

HATOHOBEI STATE GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2016

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

Honorable Huana K. Nestor
Governor
Hatohebei State Government

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 statement of receipts and disbursements of the Hatohebei State Government (the State) for the year ended September 30, 2016, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated January 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the statement of receipts and disbursements, we considered the State'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 statement of receipts and disbursements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State'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 statement of receipts and disbursements 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's statement of receipts and disbursements is 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 statement of receipts and disbursements 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

The State's Response to Findings

The State's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The State's response was not subjected to the auditing procedures applied in the audit of the statement of receipts and disbursements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Deloitte & Touche LLC

January 9, 2020

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Schedule of Findings and Responses
Year Ended September 30, 2016

Procurement

Finding No: 2016-001

Criteria: Applicable procurement regulations state the following:

- RPPL No. 7-25 Section 2 - "For all small purchases over \$2,000, the Procurement Officer concerned or his designee shall obtain price quotations from at least three (3) vendors and base the selection on competitive price, quality, delivery time and other relevant factors. A written documentation of the three price quotes, the vendors submitting the quotes and the basis for selection shall be maintained in the purchase order file."
- RPPL No. 3-54 Section 16 - "Public Notice" states that public notice of the invitation for bids shall be made a reasonable time at least fifteen (15) days prior to the date of the initial day of the bidding time. The notice shall be furnished to all state governments and to all persons who have requested to be included in bidder mailing lists within the previous 12 months; be published in a newspaper of general circulation in the Republic or in a foreign newspaper if the Procurement Officer determines that publication would benefit the government; and shall be publicly posted for at least fifteen (15) days at the office of the Procurement Officer concerned, the post office building, the Courthouse, the Bureau of Domestic Affairs office, and announced on all radio and television stations within the Republic.

Condition: Of seventeen disbursements tested, the following were noted:

1. For four, procurement documents were not provided.

<u>Type</u>	<u>Date</u>	<u>Number</u>	<u>Amount</u>
Bill	09/01/16	28131	\$ 153
Bill	05/06/16	45659	\$ 750
Bill	10/16/15	483212/1	\$ 130
Bill	08/05/16	95076/1	\$ 116

2. For two, less than three quotations were obtained.

<u>Type</u>	<u>Date</u>	<u>Number</u>	<u>Amount</u>
Check	08/04/16	21527	\$ 424
Check	12/14/15	21135	\$ 382

3. For five, there was no evidence that the public notice was publicly posted for at least fifteen (15) days at the office of the Procurement Officer concerned, the post office building, the Courthouse, the Bureau of Domestic Affairs office, and announced on all radio and television stations within the Republic for the following:

<u>Type</u>	<u>Date</u>	<u>Number</u>	<u>Amount</u>
Bill	02/08/16	None	\$ 26,200
Check	06/14/16	21431	\$ 27,500
Check	11/30/15	21119	\$ 37,100
Bill	02/08/16	None	\$ 10,900
Check	08/04/16	21522	\$ 37,100

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

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2016

Finding No: 2016-001, Continued

Recommendation: We recommend that management comply with procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Huana K. Nestor - Governor

Corrective Action: The State Office concurs to all the findings and will do its best to follow auditor's recommendations from now on.

As to the number of quotations required by law, the State Office will strictly secure the required number of quotes from now on. As to the bidding process, specifically on Public Notice requirements, the State did not fully understand the requirements other than published bidding invitations. This led to the noncompliance of RPPL No. 3-54.

Proposed Completion Date: My office will be in full compliance from now on and fully compliant by fiscal Year 2021.

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Unresolved Prior Year Comments
Year Ended September 30, 2016

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