

REPUBLIC OF PALAU
CIVIL SERVICE PENSION TRUST FUND

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2015

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

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

We have audited, in accordance with the 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 Republic of Palau Civil Service Pension Trust Fund (the Fund), which comprise the statement of fiduciary net position as of September 30, 2015, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, and have issued our report thereon dated June 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses (page 3), we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2015-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Fund's Response to the Finding

The Fund's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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.

Deloitte & Touche LLC

June 28, 2016

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Schedule of Findings and Responses
Year Ended September 30, 2015

Actuarial Deficiency

Finding No. 2015-001

Criteria: The Fund should develop and implement a formal plan to address the actuarial deficiency.

Condition: The Fund's actuarial valuation as of September 30, 2014 indicates a net pension liability of \$204,281,232 and that the Fund's cash flow may eventually become negative and the Fund may not be able to meet its benefit obligations. The Fund has not developed a formal plan as of September 30, 2015 to correct this potential funding liability.

Cause: The cause of the above condition is the lack of a formal plan to fund the net pension liability.

Effect: The effect of the above condition is that the Fund may not be able to meet its benefit obligations.

Recommendation: We recommend that the Fund develop and implement a formal plan to fund the future liability.

Prior Year Status: The lack of a formal plan to fund the net pension liability was reported as a finding in the audit of the Fund for fiscal year 2014.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Mr. Presley Etibek, Administrator/Chief Executive Officer and Ms. Everdil Rechebei, Chief Financial Officer

Corrective Action: The net pension liability increased from \$182,080,332 as of September 30, 2014 to \$204,281,232 as of September 30, 2015, an increase of \$22,200,900 or 12.19%. Although the Fund has not developed a plan to correct this deficiency, the Pension Plan Board of Trustees and management will work with the OEK and the Office of the President to address this issue. Republic of Palau Public Law 9-49, the Palau National Marine Sanctuary Act, is a direct effort to correct the funding deficiency. A provision of this Act imposes and collects a \$100 environmental impact fee from every departing international passenger and earmark \$25 per departing passenger to the Fund. Based on arrival and departure statistics, the total collection for the Fund could range from \$2,500,000 to \$3,500,000 per year.

Proposed Completion Date: FY 2018

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Unresolved Prior Year Comments
Year Ended September 30, 2015

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