

**PALAU PUBLIC UTILITIES CORPORATION
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)**

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

YEAR ENDED SEPTEMBER 30, 2019

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

The Board of Directors
Palau Public Utilities Corporation:

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 Palau Public Utilities Corporation (PPUC), a component unit of the Republic of Palau, which comprise the statement of net position as of September 30, 2019, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 31, 2020.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PPUC'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*.

PPUC's Response to Finding

PPUC's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. PPUC'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 PPUC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PPUC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



July 31, 2020

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Schedule of Findings and Questioned Costs
September 30, 2019

Finding No.: 2019-001
Area: Construction In-progress

Criteria:

Construction projects should be monitored to timely comply with project requirements and timelines.

Condition:

PPUC has a \$28 million construction contract in relation to sanitation projects in the Koror and Airai areas. Due to delays in the construction, PPUC was billed approximately \$1.5 million of penalties representing opportunity costs lost by the contractor due to construction delays. As construction is still ongoing, additional delay charges may be billed to PPUC.

Cause:

Project requirements were not met on a timely basis resulting in construction delays.

Effect:

PPUC recognized the \$1.5 million penalties as an additional expense in the financial statements.

Recommendation:

PPUC should diligently oversee project monitoring to minimize the opportunity for the accumulation and payment of penalties due to construction delays.

Views of Responsible Officials:

I concur with the auditor's recommendations to carefully oversee the project to avoid/minimize further delays and penalties. Activities recently undertaken to help improve the administration of the project include but not limited to reorganization of consultancy team, termination of a contractor (ICB-01), settlement of pending issues, and recruitment of additional long-term (2021) engineer to support PPUC supervision.

Name and job title of responsible person: Anthony Rudimch, PPID Manager

Projected implementation date: Immediately

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Unresolved Prior Year Findings
September 30, 2019

There are no prior year findings unresolved as of September 30, 2019.