

MELEKEOK STATE GOVERNMENT

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 A STATEMENT OF RECEIPTS AND DISBURSEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Henaro Polloi  
Governor  
Melekeok 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 Melekeok State Government (the State) as of and for the year ended September 30, 2017, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated March 11, 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 2017-001.

## **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*

March 11, 2020

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Schedule of Findings and Responses  
Year Ended September 30, 2017

Procurement

Finding No: 2017-001

Criteria: In accordance with applicable procurement regulations, the following is stated:

- 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 include in bidders 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 twenty disbursements tested, the following were noted:

1. For four, procurement documents were not provided.

<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
11445	06/19/17	\$ 5,000
11388	05/11/17	\$ 1,109
10984	11/07/16	\$ 125
11060	12/09/16	\$ 1,867

2. For six, 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.

<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
11152	01/16/17	\$ 27,362
11307	03/27/17	\$ 13,681
11399	05/18/17	\$ 3,299
38	08/09/17	\$ 13,681

3. For three, less than three quotations were obtained.

<u>Check No.</u>	<u>Check Date</u>	<u>Amount</u>
11152	01/16/17	\$ 27,362
11307	03/27/17	\$ 13,681
38	08/09/17	\$ 13,681

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Schedule of Findings and Responses, Continued  
Year Ended September 30, 2017

Finding No: 2017-001, Continued

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

Recommendation: We recommend management comply with procurement regulations.

Prior Year Status: Noncompliance with applicable procurement regulations was reported as a finding in the audit of the State for fiscal year 2016.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Henaro Polloi, Governor

**Corrective Action:**

1. We concur with the audit finding and the State is currently requesting quotes from vendors on island. Standard operating procedures in procurement are being finalized so the State can comply with requirements of the procurement law.
2. We concur with the audit finding regarding the distribution of "Public Notice" and the State will be mindful in future bids.

**Proposed Completion Date:** Ongoing

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Unresolved Prior Year Comments  
Year Ended September 30, 2017

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