

*Financial Statement and Report on Internal  
Control and Compliance*

**Koror State Government**

*Year ended December 31, 2017  
with Report of Independent Auditors*



Koror State Government

Financial Statement and Report on Internal Control and Compliance

Year ended December 31, 2017

**Table of Contents**

Report of Independent Auditors ..... 1

Audited Financial Statements

Statement of Receipts and Disbursements ..... 3

Notes to Financial Statements ..... 4

Report on Internal Control and Compliance

Report of Independent Auditors 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*..... 5

Schedule of Findings and Responses ..... 7



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## Report of Independent Auditors

Honorable Eyos Rudimch  
Governor  
Koror State Government

### **Report on the Financial Statements**

We have audited the accompanying statement of receipts and disbursements of the Koror State Government (the State) for the year ended December 31, 2017, and the related notes to the financial statement.

### **Management’s Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1 to the financial statement; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

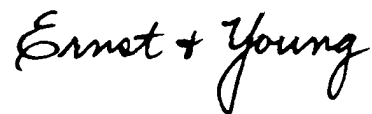
In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Koror State Government for the year ended December 31, 2017, on the cash basis of accounting as described in Note 2.

### **Emphasis of Matter**

As described in Note 2, the financial statement is prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2024, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

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November 5, 2024

# Koror State Government

## Statement of Receipts and Disbursements

Year ended December 31, 2017

### Receipts:

Rock Island and Jellyfish Lake permits	\$ 5,064,614
Lease revenues	1,663,297
Local revenues	949,390
Republic of Palau (ROP) National Block Grant	915,150
ROP Recycle Redemption Fund Appropriation	675,000
Fishing right fees and permits	498,649
Others	<u>454,549</u>
Total cash receipts	<u>10,220,649</u>

### Disbursements:

Personnel costs and benefits	6,369,675
Fuel, travel and transportation	1,273,906
Communication and utilities	715,388
Construction projects	618,185
Supplies and equipment	584,844
Recycling redemption	362,115
Repairs and maintenance	357,864
Professional fees	113,201
Others	<u>540,513</u>
Total cash disbursements	<u>10,935,691</u>

Excess of cash disbursements over cash receipts ( 715,042)

Cash and cash equivalents, beginning of year 25,972,395

Cash and cash equivalents, end of year \$25,257,353

# Koror State Government

## Notes to Financial Statements

Year ended December 31, 2017

### **1. Reporting Entity**

The Koror State Government (the State) operates within the Republic of Palau and under its own Constitution.

### **2. Basis of Accounting**

The accompanying financial statement of Koror State Government has been prepared on the cash-basis of accounting. Cash-basis of accounting is a special purpose framework, and similar to other bases such as tax, regulatory and contractual, use a definitive set of logical, reasonable criteria that is applied to all material items appearing in the financial statements. The cash, tax, regulatory, and other bases of accounting are commonly referred to as other comprehensive basis of accounting. The cash-basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) primarily because revenues are recognized when received rather than when earned and expenses are recorded when paid rather than when incurred. The financial statements therefore present only cash and cash equivalents and changes therein in the form of cash receipts and disbursements.

### **3. Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand and cash in held in demand or savings accounts maintained with two financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance coverage limits totaling \$500,000 as of December 31, 2017. The remaining balances are not collateralized and subject to insurance coverages.

The State has internally restricted cash of \$151,938 as at December 31, 2017, representing 3% of fees collected from Rock Islands and Jellyfish Lake permits, to be used for unforeseen contingencies, natural disasters, and other emergency purposes. This fund was created in accordance with Koror State Public Law (KSPL) No. K9-221-2010, as amended by KSPL No. K9-265-2013.



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## Report of Independent Auditors 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*

Honorable Eyos Rudimch  
Governor  
Koror 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 Koror State Government (the State) as of and for the year ended December 31, 2017, and the related notes to the statement of receipts and disbursements, and have issued our report thereon dated November 5, 2024.

### **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; 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 item 2017-001, that we consider to be material weaknesses.

## **Compliance and Other Matters**

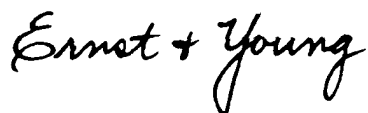
As part of obtaining reasonable assurance about whether the State's statement of receipts and disbursements is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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; accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Responses.

## **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; 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.

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November 5, 2024



# Koror State Government

## Schedule of Findings and Responses

Year ended December 31, 2017

**Finding No.:** 2017-001  
**Area:** Local Noncompliance – Procurement

Criteria: Republic of Palau Public Law (RPPL) 3-54 requires the following for purchases of State Government 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 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 government;
- 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; and
- written determination required by the procurement regulations shall be retained in the appropriate official contract file of the Procurement Officer.

Condition: Thirty-five (35) out of one hundred fifty-one (151) tested disbursements are over \$5,000 and, based on the nature of the disbursements, need to undergo the formal bidding process as required by RPPL 3-54. Thirty-two (32) out of thirty-five (35) lack evidence or sufficient documentation to demonstrate compliance with local procurement processes, as follows:

Sample #	Check Number/Wire Payment	Disbursement Amount	Condition
1	18016	\$48,254.40	Condition A
2	18240	48,533.40	
3	18514	46,255.20	
4	18652	50,264.10	
5	19239	49,692.10	
6	19239	50,055.10	
7	19458	49,525.30	
8	19677	54,111.30	
9	19677	48,638.10	
10	20051	48,790.30	
11	20215	48,691.90	
12	20287	48,507.90	
13	18178	52,500.00	Condition B
14	18515	64,470.00	
15	18774	52,500.00	Condition C
16	18056	27,821.70	
17	18727	34,716.15	
18	18939	41,699.95	
19	19433	57,251.34	

# Koror State Government

## Schedule of Findings and Responses, continued

**Finding No.:** 2017-001  
**Area:** Local Noncompliance – Procurement

Condition, continued:

Sample #	Check Number/Wire Payment	Disbursement Amount	Condition
20	19413	33,985.69	Condition D
21	Wire Payment	30,623.82	
22	Wire Payment	55,695.60	
23	Wire Payment	37,130.40	
24	18013	45,000.00	Condition E
25	18120	32,700.00	
26	18771	40,615.00	
27	18409	55,883.84	Condition F
28	18997	57,577.32	
29	18271	31,729.88	Condition G
30	18908	39,662.35	
31	Wire Payment	34,288.00	
32	18863	24,718.05	Condition H

- A - Twelve disbursements totaling \$591,319.10 for employee insurance payments lack procurement documentation to support that the originating contract underwent the procurement process.
- B - Three disbursements totaling \$169,470 for various vendors lack a written rationale for vendor selection, despite the availability of other vendors with lower bids.
- C - Four disbursements totaling \$161,489.14 to one vendor for the purchase of gasoline lack supporting contracts and procurement documents to validate the recurring purchases from this specific vendor, despite the availability of other vendors.
- D - Four disbursements totaling \$157,435.51 to various vendors lack documents supporting procurement procedures performed.
- E - Three disbursements totaling \$118,315 for construction projects lack evidence of public notice advertisement and written rationale for vendor selection, despite the availability of other vendors with lower bids.
- F - Two disbursements totaling \$113,461.16 for purchase of boats and trailers lack evidence of public notice advertisement.
- G - Three disbursements totaling \$105,680.23 for various vendors where only one bidder submitted a bid, and the written summary of bids lacks the signatures of witnesses.

# Koror State Government

## Schedule of Findings and Responses, continued

**Finding No.:** 2017-001  
**Area:** Local Noncompliance – Procurement

Condition, continued:

- H - One disbursement of \$24,718.05 for the purchase of exercise treadmills indicates that no bids were submitted; therefore, a quotation was obtained. However, only one quotation was received as an alternative, and there is no documentation to demonstrate that quotes were requested from other vendors.

Cause: Lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to satisfy compliance with applicable procurement requirements.

Effect: Noncompliance with local procurement requirements.

Recommendation: We recommend that the State must require the documentation be adequate to comply with the local procurement requirement. Specifically, documentation should indicate the history of procurement, including the rationale for contractor selection.

Auditee Response and Corrective Action Plan:

We concur with the audit finding identifying noncompliance with the Republic of Palau Public Law (RPPL) 3-54 in certain procurement practices for disbursements exceeding \$5,000. These finding highlights areas where our internal controls, and documentation processes require enhancement to fully align with procurement laws.

To address these deficiencies, we are implementing a corrective action plan focused on strengthening our procurement policies, enhancing documentation, improving record keeping, and ensuring transparency in compliance. Specifically, we will:

- **Standardize Documentation Requirements:** Develop a procurement documentation checklist for the formal bidding process for purchases over \$5,000, (\$10,000 or more for FY2018 and subsequent years), and for small purchases less than \$5,000 (less than \$10,000), ensuring all required procurement steps are fully documented and verifiable, and mandate use of checklist for all disbursements to ensure compliance.
- **Establish a Record Keeping and Organization Protocol:** Implement a centralized, secure document management system, both digitally and physically, for procurement records, ensuring that each contract file retains all relevant documentation, including public notices, bidding records, and contract determinations. These files will be organized by fiscal year and procurement category to ensure quick access and compliance with retention regulations.

Koror State Government

Schedule of Findings and Responses, continued

**Finding No.:** 2017-001

**Area:** Local Noncompliance – Procurement

Auditee Response and Corrective Action Plan:

- **Provide Training for Procurement Staff:** Conduct periodic training on Procurement Law requirements, thorough documentation, and best practices for record keeping to strengthen staff awareness and competency in procurement practices.

We affirm that these corrective measures have been implemented and maintained in fiscal years following 2022 to ensure full compliance with RPPL 3-54, amended by RPPL 10-26. We are confident that these actions will address the noted deficiencies, improve our documentation and record keeping practices, and enhance compliance, transparency, and accountability moving forward.