

AIMELIIK 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 Brownny Simer
Governor
Aimeliik 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 Aimeliik State Government (the State) as of and 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 May 15, 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-001, 2016-002 and 2016-003 that we consider to be material weaknesses.

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 2016-003.

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 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.

Deloitte & Touche LLC

May 15, 2020

AIMELIIK STATE GOVERNMENT
Schedule of Findings and Responses
Year Ended September 30, 2016

Financial Statements

Finding No.: 2016-001

Criteria: Financial statements should properly report all State receipts and disbursements.

Condition: The Republic of Palau block grant appropriation and personnel benefits were understated by \$279,875 and \$38,892, respectively. Audit adjustments were proposed to correct the understatements.

Cause: The State lacked accounting personnel to ensure proper recording of receipts and disbursements.

Effect: The effect of the above condition is material misstatement of receipts and disbursements.

Recommendation: We recommend that management review financial statements to determine that all receipts and disbursements are properly recorded.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Brownny Simer, Governor and Jeralda Koshiba, Administrative Officer

Corrective Action: Because the National Treasury did not require the State to issue a receipt for Block Grant disbursements, we recorded the block grant received in the QuickBooks accounting system as a deposit to the bank without issuing a receipt.

As a corrective measure, the State will ensure that block grants received will be receipted first in the accounting system. An accountant was recently hired just last January 2020 to ensure that proper accounting procedures are recorded in the State's accounting system.

Proposed Completion Date: We expect this finding to be corrected by the end of April 2020.

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

Cash Receipts

Finding No.: 2016-002

Criteria: Cash receipts should be issued in sequential order to verify completeness and should be reviewed and approved by management prior to timely deposit.

Condition:

1. The State did not consistently issue cash receipts for all collections. Total cash receipts issued for the year ended September 30, 2016 amounted to \$16,555 while the financial statements reported \$1,349,138 receipts.
2. Tests of sequential integrity of cash receipts noted missing cash receipt no. 16090 without written rationale.
3. Test of cash collections deposited on 04/21/16 noted the following:
 - a. There was no evidence of independent review prior to deposit.
 - b. Cash receipt no. 16-332 was deposited nine days after collection.
4. Tests of four receipts noted the following:
 - a. Residential lease agreement no. R-12-005, Article III A, stipulates rent as "Annual Lease Rent - \$77 a month or \$0.06 per square meter" while the State applied the lessee's payment of \$77 as annual payment (receipt no. 16-158). In addition, the Aimeliik State Public Land Authority Rules and Regulations Chapter 8, Section 2, determines a residential lease rate at \$0.06 per square meter without clarification on whether the rate is annual or monthly.
 - b. One \$750,734 cash receipt was described as partial payment for lease agreement without further detail such as the period covered (invoice no. 2009-3782). Additionally, the supporting lease agreement and easement executed on June 22, 2015 lacked a control number and statutory basis or equivalent for a rental rate of 12 cents per square meter.
 - c. Collections were not deposited timely as follows:

<u>Receipt Date</u>	<u>Deposit Date</u>	<u>Days Lapsed</u>	<u>Rec./Inv. No.</u>	<u>Amount</u>
05/06/16	07/26/16	81	16-158	\$ 1,937
08/23/16	10/07/16	45	2009-3785	\$ 10

The related deposit slips of the above receipts indicated the deposit was checks only; however, related QuickBooks deposit summary reports indicated checks and cash collections.

The State was not consistently collecting vehicle tax at the time of vehicle registration for the above invoice no. 2009-7385 which was issued to allow the vehicle owner to register the vehicle in Koror.

- d. Invoice no. 2009-3484 for \$100, along with other collections totaling \$9,472, have not been deposited as of 02/19/20. The collections included employee payroll checks dated between March 2016 and September 2016.

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

Finding No. 2016-002, Continued

Cause: The State did not sequentially issue and record cash receipts for all collections and there was lack of segregation of duties in the collection and recording of cash receipts. Further, the State did not require review of cash receipts, did not timely deposit cash receipts, used cash collections for State employees payroll checks, and issued invoices to expedite the vehicle registration process contrary to the State law which requires payment upon vehicle registration.

Effect: The effect of the above condition is the lack of control over cash receipts.

Recommendation: We recommend that management establish a control process requiring daily review of cash receipt completeness, issuance of cash receipts sequentially, and timely deposit. We further recommend that management require segregation of duties in the collection and recording of cash receipts.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Brownny Simer, Governor and Jeralda Koshiba, Administrative Officer

Corrective Action: Because the State does not have financial policies and procedures in place as to who is responsible, no verification method was used besides following instructions from the Governor as to who is responsible for the collections, handling of cash, and deposits which was delegated to the State Treasurer. We acknowledge that deposits are always late due to using cash received to change payroll checks for our employees and that errors made on transactions were mainly due to not understanding the accounting system because none of the employees are accountants.

As a corrective measure, the State has recently hired an accountant to ensure proper recording of all revenues and expenditures. We were also part of a Local Governance Clinic where the Domestic Affairs Office in tandem with the Office of the Public Auditor, were trying to formalize a uniform financial accountability policy for all States to use. At the end of this clinic, a one on one session with the auditor's office was supposed to take place with each State to customize forms to suit each State's needs but unfortunately the FY2016/2017 audit started and it had to be put on hold.

Proposed Completion Date: We expect that this one on one session with the auditor and the development of forms will commence in May 2020 and hopefully be completed the same month.

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

Disbursements

Finding No.: 2016-003

Criteria: Procurement regulations require the following for purchases over \$5,000:

- At least fifteen days public notice 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 a bidder's mailing list 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 State;
- Minimum of fifteen days bidding period;
- Bid opening to be conducted by the Procurement Officer or his designee; the bids should be opened publicly in the presence of at least two witnesses at the time and place designated in the invitation for bid;
- Written determination required by the procurement regulations shall be retained in the appropriate official contract file of the Procurement Officer; and
- Notice of award shall only be made by a contract with all required government signatures being the Procurement Officer or designee, the State Attorney, and the Governor or designee.

Price quotations should be obtained for small purchases.

Check disbursements should be issued in sequential order to verify completeness, and should be reviewed and approved by management prior to recording in the financial statements.

Condition: There is no centralized filing system requiring written documentation evidencing compliance with procurement requirements. Additionally, there is no process requiring evidence of receipt of items procured. Tests of thirty-one disbursements noted lack of evidence of compliance with procurement requirements for the following:

<u>Amount</u>	<u>Check No.</u>	<u>Description</u>
\$ 41,563	7207,7298	Kitchen project
\$ 30,000	7644,7893	Road project without a contract
\$ 20,000	7358	Legal fees
\$ 19,300	7443	Vehicle
\$ 10,319	7453	Copier machine and filing cabinet
\$ 7,895	7409	Vehicle
\$ 7,660	7354,7646,7694	Base course for road projects
\$ 7,000	7312	Legal fees
\$ 4,181	7326	Lunch after swear in ceremony
\$ 4,086	7513	Supplies
\$ 3,778	7401	Inauguration 2016 expense

Additionally, we noted the following:

- A construction contract totaling \$41,563 lacked a control number and certification of project completion or the equivalent (check nos. 7207 and 7298);

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

Finding No.: 2016-003, Continued

Condition, Continued:

- One \$4,000 disbursement lacked a purchase requisition form evidencing certification of funds (check no. 7380);
- One \$19,300 disbursement was supported by two purchase requisition forms of which one for \$13,000 was not signed certified (check no. 7443);
- One \$2,000 disbursement for per diem lacked a travel report and boarding pass (check no. 7684);
- Two disbursements totaling \$585 for meals at official meetings lacked attendance sheets or minutes of meetings to substantiate the occurrence of the meetings (check nos. 7276 and 7904)
- One \$920 disbursement for boat parts and services was charged against S03-Executive: 03u-Forms, Licenses & Stickers budget; however, there was no such budget line item in the state budget laws (check no. 639); and
- One \$478 disbursement for meals of official Board meetings was charged to the legal counsel budget (check no. 7597).
- One \$10,319 disbursement for a copier machine was allocated to the following budget accounts of which four do not appear to be related to equipment:

<u>Budget Description</u>	<u>Allocation</u>
S03-Executive:03g-Copier Machine & Filing Cab	\$ 6,020
S03-Executive:03l-RengulbaiBrikul Scholarship	1,500
S03-Executive:03r-ASCA - Pan Site	1,500
S03-Executive:03j-Aimeliik St. Youth Programs	1,000
S03-Executive:03p-2019 Constitution Day Event	<u>299</u>
	\$ <u>10,319</u>

- Certain disbursements exceeded budget limits as follows:

<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
03g-Office Supplies & Equip.	\$ 2,500	\$ 3,199	\$ (699)
03t-Grants	\$ 15,000	\$ 15,673	\$ (673)
05d-Petroleum & Maintenance	\$ 4,000	\$ 4,386	\$ (386)
06c-Rep. & Contingency Fund	\$ 1,590	\$ 1,620	\$ (30)

The 2016 check listing did not include the following check disbursements aggregating \$10,441 and there was no indication that such were recorded in the financial statements (check nos. 541, 542, 602, 604, 605, 606, 607, 608, 614, 615, 616, 7541, 7907 and 7946). Additionally, check no. 7907 for \$4,563 lacked supporting invoice, approved purchase requisition or approved accounts payable on file.

Cause: The cause of the above condition is a lack of controls over disbursements and compliance with procurement regulations.

Effect: The effect of the above condition is potential malfeasance with disbursements and noncompliance with procurement regulations.

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

Finding No.: 2016-003, Continued

Recommendation: We recommend the State comply with procurement regulations. Additionally, we recommend management:

- Establish a control number system for State executed contracts; and require evidence of project completion prior to final payment;
- Strengthen procedures for obtaining and filing supporting approved purchase requisition forms, travel reports, invoices or equivalent for disbursements;
- Establish policies and procedures requiring attendance records and minutes of meetings to support official meeting expenses; and
- Document approved changes to existing budget plan to support unanticipated disbursements.

In addition, we recommend the State establish control procedures requiring evidence of receipt of goods procured such as signature of the receiver on the invoice, receiving form or equivalent.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Brownny Simer, Governor and Jeralda Koshiba, Administrative Officer

Corrective Action: We acknowledge that contracts entered into with contractors did not have control numbers and project completion certifications and that the filing of the RFP process to its awarding phase lacks proper procurement procedures. Checks that were filed with incomplete documentation is an oversight of the staff.

There are times that leadership meetings take place without any staff and they would just forward their invoice stating who was there and for what purpose so the staff would just write in the requisition form that it was a meeting between X & Y for the purpose stated as instructed. For board meetings, invoices are forwarded first and then their minutes are usually much later so what we do is file the minutes with the board compensation checks.

Corrective measures will ensure that all expenditures will be filed with the proper documentation and signed by appropriate persons and that all RFPs will be documented from its advertisement to its closing phase.

Proposed Completion Date: Controls would be in place once we have our one on one session with the OPA, hopefully completed by the end of May.

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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.