

REPUBLIC OF PALAU

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

YEAR ENDED SEPTEMBER 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements, and have issued our report thereon dated July 31, 2018. 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 the Palau International Coral Reef Center, the Palau Community College, the Palau National Communications Corporation, the Belau Submarine Cable Corporation, and the Palau District Housing Authority, as described in our report on the Republic's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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

Internal Control Over Financial Reporting

In planning and performing our audit 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.

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 have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-004, 2017-005, 2017-006, and 2017-008 through 2017-013 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2017-002, 2017-003, and 2017-007 to be significant deficiencies.

Compliance and Other Matters

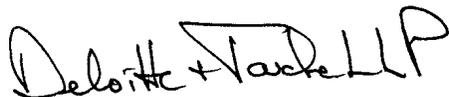
As part of obtaining reasonable assurance about whether the Republic's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 2017-013.

The Republic's Response to Findings

The Republic's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. The Republic'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 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.



July 31, 2018

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 THE UNIFORM GUIDANCE

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 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, 2017. 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 3B 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 accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2017. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the Republic's compliance.

Basis for Qualified Opinion on CFDA Programs 20.106, Special Education Cluster (IDEA), Health Center Program Cluster, and 93.243

As described in items 2017-001, 2017-004, 2017-005 and 2017-006 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2017-001	20.106	Airport Improvement Program	Equipment and Real Property Management
2017-006	84.027	Special Education Cluster (IDEA)	Equipment and Real Property Management
2017-004	93.224	Health Center Program Cluster	Equipment and Real Property Management
2017-005	93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	Equipment and Real Property Management

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

Qualified Opinion on CFDA Programs 20.106, Special Education Cluster (IDEA), Health Center Program Cluster, and 93.243

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 Programs 20.106 Airport Improvement Program; Special Education Cluster (IDEA), Health Center Program Cluster, and 93.243 Substance Abuse and Mental Health Services - Projects of Regional and National Significance for the year ended September 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

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 each of its other major federal programs identified in the summary of auditors’ results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-002, 2017-003, and 2017-007. Our opinion on each major federal program is not modified with respect to these matters.

The Republic’s response to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. The Republic’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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 have not been 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 a combination of deficiencies, in internal control over compliance, such that there is a 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 2017-001, 2017-004, 2017-005 and 2017-006 to be material weaknesses.

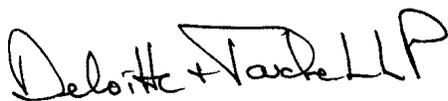
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important 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 items 2017-002, 2017-003 and 2017-007 to be significant deficiencies.

The Republic's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. The Republic's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2017, and the related notes to the financial statements, which collectively comprise the Republic's basic financial statements. We issued our report thereon dated July 31, 2018, 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 the Uniform Guidance 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 basic 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.



July 31, 2018

REPUBLIC OF PALAU

Schedule of Expenditures of Federal Awards Year Ended September 30, 2017

Agency/Pass-Through Grantor/Program	CFDA#	Pass-Through Entity Identifying Number	Amounts Passed Through To Subrecipients	Expenditures
U.S. Department of Agriculture:				
Direct Programs:				
Cooperative Forestry Assistance	10.664		\$	630
Community Facilities Loans and Grants Cluster:				
Community Facilities Loans and Grants	10.766			<u>39,737</u>
Subtotal Community Facilities Loans and Grants Cluster				<u>39,737</u>
Total U.S. Department of Agriculture			\$	<u>40,367</u>
U.S. Department of Commerce:				
Direct Program:				
Special Oceanic and Atmospheric Projects	11.460		\$	<u>534,865</u>
Total U.S. Department of Commerce			\$	<u>534,865</u>
U. S. Department of Labor:				
Direct Programs:				
WIOA Cluster:				
WIA/WIOA Adult Program	17.258		\$	71,041
WIA/WIOA Youth Activities	17.259			96,799
WIA/WIOA Dislocated Worker Formula Grants	17.278			<u>98,678</u>
Subtotal WIOA Cluster			\$	<u>266,518</u>
Total U.S. Department of Labor			\$	<u>266,518</u>
U.S. Department of Education:				
Direct Programs:				
Adult Education - Basic Grants to States	84.002		\$	22,034
Special Education Cluster (IDEA):				
Special Education Grants to States	84.027			<u>985,321</u>
Subtotal Special Education Cluster (IDEA)				<u>985,321</u>
Career and Technical Education-Basic Grants to States Territories and Freely Associated States Education Grant Program	84.048			155,928
	84.256A			1,037,598
College Access Challenge Grant Program	84.378A			<u>496</u>
Total U.S. Department of Education			\$	<u>2,201,377</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, 2017

Agency/Pass-Through Grantor/Program	CFDA#	Pass-Through Entity Identifying Number	Amounts Passed Through To Subrecipients	Expenditures
U.S. Department of Health and Human Services:				
Direct Programs:				
Medical Reserve Corps Small Grant Program	93.008		\$	11,513
Public Health Emergency Preparedness	93.069			237,302
Affordable Care Act (ACA) Personal Responsibility				
Education Program	93.092			90,220
Material and Child Health Federal Consolidated Programs	93.110AR			81,604
Project Grants and Cooperative Agreements for				
Tuberculosis Control Programs	93.116			391,188
Emergency Medical Services for Children	93.127			84,336
Family Planning Services	93.217			66,146
Health Center Program Cluster:				
Health Center Program	93.224			1,047,565
Subtotal Health Center Program Cluster				<u>1,047,565</u>
Substance Abuse and Mental Health Services - Projects of				
Regional and National Significance	93.243			1,115,728
Universal Newborn Hearing Screening	93.251			171,537
Immunization Cooperative Agreements	93.268			251,729
Centers for Disease Control and Prevention - Investigations				
and Technical Assistance	93.283		\$ 10,000	627,982
Early Hearing Detection and Intervention Information				
System (EHDI-IS) Surveillance Program	93.314			71,144
Epidemiology and Laboratory Capacity for Infectious Disease	93.323			462,987
Behavioral Risk Factor Surveillance System	93.336			13,144
Medicaid Cluster:				
Medical Assistance Program	93.778			21,117
Subtotal Medicaid Cluster				<u>21,117</u>
Hospital Preparedness Program (HPP) Ebola Preparedness				
and Response Activities	93.817			55,784
National Bioterrorism Hospital Preparedness Program	93.889			237,836
Cancer Prevention and Control Programs for State, Territorial,				
and Tribal Organizations	93.898			170,993
HIV Care Formula Grants	93.917			15,218
Assistance Programs for Chronic Disease Prevention and Control	93.945			219,356
Block Grants for Community Mental Health Services	93.958			15,227
Block Grants for Prevention and Treatment of Substance Abuse	93.959			104,737
Preventive Health and Health Services Block Grant	93.991			35,119
Maternal and Child Health Services Block Grant to the States	93.994			175,542
Subtotal Direct Programs			\$	<u>5,775,054</u>
Pass Through From University of Hawaii:		99-6000354		
PPHF: Racial and Ethnic Approaches to Community Health				
Program financed solely by Public Prevention and Health Funds	93.738		\$	759
Center for Disease Control and Prevention - Investigations and				
Technical Assistance (Palau Cancer Registry)	93.283			27,591
Pass through From Association of State and Territorial Health		35-1044487		
Officials:				
Building Capacity of the Public Health System to Improve				
Population Health through National, Nonprofit				
Organizations- financed in part by Prevention and				
Public Health Funds (PPHF)	93.524			12,359
Subtotal Pass-Through Programs			\$	<u>40,709</u>
Total U.S. Department of Health and Human Services			\$	<u>5,815,763</u>
Total U.S. Federal Grants (Fund 350100)			\$	<u>8,858,890</u>
U.S. Department of the Interior:				
Direct Program:				
Economic, Social, and Political Development of the Territories	15.875		\$	1,238,118
Total U.S. Department of the Interior			\$	<u>1,238,118</u>
Total U.S. Federal Grants Fund (Fund 350200)			\$	<u>1,238,118</u>
U.S. Department of Transportation:				
Direct Program:				
Airport Improvement Program	20.106		\$	1,224,518
Total U.S. Department of Transportation			\$	<u>1,224,518</u>
Total U.S. Federal Grants Fund (Fund 420100)			\$	<u>1,224,518</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, 2017

<u>Economic, Social and Political Development of the Territories Compact of Free Association CFDA #15.875</u>	<u>Authorizations</u>	<u>Passed Through to Subrecipients</u>	<u>Expenditures and Transfers</u>
<u>211(a) & 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ -	\$ 6,000,000
Compact Section 215	<u>5,147,000</u>	<u>-</u>	<u>5,147,000</u>
Total 211(a) & 215 Current Account	<u>\$ 11,147,000</u>	<u>\$ -</u>	<u>\$ 11,147,000</u>
<u>211(f) Trust Fund</u>			
Executive Branch	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>
Total 211(f) Trust Fund	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>
<u>221(b)(1) & (2) Special Block Grant & Education Special Grant</u>			
Ministry of Education	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>
Total 221(b) Special Block Grant	<u>\$ 2,000,000</u>	<u>\$ -</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 Expenditures of Federal Awards			<u>\$ 13,321,526</u>

The above awards are received in a direct capacity.

Reconciliation to financial statements:

Total Expenditures of Federal Awards	\$ 13,321,526
CFDA 15.875 COFA Section 221(b)	(2,000,000)
Non-Federal Grants	<u>8,273,561</u>
Total Special Revenue Grants expenditures	<u>\$ 19,595,087</u>

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, 2017

1. Scope of Audit

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

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Republic under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Republic, it is not intended to and does not present the financial positions or changes in financial positions of the Republic.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which the Republic maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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, 2017 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 presents the federal award programs administered by the Republic, as defined above, for the year ended September 30, 2017.

The following component units incurred federal expenditures during the year ended September 30, 2017:

Palau Community College	\$ 3,301,545
Palau Public Utilities Corporation	\$ 42,000

C. Matching Costs

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2017

3. Summary of Significant Accounting Policies, Continued

D. Indirect Cost Allocation

The Republic did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. The Republic has entered into an approved indirect cost negotiation agreement covering fiscal year 2017. The approved rate was 6.32%. 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 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 (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 for purposes of major program determinations.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|---|------------|
| 1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | Yes |
| 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: | |
| CFDA 15.875 - Economic, Social, and Political Development of the Territories | Unmodified |
| CFDA 15.875 - Compact of Free Association Compact Sector Grants | Unmodified |
| CFDA 84.256 | Unmodified |
| All other major programs | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |

9. Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.256	Special Education Cluster (IDEA) Territories and Freely Associated States Education Grant Program
93.243	Health Center Program Cluster
15.875	Substance Abuse and Mental Health Services - Projects
20.106	Economic, Social, and Political Development of the Territories
15.875	Airport Improvement Program
15.875	Economic, Social, and Political Development of the Territories - Compact of Free Association Compact Sector Grants

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Section II – Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>
2017-001	Equipment and Real Property Management
2017-002	Allowable Costs/Cost Principles
2017-003	Special Tests and Provisions – Sliding Fee Discounts
2017-004	Equipment and Real Property Management
2017-005	Equipment and Real Property Management
2017-006	Equipment and Real Property Management
2017-007	Equipment and Real Property Management
2017-008	Import Taxes
2017-009	Cash Receipts
2017-010	Non-Federal Grants
2017-011	Financial Statements
2017-012	Local Noncompliance – Procurement Regulations
2017-013	Net Pension Liability

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>
2017-001	20.106	Equipment and Real Property Management	-
2017-002	20.106	Allowable Costs/Cost Principles	-
2017-006	84.027	Equipment and Real Property Management	-
2017-007	84.256	Equipment and Real Property Management	-
2017-003	93.224	Special Tests and Provisions – Sliding Fee Discounts	-
2017-004	93.224	Equipment and Real Property Management	-
2017-005	93.243	Equipment and Real Property Management	-

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-001
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award No.: 3-70-0001-017-2013, 3-70-0001-019-2014, 3-70-0001-016, 3-70-0001-020-2014
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

In accordance with applicable equipment and real property management requirements, the Republic must follow the Republic's laws and regulations. In accordance with the Republic's property management policies and procedures Chapter IV (Executive Order no. 217):

Property records must be maintained that include the following information:

- Description of the property,
- A serial number or other identification number,
- The source of the property,
- The name of the titleholder,
- The acquisition date,
- The cost of the property,
- The percentage of federal or state participation in the cost of the property,
- The location, use, and condition of property, and
- The disposition data including the date of disposal and sale price.

Accountable officers will maintain complete property management records, and the physical inventory must take place annually (section 203.7).

A complete physical inventory of the property will be conducted once every two years and the results reconciled with the property records. After completing the physical count and reconciliation, the Accountable Officer will certify in writing to the Chief of Division of Property and Supply (P&S) that the physical inventory has been completed and subsidiary property records reflect actual quantities on hand (section 203.8).

Condition:

Tests of one capital asset, aggregating \$5,195 in acquisition costs of a total of \$5,195, resulted in the following deficiencies:

1. Property records maintained by P&S have missing information or did not include required information, such as those noted in the above criteria.
2. A fixed asset listing from the program was not provided.
3. A reconciliation was not performed between the Program and P&S.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-001, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award No.: 3-70-0001-017-2013, 3-70-0001-019-2014, 3-70-0001-016, 3-70-0001-020-2014
Area: Equipment and Real Property Management
Questioned Costs: \$0

Cause:

The Republic did not enforce compliance with applicable equipment and real property management requirements.

Effect:

The Republic is in noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as we are unable to quantify the extent of the noncompliance. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

<u>CFDA No.</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Grand Total</u>
20.106	\$ 1,210,732	\$ 6,392,017	\$ 6,690,170	\$ 14,292,919

Recommendation:

The Republic should consider identifying a fixed asset team and providing training on applicable equipment and real property management requirements, including documentation requirements. The responsible personnel should coordinate and conduct the required annual physical inventories and should reconcile results to the property records in accordance with applicable equipment and real property management requirements.

Views of Auditee and Corrective Action Plan:

The Republic describes its corrective actions in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-002
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Award Number: 3-70-0001-017-2013, 3-70-0001-020-2014
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Criteria:

Construction projects funded by federal grants are required to include the Buy American clause within the contract. Further, AIP grants require the Ban on Texting When Driving clause be included in the contract.

Condition:

Of four expenditures tested, amounting to \$2,185,975, we noted one contract, the Rehabilitate Apron-Phase II, did not include the Ban on Texting When Driving clause.

Cause:

The cause of the above condition is the lack of oversight responsibility and monitoring to confirm compliance with federal contract requirements.

Effect:

The effect of the above condition is lack of compliance with grant requirements. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Recommendation:

We recommend management include all provisions required by federal grant awards in contracts and/or project specifications.

Views of Auditee and Corrective Action Plan:

The Republic describes its corrective actions in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-003
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program
Federal Award No.: 5H80CS02467-31-00, 3H80CS02467-31-05,
6H80CS02467-31-04, 5H80CS02467-32-00,
6H80CS02467-32-05
Area: Special Tests and Provisions – Sliding Fee Discounts
Questioned Costs: \$0

Criteria:

In accordance with applicable special tests and provisions requirements for sliding fee discounts, Health centers must prepare and apply a sliding fee discount schedule (SFDS) so that the amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay.

Condition:

Based on our evaluation of the sliding fee discount schedule, it appears that family income and size are not determining factors when patient services are received. Discounts are to be applied and determined based on whether the patient is a resident or a nonresident, tourist or non-tourist or senior citizen or behavioral health patient. We are aware, however, that the PCHC Governing Board adopted and approved a Sliding Fee Discount Policy on 12/15/17 based on income and family size. Such a policy has not been implemented.

Cause:

The cause of the above condition is the lack of updated policies and procedures governing sliding fee discounts.

Effect:

The Republic is in noncompliance with applicable special tests and provisions requirements for sliding fee discounts. No questioned costs are presented as we are unable to quantify the extent of noncompliance related to the sliding fee discounts.

Recommendation:

We recommend that the Republic implement its new policy relative to the sliding fee discount based on family income and size.

Views of Auditee and Corrective Action Plan:

The Republic describes its corrective actions in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-004
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program
Federal Award No.: 5H80CS02467-31-00, 3H80CS02467-31-05,
6H80CS02467-31-04, 5H80CS02467-32-00,
6H80CS02467-32-05
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

In accordance with applicable equipment and real property management requirements, the Republic must follow the Republic's laws and regulations. In accordance with the Republic's property management policies and procedures Chapter IV (Executive Order no. 217):

Property records must be maintained that include the following information:

- Description of the property.
- A serial number or other identification number.
- The source of the property.
- The name of the titleholder.
- The acquisition date.
- The cost of the property
- The percentage of federal or state participation in the cost of the property.
- The location, use, and condition of property.
- The disposition data including the date of disposal and sale price.

Accountable officers will maintain complete property management records, and the physical inventory must take place annually (section 203.7).

A complete physical inventory of the property will be conducted once every two years and the results reconciled with the property records. After completing the physical count and reconciliation, the Accountable Officer will certify in writing to the Chief of Division of Property and Supply (P&S) that the physical inventory has been completed and subsidiary property records reflect actual quantities on hand (section 203.8).

Condition:

Equipment and Real Property Management has been a repeated finding for the Republic for over 20 years. Management has declared that it has been trying to resolve the finding for many years, but due to its limited resources and manpower, it proved too difficult. Still, management has partially corrected the deficiencies, as follows:

- On 3/16/17, the former Director of the Bureau of National Treasury sent a written memo to all Directors and Managers of the Executive Branch to meet with each Ministry to assign a Fixed Asset Custodian.
- The Custodian will be responsible to attend the meetings/trainings to improve the fixed assets reconciliation for each ministry or programs.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-004, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program
Federal Award No.: 5H80CS02467-31-00, 3H80CS02467-31-05,
6H80CS02467-31-04, 5H80CS02467-32-00,
6H80CS02467-32-05
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria, Continued:

- On 2/20/18, the Ministry of Finance (MOF)– Bureau of National Treasury contracted with the former Director of the Bureau of National Treasury for seven months to help with the capital assets reconciliation and to ensure that findings will be resolved.
- The MOF continues to meet with the ministries to improve the capital asset reconciliation and to ensure that the people involved understand the significance of monitoring their own capital assets and to have their capital assets listing in place.

However, tests of eight capital assets, aggregating \$172,416 in acquisition costs of a total of \$263,657, resulted in the following deficiencies:

1. Property records maintained by P&S have missing information or did not include required information, such as those noted in the above criteria.
2. Fixed asset listing from the program was not provided during fieldwork.
3. One item (or 13%) did not have a current vehicle registration card.

Tag no. RP-3802, \$5,500

4. One item (or 13%) was damaged beyond repair; however, the asset was included in the property listing.

Tag no. RP-3961, \$13,514

5. One item was inoperable since 2015. Although item is repairable, no timeframe was provided.

Tag no. RP-4057, \$9,978

6. A reconciliation was not performed between the Program and P&S.
7. An annual physical inventory count was not performed during fiscal year 2017 by the program.

Cause:

The Republic did not enforce compliance with applicable equipment and real property management requirements.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-004, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.224 Health Center Program
Federal Award No.: 5H80CS02467-31-00, 3H80CS02467-31-05,
6H80CS02467-31-04, 5H80CS02467-32-00,
6H80CS02467-32-05
Area: Equipment and Real Property Management
Questioned Costs: \$0

Effect:

The Republic is in noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as we are unable to quantify the extent of the noncompliance. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

<u>CFDA No.</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Grand Total</u>
93.224	\$ -	\$ -	\$101,225	\$101,225

Identification as a Repeat Finding: 2016-007

Recommendation:

The Republic should consider identifying a fixed asset team and providing training on applicable equipment and real property management requirements, including documentation requirements. The responsible personnel should coordinate and conduct the required annual physical inventories and reconcile results to the property records in accordance with applicable equipment and real property management requirements.

Auditee Response and Corrective Action Plan:

The Republic describes corrective action plans in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-005
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health Services - Projects of Regional and National Significance
Federal Award No.: 5U79SP020164-03, 5U79SP020164-04
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

In accordance with applicable equipment and real property management requirements, the Republic must follow the Republic's laws and regulations. In accordance with the Republic's property management policies and procedures Chapter IV (Executive Order no. 217):

Property records must be maintained that include the following information:

- Description of the property.
- A serial number or other identification number.
- The source of the property.
- The name of the titleholder.
- The acquisition date.
- The cost of the property
- The percentage of federal or state participation in the cost of the property.
- The location, use, and condition of property.
- The disposition data including the date of disposal and sale price.

Accountable officers will maintain complete property management records, and the physical inventory must take place annually (section 203.7).

A complete physical inventory of the property will be conducted once every two years and the results reconciled with the property records. After completing the physical count and reconciliation, the Accountable Officer will certify in writing to the Chief of Division of Property and Supply (P&S) that the physical inventory has been completed and subsidiary property records reflect actual quantities on hand (section 203.8).

Condition:

Equipment and Real Property Management has been a repeated finding for the Republic for over 20 years. Management has declared that it has been trying to resolve the finding for many years, but due to its limited resources and manpower, it proved too difficult. Still, management has partially corrected the deficiencies, as follows:

- On 3/16/17, the former Director of the Bureau of National Treasury sent a written memo to all Directors and Managers of the Executive Branch to meet with each Ministry to assign a Capital Asset Custodian.
- The Custodian will be responsible to attend the meetings/trainings to improve the capital assets reconciliation for each ministry or programs.
- On 2/20/18, the Ministry of Finance (MOF) – Bureau of National Treasury contracted with the former Director of the Bureau of National Treasury for seven months to help with the capital assets reconciliation and to ensure that findings will be resolved.
- The MOF continues to meet with the ministries to improve the capital asset reconciliation and to ensure that the people involved understand the significance of monitoring their own capital assets and to have their own capital assets listing in place.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-005, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.243 Substance Abuse and Mental Health Services - Projects of Regional and National Significance
Federal Award No.: 5U79SP020164-03, 5U79SP020164-04
Area: Equipment and Real Property Management
Questioned Costs: \$0

Criteria, Continued:

Tests of six capital assets, aggregating \$109,701 in acquisition costs of a total of \$182,996, resulted in the following deficiencies:

1. Property records maintained by P&S have missing information or did not include required information, such as those noted in the above criteria.
2. The program fixed asset listing was not provided until after audit tests were completed.
3. A reconciliation was not performed between the Program and P&S.
4. An annual physical inventory count was not performed during fiscal year 2017.

Cause:

The Republic did not enforce compliance with applicable equipment and real property management requirements.

Effect:

The Republic is in noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as we are unable to quantify the extent of the noncompliance. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

<u>CFDA No.</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Grand Total</u>
93.243	\$499,264	\$27,553	\$6,395	\$533,212

Recommendation:

The Republic should consider identifying a fixed asset team and providing training on applicable equipment and real property management requirements, including documentation requirements. The responsible personnel should coordinate and conduct the required annual physical inventories and should reconcile results to the property records in accordance with applicable equipment and real property management requirements.

Auditee Response and Corrective Action Plan:

The Republic describes corrective action plans in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-006
Federal Agency: U.S. Department of Education
CFDA Program: 84.027 Special Education – Grants to States
Grant Number: H027A150006-15A, H027A160006-16A
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

In accordance with applicable Equipment and Real Property Management requirements, a State must use, manage, and dispose of equipment acquired under Federal award in accordance with State laws and procedures (2 CFR section 200.313(b)). Based on Republic of Palau Property Management Policies and Procedures, Section 203.3 Records, capitalized property will be recorded and maintained in the capital assets accountability control records. Accountable property will be subject to annual property accountability records reconciliation and capital assets will be subject to bi-annual physical inventories.

Condition:

A physical inventory was performed; however, a reconciliation was not performed against the property accountability records.

Cause:

Republic of Palau management did not effectively monitor compliance with applicable equipment and real property management requirements.

Effect:

The Republic of Palau is in noncompliance with applicable equipment and real property management requirements. No questioned cost is presented as we are unable to quantify the cumulative dollar amount of the deficiencies.

Identification as repeat finding: 2016-002

Recommendation:

The Republic of Palau management should monitor reconciliations of equipment and property records so that the required reconciliation process transpires in accordance with applicable equipment and property management requirements.

Auditee Response and Corrective Action Plan:

The Republic describes corrective action plans in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-007
Federal Agency: U.S. Department of Education
CFDA Program: 84.256 Territories and Freely Associated States Education Grant Program
Federal Award No.: S256A120005-15, S256A120005-16
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Criteria:

In accordance with applicable Equipment and Real Property Management requirements, a State must use, manage, and dispose of equipment acquired under Federal award in accordance with State laws and procedures (2 CFR section 200.313(b)). Based on Republic of Palau (ROP) Property Management Policies and Procedures, Section 203.3 Records, ROP will account for all non-expendable property with a value equal to or greater than \$5,000, and will capitalize such property over its economic useful life. Furthermore, capitalized property will be recorded and maintained in the capital assets accountability control records. Accountable property will be subject to annual property accountability records reconciliation and capital assets will be subject to bi-annual physical inventories.

Condition:

The capital asset register contains equipment which does not meet the \$5,000 threshold. Moreover, while a physical inventory was performed, a reconciliation was not performed against the property accountability records.

Cause:

Republic of Palau management did not effectively monitor compliance with applicable equipment and real property management requirements.

Effect:

The Republic of Palau is in noncompliance with applicable equipment and real property management requirements. Capitalized equipment and property may be overstated by \$1,101,557 representing equipment below the \$5,000 threshold. No questioned cost is presented as we are unable to quantify the cumulative dollar amount of the deficiencies.

Identification as repeat finding: 2016-003

Recommendation:

The Republic of Palau management should monitor recording and reconciliation of equipment and property records so that only the equipment meeting the threshold is capitalized and the required reconciliation process transpires in accordance with applicable equipment and property management requirements.

Auditee Response and Corrective Action Plan:

The Republic describes corrective action plans in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-008
Area: Import Taxes

Criteria:

Every person who imports certain products into the Republic shall be assessed and levied and shall pay taxes thereon.

Condition:

Imported products arriving at the seaport are subject to clearance and inspection. The Bureau of Customs and Border Protection has improved controls by requiring a lock for containers. However, there were no records such as container log or equivalent to evidence that the movement of containers is monitored to verify tax collection prior to release.

Cause:

Completeness of import tax collections are not documented and monitored.

Effect:

The effect of the above condition is a potential understatement of import tax revenues.

Recommendation:

We recommend that management implement policies and procedures evidencing control over movement of containers such that tax collection occurs prior to container release.

Views of Auditee and Corrective Action Plan:

The Republic describes its corrective actions in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-009
Area: Cash Receipts

Criteria:

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

Condition:

Bureau of Customs and Border Protection

Cash receipts are not reconciled to verify completeness and validity. Our examination of the 2017 cash receipts report noted the following:

1. No documentation was available for the following:

a. Postal Office import tax:

<u>Date</u>	<u>Undocumented Control number</u>
1/27/2017	6305

b. Airport Import tax:

<u>Date</u>	<u>Undocumented Control number</u>
September 2016	6653
September 2016	6668 – 6671
September 2016	7057 – 7060
April 27, 2017	7684
October 2017	8473 – 8493
	8206 - 8212
October 2017	8506 – 8507

2. Various control numbers did not indicate flight details on the receipts report, such as flight number and flight departure date, due to system error and flight cancellation (#471689-#471759). Such control numbers were subsequently replaced (#472751 – 472821); however, there was no evidence of flight cancellation on file, and there was no reconciliation on file between total collections and total receipts.

3. Changes to the master files are not supported with documented management approval.

4. Numerous cash receipts were indicated void on the daily collection reports; however, the following were noted:

- a. Over 1,400 of batch receipts were voided due to cancelled flights, and there was no evidence of flight cancellation on file.
- b. Copies of 309 cash receipts were voided with no documented rationale.
- c. Management approval for the voided receipts above were not documented.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-009, Continued
Area: Cash Receipts

Cause:

There are no procedures in place to determine that gaps in sequential orders of daily receipts are promptly investigated, documented and approved by an immediate supervisor.

Airport collections were not timely updated in the CIS; thus, the breakdown in the sequential order of control numbers.

It was represented that external CIS support was consulted during the audit process and concluded that control numbers 6305 and 7684 were either a system error or were deleted by mistake.

Effect:

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

Recommendation:

We recommend that the Republic establish policies and procedures to determine that cash receipts and control numbers are issued in sequential order. Exceptions in the sequential order should be documented and be approved by an immediate supervisor on a daily basis.

Views of Auditee and Corrective Action Plan:

The Republic describes its corrective actions in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-010
Area: Non-Federal Grants

Criteria:

The Republic should establish policies requiring a centralized filing system to support non-federal grants.

Condition:

The Republic received a \$500,000 non-federal grant in fiscal year 2017; however, there were no related documents to evidence such grant and terms, if any (receipt nos 151894,153893).

Cause:

There is no centralized filing system for non-federal grants awarded to the Republic.

Effect:

Non-federal grants reported in the Republic's financial statements are not supported by official grants documents.

Recommendation:

A centralized filings system should exist for Non Federal grants.

Views of Auditee and Corrective Action Plan:

The Republic describes its corrective actions in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-011
Area: Financial Statements

Criteria:

General ledger accounts should be reconciled in a timely manner.

Condition:

1. Long-term debt was overstated by \$12,113,130 at September 30, 2017. An audit adjustment was proposed to correct the misstatement.
2. The Republic made efforts to reconcile capital assets on a quarterly basis; however, capital assets at September 30, 2017 were being reconciled during the audit, and related schedules were provided on May 2, 2018. Audit adjustments were proposed to correct a \$21,884,014 overstatement of non-depreciable assets, a \$19,680,485 net overstatement of depreciable assets, and a \$15,946,003 overstatement of depreciation expense.
3. Operating transfers were reconciled only during the audit process, which resulted in audit adjustments to correct 2017 operating transfers.

Cause:

The cause of the above condition appears to be lack of resources committed to periodically maintaining the Republic's capital asset subsidiary records and reconciling other material general ledger accounts. Management review of the financial statements should be documented to verify that balances and amounts in the financial statements are reconciled and are valid at least quarterly or biannually. There are no control procedures requiring that all contributed capital assets are captured and are recorded in the financial statements.

Effect:

The effect of the above condition is potential material misstatements of the financial statements.

Recommendation:

We recommend that the Republic establish control procedures requiring timely reconciliation of general ledger accounts.

Views of Auditee and Corrective Action Plan:

The Republic describes its corrective actions in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2017

Finding No.: 2017-012
Area: Local Noncompliance – Procurement Regulations

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 sections 625 and 626 state the following:

§625 - Procurement requirements shall not be artificially divided so as to constitute a small purchase.

§626 -

- (b) 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.

Section 332 of Title 40 states that when the Minister of Health certifies an unavoidable emergency, the use of funds shall be exempt from the requirements of 40 PNC Chapter 6.

Condition:

Of \$5,343,213 in Other Fund non-payroll expenditures, forty-six samples totaling \$2,957,433 were tested with the following deficiencies:

1. Nineteen samples, aggregating \$394,646, represent purchases pursuant to Request for Proposal (RFP) 16-15 and further examination noted aggregate purchases of \$1,350,097 under the same RFP for the year ended September 30, 2017. This matter relates to prior year finding 2016-012 which has not been corrected. A contract award was provided to all who submitted bids regardless of the proposed cost.
2. A \$235,000 expenditure (check no. 420073) to repair and purchase parts for the radiographic mobile x-ray system at Belau National Hospital was procured through quotations; however, such did not constitute a small purchase. Although the procurement files included a certification of an unavailable emergency from the Minister of Health, the files did not indicate when the unit was damaged.
3. A \$35,924 expenditure (voucher no. 241888) to repair a CT scanner was procured pursuant to Section 332 of Title 40 deemed by the Minister of Health as an unavoidable emergency and was therefore sole sourced. However, the files did not indicate when the unit was damaged which and no maintenance expenditures were noted during the year to support that the CT scanner was routinely serviced and maintained to minimize the potential breakdown of the scanner. Further examination noted two additional emergency procurement totaling \$68,853 to repair CT scanner, both of which were sole sourced to the same vendor (check nos. 411559, 4185987).

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-012, Continued
Area: Local Noncompliance – Procurement Regulations

Cause:

The cause of the condition is potential weaknesses in controls over documenting compliance with applicable procurement regulations.

Effect:

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

Identification as a Repeat Finding: 2016-012

Recommendation:

We recommend that the Republic strengthen controls over procurement 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:

The Republic describes corrective action plans in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-013
Area: Net Pension Liability

Criteria:

The Republic should assess contingent liabilities as to their potential impact on the financial statements.

Condition:

The Republic of Palau Civil Service Pension Trust Fund's actuarial valuation has determined that the Fund has a net pension liability of \$249,453,960.

Cause:

The net pension liability would cause the Fund's fiduciary net position to become a deficit in 2019.

Effect:

The Fund is potentially at risk of failure to provide future benefits and the Republic's actuary has determined that cash flow may be impacted by the Fund's net pension liability by 2019.

Identification as a Repeat Finding: 2016-013

Recommendation:

The Republic should identify measures to address the net pension liability and the potential impact of this matter on the general fund.

Auditee Response and Corrective Action Plan:

The Republic describes corrective action plans in the auditee-prepared Corrective Action Plan.

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2017

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, 2017:

	<u>Questioned Costs</u>		
	<u>Republic</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs of the Republic as previously reported:			
Fiscal year 2014 Single Audit	\$ 5,081	\$ -	\$ 5,081
Fiscal year 2015 Single Audit	217,480	-	217,480
Fiscal year 2016 Single Audit	<u>97,206</u>	<u>-</u>	<u>97,206</u>
	<u>319,767</u>	<u>-</u>	<u>319,767</u>
Less questioned costs resolved in fiscal year 2017:			
Questioned costs of fiscal year 2014 Single Audit (1)	<u>(5,081)</u>	<u>-</u>	<u>(5,081)</u>
Questioned costs of fiscal year 2016 Single Audit reported in:			
Finding No. 2016-006 (2)	(35,000)	-	(35,000)
Finding No. 2016-005 (2)	<u>(17,257)</u>	<u>-</u>	<u>(17,257)</u>
	262,429	-	262,429
Questioned costs of fiscal year 2017 Single Audit	<u>-</u>	<u>-</u>	<u>-</u>
Unresolved questioned costs of the Republic at September 30, 2017	\$ <u>262,429</u>	\$ <u>-</u>	\$ <u>262,429</u>

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs, Continued
Year Ended September 30, 2017

- (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 Education, dated January 12, 2018.



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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2017

Finding No.	Program Area	Brief Description	Status of Finding	Comments
2016-001	15.875-Equipment and Real Property Management	Lack of adherence to established policies and procedures to reconcile property records. Lack of adherence to established policies and procedures regarding compliance with applicable equipment and real property management requirements.	Management working to resolve this finding.	On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.
2016-002	84.027-Equipment and real property management	Lack of adherence to established policies and procedures regarding compliance with applicable equipment and real property management requirements.	Management working to resolve this finding.	On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.
2016-003	84.256- Equipment and real property management	Lack of adherence to established policies and procedures regarding compliance with applicable equipment and real property management requirements.	Management working to resolve this finding.	On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.



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Summary Schedule of Prior Audit Findings, Continued
Year Ended September 30, 2017

Finding No.	Program Area	Brief Description	Status of Finding	Comments
2016-004	84.378- Equipment and real property management	Lack of adherence to established policies and procedures regarding compliance with applicable equipment and real property management requirements.	Management working to resolve this finding.	On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.
2016-005	84.378-Procurement and Suspension and Debarment	Lack of adherence to established policies and procedures regarding compliance with procurement requirements	Resolved	Considered resolved as the Republic received a final determination letter from the U.S. Department of Education, dated January 12, 2018.
2016-006	84.378-Subrecipient Monitoring	Lack of conformance with existing procedures that require monitoring of subrecipient activities to confirm compliance with laws, regulations, and the provisions of contracts or grant agreements.	Resolved	Considered resolved as the Republic received a final determination letter from the U.S. Department of Education, dated January 12, 2018.
2016-007	93.224- Equipment and real property management	Lack of adherence to established policies and procedures regarding compliance with applicable equipment and real property management requirements.	Management working to resolve this finding.	On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.



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Summary Schedule of Prior Audit Findings, Continued
Year Ended September 30, 2017

Finding No.	Program Area	Brief Description	Status of Finding	Comments
2016-008	93.224-Program Income	Delayed action by the program to use the independent cost study report analysis to implement changes to the program income.	Management working to resolve this finding.	Program manager is working with CHC board members and HRSA consultants regarding the program income for CHC. Once final report is finalized, we will be able to determine whether program income revenues shall directly go to CHC.
2016-009	93.243-Procurement and Suspension and Debarment	Lack of adherence to established policies and procedures regarding compliance with procurement requirements	Management working to resolve this finding.	Program Manager and MOF management continues to work cohesively ensuring that all procurement requirements are being adhered to.
2016-010	93.283- Equipment and real property management	Lack of adherence to established policies and procedures regarding compliance with applicable equipment and real property management requirements.	Management working to resolve this finding.	On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.
2016-011	93.283-Subrecipient Monitoring	Lack of awareness by the program that it had a subrecipient and failure to enforce compliance with applicable surecipient monitoring requirements.	Resolved	Corrective action was taken.
2016-012	Local Noncompliance-Procurement Regulations	Potential weaknesses in controls over documenting compliance with applicable procurement regulations.	Resolved	Corrective action was taken.



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Summary Schedule of Prior Audit Findings, Continued
 Year Ended September 30, 2017

Finding No.	Program Area	Brief Description	Status of Finding	Comments
2016-013	Net Pension Liability	The net pension liability could cause the Fund's fiduciary net position to become negative in 2018.	Management working to resolve this finding.	MOF management and leadership are working to resolve this issue.
2015-004	93.283-Procurement and Suspension and Debarment	Award letter was not issued within 30 days of bid opening.	Resolved	Corrective actions was taken
2015-005	93.224-Program Income	Potential noncompliance with program income requirements.	Management working to resolve this finding.	Program manager is working with CHC board members and HRSA consultants regarding the program income for CHC. Once final report is finalized, we will be able to determine whether program income revenues shall directly go to CHC.
2015-006	84.378A-Eligibility	Noncompliance with US Code, Title 20, Chapter 28, Subchapter IV Part F, Section 1091	Resolved	Corrective action was taken.
2015-007	93.116,93.224,93.143,93.283-Equipment and Real Property Management	Unlocated assets, not operable but were still in the property records; reconciliation not performed	Management working to resolve this finding.	On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.
2015-008	84.378- Special Tests and Provisions	Required poverty line is not used.	Resolved	Corrective action was taken.
2015-009	84.378- Reporting	Federal costs reported were overstated compared with expenditures in the general ledger.	Resolved	Corrective action was taken.



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Summary Schedule of Prior Audit Findings, Continued
Year Ended September 30, 2017

Finding No.	Program Area	Brief Description	Status of Finding	Comments
2015-010	84.378- Subrecipient Monitoring	No evidence of monitoring controls over Subrecipient.	Resolved	Received a determination letter resolving this finding.
2015-011	84.378- Allowable Costs/Cost Principles	Unable to determine Program's total administrative costs.	Resolved	Received a determination letter resolving this finding.
2015-012	15.875- Allowable Costs/Cost principles	Indirect cost variance between recorded and approved per agreement.	Resolved	Received a determination letter resolving this finding.
2015-013	15.875- Procurement and Suspension and Debarment	Noncompliance with procurement process.	Resolved	Received a determination letter resolving this finding.
2015-014	11.460- Reporting	Could not agree reported invoices to underlying accounting records.	Implemented and resolved	Corrective action was taken.
2015-015	11.460- Activities Allowed or Unallowed	Employees hired beyond minimum staffing level and lack of certification of employees.	Resolved	Corrective action was taken.
2015-016	11.460- Procurement and Suspension and Debarment	Lack of price quotations.	Resolved	Corrective action was taken.
2015-017	032/2015- Procurement and Suspension and Debarment	Lack of compliance with procurement process.	Resolved	Corrective action was taken.
2014-005	93.283- Procurement and Suspension and Debarment	Lack of compliance with procurement process.	Resolved	Corrective action was taken.



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CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
Year Ended September 30, 2017

FINDING NO.	CORRECTIVE ACTION PLAN	PROPOSED COMPLETION DATE	NAME AND CONTACT OF RESPONSIBLE PERSON
2017-001	<p>Management are aware of these issues and we have hired a consultant to help resolve the issues. On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.</p>	July 30, 2018	<p>Millan Isack Chief Division of Procurement and Supply Bureau of National Treasury Ministry of Finance Contact: 680-488-2215 Email: misack@gmail.com</p>
2017-002	<p>ROP Concurs with this finding. However, the project specification was written in 2008. This specs was used until the completion of the Apron. Executive Order No. 13513 – “Federal Leadership on Reducing Text Messaging While Driving” and Department of Transportation Order 3902.10 - “Text Messaging While Driving” became effective on October 1, 2009 and December 30, 2009 respectively.</p> <p>The fact that all grants after 03-70-0001-012 were only supplemental grants that did not require bidding for this particular project is reason enough for this oversight. The oversight has been noted and future AIP contracts specifications will have clauses in line with this.</p> <p>Note: From all that I have read from the FAA website, this is an “encouragement” instead of a requirement.</p>	<ul style="list-style-type: none"> Implemented 	<p>Brian Melairei Director Bureau of Public Works Ministry of Public Infrastructure, Industries, & Commerce Contact: 680-488-2480 Email: melairei@gmail.com</p>
2017-003	<p>Grantee has a revised sliding fee discount policy that is based on income and family size. Currently, the CHC Program is working on its implementation systems (i.e., eligibility determination) and processes this year. The policy, when implemented will make sure that no patient is denied service due to that individual’s inability to pay;</p>	<ul style="list-style-type: none"> July 2018 – Review current policy, update or revise as necessary August – September 2018 – Develop procedures for implementation; put systems in place. 	<p>Edolem Ikerdeu Acting Executive Director CHC-MOH Bureau of Public Health Ministry of Health Contacts: 680-488-4805 Email: edolem.ikerdeu@palahealth.org</p>



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CORRECTIVE ACTION PLAN, CONTINUED
2 CFR § 200.511(c)
Year Ended September 30, 2017

	the schedule of fees will be consistent with locally prevailing rates and will have a corresponding schedule of discounts to be applied to the payment of such fees, by which discounts are adjusted on the basis of the patient's ability to pay. Grantee is also getting technical assistance for its overall financial management policies and procedures, with the inclusion of the sliding fee program.	<ul style="list-style-type: none"> October 2018– Review systems and procedures, feedback during TA from HRSA and other partners November 2018 – Disseminate policy to all users, stakeholders and community; train workers December 2018 – Implement policy. 	
2017-004	Management are aware of these issues and we have hired a consultant to help resolve the issues. On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.	July 30, 2018	Millan Isack Chief Division of Procurement and Supply Bureau of National Treasury Ministry of Finance Contact: 680-488-2215 Email: misack@gmail.com Edolem Ikerdeu Acting Executive Director CHC-MOH Bureau of Public Health Ministry of Health Contacts: 680-488-4805 Email: edolem.ikerdeu@palauhealth.org
2017-005	Management are aware of these issues and we have hired a consultant to help resolve the issues. On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.	July 30, 2018	Millan Isack Chief Division of Procurement and Supply Bureau of National Treasury Ministry of Finance Contact: 680-488-2215 Email: misack@gmail.com Everlynn Temengil Chief Bureau of Public Health Ministry of Health Contact: 680-488-2552 Email: temengilej@gmail.com
2017-006	Management are aware of these issues and we have hired a consultant to help resolve the issues. On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal	July 30, 2018	Millan Isack Chief Division of Procurement and Supply Bureau of National Treasury Ministry of Finance Contact: 680-488-2215



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CORRECTIVE ACTION PLAN, CONTINUED
2 CFR § 200.511(c)
Year Ended September 30, 2017

	property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.		Email: misack@gmail.com Debbie Sbal Director Bureau of Curriculum Ministry of Education Contact: 680-488-2779 Email: dsbal@palaumoe.net
2017-007	Management are aware of these issues and we have hired a consultant to help resolve the issues. On February 2018, Ministry of Finance contracted a consultant to finalize the real and personal property management, help reconcile physical inventory to capital assets records, help clear the federal award findings involving equipment and real property management, etc.	July 30, 2018	Millan Isack Chief Division of Procurement and Supply Bureau of National Treasury Ministry of Finance Contact: 680-488-2215 Email: misack@gmail.com Debbie Sbal Director Bureau of Curriculum Ministry of Education Contact: 680-488-2779 Email: dsbal@palaumoe.net
2017-008	We concur with the finding. BCBP will work with appropriate management to review and revise the drafted policies and procedures to include such issue and implement them.		John Tarkong Director Bureau of Customs and Border Protection Ministry of Finance Contacts: 680-488-1985 Email: tarkongjr@gmail.com
2017-009	For Items 1 through 4: Management will review the drafted policies and procedures and implement them to be adhered to. Management will work with IT experts on improving the CIS system with regards to system errors.		John Tarkong Director Bureau of Customs and Border Protection Ministry of Finance Contacts: 680-488-1985 Email: tarkongjr@gmail.com
2017-010	There is a centralized filing system. However, we failed to get the documentation on time.		Gandhi Ngirmidol Chief Division of Grants Management Bureau of National Treasury Ministry of Finance Contacts: 680-488-2566 Email: gngirmidol@palaugov.org



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CORRECTIVE ACTION PLAN, CONTINUED
2 CFR § 200.511(c)
Year Ended September 30, 2017

2017-011	We concur with the finding. We do establish time table to meet reconciliation deadlines, however we failed to meet them and so we will ensure that management will follow through with support staff on meeting deadlines.		Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contacts: 680-488-2566 Email: gailr@palau.gov.org
2017-012	We concur with the finding. MOF will work closely with MOH on resolving this issue.		Millan Isack Chief Division of Procurement and Supply Bureau of National Treasury Ministry of Finance Contact: 680-488-2215 Email: misack@gmail.com Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contacts: 680-488-2566 Email: gailr@palau.gov.org Cindy Fritz Financial Officer Ministry of Health Contact: 680-488-2552 Email: cindy.fritz@palauhealth.org
2017-013	MOF management are aware of this and are working with the policy makers to find the best solution to resolve the issue.	December 2018	Elbuchel Sadang Minister Ministry of Finance PH: 680-488-2580 Email: esadang@gmail.com Casmir Remengesau, Director Bureau of Budget, Planning and Statistics Ministry of Finance PH: 767-2561 Email: casmirer@palau.gov.org Gail Rengiil Director Bureau of National Treasury Ministry of Finance Contacts: 680-488-2566 Email: gailr@palau.gov.org