Territories
15.875	Economic, Social, and Political Development of the Territories, Compact of Free Association

- |     |  |            |
|-----|--|------------|
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 484,883 |
| 11. | Auditee qualified as low-risk auditee?                                   | No         |

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

**Section II - Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>
2014-001	Capital Assets
2014-012	Revenues
2014-013	Revenues
2014-014	Local Noncompliance - Procurement

**Section III - Federal Award Findings and Questioned Costs**

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2014-008	15.875	Equipment and Real Property Management	\$ -
2014-008	84.027	Equipment and Real Property Management	-
2014-008	84.256	Equipment and Real Property Management	-
2014-010	84.256	Reporting	-
2014-003	84.378	Eligibility	9,914
2014-004	84.378	Special Tests and Provisions	4,000
2014-006	84.378	Reporting	-
2014-007	84.378	Allowable Costs/Cost Principles	-
2014-008	84.378	Equipment and Real Property Management	-
2014-002	93.224	Activities Allowed or Unallowed	1,013
2014-002	93.224	Allowable Costs/Cost Principles	52,867
2014-008	93.224	Equipment and Real Property Management	-
2014-009	93.224	Reporting	-
2014-011	93.224	Program Income	-
2014-005	93.283	Procurement and Suspension and Debarment	5,081
2014-008	93.283	Equipment and Real Property Management	-
			<u>\$ 72,875</u>

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Capital Assets

Finding No. 2014-001

Criteria: The Republic's Property Management Policies, and Procedures Manual (RPPM) Chapter IV, Section 203.4 (d), stipulates that the total value of capitalized property recorded in the property accountability records will be compared with the related balances shown in the general ledger control account at least quarterly. Property records must be integrated with or reconciled with the related general ledger account. Any differences will be documented, reconciled, and adjusted in accordance with sound accounting practices to bring the two records into complete agreement.

Condition: Capital assets were reconciled only at year-end September 30, 2014. The net capital assets presented for audit were overstated by \$1,771,512. Audit adjustments were proposed to correct the misstatements.

Cause: There appears to be lack of resources dedicated to facilitating timely reconciliation of capital assets account balances.

Effect: The effect of the above condition is a weakness in the financial reporting process and material misstatements of the financial statements prior to proposed audit adjustments.

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

Prior Year Status: Weaknesses in controls over capital asset schedules were reported as findings in prior Single Audits of the Republic as items 2013-001 and 2012-21.

Auditee Response and Corrective Action Plan: ROP concurs with the finding. Since we have hired qualified people to help with the workload, we will reconcile on a quarterly basis as required.

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

Caryn L. Koshiba, Chief, Finance & Accounting-MOF  
Masato Ushibata, System Accountant

Date the corrective action plan will be implemented:

July 2015

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-002  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Award Number: 2 H80CS02467-28-00, 6 H80CS02467-29-02  
Area: Activities Allowed or Unallowed  
Questioned Costs: \$1,013  
Area: Allowable Costs/ Cost Principles  
Questioned Costs: \$52,867

Criteria: In accordance with applicable activities allowed or unallowed requirements and allowable costs/ cost principle requirements, costs must be adequately documented.

Condition: Of 25 expenditures tested totaling \$83,780, of a total population of \$202,222, the following was noted:

1. For three (or 15%), supporting invoices were not provided.

<u>Acct. no.</u>	<u>Cost Center</u>	<u>General Ledger Date</u>	<u>Description</u>	<u>Amount</u>
1321	H33690	01/08/14	DF140011	\$ 15,068
1425	H33690	01/08/14	DF140011	9,439
1430	H33690	01/06/14	DF140011	<u>28,360</u>
			Total	\$ <u>52,867</u>

2. For two (or 8%), personnel attended training that did not appear relevant to their position.

<u>Acct. no.</u>	<u>Cost Center</u>	<u>General Ledger Date</u>	<u>Description</u>	<u>Amount</u>
1325	H33690	01/16/14	T4018101	\$ 755
1325	H33690	01/29/14	T30800	<u>258</u>
			Total	\$ <u>1,013</u>

It appears that additional training expenses (airfare, per diem, hotel) have been incurred, but were not tested and are not included in the above questioned costs.

Cause: The cause of the above condition is lack of recordkeeping and monitoring controls over compliance with applicable activities allowed or unallowed requirements and allowable costs/cost principles requirements.

Effect: The effect of the above condition is noncompliance with activities allowed or unallowed requirements and allowable costs/cost principles requirements. Questioned costs of \$1,013 and \$52,867 exist, respectively.

Recommendation: We recommend that the Republic strengthen procedures over maintenance of adequate documentation to support program expenditures and over monitoring of activities for allowability under the program.

Prior Year Status: Noncompliance with allowable costs/cost principles requirements was reported as findings in the prior Single Audits of the Republic as items 2010-12, 2012-11 and 2013-15.



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-002, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Award Number: 2 H80CS02467-28-00, 6 H80CS02467-29-02  
Area: Activities Allowed or Unallowed  
Questioned Costs: \$1,013  
Area: Allowable Costs/ Cost Principles  
Questioned Costs: \$52,867

#### Auditee Response and Corrective Action Plan:

Item 1: The amount transferred to communication totaling \$15,068 is supported by invoices for the following months:

1. October 2013	\$ 2,082.11
2. November 2013	\$ 2,714.83
3. December 2013	\$ 3,341.89
Total	\$ 8,138.83

The difference of \$6,929.41 were allocated to pay for CHC share of the internet connection for the month of October 2013 totaling \$4,559 and partial payment for the month of December 2013 totaling \$2,370.41

For medical supplies, we concur with the finding. The quantity is based on the distribution list to CHC on quarterly basis. Freight shared estimated cost which we only pay for what is for CHC. We will work on our basis of determination in order to identify the cost for CHC medical supplies.

For electricity, we concur with this finding. Again, this is estimated to support OPD services located in BNH. Efforts to cost out electricity for OPD is ongoing that will identify percentage of shared for OPD that is housed in BNH building.

Item 2: The activities followed the procurement process and supports CHC program.

T4018101 –Supporting Ghandi Ngirmidol to attend UDS training. To ensure that program, Ministry and National understand the requirements of UDS especially for the finance section. The traveling went through proper ROP process.

T30800 – Sukrad Sbal attended a bio-med training. This trip supports CHC. It will help improve equipment & minor supplies maintenance to decrease costs for the program. Mr. Sbal, although a maintenance service technician, has expertise in general technology and completing his AAS degree with our local community college, once trained, will help improve maintenance plan for CHC's equipment & minor equipments/supplies.

Although not specifically written in our budget narrative, Both expenditures are within the 25% redirection allowance for CHC funding.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-003  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Grant Number: P378A120057; P378A130057  
Area: Eligibility  
Questioned Costs: \$9,914

Criteria: In accordance with US Code Title 20, Chapter 28, subchapter IV, part F, section 1091, a student to be eligible to receive a grant aid must file a statement as part of the original financial aid application process, a certification, which need not be notarized, but which shall include—

- (a) a statement of educational purpose stating that the money attributable to such grant, loan, or loan guarantee will be used solely for expenses related to attendance or continued attendance at such institution; and
- (b) such student's social security number;

Further, the Program must establish policies and procedures to verify an applicant's information from a reliable third party. The Program is responsible for determining if the verification documentation is adequate and credible. If written third-party verification is not used, supporting documents and signed affidavits by the applicant must be submitted. All student files must be reviewed prior to eligibility approval.

Condition: Of thirty grant-aid expenditures tested aggregating \$69,010 of a population of \$496,105, the following were noted:

1. For thirty (or 100%), the Program did not require students to certify that the grant aid will be used solely for educational purposes.
2. For twenty-two (or 73%), there were no evidence of review and approval of student files/applications.
3. For five (or 17%), the estimated educational cost detail and financial aid was not certified by the school official.

<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>	<u>Questioned Cost</u>
367014	10/08/2014	\$ 2,349	\$ -
367416	10/22/2014	5,730	5,730
367415	10/22/2014	5,730	-
367039	10/08/2014	3,638	-
367023	10/08/2014	<u>4,184</u>	<u>4,184</u>
Total		\$ <u>21,631</u>	\$ <u>9,914</u>

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-003, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Grant Number: P378A120057; P378A130057  
Area: Eligibility  
Questioned Costs: \$9,914

Condition, Continued:

4. FY 2014 checks pertain to students who were ascertained to be eligible at the time of application; however, the students have not furnished required enrollment verification documents or have dropped out of school upon issuance of checks. The checks were held by the Program Office 3 to 4 months after the check date and four months from the start of the semester. The checks were not cancelled, and expenditures were not reversed:

<u>#</u>	<u>Check No.</u>	<u>Check date</u>	<u>Amount</u>
1	367055	10/8/2014	\$ 2,562
2	367069	10/8/2014	2,938
3	367052	10/8/2014	3,584
4	367028	10/8/2014	4,141
5	365105	09/3/2014	500
6	365178	09/3/2014	500
7	365192	09/3/2014	500
8	365142	09/3/2014	500
9	354095	09/3/2014	500
10	365145	09/3/2014	500
11	365111	09/3/2014	500
	Total		\$ <u>16,725</u>

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

Effect: The effect of the above condition is questioned costs of \$9,914. No questioned cost is presented in condition 1 and 2, as student files show that participants met eligibility requirements. A questioned cost for check #, 367014, 367415 and 367039 per condition 3 is not raised as the Program subsequently provided documents to support the educational cost (estimated tuition fee and other cost from the school's website). Further, no questioned costs are presented in condition 4 as the specified checks were subsequently cancelled and the related expenditures were subsequently reversed in FY 2015 by program management to correct the stated deficiency.

Recommendation: We recommend that the Program comply with eligibility requirements in US Code Title 20, Chapter 28, subchapter IV, part F, section 1091 and establish policies and procedures to verify applicant information.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-003, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Grant Number: P378A120057; P378A130057  
Area: Eligibility  
Questioned Costs: \$9,914

Auditee Response and Corrective Action Plan:

Terms used by Auditee in the responses below:

MOF = Ministry of Finance

MOE = Ministry of Education (Grantee Agency)

PCACGP = Palau College Access Challenge Grant Project (Grantee Project)

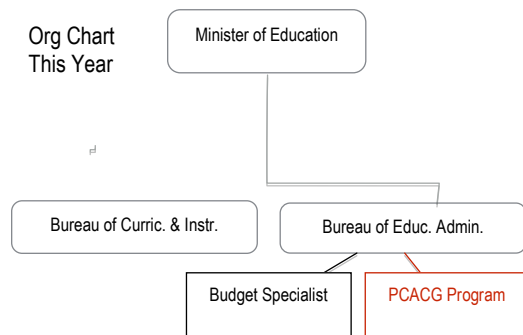
BEA = Bureau of Education Administration; this is the MOE unit that is responsible for the PCACGP.

BEA Budget Specialist = The budget specialist for the BEA. This position monitors financial compliance for the bureau.

DPM = Division of Personnel Management, the human resources unit of the BEA.

We concur with this finding. Due to extraordinary circumstances, PCACGP leadership changed hands four times during the year. Such frequent change unavoidably introduced gaps in PCACGP continuity.

For this year we have implemented a procedure that is institutionalized at the BEA and which the PCACGP follows by virtue of its position in the organizational chart below. This procedure meets the requirements of the grant and will be applied to any direct aid expenditure.



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

Andrew Tabelual, Director, Bureau of Education Administration

Date the corrective action plan will be implemented:

The corrective action plan has been implemented.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-004  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Grant Number: P378A110057; P378A120057; P378A130057  
Area: Special Tests and Provisions  
Questioned Costs: \$4,000

Criteria: US Code, Title 20, Chapter 28, Subchapter VII, Part E, Section 1141 (G) (2) requires a grantee receiving a grant payment under this section shall, in carrying out any activity or service described in subsection (f) (1) (A) to (G) with the grant funds, prioritize students and families who are living below the poverty line applicable to the individual's family size (as determined under section 9902(2) of title 42).

Condition: All activities and services of the Program, except for subsection (f) (1) (E), are made available to qualified students regardless of income level or student financial need. No evidence of a waiver of this requirement from the Grantor Agency was available.

Of thirty grant-aid expenditures tested aggregating \$69,010 of a population of \$496,105 (to carry out activity described on subsection (f)(1)(E)), for six (or 20%), no evidence was provided to verify that grant aid was given to students who live below the poverty line.

<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
353822	01/23/2014	\$ 1,000
353831	01/23/2014	1,000
365158	09/03/2014	500
365134	09/03/2014	500
365100	09/03/2014	500
365165	09/03/2014	<u>500</u>
Total		\$ <u>4,000</u>

The poverty line used by the Program is based on the US Department of Health and Human Services 2014 guideline for 48 contiguous states and the District of Columbia since poverty guidelines are not defined for some locations, such as for the Republic of Palau. We were not provided communication or approval from the grantor as to the applicable guideline.

Cause: The cause of the above condition is a lack of controls and sufficient understanding over the requirements and applicable guidelines. The policy to determine if grant aid applicants are living below the poverty line has no control procedures in place to verify the validity of the age of household members below 18 years old (through verification of birth certificates) and to obtain statements of unemployment from adult household members without income.

Effect: The effect of the above condition is potential noncompliance with the above criteria, and questioned costs of \$4,000 exist as projected questioned costs exceed the threshold.

Recommendation: We recommend that the Program establish policies and procedures to document that students and families who are living below the poverty line are given priority for grant funds and that relevant supporting documents and certifications are filed

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-004, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378 College Access Challenge Grant Program  
Grant Number: P378A110057; P378A120057; P378A130057  
Area: Special Tests and Provisions  
Questioned Costs: \$4,000

Prior Year Status: Noncompliance with the above criteria was reported as a finding in the prior Single Audit of the Republic as item 2013-006.

Auditee Response and Corrective Action Plan: We concur with this finding. Due to extraordinary circumstances, PCACGP leadership changed hands four times during the year. Such frequent change unavoidably introduced gaps in PCACGP continuity.

For this year we have implemented a procedure that is institutionalized at the BEA and which the PCACGP follows by virtue of its position in the organizational chart below. This procedure meets the requirements of the grant and will be applied to any direct aid expenditure.

Full Name of the person responsible for the corrective action plan: Andrew Tabelual, Director, BEA

Date the corrective action plan will be implemented: The corrective action plan has been implemented.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-005  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
 Grant Number: 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02,  
 5U58DP001952-05, 5UR3DD000809-03  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$5,081

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 and 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 at a reasonable time, at least fifteen days prior to the date of the initial day of the bidding time. Contacts 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 file 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 twenty-five nonpayroll expenditures tested, totaling \$67,711, there was no comparative analysis or written documentation to determine that the basis of the award was the most economical or practical procurement, as follows:

1. For one (4%), no evidence was on file that changes in the request for quotation were communicated to all available vendors; thus, potentially contravening open competition:

<u>Cost Center</u>	<u>Amount</u>	<u>P.O. Number</u>	<u>Check No.</u>
H33683	\$ 3,735	S40430	363663

2. For two (8%), the lowest available quotation that met all criteria in the solicitation was not selected.

	<u>Cost Center</u>	<u>Amount</u>	<u>P.O. Number</u>	<u>Check No.</u>	<u>Questioned Costs</u>
a.	H33682	\$ 3,289	T40398	363183	\$ 728
b.	H38652	\$ 1,998	L40417	355846	\$ 618

The difference between the lowest and selected quotation is the amount questioned above.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-005, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02,  
5U58DP001952-05, 5UR3DD000809-03  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$5,081

Cause: The cause of the above conditions is weaknesses in controls over documenting compliance with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations which result in questioned costs of \$5,081 as projected questioned costs exceed the threshold.

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

Prior Year Status: Weaknesses in internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program expenditures was reported as a finding in the Single Audits of the Republic for fiscal year 2012 and 2013.

Auditee Response and Corrective Action Plan:

1. We do not concur with this finding. Changes were communicated to all available vendors via phone. Employee has noted the communication and it was on their file. Document is available for your review.
2. We do not concur for the above findings.
  - a. For the first question cost of \$728, although the lowest available quotation met all criteria, we did not select it for these reasons:
    1. The lowest quoted airline is scheduled to fly to and from Palau only 2 or 3 times a week. The chosen airline is scheduled everyday to and from Palau.
    2. If we have chosen the lowest quoted airline, the employee has to leave 2 days prior to her training and would need additional per diem to accommodate her for the 2 days that's not scheduled for the training week. In addition, prior to her returning, she has to stay 2 days after her training to catch the lowest quoted airline so additional per diem should be given to her as well to accommodate her stay without doing anything. We calculate both airlines and based on our judgmental that employee may be wasting time for those days that she has to leave early and depart later date, we chose the airline that fly to and from Palau every day to meet the training schedule.



**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-005, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number: 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02,  
5U58DP001952-05, 5UR3DD000809-03  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$5,081

Auditee Response and Corrective Action Plan, Continued

- b. For the second question cost of \$618, we do not concur because Computers Plus did not have them in stock at that time. It was noted that if they will order them, it will take 3 to 4 weeks for them to arrive. Requested items were needed right away to print encounter form which were out and we needed them for daily encounters of patients coming into the clinics. Encounter forms are also the main data collection tool used to capture services rendered and diagnosis for all patients coming into public health clinics as well as the hospital. These data are used to generate various public health reports for grant reporting in addition to surveillance and monitoring of reportable diseases and potential outbreaks of said diseases.

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

Date the corrective action plan will be implemented:

Auditor Response:

1. A note from the second offeror affirmed its response to the original signed request for quotation based on fifty (50) pax and did not specifically indicate it was not able to accommodate subsequent addition of fifteen (15) pax. Thus, the finding remains.
2. a. Basis for selection was not made part of the criteria for solicitation; thus, the finding remains.  
b. Basis for selection was not made part of the criteria for solicitations; thus, the finding remains.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-006  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.378A College Access Challenge Grant Program  
 Grant Number: P378A110057; P378A120057  
 Area: Reporting  
 Questioned Costs: \$0

Criteria: US Code Title 20, Chapter 28, subchapter VII, part e, section 1141 (h) requires the Program to 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 which include (2) the cost of providing each activity or service; (4) the total contributions from private organizations included in the grantee's non-Federal share for the fiscal year. An effective system of internal control includes policies and procedures so that transactions reported as Federally funded costs and local match are substantiated by accounting records.

Condition: The Program does not have policies and procedures in place that require costs reported on the annual performance report (APR) be substantiated by accounting records.

1. Federal costs of activities and services reported in the APR were overstated compared with expenditures per the general ledger.

<u>Grant Award No.</u>	<u>APR submission date</u>	<u>Period covered by our testing</u>	<u>Federal Expenditures</u>		
			<u>Per general ledger</u>	<u>Per APR</u>	<u>Variance</u>
P378A120057	5/09/2014	8/14/12-4/15/14	\$1,378,102	\$1,434,675	\$(56,573)

2. The reported local match for grant award P378A120057, scholarship grant aid, is understated by \$481,982, when compared with underlying accounting records for reports submitted on May 9, 2014.
3. Local matching expenditures of \$37,000 are not supported by detailed schedules or invoices or billings for reports submitted on May 9, 2014.
4. Local matching salaries and wages and employee benefits of \$64,882 are not supported by timesheets/or other evidence that tracks actual program hours for reports submitted on May 9, 2014.

Cause: The cause of the above condition is the lack of conformance with existing procedures that require annual performance reports be based on actual costs incurred.

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

Recommendation: We recommend that the Program prepare reports substantiated by actual expenditure records.

Prior Year Status: Noncompliance with applicable requirements was reported as a finding in the prior Single Audit of the Republic of Palau as item 2013-005.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-006, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378A College Access Challenge Grant Program  
Grant Number: P378A110057; P378A120057  
Area: Reporting  
Questioned Costs: \$0

#### Auditee Response and Corrective Action Plan:

1. We concur with this finding. There is lag time between internal PCACGP activity approval/requisitioning and posting by MOF to the general ledger.

Internal PCACGP record keeping is required to account for all budget allocation, including those transactions still in the pipeline to the general ledger, so that the project does not over-allocate budget.

The PCACGP used reports from the MOF accounting system in addition to internal records for the APR. The variance is between internal and MOF records.

The condition has been well clarified by the auditor.

The whole responsibility for this item has been moved to the BEA Budget Specialist. Based on prior training from the Ministry of Finance and ROP sources, the budget specialist follows the auditor's recommendation, using only the "Subledger Status Report", printed for the period in question by the Ministry of Finance, to complete the expenditure column in the appropriate table on the APR.

Further, the budget specialist maintains a separate APR file, into which this "Sub Ledger Status Report" is filed, to ensure that proper support documentation exists and to allow "third party" oversight of PCACGP's APR documentation.

2. We concur this finding. PCACGP staff relied on Palau National Scholarship Board (PNSB) internal records of expenditure.

The whole responsibility for this item has been moved to the BEA Budget Specialist. The BEA Budget Specialist uses the "Status Report (Sub Ledger)" for two consecutive Palau fiscal years, printed for the period in question by the Ministry of Finance. The figure below illustrates how the expenses are appropriately reported given that the PCACGP budget period overlaps two Republic of Palau fiscal years. The orange marks indicate the two awards that are to be reported for the given PCACGP budget period.

So, this expenditure is now reported based on the appropriate subsidiary ledger from the MOF for both award awards.

Further, the budget specialist maintains a separate APR file, into which this "Sub Ledger Status Report" is filed, to ensure that proper support documentation exists and to allow "third party" oversight of PCACGP's APR documentation.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-006, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378A College Access Challenge Grant Program  
Grant Number: P378A110057; P378A120057  
Area: Reporting  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan, Continued:

3 and 4. We concur with the findings. PCACGP record keeping was being improved, but due to recent personnel turnover, certain records have been difficult to find in spite of staff responses that the documentation was done.

The BEA has implemented procedures, subsequent to the completion of its comprehensive review of audit weaknesses (September 30, 2014), that tracks the PCACGP's use of local resources. The results of this procedure(s) will be used to complete the upcoming APR.

Modifying the MOE timekeeping process to implement the sort indicated by the auditor places an onerous burden on the local system, which is set up for job description based time keeping that is recorded on a daily basis.

While efforts will continue to appropriately document all local salary and wages contribution, PCACGP will only report in future APRs the cases where compliant documentation is available.

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

Andrew Tabelual, Director, Bureau of Education Administration (and CACG Project Coordinator).

Date the corrective action plan will be implemented:

The corrective action plan has been implemented.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-007  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.378A College Access Challenge Grant Program  
Grant Number: P378A110057; P378A120057  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$0

Criteria: In accordance with applicable allowable costs/cost principles requirements, semi-annual employee certifications are required from employees working solely for one federal program.

Condition: For three payroll activities tested aggregating \$1,307 of a population of \$48,854, required semi-annual certifications were not obtained for employees working full-time on one federal program. Although employees are signing timesheets evidencing hours worked on a federal program, the signature does not indicate if the employee actually performed activities solely for the federal program.

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: No questioned cost is presented due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the Program comply with applicable federal requirements.

Prior Year Status: Lack of adherence to applicable federal requirements was reported as a finding in the prior Single Audit of the Republic of Palau as item 2013-007.

Auditee Response and Corrective Action Plan: We concur with this finding. The BEA's comprehensive review of audit weaknesses completed on September 30, 2014, exposed gaps in PCACGP records. Time and effort assurance was being done by PCACGP staff, but was not an institutionalized MOE process and therefore not filed with personnel records.

The BEA has implemented procedures that institutionalize this process. PCACGP staffs along with the DPM now implement this procedure. The procedure ensures that the time and effort assurances are filed with personnel records.

The current procedure however is for the annual employment period. Based on the auditor's indication that it should be semi-annual, the procedure will be changed immediately to require semi-annual assurance.

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

Andrew Tabelual, Director, Bureau of Education Administration

Date the corrective action plan will be implemented: The corrective action plan has been implemented.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No: 2014-008  
CFDA Program: DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: ED 84.027 Special Education – Grants to States  
CFDA Program: ED 84.256 Territories and Freely Associated States Education Grant Program  
CFDA Program: ED 84.378 College Access Challenge Grant Program  
CFDA Program: HHS 93.224 Consolidated Health Centers  
CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number.: H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: In accordance with applicable equipment and real property management requirements, procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to confirm adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.

In addition, in accordance with, 34 CFR section 74.34 (b), the recipient shall not use equipment acquired with Federal funds to provide services to non-Federal outside organizations for a fee that is less than private companies charge for equivalent services, unless specifically authorized by Federal statute, for as long as the Federal Government retains an interest in the equipment.

Condition: For six programs (CFDA numbers 15.875, 84.027, 84.256, 84.378, 93.224, 93.283), the following were noted:

#15.875

Tests of twenty-two assets noted the following:

- 1. Three (or 14%) could not be located:

<u>Date Acquired</u>	<u>Property Number</u>	<u>Cost</u>
3/01/2005	RP-3509	\$ 6,280
3/01/2005	RP-3503	8,290
1/12/2005	SWR-1035	<u>22,000</u>
		<u>\$ 36,570</u>

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No: 2014-008, Continued  
CFDA Program: DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: ED 84.027 Special Education – Grants to States  
CFDA Program: ED 84.256 Territories and Freely Associated States Education Grant Program  
CFDA Program: ED 84.378 College Access Challenge Grant Program  
CFDA Program: HHS 93.224 Consolidated Health Centers  
CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number.: H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Condition, Continued

2. Four (or 3%) were included in the property listing, but are unserviceable and could not be used for Program activities:

<u>Date Acquired</u>	<u>Property Number</u>	<u>Cost</u>
05/10/2005	RP-3522	\$ 8,495
03/01/2005	RP-3504	6,280
03/01/2005	RP-3511	6,280
01/12/2005	RP-3498	<u>20,000</u>
Total		<u>\$ 41,055</u>

3. There is no documentation that a complete physical inventory of equipment and property and a reconciliation was performed of fixed asset records over the last two fiscal years.
4. There is no evidence of effective maintenance and safekeeping procedures (e.g., invoices for regular maintenance checks, vehicle use logs, vehicle authorization forms, etc.).

#84.027, #84.256, #93.224, #93.283

There is no documentation that a complete physical inventory of equipment and property and reconciliation with fixed asset records was performed over the last two fiscal years.

#84.256

Of twenty-one fixed assets listed as program equipment totaling \$472,774 acquired between 1998 to 2014, nine (or 43%) totaling \$107,075 were tested for verification. Five (tag numbers RP-99637, RP-99638, RP-99639, RP99640, and RP-99641) were not operable, but are listed in the property records.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No: 2014-008, Continued  
CFDA Program: DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: ED 84.027 Special Education – Grants to States  
CFDA Program: ED 84.256 Territories and Freely Associated States Education Grant Program  
CFDA Program: ED 84.378 College Access Challenge Grant Program  
CFDA Program: HHS 93.224 Consolidated Health Centers  
CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number.: H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

#### Condition, Continued

##### #84.378

1. Vehicle no. 1236 (property tag #RP-4104), equipment purchased with Program grant funds, was issued to the Director of the Bureau of Education and Administration for the Bureau's projects and activities. This vehicle was replaced by the Ministry of Education issued vehicle no. 1153 (property tag # RP-3959) for Program use. There was no grantor approval provided to support the replacement .
2. There is no evidence of effective maintenance and safekeeping procedure for vehicle no. 1236 during fiscal year 2014.

##### #93.224

1. A variance of \$492,300 exists between the listing prepared by the Procurement and Supply office (\$208,633) and the Program Office (\$700,933).
2. Of 13 fixed assets tested for existence, one (tag no. RP-2688) could not be located and one (tag no. RP-3387) was disposed of in FY2014, but remains on the equipment listing.

##### #93.283

1. A variance of \$11,251 exists between the listing prepared by the Procurement and Supply office (\$317,106) and the Program Office (\$305,855).
2. Of nine fixed assets tested, one (RP-4194) was disposed of in prior years, but continues to remain on the listing.

Cause: The cause of the above condition is a lack of adherence to established policies and procedures for conducting required annual physical inventory counts of property and equipment and failure to reconcile property records.

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as the fixed assets that are specifically identified above have reached their estimated useful life and are considered inoperable. Furthermore, we are unable to quantify the cumulative dollar amount of the deficiencies.



## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No: 2014-008, Continued  
CFDA Program: DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: ED 84.027 Special Education – Grants to States  
CFDA Program: ED 84.256 Territories and Freely Associated States Education Grant Program  
CFDA Program: ED 84.378 College Access Challenge Grant Program  
CFDA Program: HHS 93.224 Consolidated Health Centers  
CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number.: H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Recommendation: We recommend that ROP maintain complete records of property and equipment acquired with grant funds, perform physical inventories at least once every two year, and comply with applicable property management policies and procedures.

Prior Year Status: Lack of compliance with equipment and real property management requirements was reported as a finding in the Single Audits of ROP for fiscal years 1988 through 2013.

#### Auditee Response and Corrective Action Plan:

##### #17.875, #84.027, #84.256

Biannual physical inventory was done in FY2013 and physical inventory is ongoing right now for FY2015. In addition, reconciliation is ongoing as well in FY2015. We will have documentation evidencing proof that physical inventory of equipment and property and reconciliation of fixed assets are being done.

##### #84.378

1. We concur with this finding. MOE practice, which applies to the vehicle in question, assigns assets to the program or project that requests and secures funds for it. After acquisition, this vehicle was assigned to and has remained under the control of the PCACGP.

Operationally, the location of the vehicle when idle is at the Ministry of Education's parking lot, the same as for any other MOE vehicle. Also, as with any other vehicle, the location of the key is at the "owner's" office. In this case, the key is located at the PCACGP Director's office. Recently, because of changes resulting from the comprehensive review of audit weaknesses, the key is located at the PCACGP Coordinator's office.

The location of the key is one of the ways to ensure that vehicles are used for official purposes. Staff who needed the vehicle can pick it up after they adequately justify its use to the program manager/coordinator/head.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No: 2014-008, Continued  
CFDA Program: DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: ED 84.027 Special Education – Grants to States  
CFDA Program: ED 84.256 Territories and Freely Associated States Education Grant Program  
CFDA Program: ED 84.378 College Access Challenge Grant Program  
CFDA Program: HHS 93.224 Consolidated Health Centers  
CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number.: H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

#### Auditee Response and Corrective Action Plan, Continued:

At a certain point last year, staff requests for more control of the vehicle were reviewed. It was determined by the then PCACGP Director that breaking from the existing MOE practice was not justified. All PCACGP related staff activities were fully and conveniently serviceable with current practice.

However, consideration was given to staff who had to be located across the street due to lack of space within the main PCACGP office. For every little errand, they had to cross the street, and may have to wait if the PCACGP Director was away. Because of this, an additional vehicle was assigned closer to these staff, with the key under the control of the remote office's supervisor. The result of this was that PCACGP now had two assets under its control.

The key point to consider is that, at no time were the positions of the Bureau of Education considered in assignment of assets. The assignment and control strictly followed the PCACGP positions of Director or Coordinator. The confusion may be because the BEA and PCACGP positions coincide. That being so, BEA needs were not considered.

2. We concur with reservations. The maintenance of this vehicle follows existing MOE practice. The vehicle has been serviced several times during the period, same as any other MOE vehicle. Such service has been sufficient to keep the vehicle operational, non-stop since acquisition.

Presently, we are looking into comprehensive maintenance procedures to be adhered, followed and documented evidencing required maintenance.

#### #93.224

Physical inventory and Item 1: Annual inventory is performed in accordance with ROP Regulations. Assets mentioned have been on previous audit report and have been addressed; ROP grants division alongside with division of supply, are working this year to reconcile program fixed assets with the master list. ROP finance and MOH continue to work together to ensure proper disposal of assets.

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No: 2014-008, Continued  
CFDA Program: DOI 15.875 Economic, Social, and Political Development of the Territories  
CFDA Program: ED 84.027 Special Education – Grants to States  
CFDA Program: ED 84.256 Territories and Freely Associated States Education Grant Program  
CFDA Program: ED 84.378 College Access Challenge Grant Program  
CFDA Program: HHS 93.224 Consolidated Health Centers  
CFDA Program: HHS 93.283 CDC and Prevention – Investigations and Technical Assistance  
Grant Number.: H027A120006-12A, H027A130161, H027A130161-13A, S256A120005, S256A120005 -13, P378A110057; P378A120057, 2 H80CS02467-28-00, 6 H80CS02467-29-02, 5U58DP001952-05, 5U58SO000023-03, 5U58SO000023-04 Revised, 5U50CK000219-02, 5U58DP003939-02, 5U58DP003939-03, 5UR3DD000809-03, 5UR3DD000809-04  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

#### Auditee Response and Corrective Action Plan, Continued:

For Item 2:

- RP-2688 – Pick-Up Truck that was Purchased in 2001. Vehicle was properly surveyed. (See attached supporting documents)
- RP-3387 – ProCART that was purchased in 2003. Survey#ROP-S13-95; This was officially cleared from ROP Inventory list on 11/17/14.

#### #93.283

RPPM policy require complete physical inventory bi-annually and it was conducted in 2013. Physical inventory is ongoing in FY2015. However, for reconciliation with grants fixed assets, ROP is currently reconciling program fixed assets with ROP master list.

1. With reconciliation, ROP and MOH will work together to reconcile variances.
2. We concur with this finding. Survey documents have been prepared and submitted to MOF to be surveyed out of the list. On 11/17/14, the fixed asset was surveyed out of the list.

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

Millan Isack, Chief, Property and Supply Div.  
Janice Mathew, Administrator, Health Administrative and Support Services  
Andrew Tabelual, Director, BEA

Date the corrective action plan will be implemented: Ongoing

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-009  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.224 Consolidated Health Centers  
 Grant Number: 2H80CS02467-28-00  
 Area: 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 2014 universal data system (UDS) report due on February 15, 2015 reported program revenues and expenditures. The Program provided various reports utilized in preparation of 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 of \$1,230,839 comprises total medical care, other clinical services, other services and total facility and other non-clinical services including personnel costs aggregating \$961,683. However, the underlying records provided indicated personnel costs of \$627,873 resulting in a variance of \$333,810.

Personnel Cost per UDS report	Personnel Cost per General Ledger	Variance
\$ 961,683	\$ 627,873	\$333,810

2. Medical and pharmaceutical supplies aggregated \$143,087 of which only \$11,039 could be agreed to the general ledger.

Description	Per UDS Report 2014	Per General Ledger	Difference
Non-Pharmaceuticals	\$ 41,835	\$ 9,439	\$ 32,396
Pharmaceuticals	<u>101,252</u>	<u>1,600</u>	<u>99,652</u>
Total	<u>\$ 143,087</u>	<u>\$ 11,039</u>	<u>\$ 132,048</u>

3. The Program reported donated facility and services totaling \$955,515, but no underlying accounting records were provided to support that amount.
4. No underlying accounting records for \$1,540,008 of self-pay revenues were available. It was represented that the amount is the difference between full charges of the service less the sliding discount. It was also represented that the full charge amount comes from all encounter forms (a form that records services performed for the patient) during the fiscal year which are maintained in a separate database which tracks all encounter forms during the year. However, only \$386,176 could be traced to the general ledger.

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

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-009, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 2H80CS02467-28-00  
Area: Reporting  
Questioned Costs: \$0

Effect: The effect of the above condition is noncompliance with above criteria. No questioned cost results from this finding as only the recorded expenditures were reimbursed by the grantor agency.

Recommendation: We recommend that management establish internal control procedures over adequate file maintenance so that underlying records support reported program activities.

Prior Year Status: Weaknesses in controls over internal controls over adequate file maintenance requiring that underlying accounting records exist to support reported program activities was reported as findings in the prior Single Audits of the Republic as items 2010-18, 2012-15 and 2013-017.

Auditee Response and Corrective Action Plan:

Item 1a – UDS reports all Federally paid and Non-federally paid personnel that supports the operation for CHC. Whereas, Personnel General Ledger only reports those paid directly from Federal funding. In order to make a comparison, salaries & FTES of those not paid under CHC Org. should be calculated and considered.

Item 1b – Again, UDS reports all cost incurred for medical & Pharmaceuticals for both Grant, Local, and Program Income.

Cost Analysis Study was completed for early 2015 year. We are hoping that results of this study will help improve our systems, processes and standards that will improve reporting. General ROP Ledgers does not capture the details of internal controls and may also need to be addressed.

Item 2 – Donated services are based on facility spaces that are not assets to CHC, personnel costs not directly paid from CHC and general daily operation costs support from other Grant funded programs. Corrective Action Plan: Develop Standard internal program templates to capture formulas and details of what data are used for UDS reporting.

Item 3 – We Concur – the process mentioned is how collecting of data is currently done. Improvement in how we reconcile with General ledger needs to be discussed and improved. Whether it is system issue or communication improvement, this remains an area that needs improvement.

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

Darnelle Decherong, Program Manager-CHC-MOH

Date the corrective action plan will be implemented: Ongoing

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-010  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.256 Territories and Freely Associated States Education Grant Program  
Grant Number: S256A120005, S256A120005-13  
Area: Reporting  
Questioned Costs: \$0

Criteria: Reports submitted to the grantor agency should include all activities of the reporting period and should agree with underlying accounting and performance records.

Condition: Total expenditures and encumbrances reported in the annual performance report (APR) do not agree with expenditures and encumbrances per the general ledger as follows:

<u>Cost Center No.</u>	<u>Period Covered</u>	<u>Expenditures and encumbrances per APR</u>	<u>Expenditures and encumbrances per general ledger</u>	<u>Variance</u>
E33595	10/01/13 – 06/30/14	\$ 745,289	\$ 684,157	\$ 61,131

Cause: The cause of the above condition is lack of adherence to existing procedures that require adequate documentation in support of APR balances.

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

Recommendation: We recommend that the Program strengthen procedures to verify that expenditures and encumbrances reported to the grantor agency agree with underlying accounting records.

Auditee Response and Corrective Action Plan: In preparing last year’s annual performance report, program staff used the “Subledger Status Report” as well as transactions already processed by the Ministry of Education but probably have not been entered in the Ministry of Finance accounting system.

Corrective Action: In preparing future grant annual and final performance reports, MOE will use only the “Subledger Status Report” printed for the period in question by the Ministry of Finance to complete the Budget Expenditures section of the APR (Grant Performance Report Cover Sheet (ED 524B)).

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

Debbie Tkel-Sbal and Gandhi Ngirmidol

Date the corrective action plan will be implemented:

July 30, 2015 (due date for the next APR for project period 10/01/14-06/30/15)

## REPUBLIC OF PALAU

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-011  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.224 Consolidated Health Centers  
Grant Number: 6H80CS02467-27-01, 2H80CS02467-28-00  
Area: 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 performs billing and collection functions. All fees collected are deposited and recorded in the Hospital Trust Fund Account, which is a Special Revenue Fund. However, since this Fund was only implemented in February 2014, cumulative program income was not accounted for. Further, there is no evidence available that program-related fees 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 document that collections are used to further program objectives.

Cause: The cause of the above condition is the current fee structure and collections are centralized at the Ministry of Health, and the lack of control over program income tracking.

Effect: The effect of the above condition is potential noncompliance with program requirements. No questioned costs result as we were unable to determine the amount of 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 findings in the prior Single Audits of the Republic as items 2008-22, 2009-41, 2010-30, 2012-14, and 2013-016.

Auditee Response and Corrective Action Plan: Program Income are used toward pharmaceuticals, medical supplies and medical equipment only. Procurements charged to this account 2180 are available and may be obtained for review. CHC follows the procurement cycle set for MOH and CHC procures the said items according to a quarterly schedule. Prior to February 2014, We concur that program funds were comingled with other funds making it challenging to monitor, however, corrective actions restricting unauthorized use of funds have been sought by program, MOH and ROP.

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

Darnelle Decherong, Program Manager-CHC-MOH

Date the corrective action plan will be implemented: Ongoing

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Revenues

Finding No.: 2014-012

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

Condition: We noted voided receipts without explanation, and supervisory approval was not evident.

<u>Date</u>	<u>Receipt no.</u>
10/02/2013	1385663,1385670,1385897,1385949,1386031-1386039, 1386068 - 1386073
10/03/2013	1386288 – 1386289, 1386337
10/09/2013	1387504, 1387542 - 1387547
10/11/2013	1387887
10/14/2013	1388164 - 1388169
10/16/2013	1388487,1388556 – 1388563,1388710 - 1388714
10/17/2013	1388844
10/18/2013	1389096, 1389222
10/21/2013	1389379
10/22/2013	1389701 – 1389703, 1389832 - 1389834
10/23/2013	1389869-1389872,1389874-1389875,1389877-1389878, 1389880-1389883, 1389885
10/25/2013	1389967, 1390124
10/28/2013	1390216
10/30/2013	1390632, 1390639 - 1390641
10/31/2013	1390887, 1390998
11/13/2013	1392117
11/18/2013	1392511 - 1392512
11/19/2013	1392692 – 1392695, 1392697 - 1392700
11/22/2013	1393022
11/26/2013	1393323 - 1393324
12/02/2013	1393734
12/06/2013	1394391
12/16/2013	1395537 - 1395543
12/17/2013	1395581, 1395605 – 1395606, 1395608
12/19/2013	1395893
12/20/2013	1396084, 1396086
12/23/2013	1396170
12/26/2013	1396555 - 1396560



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Revenues, Continued

Finding No.: 2014-012, Continued

Condition, Continued

<u>Date</u>	<u>Receipt no.</u>
01/03/2014	1397311 – 1397312, 1397327
01/07/2014	1397727
01/10/2014	1398281
01/17/2014	1399047
01/24/2014	1399602
02/04/2014	1400600
02/05/2014	1400746
02/18/2014	1401914
02/20/2014	1402263
03/11/2014	1404305
04/03/2014	1406779, 1406842
04/14/2014	1407922 - 1407923
04/17/2014	1408625 - 1408628
05/02/2014	1410270, 1410272
05/06/2014	1410470
05/09/2014	1411024
05/13/2014	1411427 - 1411428
05/19/2014	1412129
05/20/2014	1412387
05/21/2014	1412515
06/09/2014	1414634 - 1414635
06/19/2014	1415814
06/20/2014	1415941
06/27/2014	1416687 - 1416694
07/04/2014	1417518
07/07/2014	1417537
08/01/2014	1420554
08/11/2014	1421533, 1421551 - 1421552
08/19/2014	1422522, 1422527
09/03/2014	1424199
09/04/2014	1424520 - 1424522

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Revenues, Continued

Finding No.: 2014-012, Continued

Condition, Continued

<u>Date</u>	<u>Tax Receipt no.</u>
10/21/2013	224087, 224092, 224096, 224120, 224121, 224122, 224211
10/31/2013	225982, 225983, 225984, 225985
11/20/2013	227202, 227203, 227204, 227205, 227206, 227207, 227208, 227209, 227210, 227211, 227215
01/08/2014	231436, 231467, 231475
01/24/2014	223123, 223124, 223129, 223133, 223134, 223135, 223136, 223137
01/30/2014	234817
03/10/2014	242802
04/29/2014	241170
04/30/2014	241552
08/14/2014	250098

Cause: There were no procedures in place to determine that exceptions in sequential orders of daily receipts are documented and approved by immediate supervisors.

Effect: The absence of an approval for exceptions in the sequential order of daily receipts is a control weakness whereby collections may be subject to malfeasance.

Recommendation: We recommend that policies and procedures to verify that cash receipts are issued in sequential order. Exceptions be established should be documented and be approved by an immediate supervisor on a daily basis.

Prior Year Status: The absence of approval for exceptions of sequential daily receipts was reported as a finding in the prior Single Audit of the Republic of Palau as item 2013-009.

Auditee Response: We concur with the finding. Chief of Treasury is aware of the voided receipts and she review daily receipts at the end of the day. This issue happens because of consistent power outage and system malfunction during working hours. We will work with our IT programmer to solve this issue.

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

Noria Manahane, Chief of Treasury Division

Date the corrective action plan will be implemented: July 2015

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Revenues

Finding 2015-013

Criteria: An audit trail should exist for all cash receipts.

Condition: Of a population of \$4,462,190 of total hospital revenues, seventy recorded receipts totaling \$1,583,993 were related and could not be agreed to individual invoices or equivalent. Daily collections could be agreed to a total of supporting invoice listing by invoice number; however, collections are sorted into revenue types and are recorded in the DILOG general ledger without an audit trail.

Cause: The Ministry of Health does not have a process to determine that an audit trail exists for National Government cash receipts.

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

Recommendation: We recommend that the Ministry of Health implement policies and procedures requiring existence of audit trail in the hospital revenues.

Auditee Response and Corrective Action Plan: We concur with the finding. We do have the details in the System but they are not individually identified on the Cash Receipt Report. We need to go through the Programmer to give us the actual invoice numbers in order for us to print them out.

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

Analee R. Maidesil, Budget/Fiscal Manager, Billing & Collections, MOH

Date the corrective action plan will be implemented:

Corrective action plan in process. Will be implemented by the end of FY2015.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Local Noncompliance – Procurement Regulations

Finding No. 2014-014

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the ROP Property Management Policies and Procedures Manual, Procurement and Safeguard Section 626 state the following:

- (a) When the Procurement Officer determines in a substantiated writing that the use of competitive sealed bidding is either not practical or not advantageous to the government, contracts may be awarded by competitive negotiation.
- (h) Award shall be made to the responsible offeror whose proposal is determined in writing to be most advantageous to the Republic taking into consideration price and other evaluation factors set forth in the request for proposals. No other factors or criteria shall be used in the evaluation, and the contract file shall contain a detailed description of the findings and the basis on which the award is made.

Condition: Of fifty three Other Funds non-payroll expenditures tested totaling \$1,927,352 of a total population of \$3,489,181, twenty-two expenditures aggregating \$623,031 represent purchases pursuant to Request for Proposal (RFP) 01-14. Our examination of related bid documents noted the following:

- 1. An RFP was issued instead of an Invitation for Bids. There was no written determination substantiating that the use of competitive sealed bidding is either not practical or not advantageous to the Republic.
- 2. The contract file did not contain a detailed description of the findings and the basis on which all nine offerors were awarded in varying amounts. A comparative evaluation of the bids was provided to substantiate the award recommendations in dollar amounts in which the following were noted:
  - a. It compares categories of items, but it does not compare the costs of individual items. In addition, award of pharmaceutical drugs appeared to have exceeded requested amounts as follows:

	<u>Offers</u>	<u>Percentage of Items Quoted</u>	<u>Amount awarded</u>	<u>Percentage of Offer</u>	<u>Percentage of Items awarded</u>
1.	\$ 4,703,837	77%	\$ 300,000	6%	6%
2.	\$ 1,843,930	91%	\$ 1,840,000	100%	91%
3.	\$ 3,437,890	65%	-	-	
4.	\$ 4,068,381	87%	-	-	
5.	\$ 479,402	70%	\$ 479,000	100%	<u>70%</u>
				Total	<u>167%</u>

- b. It does not take into consideration that vendors do not submit price quotations for unavailable items. This causes their total proposal amount to appear lower than the proposal amounts of vendors who quoted all items. Therefore, comparing total proposal amounts does not give an accurate indication of the most competitive prices per item.
- c. It does not indicate who prepared it and whether it was reviewed.

**REPUBLIC OF PALAU**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Local Noncompliance – Procurement Regulations, Continued

Finding No. 2014-014, Continued

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

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

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 files.

Auditee Response and Corrective Action Plan:

1. We concur and we will ensure that documents i.e. memo will be included on RFP's.
2. a) The cost was not the basis for our selection because the cost of each individual item requested does not determine quantity of the items needed for patient care. In addition the cost does not guarantee how much the supplier can supply to our patient need. The selection was base on specifications, history, and pre-qualification to determine the amount awarded.
  - b) We did review each line item per proposals and evaluated base on quantity quoted verses quantity per specifications requested. We selected the vendor that scored at least 50% of the total proposal. We did not consider proposals for unavailable items because the quantity of the items proposed is required. Vendor who quoted at least 50% or above is best meet our requirements.
  - c) Comparative evaluation was prepared by MOH procurement and submitted to Ministry of Finance Procurement Officer Mr. Millan Isack for review and approval. However, we did not indicate on the evaluation form in, therefore we will incorporate in the upcoming bid for medical supplies and drugs for FY2016 & FY2017.

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

Milan Isack, Chief Procurement & Supply  
Cindy Fritz, Fiscal Manager, MOH  
Tasya Worswick, Procurement Officer, MOH

Date the corrective action plan will be implemented:

July 2015

**REPUBLIC OF PALAU**

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2014

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, 2014:

	<u>Questioned Costs</u>		
	<u>Republic</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of the Republic as previously reported:			
Fiscal year 2010 Single Audit	\$ 1,632,099	\$ -	\$ 1,632,099
Fiscal year 2011 Single Audit	205,723	-	205,723
Fiscal year 2012 Single Audit	669,335	-	669,335
Fiscal year 2013 Single Audit	<u>183,006</u>	<u>-</u>	<u>183,006</u>
	<u>2,690,163</u>	<u>-</u>	<u>2,690,163</u>
Less questioned costs resolved in fiscal year 2014:			
Questioned costs of fiscal year 2010 Single Audit (1)	<u>(1,632,099)</u>	<u>-</u>	<u>(1,632,099)</u>
Questioned costs of fiscal year 2011 Single Audit (1)	<u>(205,723)</u>	<u>-</u>	<u>(205,723)</u>
Questioned costs of fiscal year 2012 Single Audit reported in:			
Finding No. 2012-16 (2)	(3,500)	-	(3,500)
Finding No. 2012-17 (2)	(13,625)	-	(13,625)
Finding No. 2012-18 (2)	<u>(512)</u>	<u>-</u>	<u>(512)</u>
	<u>(17,637)</u>	<u>-</u>	<u>(17,637)</u>
Questioned costs of fiscal year 2013 Single Audit reported in:			
Finding No. 2013-002 (3)	<u>(81,052)</u>	<u>-</u>	<u>(81,052)</u>
	753,652	-	753,652
Questioned costs of fiscal year 2014 Single Audit	<u>72,875</u>	<u>-</u>	<u>72,875</u>
Unresolved questioned costs of the Republic at September 30, 2014	\$ <u><u>826,527</u></u>	\$ <u><u>-</u></u>	\$ <u><u>826,527</u></u>

## REPUBLIC OF PALAU

### Unresolved Prior Year Findings and Questioned Costs, Continued Year Ended September 30, 2014

- (1) Questioned costs considered resolved pursuant to OMB circular A-133 section.315 (b) (4) (i)(ii)(iii) which states when the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
  - (i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse;
  - (ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
  - (iii) A management decision was not issued.
- (2) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Health and Human Services, dated April 3, 2015.
- (3) Questioned costs considered resolved as the Republic received a final determination letter from the U.S. Department of Health and Human Services, dated April 14, 2015.

#### Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 12 through 44).