

REPUBLIC OF PALAU  
NATIONAL GOVERNMENT

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2006

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

Honorable Tommy E. Remengesau Jr.  
President  
Republic of Palau:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic of Palau (the Republic) as of and for the year ended September 30, 2006, which collectively comprise the Republic's basic financial statements and have issued our report thereon dated June 19, 2007. Our report was modified to include a reference to other auditors. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Republic's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Republic's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 18 through 53) as items 2006-1 through 2006-14.

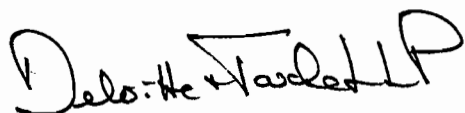
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2006-3, 2006-5, 2006-6, 2006-8 and 2006-11 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Republic's financial statements are free of 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 financial statement 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-10 through 2006-14.

We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated June 19, 2007.

This report is intended solely for the information and use of the management of the Republic of Palau, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Delo-Hill & Stauder LLP". The signature is stylized and cursive.

June 19, 2007

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL  
CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD  
PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Honorable Tommy E. Remengesau Jr.  
President  
Republic of Palau:

**Compliance**

We have audited the compliance of the Republic of Palau (the Republic) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Republic's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 16 and 17). Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Republic's management. Our responsibility is to express an opinion on the Republic's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Republic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Republic's compliance with those requirements.

As described in items 2006-15 through 2006-28 and item 2006-7 in the accompanying Schedule of Findings and Questioned Costs, the Republic did not comply with requirements regarding procurement and suspension and debarment, cash management, allowable costs/cost principles, equipment and real property management, period of availability, reporting and specific tests and provisions that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the Republic to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Republic complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

### Internal Control Over Compliance

The management of the Republic is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Republic's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

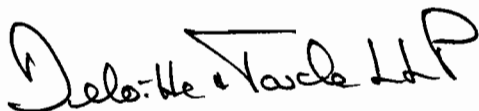
We noted certain matters involving the Republic's internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Republic's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grant agreements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-15 through 2006-28 and item 2006-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding number 2006-28 to be a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Republic as of and for the year ended September 30, 2006, and have issued our report thereon dated June 19, 2007. Our report was modified to include reference to other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Republic's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 5 through 12) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Republic. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Republic of Palau, federal awarding agencies, pass-through entities and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



June 19, 2007

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2006

Fund 350100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/1/05	Cash Receipts FY2006	Expenditures FY2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<b>U.S. Department of Agriculture</b>						
<u>State Administrative Expenses for Child Nutrition CFDA #10.560</u>						
Sub-total CFDA #10.560		\$ 10,136	\$ (688)	\$ -	\$ -	\$ (688)
<u>Cooperative Forestry Assistance CFDA #10.664</u>						
Sub-total CFDA #10.664		1,001,825	157,382	268,915	171,757	60,224
<u>Community Facilities Loans and Grants CFDA #10.766</u>						
Sub-total CFDA #10.766		159,002	(22,137)	17,500	70,619	30,982
<b>Total U.S. Department of Agriculture</b>		1,170,963	134,557	286,415	242,376	90,518
<b>U.S. Department of Commerce</b>						
<u>Special Oceanic and Atmospheric Projects CFDA# 11.460</u>						
Sub-total CFDA #11.460		1,571,221	67,291	333,612	282,528	16,207
<u>Pacific Fisheries Data Program CFDA #11.437</u>						
Sub-total CFDA #11.437		31,000	26,036	-	-	26,036
<u>Unallied Management Projects CFDA#11.454</u>						
Sub-total CFDA #11.454		136,027	54,960	55,419	42,333	41,874
<u>NOAA Donation to IRC Meeting</u>						
Sub-total IRC Meeting		25,000	-	25,000	24,300	(700)
<b>Total U.S. Department of Commerce</b>		1,763,248	148,287	414,031	349,161	83,417
<b>U.S. Department of Housing and Urban Development</b>						
<u>Emergency Shelter Grants Program CFDA #14.231</u>						
<b>Total U.S. Department of Housing and Urban Development CFDA 14.231</b>		7,000	(30)	-	-	(30)
<b>U.S. Department of Justice</b>						
<u>Juvenile Justice and Delinquency Prevention - Allocation to States CFDA #16.540</u>						
Sub-total CFDA #16.540		16,283	(264)	-	-	(264)
<u>State Justice Statistics Program for Statistical Analysis CentersCFDA #16.550</u>						
Sub-total CFDA #16.550		11,090	(216)	-	-	(216)
<b>Total U.S. Department of Justice</b>		27,373	(480)	-	-	(480)
<b>U. S. Department of Labor</b>						
<u>Workforce Investment Act CFDA #17.255</u>						
Sub-total CFDA #17.255		82,150	(10)	-	-	(10)
<u>WIA Adult Program CFDA #17.258</u>						
Sub-total CFDA #17.258		234,914	37,736	105,681	84,400	16,455
<u>WIA Youth Activities CFDA #17.259</u>						
Sub-total CFDA #17.259		185,082	11,879	122,029	110,150	-
<u>WIA Dislocated Workers Program CFDA #17.260</u>						
Sub-total CFDA #17.260		299,225	26,347	173,774	159,027	11,600
<b>Total U.S. Department of Labor</b>		801,371	75,952	401,484	353,577	28,045
<b>U.S. Environmental Protection Agency</b>						
<u>Construction Grants for Wastewater Treatment Works CFDA #66.418</u>						
Sub-total CFDA #66.418		792,370	(714)	-	-	(714)
<u>Environmental Education Grants CFDA #66.951</u>						
Sub-total CFDA #66.951		156,253	(252)	-	-	(252)
<b>Total U.S. Environmental Protection Agency</b>		948,623	(966)	-	-	(966)
<b>U.S. Department of Energy</b>						
<u>State Energy Program CFDA #81.041</u>						
<b>Total U.S. Department of Energy</b>		349,749	10,534	12,135	423	(1,178)
<b>FEMA</b>						
<u>Public Assistance Grants CFDA #83.544</u>						
<b>Total FEMA</b>		257,157	(14,524)	-	-	(14,524)

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2006

Fund 350100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/1/05	Cash Receipts FY2006	Expenditures FY2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<b>U.S. Department of Education</b>						
<u>Adult Education - State Grant Program CFDA #84.002A</u>						
Sub-total CFDA #84.002A		303,073	23,406	62,137	53,105	14,374
<u>Special Education - Grants to States CFDA #84.027B</u>						
Sub-total CFDA #84.027B		5,201,843	82,064	235,057	184,386	31,393
<u>Special Education - Grants to States CFDA #84.027A</u>						
Sub-total CFDA #84.027A		1,011,283	-	827,408	899,881	72,473
<u>Rehabilitation Services - Client Assistance Program CFDA #84.161</u>						
Sub-total CFDA #84.161		-	(3)	-	-	(3)
<u>Special Education - Pre-School Grants CFDA #84.173A</u>						
Sub-total CFDA #84.173A		3,413	(219)	-	-	(219)
<u>Byrd Honors Scholarships CFDA #84.185A</u>						
Sub-total CFDA #84.185A		195,286	(17,250)	12,000	9,000	(20,250)
<u>Supported Employment Services for Individuals with Severe Disabilities CFDA #84.187A</u>						
Sub-total CFDA #84.187A		15,756	(3,754)	-	-	(3,754)
<u>Bilingual Education Support Services CFDA #84.194Q</u>						
Sub-total CFDA #84.194Q		300,000	993	-	(1,990)	(997)
<u>Freely Associated States - Education Grant Program CFDA #84.256A</u>						
Sub-total CFDA #84.256A		3,538,729	(25,462)	382,151	549,401	141,788
<u>Goals 2000 - State and Local Education Systemic Improvement Grants CFDA #84.276</u>						
Sub-total CFDA #84.276		79,187	(681)	-	-	(681)
<u>Twenty-First Century Community Learning Centers Program CFDA #84.287B</u>						
Sub-total CFDA #84.287B		193,795	1,974	-	(828)	1,146
<u>Gaining Early Awareness and Readiness for Undergraduate Programs CFDA #84.334S</u>						
Sub-total CFDA #84.334S		263,435	-	146,300	171,833	25,533
<u>Teacher Quality Enhancement Grants CFDA #84.336A</u>						
Sub-total CFDA #84.336A		462,000	6,439	50,616	103,527	59,350
<u>Vocational Education - Occupational and Employment Information State Grants CFDA #84.346A</u>						
Sub-total CFDA #84.346A		287,448	16,242	64,574	53,241	4,909
<u>Vocational Education - Basic Grants to States CFDA #84.048</u>						
Sub Total CFDA #84.048		1,296,635	(70,347)	358,000	153,304	(275,043)
<b>Total U.S. Department of Education</b>		13,151,883	13,402	2,138,243	2,174,860	50,019
<b>U.S. Department of Health and Human Services</b>						
<u>National Bioterrorism Hospital Preparedness Program CFDA #93.889</u>						
Sub-total CFDA #93.889		1,536,002	67,465	344,857	301,596	24,204
<u>Maternal and Child Health Federal Consolidated Programs CFDA # 93.110AR</u>						
Sub-total CFDA #93.110		688,211	25,246	258,929	269,298	35,615
<u>Project Grants and Cooperative Agreements for Tuberculosis Control Programs CFDA #93.116</u>						
Sub-total CFDA #93.116		476,492	8,588	92,943	99,112	14,757

REPUBLIC OF PALAU  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2006

Fund 350100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/1/05	Cash Receipts FY2006	Expenditures FY2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<b>U.S. Department of Health and Human Services, Continued</b>						
<u>Family Planning - Services CFDA #93.217</u>						
Sub-total CFDA #93.217		671,447	25,063	145,953	140,969	20,079
<u>Consolidated Health Centers CFDA #93.224</u>						
Sub-total CFDA #93.224		2,037,037	85,523	639,137	618,157	64,543
<u>Substance Abuse and Mental Health Services - Projects of Regional and National Significance CFDA #93.243</u>						
Sub-total CFDA #93.243		1,295,544	17,159	302,373	309,518	24,304
<u>Universal Newborn Hearing Screening CFDA #93.251</u>						
Sub-total CFDA #93.251		250,000	-	64,189	80,257	16,068
<u>Immunization Grants CFDA #93.268</u>						
Sub-total CFDA #93.268		192,082	12,566	84,394	77,287	5,459
<u>CDC and Prevention - Investigations &amp; Technical Assistance CFDA# 93.283</u>						
Sub-total CFDA #93.283		5,429,892	236,156	1,519,498	1,484,325	200,983
<u>Consolidated Knowledge Development and Application (KD&amp;A) Program CFDA #93.230</u>						
Sub-total CFDA #93.230		151,262	4,136	71,867	76,466	8,735
<u>Injury Prevention and Control Research and State and Community Based Programs CFDA #93.136</u>						
Sub-total CFDA #93.136		5,147	-	2,500	2,500	-
<u>HIV Care Grants CFDA #93.917</u>						
Sub-total CFDA #93.917		162,500	(2,146)	61,539	64,628	943
<u>Coop. Agreement for State Based Comprehensive Breast and Cervical Cancer Early Detection Programs CFDA #93.919</u>						
Sub-total CFDA #93.919		2,516,675	73,561	58,741	(14,820)	-
<u>Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems CFDA #93.938</u>						
Sub-total CFDA #93.938		198,325	6,619	99,620	101,734	8,733
<u>Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups CFDA #93.943</u>						
Sub-total CFDA #93.943		679,735	18,674	213,974	207,265	11,965
<u>HIV/Aids Surveillance CFDA #93.944</u>						
Sub-total CFDA #93.944		58,870	3,644	20,788	17,790	646
<u>Block Grants for Community Mental Health Services CFDA #93.958</u>						
Sub-total CFDA #93.958		150,000	12,211	58,044	50,355	4,522
<u>Block Grants for Prevention and Treatment of Substance Abuse CFDA #93.959</u>						
Sub-total CFDA #93.959		505,126	22,738	122,309	106,452	6,881
<u>Preventive Health Services - STD Control Grants CFDA #93.977</u>						
Sub-total CFDA #93.977		169,990	13,388	42,282	30,737	1,843
<u>Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation and Surveillance Systems CFDA #93.988</u>						
Sub-total CFDA #93.988		198,138	4,621	68,203	67,858	4,276
Sub-total CFDA #93.991		151,956	5,403	24,241	22,684	3,846
<u>Maternal and Child Health Services Block Grant to the States CFDA # 93.994</u>						
Sub-total CFDA #93.994		468,989	28,741	212,662	197,092	13,171
<u>Civil Rights and Privacy Rule Compliance Activities</u>						
Sub-total CFDA #93.001		20,000	(6,791)	10,000	11,004	(5,787)
<b>Total Department of Health and Human Services</b>		<b>19,050,034</b>	<b>698,606</b>	<b>4,727,497</b>	<b>4,322,264</b>	<b>487,661</b>
<b>Total Federal Grants (Fund 350100)</b>		<b>\$ 37,527,401</b>	<b>\$ 1,065,338</b>	<b>\$ 7,979,805</b>	<b>\$ 7,442,661</b>	<b>\$ 722,482</b>

Note: All of the awards per the above are received in a direct capacity from the specified grantor with the exception of CFDA #84.048, which is received from the Pacific Resources for Education and Learning (PREL)

During the year ended September 30, 2006, the Republic passed through federal funding to the Workforce Investment Act.



REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2006

Fund 350200 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<b>OTIA Direct Grants</b>						
<u>Non-Capital CFDA #15.875</u>						
Total Non-Capital		\$ 7,743,958	\$ 374,724	\$ 1,606,943	\$ 1,908,562	\$ 676,343

The above awards are received in a direct capacity.

During the year ended September 30, 2006, the Republic passed through federal funding to Social Security Administration and Palau Community College.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2006

Fund 420100 Grantor Account Title	Cost Center	Authorization	Receivable from Grantor (Deferred Revenue) at 10/01/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
<b>U.S. Department of Homeland Security</b>						
<u>Public Assistance Grants CFDA #83.544</u>						
<b>Total U.S. Department of Homeland Security</b>		37,072	657	-	-	657
<b>U.S. Department of Housing and Urban Development</b>						
<u>Emergency Shelter Grants Program CFDA #14.231</u>						
Ngeremlengui School Renovation	RD0004	180,000	(871)	-	-	(871)
<b>Total U.S. Department of Housing and Urban Development</b>		180,000	(871)	-	-	(871)
<b>U.S. Environmental Protection Agency</b>						
<u>Construction Grants for Wastewater Treatment Works CFDA #66.418</u>						
<b>Total U.S. Environmental Protection Agency</b>		632,216	1,897	-	-	1,897
<b>U.S. Department of the Interior Capital Projects</b>						
<u>Capital Improvement Projects CFDA # 15.875</u>						
<b>Total U.S. Department of the Interior Capital</b>		411,682	(34,029)	-	-	(34,029)
<b>U.S. Department of Transportation</b>						
<u>Airport Improvement Program CFDA #20.106</u>						
Sub-total CFDA #20.106		18,663,224	1,540,708	10,256,365	9,400,475	684,818
		18,663,224	1,540,708	10,256,365	9,400,475	684,818
Airport Project	T54650	\$ 976,909	\$ (168,481)	\$ -	\$ -	(168,481)
<b>Total U.S. Department of Transportation</b>		\$ 19,640,133	\$ 1,372,227	\$ 10,256,365	\$ 9,400,475	\$ 516,337
<b>Total U.S. Federal (CIP Project)</b>		\$ 20,901,103	\$ 1,339,881	\$ 10,256,365	\$ 9,400,475	\$ 483,991

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2006

Fund 430100	Grant	Cost		Receivable from Grantor (Deferred Revenue) at 10/01/05	Cash Receipts FY 2006	Expenditures FY 2006	Receivable from Grantor (Deferred Revenue) at 9/30/06
Grantor Account Title	PGA	Center	Authorization				
<b>Capital Improvement Projects CFDA 15.875</b>							
<b>Total Capital Improvement Projects</b>			<b>\$ 9,165,525</b>	<b>\$ (180,455)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (180,455)</b>

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2006

Compact of Free Association CFDA #15.875	Authorizations	FY 2006 Expenditures and Transfers	Excess (Deficit) of Authorizations Over Program Expenditures
<u>211(a) &amp; 215 Compact Current Account</u>			
Compact Section 211(a)	\$ 6,000,000	\$ 6,000,000	\$ -
Compact Section 215	3,840,000	3,840,000	-
Total 211(a) & 215 Current Account	<u>\$ 9,840,000</u>	<u>\$ 9,840,000</u>	<u>\$ -</u>
<u>211(b) &amp; 215 Energy Production</u>			
Investment Management Fees, 211(b) Funds	1,509	1,509	-
Total 211(b) & 215 Energy Production	<u>\$ 1,509</u>	<u>\$ 1,509</u>	<u>\$ -</u>
<u>211(c) &amp; 215 Communications</u>			
Executive Branch	\$ 246,000	\$ 246,000	\$ -
Investment Management Fees, 211(c) Funds	119	119	-
Total 211(c) & 215 Communications	<u>\$ 246,119</u>	<u>\$ 246,119</u>	<u>\$ -</u>
<u>211(d) Maritime/Health/Scholarship</u>			
Patrol boat operations	\$ 631,000	\$ 631,000	\$ -
Investment Management Fees, 211(d) Funds	197	197	-
Total 211(d) Maritime/Health/Scholarship	<u>\$ 631,197</u>	<u>\$ 631,197</u>	<u>\$ -</u>
<u>211(e) Maritime</u>			
Investment Management Fees, 211(e) Funds	\$ 356	\$ 356	\$ -
Total 211(e) Maritime	<u>\$ 356</u>	<u>\$ 356</u>	<u>\$ -</u>
<u>211(f) Trust Fund</u>			
Executive Branch	\$ 3,000,000	\$ 3,000,000	\$ -
Judiciary	1,000,000	1,000,000	-
Legislative	1,000,000	1,000,000	-
Total 211(f) Trust Fund	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ -</u>
<u>213 Defense</u>			
Investment Management Fees, 213 Funds	\$ 16,672	\$ 16,672	\$ -
Executive Branch	913,000	913,000	-
Total 213 Defense	<u>\$ 929,672</u>	<u>\$ 929,672</u>	<u>\$ -</u>
The above awards are received in a direct capacity.			
<u>212(b) &amp; 215 Capital Account</u>			
Investment Management Fees	\$ 317	\$ 317	\$ -
Total 212(b) & 215 Capital Account	<u>\$ 317</u>	<u>\$ 317</u>	<u>\$ -</u>
The above awards are received in a direct capacity.			

See accompanying notes to schedule of expenditures of federal awards

REPUBLIC OF PALAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED  
YEAR ENDED SEPTEMBER 30, 2006

				Excess (Deficit) of Authorizations Over Program Expenditures
<u>Compact of Free Association CFDA #15.875</u>		<u>Authorizations</u>	<u>FY 2006 Expenditures and Transfers</u>	
<u>221(b)(1) &amp; (2) Special Block Grant &amp; Education Special Grant</u>				
Transfer to Palau Community College	2706	\$ 2,000,000	\$ 2,000,000	\$ -
Investment Management Fees, 221(b) Funds	3400	1,904	221	1,683
Total 221(b) Special Block Grant		<u>\$ 2,001,904</u>	<u>\$ 2,000,221</u>	<u>\$ 1,683</u>
Total Compact of Free Association CFDA #15.875			\$ 18,649,391	
Less Compact Section 211(a) Current Account			(6,000,000)	
Less Compact Section 215 Current Account			(3,840,000)	
Less Compact Section 211(f) Trust Fund Investment Earnings			<u>(5,000,000)</u>	
Total Compact of Free Association CFDA #15.875 expenditures subject to detailed compliance testing			<u>\$ 3,809,391</u>	

The above awards are received in a direct capacity.

REPUBLIC OF PALAU

Schedule of Programs Selected for Audit  
In Accordance With OMB Circular A-133  
Year Ended September 30, 2006

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements:

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Expenditures and Transfers</u>
U.S. Department of the Interior	15.875	Compact of Free Association OTIA Direct Grants	\$ 3,809,391 1,908,562
U.S. Department of Health and Human Services	93.283	Chronic Disease Prevention and Health Promotion Program Public Health Preparedness and Response for Bioterrorism National Cancer Prevention and Control Program Epidemiology and Laboratory Capacity for Infectious Diseases	1,484,325
U.S. Department of Transportation	20.106	Airport Improvement Program	9,400,475
U.S. Department of Education	84.027	Special Education – Grants to States	<u>1,084,267</u>
			\$ <u>17,687,020</u>
Total federal program expenditures (excluding Compact Section 211(a) Current Account, \$6,000,000; Compact Section 215 Current Account, \$3,840,000; Compact Section 211(f) Trust Fund Investment Earnings, \$5,000,000)			\$ <u>22,561,089</u>
% of total federal program expenditures tested			<u>78%</u>

## REPUBLIC OF PALAU

### Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2006

#### (1) Scope of Audit

The Republic of Palau (the Republic) is a governmental entity governed by its own Constitution. The U.S. Department of the Interior has been designated as the Republic's cognizant agency for the OMB Circular A-133 audit (the "Single Audit").

The Schedule of Expenditures of Federal Awards is presented for each Federal program related to the following agencies:

- U.S. Department of Transportation
- U.S. Department of Education
- U.S. Department of Health and Human Services
- U.S. Department of Labor
- U.S. Department of Agriculture
- U.S. Environmental Protection Agency
- U.S. Department of Housing and Urban Development
- U.S. Department of Justice
- U.S. Department of Commerce
- U.S. Department of Energy
- U.S. Federal Emergency Management Agency
- U.S. Department of the Interior

#### (2) Summary of Significant Accounting Policies

##### a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. For federal direct assistance grants, authorizations represent the total allotment or grant award received. For Compact of Free Association programs, authorizations represent total current year allotments plus any prior year excess over program expenditures. All expenses and capital outlays are reported as expenditures.

##### b. Reporting Entity

The Republic, for purposes of the financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*.

##### c. Indirect Cost Allocation

The Republic entered into an approved indirect cost negotiation agreement covering fiscal year 2006. The approved rate was 5.97%. Federal programs were charged for indirect costs at the approved rate, unless awards specified a lower allowable rate.

REPUBLIC OF PALAU

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

d. Funding Passed Through to Other Entities

The Republic records as expenditures funding that is passed through to other entities, which includes State governments. As of September 30, 2006, none of the States had provided audit reports to the Republic. The Republic is considered to have responsibility for any questioned costs that could result from Single Audits of these entities.

During the year ended September 30, 2006, the Republic passed through federal funding to the following entities:

Palau Community College, Compact Section 221(b), CFDA #15.875	\$ 2,000,000
Palau Community College, Vocational Education Training	49,368
Social Security Retirement Fund, PAL-98	<u>36,400</u>
	<u>\$ 2,085,768</u>

These entities separately satisfy their OMB Circular A-133 reporting requirements.

e. Single Audit Excluded Funding

For purposes of the Single Audit, Compact Section 211(a) Current Account Funding and Compact Section 215 Current Account Funding have been excluded from the dollar threshold used to distinguish between Type A and Type B programs. The requirement to exclude such funding was recommended by the U.S. Department of the Interior, Office of the Inspector General (OIG). The OIG took this position since there were no compliance requirements imposed on the abovementioned funds. The same is the case for the Section 211(f) Permanent Fund. There are no compliance requirements associated with the use of this funding and therefore, such has been excluded from the dollar threshold used to distinguish between Type A and Type B programs, but such funding has been subject to Single Audit tests.

f. CFDA #15.875

CFDA #15.875 represents the Office of Insular Affairs (OIA), U. S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA #15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2006

**Part I - Summary of Auditors' Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Republic's major programs were as follows:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Compact of Free Association	15.875
OTIA Direct Grants	15.875
Chronic Disease Prevention and Health Promotion Program	93.283
Public Health Preparedness and Response for Bioterrorism	93.283
National Cancer Prevention and Control Program	93.283
Epidemiology and Laboratory Capacity for Infectious Diseases	93.283
Airport Improvement Program	20.106
Special Education – Grants to States	84.027

8. A threshold of \$676,833 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Republic did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Part II - Financial Statement Findings Section**

<u>Reference Number</u>	<u>Findings</u>
2006-1	Revenues
2006-2	Expenditures
2006-3	Expenditures
2006-4	Collection Letters/Notices - Hospital
2006-5	Cash
2006-6	Receivables
2006-7	Federal Grants Receivable

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

**Part II - Financial Statement Findings Section, Continued**

<u>Reference Number</u>	<u>Findings</u>
2006-8	Prepays
2006-9	Encumbrances
2006-10	Local Noncompliance
2006-11	Local Noncompliance
2006-12	Local Noncompliance
2006-13	Local Noncompliance
2006-14	Local Noncompliance

**Part III - Federal Award Findings and Questioned Cost Section**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2006-7	15.875/ 20.106/ 11.454/ 84.185A/ 10.766	Federal Grants Receivable	\$ -
2006-15	All major programs	Cash Management	\$ -
2006-16	84.027	Procurement, Suspension and Debarment	\$ 18,874
2006-17	93.283	Procurement, Suspension and Debarment	\$ 21,800
2006-18	84.027/ 93.283	Procurement, Suspension and Debarment	\$ -
2006-19	84.027	Allowable Costs/Cost Principles	\$ 4,457
2006-20	84.027	Allowable Costs/Cost Principles	\$ 929
2006-21	93.283	Activities Allowed or Unallowed	\$ 39,545
2006-22	93.283	Activities Allowed or Unallowed	\$ -
2006-23	93.283	Activities Allowed or Unallowed	\$ -
2006-24	93.283	Period of Availability of Funds	\$ 14,150
2006-25	93.283	Matching	\$ -
2006-26	20.106	Matching	\$ -
2006-27	93.283	Reporting	\$ -
2006-28	All major programs	Equipment and Real Property Management	\$ -

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

**Part II - Financial Statement Finding Section**

Revenues

Finding No. 2006-1

Criteria: An effective internal control provides for collections to be deposited in a timely manner (i.e., the next business day).

Condition: The following Division of Customs collections were not transmitted to the National Treasury in a timely manner:

<u>Customs Receipt</u>		<u>National Treasury Receipt</u>		<u>Days</u> <u>Lapsed</u>
<u>Receipt No.</u>	<u>Receipt Date</u>	<u>Receipt No.</u>	<u>Receipt Date</u>	
122461	09/26/06	908088	09/28/06	2
103095	10/05/05	839727	10/07/05	2
103399	10/26/05	844211	10/28/05	2
121501	05/26/06	887561	06/02/06	7
110699	12/23/05	856972	12/28/05	5
114458	04/04/06	878449	04/06/06	2
122329	09/07/06	904190	09/11/06	4
121665	06/16/06	891471	06/26/06	10
121887	07/14/06	895436	07/19/06	5
122055	08/04/06	898901	08/08/06	4
122384	09/14/06	906132	09/18/06	4

Cause: The cause of the above condition is the lack of adherence to established cash receipt policies and procedures.

Effect: The effect of the above condition is the potential for employees to misappropriate collections.

Prior Year Status: Lack of timely transmittal to the National Treasury was reported as a finding in the Single Audit of the Republic for fiscal years 2004 and 2005.

Recommendation: We recommend that the Republic ensure that collections are transmitted to the National Treasury in a timely manner.

Auditee Response and Corrective Action Plan: Both Division of Customs and Treasury Collection Section have improved their daily cash deposits. Treasury monitors Customs to ensure their deposits are done on a daily basis. Customs has three other collecting offices away from their main office. The main office is now monitoring their other offices to make their deposits daily.

Responsible: Clint Mersai, a Senior Officer in charge of Customs collection is responsible to ensure Customs at Post Office, Airport Cargo and Arrival submit their collections if any on time.

When Implemented: Summer of fiscal year 2006. This was already implemented, but towards the end of the fiscal year.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Expenditures

Finding No. 2006-2

Criteria: Expenditures should be authorized, supported and approved prior to incurrence.

Condition: During tests of expenditures, the following were noted:

- authorization for payment for one transaction could not be provided (voucher #563604);
- application for progress payment for three transactions could not be provided (voucher nos. 563604, 568191, DF600164);
- memo requesting payment for one transaction was dated prior to the execution of the Force Contract Agreement (voucher no. 561119);

Cause: The cause of the above condition is failure to obtain appropriate approvals and authorizations prior to incurring expenditures.

Effect: The effect of the above condition is a potential for unauthorized expenditures.

Recommendation: We recommend that the Republic review and strengthen controls in place surrounding the expenditure cycle.

Prior Year Status: Lack of appropriate approvals and authorizations prior to incurring expenditures was reported as a finding in the Single Audit of the Republic for fiscal year 2004 and 2005.

Auditee Response and Corrective Action Plan:

- Authorization that could not be provided was either the document was missing due to our move to the new capitol or there was just no proper authorization for reasons I cannot confirm because of lack of time. We are strengthening our internal controls where every one involved in document processes has a checklist to ensure that everything is in place before document is filed.
- Application for progress payment that could not be found may have been lost. Payment approving official will ensure the application for progress payment is present along with other required documents.
- We will ensure that proper sequence of events occur when processing documents for payment.

Responsible: Procurement Officers for Goods, Services and Construction  
When: FY 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Expenditures

Finding No. 2006-3

Criteria: The accounting procedures and guidelines for receiving quarterly allotments by the off island embassy offices, approved by the Minister of Finance, stipulate that all disbursements shall be in the form of a check in chronological sequence. A payment voucher is to be prepared for all checks issued. All travel authorizations must be requested by the Minister of State and be approved by the President in accordance with Executive Order No. 199, the revised travel policy. Travel authorization approvals can be obtained via fax. A travel claim voucher is filed after travel is complete with all supporting documents attached.

Condition: The first quarter 2006 check register of the Washington D.C. Embassy listed check numbers that were not in numerical sequence. The following disbursements for travel related costs were also noted:

<u>Check no.</u>	<u>Amount</u>	
1192	\$ 858	no supporting payment voucher and travel authorization provided
1193	1,495	Travel authorization was requested by Ambassador and approved by First Secretary
1206	1,325	no supporting payment voucher and travel authorization provided
1018	293	no supporting travel authorization provided
debit	1,325	no supporting travel authorization provided

Cause: The cause of the above condition is the failure of the embassy office to implement accounting procedures and guidelines.

Effect: The effect of the above condition is the potential for unauthorized expenditures.

Recommendation: We recommend that the Republic review and strengthen controls in place surrounding the expenditure cycle.

Auditee Response and Corrective Action Plan: To help the Embassies comply with requirements, they have to have a staff from the Ministry of Finance present on site to teach their bookkeeper. Working with the Embassy staff via email has gotten us nowhere. At this time a Finance staff in charge of the outside offices has gone to three of the four Embassies to train them to account for their funds properly and to report on time.

Responsible: Hermana Idip  
When: Fiscal Year 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Collection Letter/Notices – Hospital

Finding No. 2006-4

Criteria: Billings/statements of accounts (SOA) should be sent to customers in a timely manner. Additionally, good internal control provides for monitoring of billings/SOAs sent to ensure that billings/SOAs were sent to all patients with outstanding balances and that timely follow up is performed by sending necessary collection notices/letters.

Condition: A logbook is not maintained to ensure that billings/SOAs are sent out in a timely manner.

Cause: The cause of the above condition is the lack of timely monitoring of billings/SOAs sent to patients.

Effect: The effect of the above condition is a potential increase in bad debts and a misstatement of receivables.

Recommendation: We recommend that the Hospital establish policies and procedures to monitor billings/SOAs sent to patients with outstanding balances and ensure that billings/SOAs and collection letters and notices are provided to patients in a timely manner.

Auditee Response and Corrective Action Plan: Ministry of Health continues to work vigorously in sending out notices for delinquent accounts. It is our internal policy to send, at a minimum, two collection notices annually to all patients. This does not include rendition of Statement of outstanding accounts to indebted patients on their subsequent visits to the hospital.

MOH Action Plan: 1) Collection notices are sent out to debtors two times annually, at least, and 2) Past due accounts with promissory note agreement shall be referred to the Attorney General for legal action and remedy.

Responsible: Patrick Termeteet  
When: Fiscal year 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Cash

Finding No. 2006-5

Criteria: Bank accounts should be reconciled and reviewed on a monthly basis and reconciling differences should be resolved.

Condition: A review of monthly bank reconciliations noted the following:

1. Payroll account no. 105 was understated by \$139,643 at September 30, 2006. An audit adjustment was proposed to correct this condition;
2. Reconciling amounts ranging between \$870 and \$110,587 for the months of February, March, June, July and August 2006 could not be traced to supporting documents and general ledger recordation (cash account no. 108);
3. The October 2005 reconciliation stated a deposit in transit of \$1,002,464 as a subtractive item when it should have been added to cash (account no. 108);
4. A variance of \$1,635 between the reconciled bank balance and the recorded savings account balance appeared during the ten months from October 2005 to July 2006. The variance was reconciled during August 2006; however, we could not locate adequate documentation to substantiate the resulting adjustment;
5. The December 2005 reconciliation stated the existence of an unrecorded deposit of \$5,000; however, the amount was subsequently recorded to reduce the recorded cash balance (account no. 108);
6. Checks totaling \$66,562, which cleared the bank between March and April 2005, had been listed as outstanding checks and were adjusted to reduce revenues on 9/29/06, some 17 months later (Journal Voucher no. JV060162).

Cause: The cause of the condition is the lack of review of monthly bank reconciliations and non-resolution of reconciling differences.

Effect: The effect of the above condition is a misstatement of cash and revenues.

Recommendation: We recommend that monthly reconciliations be reviewed for accuracy and validity. Reconciling differences should be timely resolved.

Auditee Response and Corrective Action Plan: Since the Chief of Division of Finance and Accounting retired at end of fiscal year 2003, document approvals were delegated to supervisors. Since then the supervisor of the Reconciliation Section has been approving adjustments in her own section. We have made some changes where the controller will be approving the reconciliation form to ensure proper entries and or adjustments are made.

Responsible: Controller  
When: FY2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Receivables

Finding No. 2006-6

Criteria: As a control procedure, the general ledger balance of accounts receivable should be reconciled to the subsidiary ledger and differences should be resolved in a timely manner.

Condition: A review of the accounts receivable general ledger account detail in the General Fund (account no. 216) revealed a lack of activity throughout the year except for reconciling adjustments at September 30, 2006. Additionally, of the \$1,042,639 gross receivable in the General Fund, \$528,569 or 51% is aged over six months and some balances date back to 1998.

Cause: The cause of the above condition is the lack of policies and procedures to reconcile accounts receivable in a timely manner.

Effect: The effect of the above condition is potential misstatements in accounts receivable.

Recommendation: We recommend that management implement policies and procedures to ensure that accounts receivable are reconciled in a timely manner.

Auditee Response and Corrective Action Plan: Accounts Receivable Billing is a subsystem that has capability to interface transactions to DILOG GL. The Republic chose not to interface transactions from AR subsystem to the GL. At the end of the year, after reconciliation is done adjustments are made and posted to DILOG GL. Since a new person is now responsible for the Accounts Receivables, the controller is now teaching her to reconcile the accounts. She has begun the reconciliation and should be able to do it by the end of fiscal year 2007.

Responsible: Controller, Lilian Masaharu  
When: FY2007



# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-7  
CFDA No.'s: 15.875, 20.106, 11.454, 84.185A, and 10.766  
Agency: U.S. Department of the Interior, U.S. Department of Transportation  
U.S. Department of Commerce, Byrd Scholarship Program, and U.S.  
Department of Agriculture  
Requirement: Federal Grants Receivable  
Questioned Costs: \$0

Criteria: Receivables from grantor agencies should be reconciled and differences resolved.

Condition: During tests of grants receivable, we noted the following:

- Three Capital Improvement Project awards (CFDA #15.875) closed and inactive during the year ended September 30, 2006, have a balance of \$180,454 due to the grantor agency (grant nos. T-233, T-269, T-231);
- One grant award from the U.S. Department of the Interior (CFDA #15.875) closed and inactive during the year ended September 30, 2006, has a balance of \$34,145 due the grantor agency (costcenter no. 4680);
- One grant award from the U.S. Department of Transportation (CFDA #20.106) closed and was inactive during the year ended September 30, 2006, and has a balance of \$168,481 due the grantor agency (costcenter no. T54650);
- One grant award from OTIA Direct Grants (CFDA #15.875) that was inactive during the year ended September 30, 2006 has a balance of \$74,819 due the grantor agency (costcenter no. R63880);
- One grant award from the U.S. Department of Commerce (CFDA #11.454) with a balance of \$45,256 due from the grantor agency has not been collected as of September 30, 2006, and there were no records to determine the grant status (costcenter no. R53880);
- One grant award from the U.S. Department of Commerce (CFDA #11.454) with a balance of \$33,107 due from the grantor agency has not been collected as of September 30, 2006, and there were no records to determine the grant status (costcenter no. A23600);
- Four awards from the Byrd Scholarship Program (CFDA #84.185A) appear to have expired and are inactive but the following balances have not been returned to the grantor as of September 30, 2006:

<u>Costcenter no.</u>	<u>Due to Grantor agency</u>	
E83579	\$ 3,000	1998 grant
E13579	7,500	2001 grant
E33579	6,570	Grant expired on June 30, 2002
E63579	4,500	2006 grant

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-7  
CFDA No.'s: 15.875, 20.106, 11.454, 84.185A, and 10.766  
Agency: U.S. Department of the Interior, U.S. Department of Transportation  
U.S. Department of Commerce, Byrd Scholarship Program, and U.S.  
Department of Agriculture  
Requirement: Federal Grants Receivable  
Questioned Costs: \$0

- One grant award from the U.S. Department of Agriculture (CFDA #10.766) with a balance of \$40,735 due from the grantor agency has not been collected at September 30, 2006, and there were no records to determine the grant status (costcenter no. R53728).

Cause: The cause of the above condition is a lack of reconciliation of the schedule of expenditures of federal awards. In addition, balances due to grantors are not returned after program completion.

Effect: The effect of the above condition is a potential misstatement of grants receivables.

Recommendation: We recommend that management communicate with the affected grantor agencies to resolve and close the above mentioned programs.

Auditee Response and Corrective Action Plan: We continue to research and reconcile our Federal Grants Receivables, communicate our results to grantor agencies for confirmation and make necessary adjustments or payments as appropriate.

Responsible: Gandhi Ngirmidol and Ruth Wong  
When: FY2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Prepays

Finding No. 2006-8

Criteria: As a control procedure, the prepaids general ledger balance should be reconciled to the subsidiary ledger and differences resolved in a timely manner.

Condition: During tests of prepaids, we noted the following:

- There were no records available to evidence the percentage of completion or equivalent for prepaids of \$79,635 at September 30, 2006, which were represented by 50% and 75% advance payments (voucher nos. 579838, 587095);
- \$39,947 of prepaids at September 30, 2006 date from 2002 to 2005;
- An amount of \$21,120 (voucher no. 571931) was adjusted to expenditures subsequent to September 30, 2006, although it was supported by invoices dated during 2005;
- A prepaid amount of \$37,605 (voucher no. 569952) was adjusted to expenditures subsequent to September 30, 2006: however, services were rendered during the year ended September 30, 2006.

Cause: The cause of the above condition is the lack of policies and procedures to reconcile prepayments.

Effect: The effect of the above condition is potential misstatement of prepaids and related expenditures.

Recommendation: We recommend that management implement policies and procedures to ensure that prepaids are reconciled in a timely manner.

Auditee Response and Corrective Action Plan: There has been created a small group of four employees including the controller who review and ensure that items paid in advance are received on a timely manner, and that documents are forwarded to Finance for processing.

Responsible: Controller, Gandhi, Baidong and Noria  
When: June 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Encumbrances

Finding No. 2006-9

Criteria: An effective internal control provides for periodic and timely review of reserves for encumbrances. The reserve should be timely adjusted for cancelled and/or closed contracts.

Condition: Our tests of unliquidated encumbrances noted the following:

- Services for \$100,253 under two contracts (contract nos. C60012, C60032/voucher nos. 605505, 590454) have been rendered as of September 30, 2006; however, related encumbrances have not been adjusted. An audit adjustment was proposed to correct this condition;
- Encumbrances for two purchase orders totaling \$110,402 were over two years old. This condition may indicate that the encumbrances may no longer be valid (purchase order nos. G50019, P50105);
- One purchase (purchase order no. 60024) had been received as of September 30, 2006; however, the related encumbrance of \$22,000 has not been adjusted;
- One contract was partially cancelled but the related encumbrance of \$40,000 was not adjusted (contract no. D60129). An audit adjustment was proposed to correct this condition;
- One contract (contract no. D60031) has been performed as of September 30, 2006; however, the related encumbrance of \$49,031 was not adjusted. An audit adjustment was proposed to correct this condition;
- There were no records available to evidence the status of one encumbrance of \$21,120 (contract no. D60112);
- Encumbrances for two contracts totaling \$77,983, dated in 1997 and 1999, are inactive and there are no records available to evidence their status at September 30, 2006 (contract nos. C90161, C701212).

Cause: The cause of the above condition is the lack of reviews of reserves for encumbrances.

Effect: The effect of the above condition is potential misstatements of the reserves for encumbrances.

Recommendation: We recommend that the Republic ensure that periodic and timely review of reserves for encumbrances be performed and that the reserve be adjusted on a timely basis for encumbrances that are no longer valid.

Auditee Response and Corrective Action Plan: We continue to reconcile encumbrances. Controller will monitor to ensure adjustments are made to correct balances. In the meantime we are looking for an employee who also will be devoting a lot of his/her time reconciling encumbrances.

Responsible: Marino Miner, Ruth Wong  
When: July 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-10

Criteria: Except as otherwise specified by law, RPPL 3-54 (procurement law) applies to every expenditure of public funds by the National Government or State Governments irrespective of source, including United States Federal Assistance monies.

Additionally, the procurement law specifically provides for the following:

- Public notice of the invitation for bids shall be made at a reasonable time, at least 15 days prior to the date of the initial day of bidding time. The notice shall be furnished to all state governments and to all persons who have requested to be included 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 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.
- A bidding time of at least 30 days shall be provided unless the Procurement Officer makes a written and substantiated determination that a shorter time period is reasonable and necessary. The minimum time period should not be less than fifteen (15) days after the notice of invitation for bids is posted.
- Bids will be opened publicly in the presence of at least two (2) witnesses and the written summary of the bid will be countersigned by the witnesses.
- Contracts must be awarded in no later than 30 days after opening of the bids.

Condition: Of fifty-five expenditures tested from the Other Country CIP fund totaling \$8,897,721, the following were noted:

- six contracts (contract nos. 06-LOC-012, D60148, D60155, D60070, C4013801, D60110) were awarded to State Governments without going through the bidding process;
- Public notice of the invitation for bids for four expenditures tested were not advertised in all newspapers, radio and television stations within the Republic. It is represented that invitations for bid were posted and advertised in all required locations but there is no documentation in file to evidence that such took place (voucher nos. 583126, 564121, 569556, 576587);
- Bidding time for two projects was less than thirty days without written documentation to reduce the time frame (voucher nos. 583126, 594840);
- Written bid summaries for two projects were signed by less than two witnesses (voucher nos. 567704, 578667);
- Signed contracts for three projects do not include all minimum contract requirements (voucher nos. 564919, 564945, 586803).

# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

### Local Noncompliance

#### Finding No. 2006-10, Continued

Of fifty-three expenditures tested from the general fund totaling \$1,303,639, we noted the following:

- public notice of the invitation for bid was not advertised in all newspapers, radios and television stations within the Republic for four transactions (voucher no. 558804, 581143, 596647, 582570);
- There was no indication on file to indicate that compliance with procurement policy was met for one transaction (voucher no. 586816). There was no evidence of public notice and record of decision for one transaction (voucher no. 557312).

Of thirteen expenditures tested from the Hospital Trust Fund totaling \$366,792, the following were noted:

- bidding time for three transactions was less than thirty days without written documentation to reduce the time frame (voucher nos. 558445, 550729, 569783);
- Public notice of the invitation for bid was not advertised in all newspapers and radio stations within the Republic for three transactions (voucher nos. 558445, 550729, 569783).

Cause: The cause of the above condition is the lack of adequate controls in place that ensure compliance with specific instructions and guidelines of the procurement regulations. Additionally, full compliance with the procurement law may not be practical given circumstances, but there does not currently appear to be a mechanism to address such circumstances.

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

Recommendation: We recommend that management consider consulting the Legislative branch and revisit existing procurement regulations.

Prior Year Status: Noncompliance with RPPL 3-54 was reported as a finding in the Single Audit of the Republic for fiscal year 2004 and 2005.

Auditee Response and Corrective Action Plan: The law requires advertisement in a newspaper that is widely read, all radio stations and televisions ... This portion of the law has gone to the attention of the legislature, but has not been changed. It is too expensive and cumbersome advertising any one thing in a news paper not to mention television, all radio stations some of which people do not even listen to, because they are meant to capture audience in China or somewhere else. Posting bids in all the state governments do not make any sense when no business man visits most of these small unknown offices, two of which takes several days to travel to by ship, and three takes travel by big boats that take several hours to reach. For these reasons and more we are only advertising on one widely read newspaper which meets the law and we have only one TV station that we advertise through, but we advertise only on the radio stations that most people listen to. It is inefficient to go beyond these that already have some affect on the project budget. We continue to appeal to the legislature to make some changes to the advertising law.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-10, Continued

Auditee Response and Corrective Action Plan, Continued:

Posting bids on public places have been complied with from the beginning. It is showing evidence of the posting that is not practical. The procurement officers will keep some kind of logbook that shows the date, time, project, person who posted, concurred by another employee, and the place the advertisement was posted to. The appropriate procurement officers are now being notified of these findings so they are making sure they comply if they have not already done so.

Responsible: Richard Mangham – Procurement Officer for Construction and Maintenance. Millan Isack – Procurement Officer for Goods. Secilile Eldebechel – Procurement Officer for Personal, professional and other miscellaneous services and housing.

When: June 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-11

Criteria: Executive Order No. 140 requires all travel advances to be liquidated no later than thirty days after the completion of travel. If the advances remain outstanding one month after the notification by letter, the Republic is to commence payroll deductions to recover the advance. Additionally, monitoring controls are necessary to avoid payroll deductions in excess of the advanced total.

Condition: Of \$246,330 in travel advances for all funds at September 30, 2006, we noted the following:

- \$74,820 represent travel advances dated between 1998 and 2005, which include former employees of the Republic; \$171,510 could not be determined to be policy compliant due to lack of an aging schedule;
- employee payroll deductions for outstanding travel advances, recorded in General Fund account no. 511, amounted to \$18,027 at September 30, 2006, of which \$5,014 are dated between 2001 and 2005.

Cause: The cause of the above condition is the lack of adherence to prescribed policies and procedures. Travel advances are recorded in more than one general ledger account without overall reconciliation of travel advances and related payroll deductions/payments.

Effect: The effect of the above condition is that travel advances are not liquidated in a timely manner, thereby understating expenditures and overstating travel advance receivables.

Recommendation: We recommend that the Bureau of National Treasury enforce all travel policies and implement monitoring controls to ensure that travel advances are reconciled and collected.

Auditee Response and Corrective Action Plan: The controller will review outstanding travel advances from time to time to ensure the policies are complied with. Travel section will fill out the amount deducted on a biweekly basis, and the total amount to be deducted on the form that payroll will be entering on the limit field, so that deduction will automatically stop when total amount is reached.

Responsible: Controller, Hermana Idip and Ibuuch Ngiriou  
When: June 2007



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-12

Criteria: Pursuant to Section 202.7, Submission of Travel Requests, of the Republic's Travel Policies and Procedures with effective date of August 12, 2001, all planned travel authorizations must be completed and submitted for approval at least 30 days prior to travel. All travelers of unplanned and emergency travels of less than 30 days to travel are urged to submit travel authorizations as soon as they are confirmed with justifications to be approved by the President or his designee. Travel voucher, expense support and a trip report shall be submitted within thirty days after completion of the official travel.

Condition: Travel authorizations are completed and approved less than 30 days prior to travel without evidence of approval for an unplanned or emergency travel on file.

Cause: The cause of the above condition is a lack of enforcement of existing travel policies and procedures.

Effect: The effect of the above condition is noncompliance with applicable travel policies and procedures.

Recommendation: We recommend that the Republic consider revising the established travel policies and procedures to reflect current travel practice.

Auditee Response and Corrective Action Plan: The Travel Policy is now being revised to amend the 30 days as well as other impractical section of the policy to be effective in October 2007. In the meantime the department and travel section will ensure there is justification as to the reason for less than 30 days.

Responsible: Ibuuch Ngiriou and Vicky Miner  
When: June 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-13

Criteria: Per Title 40, Chapter 5, § 504 of the Palau National Code, the Republic, by and through the President, shall have the authority to borrow money or goods and incur long-term obligations and repay the same with interest, from any private persons. In addition, the annual unified budget shall reflect all private borrowings, obligations and issuances of securities and bonds of the Republic in detail, for every year such borrowing is in effect.

Condition: On June 28, 2002, the Republic's Washington Embassy entered into a bank loan of \$160,000. Although the loan was due on May 20, 2004, including interest at 7% per annum, it remains outstanding at September 30, 2006 without status records.

Cause: The cause of the above condition is a lack of authorization for loan repayment.

Effect: The effect of the above condition is noncompliance with Title 40, Chapter 5, § 504 of the Palau National Code.

Recommendation: We recommend that the Republic address the Republic's Washington Embassy loan.

Prior Year Status: This matter was reported in the 2005 Single Audit.

Auditee Response and Corrective Action Plan: The Ministry of Finance still maintains its position that the loan was not approved by the appropriate officials. Therefore, it is the responsibility of Ambassador Kyota to pay back the loan with his office or own money. At this time the Ambassador has changed banks and we do not know anything about the status of the former bank and the line of credit.

Responsible: Ambassador Kyota  
When: FY2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Local Noncompliance

Finding No. 2006-14

Criteria: The Republic's Public Service System Rules and Regulations dated 1996 indicate that appropriate management officials shall develop and establish a time keeping system for employees within their respective branches or departments. Any exception to this policy should be authorized.

Condition: Our testing of payroll expenditures noted biweekly certified and approved timesheets of employees however, many employee timecards supporting the timesheets could not be provided. There was no documentation provided authorizing exception to the above policy. Some employees do not even submit timecards while others are required to use timecards.

Cause: The cause of the above condition is weakness in the time keeping system for employees.

Effect: The effect of the above condition is noncompliance with the above policy.

Recommendation: We recommend that exceptions to the above policy be documented and authorized by the respective branches. The Republic may also wish to amend the above requirement to reflect alternative ways in keeping employees' actual time worked.

Auditee Response and Corrective Action Plan: The ministries have been told to develop other alternative method of keeping track of some employees if they do not time in and out. We are going to monitor them closely and if they do not submit an authorized systematic way other than time in and time out, we will require their internal timesheets and process their payroll based on their internal timesheets meaning if there is no time, no pay will be processed.

Responsible: Nick, Regis, Ruth and Siang

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

**Part III - Federal Award Findings and Questioned Cost Section**

Finding No. : 2006-15  
CFDA No.: All major programs  
Requirement: Cash Management  
Questioned Costs: \$0

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the payout of funds for program costs should be minimized.

Condition: For 75 (or 35%) of 216 transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 4 to 180 days, as follows:

<u>CFDA # no.</u>	<u># of Transactions</u>
15.875	6
20.106	17
84.027	17
93.283	25
84.256A	5
93.224	5

One disbursement represented a 75% advance payment or \$7,388 of the contract price (voucher no. 561355). There was no record of the status of the service as of September 30, 2006.

One expenditure represented \$1,000 to open an account at the Republic's supply office (ServMart) for immediate needs during October 2005 (Journal Voucher no. DF600005). There was no record to indicate receipt of goods.

One disbursement charged to expenditures represented a 25% advance payment of \$3,400 of the contract price (voucher no. 567092 /check no. 228974).

One disbursement of \$300,910 (check no. 234731, grant no. Grant PAL-115) representing 75% payment upon signing of contract dated July 19, 2006, was charged to expenditures; however, there was no record of percentage of completion as of September 30, 2006.

Cause: The cause of the above condition is lack of internal controls over cash management.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the U.S. Department of Health and Human Services, the U.S. Department of Education, the U.S. Department of the Interior and the U.S. Department of Transportation is less than \$10,000.

Recommendation: We recommend that the Republic establish internal controls over cash management that ensure compliance with federal requirements.

Prior Year Status: Lack of internal controls over cash management was reported as a finding in the Single Audit of the Republic for fiscal year 2004 and 2005.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. : 2006-15, Continued  
CFDA No.: All major programs  
Requirement: Cash Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: Previously, we had been making sure that when we receive federal drawdown, we disburse the payments still pending within three days beginning with the mailing date of the check. This year's audit, the auditors have made us aware that we should be counting the date from the drawdown deposit to the date the check clears the bank. This will be practically impossible to keep track of each payment and make drawdown for each check clearing the bank. We are therefore going to use the paid history report to do the drawdown rather than expenditures reports as this is more practical and easier to monitor. We have agreed to encourage wire transfers to pay federal vendors outside of Palau because it takes one or two days for wires to clear. We can then do the drawdown and then wire the payment so that time elapsed is within three days. We began using the paid history to drawdown funds beginning fiscal year 2007. There is now a staff that monitors the number of days between when a check is printed to when it clears the bank. She inquires when checks do not clear within the average clearing date.

Responsible: Director Rechesengel, Gandhi and Ebil  
When: October 2006

# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-16  
CFDA No.: 84.027  
Agency: U.S. Department of Education  
Grant No.: H027B030001, H027A050006A, H027B030001-04, H027B030001-05  
Program Name: Special Education  
Requirement: Procurement, Suspension and Debarment  
Questioned Costs: \$18,874

**Criteria:** In accordance with applicable local procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. In addition, the procurement officer shall obtain price quotations from at least three vendors for small purchases over \$5,000 not put to bid. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required if there is adequate documentation that there are fewer suppliers of the items within the Republic. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement restricts full and open competition. Determination of airfare cost should be based on available airlines between Palau and the destination.

**Condition:** Of forty-six expenditures tested totaling \$169,429 of a total population of \$395,288, the following were noted:

- Quotations were not obtained from an adequate number of qualified sources for four disbursements:

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant no.</u>
222889	552030	\$ 9,830	Pave office parking lot	H027B030001
233270	579821	3,000	Pave classroom walkway and shed	H027B030001
230855	572392	2,300	Pave classroom walkway and shed	H027B030001
236716	588257	<u>3,744</u>	Pave classroom walkway and shed	H027B030001
		<u>\$ 18,874</u>		

- Although additional explanation was provided during audit fieldwork, inadequate rationale was documented on file for requiring a brand name (without specifying "or equivalent"):

<u>Check No.</u>	<u>Voucher No.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant no.</u>
230547	569522	<u>\$ 9,660</u>	Canon IR 210 copier	H027A050006A

- Purchases of airline tickets are performed in line with local procurement regulations as price quotations from local travel agents are obtained; however, price comparison with other available airlines between Palau and the final destination is not evident.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-16, Continued  
CFDA No.: 84.027  
Agency: U.S. Department of Education  
Grant No.: H027B030001, H027A050006A, H027B030001-04, H027B030001-05  
Program Name: Special Education  
Requirement: Procurement, Suspension and Debarment  
Questioned Costs: \$18,874

Cause: The causes of the conditions are inadequate documentation of small purchases and weak controls over ensuring that competition remains open among vendors. The Republic's regulations indicate that if no more than two vendors possess the required merchandise or service, no competitive procurement is required. However, no documentation was available to indicate compliance with the regulation. Travel costs were all from one airline between Honolulu and the continental United States without price justification or comparison with other airlines. The Republic is currently revising its travel policies and procedures to ensure that price comparison with other available airlines is performed when purchasing airline tickets. Given that travel costs were incurred under the Republic's regulations, no questioned costs result from this matter.

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

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed, approved and be documented in the procurement file. We also recommend that the Republic amend its travel policies and work with its travel agencies to enhance competition in its airline choices.

Auditee Response and Corrective Action Plan:

- The department in question solicited quotes from more than three vendors, however less than three vendors submitted quotes while there were other vendors out there that did not receive any solicitation. The procurement officer that approved the vendor had the understanding that soliciting quotes from more than three vendors was adequate whether they submitted quotes or not. The procurement officers are now aware of the requirement and will ensure this will not happen in the future.

Responsible: Richard Mangham and Millan Isack  
When: FY2007

- Prior to this audit, solicitation for quotes included phone calls for small purchases less than \$10,000. We have come up with a form for departments to use when soliciting quotes that will not name brands, but rather specs or when naming brands to include "or equivalent" on the specifications.

Responsible: Procurement Officers: Millan Isack, Richard Mangham, Secilil Eldebechel  
When: FY2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-16, Continued  
CFDA No.: 84.027  
Agency: U.S. Department of Education  
Grant No.: H027B030001, H027A050006A, H027B030001-04, H027B030001-05  
Program Name: Special Education  
Requirement: Procurement, Suspension and Debarment  
Questioned Costs: \$18,874

Auditee Response and Corrective Action Plan, Continued:

- When first cited in the previous audit for not soliciting at least three price quotations for airline tickets, we responded by obtaining three price quotations from the three travel agencies we have. The travel agencies gave us quotations as they had been doing in the past that used one airline until they could not use it to destination and back. This audit has made us aware that we need to obtain three price quotations from three different airlines. We have come up with procedures to have the different travel agencies obtain price quotations from different airlines especially from Honolulu to the mainland USA.  
Responsible: Travel Section staff: Ibuuch and Vicky  
When: FY2007



# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-17  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U50/CCU024356-02-1, U90/CCU921820-03, U50/CCU923972-01-1  
Program Name: Delivering Environmental Health Services, Public Health Preparedness and Response for Bioterrorism, Epidemiology and Laboratory Capacity for Infectious Diseases  
Requirement: Procurement, Suspension and Debarment  
Questioned Costs: \$21,800

**Criteria:** In accordance with applicable procurement requirements, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable Republic of Palau procurement requirements and such approvals should be documented in the procurement file. In addition, the procurement officer shall obtain price quotations from at least three vendors for small purchases over \$5,000 not put to bid. Small purchases under \$5,000 may be limited to local vendors. Three price quotations are not required if there is adequate documentation that there are fewer suppliers of the items within the Republic. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement restricts full and open competition. Determination of airfare cost should be based on available airlines between Palau and the destination.

**Condition:** Of eighty-five items tested totaling \$ 281,894 of a total population of \$ 770,983, the following were noted:

- There was no evidence on file that quotations were obtained from an adequate number of qualified sources for the following:

<u>Voucher no.</u>	<u>Check no.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant no.</u>
590984	237294	\$ 1,180	Drum unit for copier	U50/CCU024356-02-1

- Requests for quotation/proposal, evidence of public notices and bid evaluations could not be provided for the following project:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant no.</u>
236778	587953	\$ 4,595	Food microbiology lab project	U50/CCU923972-01-1
229746	567324	6,449	Food microbiology lab project	U50/CCU923972-01-1
227947	563365	9,576	Food microbiology lab project	U50/CCU923972-01-1
		\$ 20,620		

- Purchase of airline tickets is performed in line with local procurement regulations as price quotations from local travel agents are obtained; however, price comparisons with other available airlines between Palau and the final destination is not evident.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-17, Continued  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U50/CCU024356-02-1, U90/CCU921820-03, U50/CCU923972-01-1  
Program Name: Delivering Environmental Health Services, Public Health Preparedness and Response for Bioterrorism, Epidemiology and Laboratory Capacity for Infectious Diseases  
Requirement: Procurement, Suspension and Debarment  
Questioned Costs: \$21,800

Cause: The cause of the above condition is inadequate documentation on small purchases and weak controls over ensuring that competition remains open among vendors. The ROP regulations indicate that if no more than two vendors possess the required merchandise or service, no competitive procurement is required. However, no documentation was available to indicate compliance with the regulation. Quotations obtained for travel costs, if any, were all from one airline between Honolulu and the continental United States without price justification or comparison with other airlines. Given that travel costs were incurred under the Republic's regulations, no questioned costs result from this matter.

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

Recommendation: We recommend that the Republic strengthen internal controls over procurement to maximize competition while maintaining the best interests of the Republic. If exceptions are allowed by procurement regulations, they should be reviewed and approved and the reasons should be documented in the procurement file. We also recommend that the Republic amend its travel policies and work with its travel agencies to enhance competition in its airline choices.

Auditee Response and Corrective Action Plan:

- For this particular program, the manager will make sure all requisitions have the required number of price quotations before they process their requisitions. The appropriate procurement officer will also make sure there are enough price quotations before approving the requisitions.

Responsible: Millan and Maireng

- For this particular procurement, copies of request for quotations/proposal and bid evaluation were filed at the Division of Environmental Health (DEH). However, evidence of public notice was not on file. Procurement officers should have evidence of public notice on file, but unfortunately the procurement officer in charge did not have the evidence on file. DEH has decided to also make sure they retain all necessary copies of the required documents on file. Ministry of Health has done their own internal controls that ensure they comply with rules and regulations, and that they have copies of all required documents within their own offices. Procurement officer will also make sure he has all the required documents on file.

Responsible: Millan and Regis

- See corrective action plan for Travel (finding no. 16, bullet no. 3)

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-18  
CFDA No.: 84.027, 93.283  
Agency: U.S. Department of Education, U.S. Department of Health and Human Services  
Grant No.: H027A050006A, H027B030001-04, H027B030001-05, U90/CCU921820-03, U58/CCU922936-03, U90/CCU921820-05  
Program Name: Special Education, Public Health Preparedness and Response for Bioterrorism, Chronic Disease Prevention and Health Promotion Programs  
Requirement: Procurement, Suspension and Debarment  
Questioned Costs: \$0

Criteria: The grant terms and conditions require that when issuing statements, press releases, requests for proposals, bid solicitations, and other documents describing projects or programs funded in whole or in part with Federal money, all grantees receiving federal funds, shall clearly state the (\$) dollar amount of federal funds for the project, (2) the percentage of the total cost of the project that will be financed by federal funds, and (3) the percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.

Condition: There were no procurement documents on file evidencing compliance with the above criteria nor were we able to substantiate through other means that the above criteria was met.

Cause: The cause of the above condition is a lack of awareness of such provision.

Effect: The effect of the above condition is noncompliance with grant terms and conditions.

Recommendation: We recommend that the Republic comply with the criteria.

Auditee Response and Corrective Action Plan: This issue was first cited in the prior audit. Our understanding was that it was only required for when soliciting bids, etc. for purchases put to bid. The procurement officers immediately began complying with the requirement with the understanding that it was only for large purchases. This audit, the issue is not only for large, but also for small purchases. This is quite hard to comply with especially when an order is fairly small, but we have begun to comply with the terms and conditions by designing a price soliciting form with the wording and fill in blanks for the requestor to indicate the percentage of the cost that is Federally funded. Millan and Secilil have come up with a form that Millan has designed especially for programs that require these terms and conditions.

Responsible: Millan and Secilil

# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-19  
CFDA No.: 84.027  
Agency: U.S. Department of Education  
Grant No.: H027B030001-04, H027A050006A  
Program Name: Special Education  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$ 4,457

Condition: Per OMB Circular A-87, Attachment B, Section 15, capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency. In addition, a cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards.

Criteria: Of forty-six expenditures tested totaling \$169,429 of a total population of \$395,288, three totaling \$9,044 represented an improvement project to a building without prior approval of the grantor agency and one represents an airline ticket, which was subsequently cancelled:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Grant no.</u>
233270	579821	\$ 3,000	
230855	572392	2,300	
236716	588257	<u>3,744</u>	
		9,044	
237279	587623	<u>3,676</u>	H027B030001-04
		12,720	
Less questioned at finding 2006-16		<u>(9,044)</u>	
Questioned cost		\$ <u>3,676</u>	

In addition, a related ticket itinerary could not be provided for one travel expenditure of \$781 (Voucher no. 576687, grant no. H027A050006A); thus, we could not verify if any non-business-related side trips were a consideration.

Cause: The cause of the above condition is a weakness in internal controls over allowable cost/cost principles requirement.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirement that may result in restriction or disallowed funds.

Recommendation: We recommend that the Republic comply with the provisions of OMB Circular A-87.

### Auditee Response and Corrective Action Plan:

- It had not dawned on the department that the purchase in question needed prior approval from the grantor. The program manager is aware that equipment in the amount of \$5,000 and over not specified in the grant proposal requires approval from the grantor. Pavement for this amount is an expenditure that is why the program manager did not request for an approval from the grantor. Ministry of Finance and the program managers will start familiarizing themselves with US Federal regulations so that we can make the right decisions.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-19, Continued  
CFDA No.: 84.027  
Agency: U.S. Department of Education  
Grant No.: H027B030001-04, H027A050006A  
Program Name: Special Education  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$ 4,457

Auditee Response and Corrective Action Plan, Continued:

Responsible: Evans Imetengel, Finance appropriate personnel  
When: Immediately

- Travel section has requested a refund of the airline ticket in question. The employee sent a letter with the per diem check to Special Education. Special Education sent the letter with the check to a Finance employee in charge of federal drawdown. The letter and the check got lost between Special Education, employee in charge of Federal drawdown and the Treasury. According to employee who received it, he gave the letter and the check to Treasury. According to the Treasury they referred it back for more information such as account, etc. This process took a while and Travel Section failed to receive the information so they made a payment to the travel agency. At this time the request for reimbursement is pending. Employees are being informed to submit unused checks to Disbursement Section and to inform Travel Section as soon their trips are canceled so they do not make any payments to the travel agencies.

Responsible: Travel Section supervisor, Ibuuch and traveler  
When: FY2007

# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-20  
CFDA No.: 84.027  
Agency: U.S. Department of Education  
Grant No.: H027B030001-04, H027A050006A  
Program Name: Special Education  
Requirement: Allowable Costs/Cost Principles  
Questioned Costs: \$929

**Criteria:** The Republic's Public Service System Rules and Regulations dated 1996 indicate that appropriate management officials shall develop and establish a time keeping system for employees within their respective branches or departments. Any such exception to this policy should be authorized.

**Condition:** Of sixty one payroll expenditures tested totaling \$26,278 of a total population of \$688,977, paid hours were in excess of actual hours indicated on the timecard for ten employees as follows:

<u>Employee no.</u>	<u>Check no.</u>	<u>Payperiod</u> <u>Ending</u>	<u>Paid hours in</u> <u>excess of</u> <u>timecards</u>	<u>Hourly</u> <u>Rate</u>	<u>Excess</u> <u>Payment</u>
025526	1000746	10/15/05	4.00	\$ 6.39	\$ 26
049749	1005729	11/12/05	10.00	\$ 3.08	31
068600	1020630	02/04/06	2.75	\$ 7.90	22
075565	1028070	03/18/06	1.50	\$ 3.08	5
38591	1052794	08/05/06	2.50	\$ 7.58	19
68448	1020629	02/04/06	24.00	\$ 5.08	122
420676	1045428	06/24/06	80.00	\$ 6.94	555
15073	1005714	11/12/05	9.00	\$ 3.79	34
75583	1047884	07/08/06	40.00	\$ 3.53	<u>141</u>
Total excess payment					\$ <u>929</u>

**Cause:** The cause of the above condition is weakness in the time keeping system for employees charged to the grant award.

**Effect:** The effect of the above condition is questioned costs. The costs are questioned as the projected questioned costs exceed the threshold.

**Recommendation:** We recommend that the Republic strengthen controls over time record keeping to ensure compliance with the criteria.

**Auditee Response and Corrective Action Plan:** The government of Palau employees had practiced applying for annual and or sick leave when such leave reached 32 hours consecutively for many years. Anything below 32 hours was at the discretion of the appropriate management. Most of the departments internal policies did not require leave application for leave taken under 32 hours. When regular hours did not reach 80, leave were charged for the difference. During prior audit, we were cited for non compliance with rules and regulations. We began complying with the requirement, but it was already too late for the pay periods that had already been completed prior to the time we received the first citing. We have met with departments to discuss this issue, so that they are now in compliance. If we find that departments are not complying, then we will require all internal timesheets submitted with Finance timesheets in order to get paid.

Responsible: Program Managers, Gandhi Ngirmidol follows through  
When: FY2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-21  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U90/CCU921820-03, U90/CCU921820-04-3  
Program Name: Public Health Preparedness and Response for Bioterrorism  
Requirement: Activities Allowed or Unallowed  
Questioned Costs: \$ 39,545

Criteria: Prior approval should occur for acquisition of equipment in excess of \$5,000. Program expenditures should be in accordance with the purpose of the federal program and be necessary and reasonable for the performance of the program.

Condition: Of eighty-five expenditures tested totaling \$ 281,894 of a total population of \$ 770,983, we noted the following:

- There was no prior grantor approval for the following acquisition of equipment:

<u>Check no.</u>	<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant no.</u>
212678	552916	\$9,917	Paging system	U90/CCU921820-03
223519	553735	<u>15,450</u>	Emergency alert system	U90/CCU921820-03
		<u>\$ 25,367</u>		

- One expenditure in the amount of \$1,003 was charged to an expired grant (journal voucher no. DF600041).
- One expenditure of \$4,925 was to create information and architecture, design, build, test and launch a website for the Bureau of Public Health and all its divisions, units and programs, which did not appear to directly relate to the Public Health Preparedness and Response for Bioterrorism program (voucher no. 552859, grant no. U90/CCU921820-03);
- One expenditure in the amount of \$8,250 was for training; however, there was no attendance record or equivalent to evidence that the training in fact occurred, (Voucher no. 594714, grant no. U90/CCU921820-04-3).

Cause: The cause of the above condition is weak internal control over compliance with federal requirements.

Effect: The effect of the condition is noncompliance with federal requirements that results in questioned costs.

Recommendation: We recommend that the Republic strengthen controls over compliance with federal grant regulations. We also recommend that the Republic ensure that expenditures charged to the program are directly related to program goals and objectives.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-21, Continued  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U90/CCU921820-03, U90/CCU921820-04-3  
Program Name: Public Health Preparedness and Response for Bioterrorism  
Requirement: Activities Allowed or Unallowed  
Questioned Costs: \$ 39,545

Auditee Response and Corrective Action Plan:

- Grantee was given funds to improve the emergency alert system, however did not request for prior approval for the purchase of equipment necessary for this project. Section 15 of OMB Circular A-87 has been disseminated to all program managers for reference in the purchase of equipment. Retroactive request to approve this activity has been sent to granting agency.

Responsible: Regis, program manager and Gandhi

- This purchase was paid in advance. Prepaid expenses are paid with local funds. When a purchase is complete, expenditure is recorded. Transfers between prepaid expense and federal account can be done at this time. This particular purchase was complete within the liquidation period, unfortunately documents did not come in time zero out the prepaid account and debit the expenditure.

Responsible: Controller Ruth Wong and Gandhi Ngirmidol will work together to ensure transfers are made with the liquidation period.

- Grantee was given funding to create information and architecture, design, build, test and launch website for the Bureau of Public Health and all its programs in an effort to increase the capacity to disseminate emergency preparedness information. Retroactive request to approve this activity has been sent to granting agency.

Responsible: Regis, program manager and Gandhi

- Program manager has agreed to take attendance on all trainings conducted charged to the program account.

Responsible: Regis, program manager and Gandhi



# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-22  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U55/CCU922043-04, U90/CCU921820-03, U58/CCU922936-03, U90/CCU921820-04-3, U55/CCU922043-05-3, U50/CCU923972-01-1, U50/CCU024356-02-1, U50/CCU923972-02  
Program Name: National Cancer Prevention and Control Program, Public Health Preparedness and Response for Bioterrorism, Chronic Disease Prevention and Health Promotion Programs, Epidemiology and Laboratory Capacity for Infectious Diseases, Delivering Environmental Health Services  
Requirement: Activities Allowed or Unallowed  
Questioned Costs: \$0

Criteria: Grant funds are not to be used for any purpose other than that which they are offered without prior approval from the grantor agency.

Condition: Of eighty-five expenditures tested totaling \$ 281,894 of a total population of \$ 770,983, the following expenditures could not be agreed to the grant budget and budget justification:

<u>Voucher no.</u>	<u>Amount</u>	<u>Description</u>	<u>Grant no.</u>
556757	\$10,080	Shipment charge for former employee to point of recruitment	U55/CCU922043-04
552859	4,925	Design and build website for Bureau of Public Health	U90/CCU921820-03
553261	1,625	10 each GP 2000 portable radio	U90/CCU921820-03
568576	2,238	Remote alarm	U50/CCU923972-02
593659	6,000	2 billboards	U90/CCU921820-04-3
583932	1,200	Electronic typewriter	U58/CCU922936-03
557012	2,799	Wireless PA system	U58/CCU922936-03
568576	4,927	Freezer	U50/CCU923972-02
581192	5,400	2 each computers	U55/CCU922043-04
579812	8,000	5 each ICOM VHF base station, 11 portable transceiver	U90/CCU921820-03
553734	9,968	16 each pocket photometer	U90/CCU921820-03

It was represented that shifting among cost categories within 25% of the total approved budget occurred to accommodate unanticipated needs of the programs; however, we could not agree the approved grant budget to the Republic's program budget allocation. No questioned costs result from the finding as we agree that budget reallocations are authorized. However, such should be documented and should be on file.

Cause: The cause of the above condition is weak internal control over program budget documentation.

Effect: The effect of the above condition is lack of audit trail between the approved grant budget and the Republic's internal program budget.

Recommendation: We recommend that the program budget allocation/allotment form be prepared based on the actual cost categories of the grant award. Changes to the grant cost categories should be documented accordingly.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-22, Continued  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U55/CCU922043-04, U90/CCU921820-03, U58/CCU922936-03, U90/CCU921820-04-3, U55/CCU922043-05-3, U50/CCU923972-01-1, U50/CCU024356-02-1, U50/CCU923972-02  
Program Name: National Cancer Prevention and Control Program, Public Health Preparedness and Response for Bioterrorism, Chronic Disease Prevention and Health Promotion Programs, Epidemiology and Laboratory Capacity for Infectious Diseases, Delivering Environmental Health Services  
Requirement: Activities Allowed or Unallowed  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: The Ministry of Finance controller will work closely with Budget and program staff to create an appropriate Budget allotment that agrees with program objectives.

Responsible: Ruth, Regis, program manager and Goretty  
When: July 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-23  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U55/CCU922043-04, U58/CCU922936-03, U55/CCU922043-05-3,  
U50/CCU923972-01-1,  
Program Name: National Cancer Prevention and Control Program, Public Health  
Preparedness and Response for Bioterrorism, Chronic Disease  
Prevention and Health Promotion Programs  
Requirement: Activities Allowed or Unallowed  
Questioned Costs: \$0

Criteria: If an employee spends less than 100% of his or her time on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program serve, unless an alternative method has been authorized by the funding agency.

Condition: Not all personnel spend 100% of their time on the National Cancer Prevention and Control Program and the Chronic Disease Prevention and Health Promotion program. Salary and wage certification forms are utilized by the program in which employees certify that such percentage of their time was spent on the program; however, there were no supporting personnel activity reports or equivalent. Salaries unrelated to the program could not be determined based on available evidence and therefore, no questioned costs are estimated for the programs.

Cause: The cause of the above condition is weak internal control over time record keeping. Certain health care professionals such as nurses have difficulty tracking their time spent per patient encounter.

Effect: The effect of the above condition is potential noncompliance with applicable cost allocation principles requirements.

Recommendation: We recommend that the Republic discuss this matter with the funding agency and an approved method of cost allocation be adopted.

Auditee Response and Corrective Action Plan: At this time program managers have been instructed to make sure all employees working for their program keeps a log of their time that agrees to the distribution of their salaries and time certification.

Responsible: Regis and program managers. Gandhi follows through.

# REPUBLIC OF PALAU

## Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2006

Finding No.: 2006-24  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U58/CCU922936-03, U58/CCU922936-02-2, U90/CCU921820-03, U50/CCU923972-01-1  
Program Name: Chronic Disease Prevention and Health Promotion Program, Public Health Preparedness and Response for Bioterrorism, Epidemiology and Laboratory Capacity for Infectious Diseases  
Requirement: Period of Availability of Funds  
Questioned Costs: \$14,150

Criteria: According to 45 CFR §92.23, a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee.

Condition: Of forty expenditures tested totaling \$270,645, the following were noted:

1. Payments were made later than 90 days after the end of the funding period for four expenditures:

<u>Voucher no.</u>	<u>Check no</u>	<u>Budget Period End</u>	<u>Check Date</u>	<u>Date Received</u>	<u>Amount</u>	<u>Grant no.</u>
591167	237753	06/29/06	10/18/06	09/25/06	\$ 6,050	U58/CCU922936-03
587953	236778	12/31/05	09/20/06	09/11/06	4,595	U50/CCU923972-01-1
592924	237866	06/29/06	10/18/06	09/27/06	1,934	U58/CCU922936-03
550758	222849	06/29/05	11/29/05	10/05/05	1,970	U58/CCU922936-02-2
					\$ 14,549	
					Less amount questioned at finding 2006-17	(4,595)
					Total questioned cost	\$ 9,954

2. Services/purchases were charged later than 90 days after the end of the funding period, 12/09/05:

<u>Voucher no.</u>	<u>Journal Transaction Date</u>	<u>Amount</u>	<u>Grant no.</u>
DF600028	01/31/06	\$ 1,625	U90/CCU921820-03
DF600032	02/17/06	9,917	U90/CCU921820-03
DF600040	02/28/06	1,166	U90/CCU921820-03
DF600040	02/28/06	1,405	U90/CCU921820-03
		\$ 14,113	
		Less questioned at 2006-21	(9,917)
		Total questioned cost	\$ 4,196

Cause: The cause of the above condition is the Grants Management Officer is of the opinion that payments of expenditures can be made later than 90 days after the grant period. However, there was no written authorization from the grantor to corroborate this assertion. In addition, grantor approval for a grant extension and/or liquidation extension, if any, could not be provided.

Effect: The effect of the above condition is noncompliance with period of availability requirements.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-24, Continued  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U58/CCU922936-03, U58/CCU922936-02-2, U90/CCU921820-03,  
U50/CCU923972-01-1  
Program Name: Chronic Disease Prevention and Health Promotion Program, Public Health  
Preparedness and Response for Bioterrorism, Epidemiology and Laboratory  
Capacity for Infectious Diseases  
Requirement: Period of Availability of Funds  
Questioned Costs: \$14,150

Recommendation: We recommend that the Republic obtain written authorization from the grantor agency that allows payments of expenditures later than 90 days after the liquidation period. Procedures should be implemented to prevent obligation or expenditure outside of the period of availability.

Auditee Response and Corrective Action Plan: The usual practice has been to liquidate encumbrances during the liquidation period and prepare final report at end of the liquidation period and then do the last drawdown of funds. Often times drawdown was done after the liquidation period allowing payments to be made around the drawdown. Now that we are aware of the liquidation definition, we will work to liquidate everything within the liquidation period. At times when time runs out for liquidation of encumbrances, a no cost extension will be requested by Finance Office for liquidation purpose only.

A team of at least four people have been formed to ensure purchases paid in advance are complete as soon as practicable. This will eliminate having to post expenditures to grants after liquidation period. Again when time is short because of shipment not in for outside orders, Finance will request a no cost extension for liquidation purpose only.

Responsible: Gandhi. Ruth follows through  
When: Immediately

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-25  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U55/CCU922043-04  
Program Name: National Cancer Prevention and Control Program  
Requirement: Matching  
Questioned Costs: \$0

Criteria: Per the grant terms and conditions section 6, the level of non-federal financial participation for National Breast and Cervical Cancer Early Detection Program (NBCCEDP) and National Program for Cancer Registry (NPCR) are \$192,153 and \$38,037, respectively or a total of \$230,190.

Condition: The non-federal financial participation for both NBCCEDP and NPCR is noted as follows:

<u>Description</u>	<u>Amount</u>
In kind personnel services	\$ 119,130
In kind space/facilities	<u>116,781</u>
Total	<u>\$ 235,911</u>

The in kind personnel services are based on estimated personnel hours. There are no personnel activity reports or equivalent to support the estimated hours. Of the in kind space and facilities of \$116,781, \$42,525 represents 100% use of certain facilities even though there are other federal or non federal services provided in the same facilities.

Cause: The cause of the above condition is lack of records to support the in kind non-federal participation.

Effect: The effect of the above condition is the lack of records to evidence compliance with the criteria. No costs are questioned as we are not able to determine the amount of the match that may be inappropriate.

Recommendation: We recommend that this matter be discussed with the funding agency and an approved method of cost allocation be adopted.

Auditee Response and Corrective Action Plan: The program has conducted an estimated in-kind personnel services and in-kind space/facilities. This is based on the scheduling of the personnel during related working schedules. The program realizes the use of space for multiple federal and non-federal services, however have estimated this amount based on the scheduling of clinics as it relates to program components (i.e. NBCCEDP). This estimation will serve as part of discussions planned for the upcoming cancer conference in August 2007. Whenever possible, the NCPCP will try to initiate conference call prior to August to discuss this matter.

Responsible: Yorah Demei, Regis Emesiochel and Melinda Lawrence  
When: August 2007

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-26  
CFDA No.: 20.106  
Agency: Federal Aviation Administration  
Grant No.: 3-70-0001-05  
Program Name: Airport Improvement Program  
Requirement: Matching  
Questioned Costs: \$0

Criteria: The Republic's share of allowable costs of 5% under the Airport Improvement Program should be recognized as costs are incurred.

Condition: The Republic's share of allowable costs was understated by \$378,641 during the year ended September 30, 2006. An audit adjustment was proposed to correct this condition.

Cause: The cause of the above condition is a lack of procedures in place to ensure that the matching requirement is met.

Effect: The effect of the above condition is noncompliance with the matching requirement.

Recommendation: We recommend that procedures be established to ensure that the local match is recognized as costs are incurred.

Auditee Response and Corrective Action Plan: Budget staff was not sure as to the source of Airport Improvement Program matching that resulted in no local match to the project. We will ensure that this will not happen again.

Responsible: Goretty and Ruth

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-27  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U58/CCU922936-3, U90/CCU921820-04-4, U55/CCU922043-04, U50/CCU923972-02, U50/CCU024356-02-1  
Program Name: Chronic Disease Prevention and Health Promotion Programs, Public Health Preparedness and Response for Bioterrorism, National Cancer Prevention and Control Program, Epidemiology and Laboratory Capacity for Infectious Diseases, Delivering Environmental Health Services  
Requirement: Reporting  
Questioned Costs: \$0

Criteria: A final financial status report (SF269) is required to be submitted to the grantor agency no later than 90 days after the end of the budget period.

Condition: A review of the financial status reports noted the following:

1. There were no final financial status reports submitted to the grantor agency for the following grants:

<u>Grant no.</u>	<u>Costcenter</u>	<u>Extended Report deadline</u>
U55/CCU922043-04-4	HIK53683	11/30/06
U55/CCU922043-03	H43683	12/31/06
U55/CCU922043-02-2	H33683	12/31/06

2. Reported expenditures varied from recorded expenditures as follows:

<u>Grant no.</u>	<u>Costcenter</u>	<u>Total outlays reported</u>	<u>Recorded expenditures</u>	<u>Variance</u>
U58/CCU922936-03	H53660	\$ 209,935	\$ 213,984	\$ (4,049)
U55/CCU922043-04-4	HIK53683	\$ 641,741	\$ 691,232	\$ (49,491)
U50/CCU923972-02	H68652	\$ 65,605	\$ 61,442	\$ 4,163
U50/CCU024356-02-1	H68653	\$ 133,162	\$ 117,401	\$ 15,761

Cause: The cause of the above conditions is lack of communication between the program office requesting liquidation extension and the grants management officer who prepares the SF269, and a weakness in controls to ensure that reports are reconciled and timely submitted.

Effect: The effect of the above conditions is noncompliance with reporting requirements.



REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-27, Continued  
CFDA No.: 93.283  
Agency: U.S. Department of Health and Human Services  
Grant Number: U58/CCU922936-3, U90/CCU921820-04-4, U55/CCU922043-04,  
U50/CCU923972-02, U50/CCU024356-02-1  
Program Name: Chronic Disease Prevention and Health Promotion Programs, Public Health  
Preparedness and Response for Bioterrorism, National Cancer Prevention  
and Control Program, Epidemiology and Laboratory Capacity for Infectious  
Diseases, Delivering Environmental Health Services  
Requirement: Reporting  
Questioned Costs: \$0

Recommendation: We recommend that an official policy be established to ensure involvement of the grants management officer in the request to extend the grant period, supervisory review of financial status reports to assure accuracy and completeness of data included in the reports, a tracking system which reminds staff when financial status reports are due, and a systematic filing method that documents an audit trail for all grant reports.

Auditee Response and Corrective Action Plan: Gandhi will work closely with grant managers to make sure all unliquidated obligations are cleared on a timely manner so that final financial status reports are sent to granting agencies on time. Gandhi will also work closely with grant managers to secure extensions if necessary.

Responsible: Gandhi and program managers

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2006-28  
CFDA No. All major programs  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Criteria: Grant recipients are required to maintain property records that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. In addition grant recipients should develop a control system to ensure adequate safeguards to prevent loss, damage, or theft to property, and investigate loss, damage or theft, and develop an adequate maintenance plan to keep property in good condition.

Condition: We noted the following exceptions to the criteria:

Fixed asset records delineate the source of the equipment by office, cost, acquisition date, etc. These records, however, are not effectively maintained. Updates to the records occur only at the end of each fiscal year or during the physical inventory count, which occurs biennially.

As the authoritative records are not effectively updated, it does not appear that the Republic has effectively developed means to ensure that fixed assets are adequately safeguarded from loss, damage, theft, or that investigations of such losses could reasonably occur.

Although the Republic does maintain a Public Works department, they have not effectively implemented an entity-wide maintenance plan. The general oversight responsibility for maintenance of assets is left to program managers.

Cause: The cause of the above condition is a decentralized fixed asset accounting division that appears to be disassociated from the rest of the accounting functions. Little coordination, review and monitoring processes appear to exist.

Effect: The effect of the above condition is a lack of compliance with federal regulations.

Recommendation: We recommend that equipment listings be compiled and procedures implemented that provide safeguards against loss, damage or theft of property.

Prior Year Status: Weaknesses in controls over fixed assets were reported as findings in the Single Audits of the Republic for fiscal years 1988 through 2004.

REPUBLIC OF PALAU

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No.: 2005-28, Continued  
CFDA No. All major programs  
Area: Equipment and Real Property Management  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: Some program managers keep track of their equipment and update their records as necessary. Some are not as meticulous and need to be checked. In the past we used the Ministry of Administration Offices to keep track of the equipment and update their records to reflect any changes made to their equipment including those funded by federal grants. We are now going to require that each program manager also keeps track of his/her own inventory and update their records. The asset management office will reconcile their records against the program managers' records and update the system as necessary. Our action plan includes reconciliation between Finance and department asset listing. This is the year that physical inventory is being conducted, so reconciliation resumes fiscal year 2008.

Management and CIP Office are working on a maintenance plan primarily for the new Capitol, but it will also be implemented by all offices of the government as appropriate.

Responsible: Minister Sadang/CIP Manager/Millan/Program Managers

REPUBLIC OF PALAU

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2005

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments which were unresolved at September 30, 2005:

Questioned costs as previously reported	\$ 1,184,207
Questioned costs resolved during the year ended September 30, 2006:	
Per a June 15, 2006 letter from the U.S. Department of Health and Human Services	(271,905)
Per a January 31, 2007 letter from the U.S. Department of Education	(18,406)
Questioned costs for the year ended September 30, 2006	<u>99,755</u>
Unresolved questioned costs at September 30, 2006	\$ <u>993,651</u>

Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs (pages 18 through 58).