

**PALAU HOUSING AUTHORITY**  
**(A Component Unit of the Republic of Palau)**

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

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**Year Ended September 30, 2021**



**BURGER · COMER · MAGLIARI**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S 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***

To the Board of Directors  
Palau Housing Authority:

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 Housing Authority ("the Authority"), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 30, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-001, 2021-002 and 2023-003 that we consider to be material weaknesses.

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## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Authority'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 financial statements. 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*.

## **Authority's Response to Findings**

The Authority's response to findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **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.



Koror, Republic of Palau  
August 30, 2024

**Palau Housing Authority**  
**(A Component Union of the Republic of Palau)**

Schedule of Findings and Responses  
Year Ended September 30, 2021

**Finding: 2021-001**

**Area: Account Reconciliation**

Criteria:

Accounting principles generally accepted in the United States of America (GAAP) require general ledger account balances be reconciled on a monthly basis to prepare monthly and annual financial statements in a timely manner. Accounting personnel should possess adequate skill, knowledge and experience to oversee and carry out the accounting functions to record the financial transactions and prepare the entity's financial statements.

Condition:

The Authority did not properly prepare its monthly and annual financial statements and failed to perform reconciliations of significant general ledger accounts. Considerable time was required to correct bookkeeping errors and we noted the following:

1. Prior year audit adjustments were not properly recorded in the general ledger which were corrected with proposed audit adjustments for the year ended September 30, 2021.
2. Although the general ledger balanced in total, the individual trial balances for each of the Authority's fund financial statement did not balance. A separate retained earnings (net assets) account was used to account for the various differences in each fund in order to balance the general ledger. Considerable time was spent to reconcile differences for each fund. Numerous audit adjustments were proposed to correct the errors for each fund.
3. Transfers between the various funds were not properly recorded as we noted that the Due to and Due from accounts did not balance and transactions were not recorded in the proper fund. Numerous audit adjustments were proposed to reconcile each fund to correct the errors.
4. The allowance for doubtful loan losses were not properly recorded. The accounts balances for the Home Rehabilitation Loan, Low-Income Housing and Section 8 programs all had debit balances instead of credit balances. Numerous audit adjustments were proposed to reconcile each fund to correct the errors.
5. Loan proceeds in the amount \$5 million and related repayments of principal and interest were not properly recorded in the general ledger. Although the loan proceeds were already received and repayments were made, the loan in the amount of \$5 million was shown as a receivable and principal and interest payments were reported as separate line items on the Home Rehabilitation Loan Program's statement of net position. Numerous audit adjustments were proposed to reconcile and properly reflect the outstanding loan balance as of September 30, 2021.

**Palau Housing Authority**  
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Schedule of Findings and Responses  
Year Ended September 30, 2021

**Finding: 2021-001, Continued**  
**Area: Account Reconciliation**

Cause:

The Authority does not maintain a sufficient complement of personnel with an appropriate level of skill and knowledge of accounting, experience, and training commensurate with its accounting and financial reporting requirements.

Effect:

The effect of the above condition is the potential for accounting errors to occur and not be prevented and detected in a timely manner. In addition, the Authority could be making management decisions on inaccurate financial data and information.

Identification as a Repeat Finding: Finding No. 2020-01

Recommendation:

The Authority should provide training for existing accounting personnel and strongly consider hiring additional accounting personnel with suitable skills and knowledge capable of applying generally accepted accounting principles in recording the Authority's financial transactions and preparing monthly and year-end financial statements.

Financial statements should be prepared in accordance with accounting principles generally accepted in the United States (GAAP) and the person responsible for the accounting and reporting function should have the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

Account balances for each fund should be reconciled to the general ledger and independently reviewed on a monthly basis. The Authority should establish and implement accounting policies and procedures to ensure that the general ledger control accounts are properly reviewed and reconciled on a monthly basis and independently reviewed for accuracy. Comprehensive accounting policies and procedures should be developed and implemented and made available to personnel as appropriate for guidance. The accounting policies and procedures should be updated as procedures change and/or when new accounting standards are implemented.

**Palau Housing Authority**  
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Schedule of Findings and Responses  
Year Ended September 30, 2021

**Finding: 2021-001, Continued**  
**Area: Account Reconciliation**

Auditee Response and Corrective Action Plan:

We concur with the finding.

**Name of Contact Person:** Jun Ushibata

**Correction Action Taken:** The adjustments were done and account balances will be reconciled on a monthly basis. During May 2022, management hired a new accountant to oversee the accounting functions.

**Proposed Completion Date:** September 30, 2024

**Palau Housing Authority**  
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Schedule of Findings and Responses  
Year Ended September 30, 2021

**Finding: 2021-002**

**Area: Comingling of Funds**

Criteria:

Each Fund and loan program should be separately accounted for and recorded within the general ledger in order to produce individual trial balances and financial statements. In addition, separate bank accounts should be maintained for each the Authority's loan programs.

Pursuant to RPPL No. 10-36 effective June 12, 2019, which established the Housing Development Loan Project (HDLP), the Authority is required to account for all costs, expenses and loss of interest income resulting from proceeds received from the Ministry of Finance via the National Housing Commission to provide funding to eligible displaced citizens of the Republic of Palau and first-time individuals to build single family housing.

Condition:

The Authority entered into an agreement with the National Housing Commission of the Republic of Palau to obtain funding from the HDLP. The HDLP funds received, loan funds approved and disbursed, costs and expenses incurred were all comingled with the Authority's Home Rehabilitation Loan Program.

Cause:

The Authority did not create a separate fund and bank account to account for the HDLP.

Effect:

The effect of the above condition is an understatement of assets and an overstatement of the Authority's net assets.

Identification as a Repeat Finding: Finding No. 2020-02

Recommendation:

The Authority should create a separate fund with all relevant accounts added to the chart of accounts for HDLP program in the general ledger. All HDLP financial transactions should be removed from the Home Rehabilitation Loan Program and transferred to the newly created HDLP fund.

**Palau Housing Authority**  
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Schedule of Findings and Responses  
Year Ended September 30, 2021

**Finding: 2021-002, Continued**  
**Area: Comingling of Funds**

Recommendation, (Continued):

A new bank account should be opened for the HDLP program to account for all cash receipts and disbursements. This will allow the Authority to separately account for the HDLP within the general ledger in order to produce HDLP financial statements in a timely manner and to account for all costs, expenses and loss of interest income resulting from proceeds received from the Ministry of Finance via the National Housing Commission pursuant to RPPL No. 10-36.

Auditee Response and Corrective Action Plan:

We concur with the finding.

**Name of Contact Person:** Jun Ushibata

**Correction Action Taken:** New bank account will be open only for HDLP funds and a separate fund will be created specifically to account for the HDLP funds.

**Proposed Completion Date: September 30, 2024**



**Palau Housing Authority**  
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Schedule of Findings and Responses  
Year Ended September 30, 2021

**Finding: 2021-003**  
**Area: Investments**

Criteria:

Accounting principles generally accepted in the United States of America (GAAP) require investments to be recorded at fair market value and investment activities to be recorded in the statement of revenues, expenses and changes in net position.

Condition:

The Authority's investments and the related decrease were not properly adjusted to actual fair market value as of September 30, 2021. In addition, prior year audit adjustments were not properly recorded to adjust investments to actual fair market value as of September 30, 2021.

Cause:

The cause is the above condition is the lack of review of and understanding of investment statements received from investment advisors.

Effect:

The effect of the above condition is an understatement of assets and an overstatement of the Authority's net assets.

Identification as a Repeat Finding: Finding No. 2020-03

Recommendation:

We recommend that the Authority review its monthly investment statements and monitor its investment activities and record the necessary adjustments as in needed in accordance with GAAP.

Auditee Response and Corrective Action Plan:

We concur with the finding.

**Name of Contact Person:** Jun Ushibata

**Correction Action Taken:** Investments held by the Authority will be reviewed and adjusted to fair market value on an annual basis.

**Proposed Completion Date:** September 30, 2024