

STATE BLOCK GRANT REGULATIONS
Ministry of Administration
Office of the Public Auditor

The following are regulations to effectuate the purposes of Section 6 (regarding State Block Grants) of Republic of Palau Public Law (RPPL) Nos. 4-32 and 4-40, the Fiscal Years 1995 and 1996 Unified National Budget Acts, respectively. Section 6 of RPPL No. 4-32 is codified at Chapter 4 of Title 5 of the PNC.

PART 1. PURPOSES

These regulations are to assist in establishing sound financial management practices to govern disbursement of state block grants by the Bureau of National Treasury to the states. These procedures should also help to assure state compliance with audit recommendations and correction of identified financial management problems. These procedures also set forth requirements for procurement, expenditures, and reporting required by law and the Compact of Free Association. These practices must be in place in order to meet the requirements of increasingly complex financial conditions in each state.

Appropriations for block grants to the states keep increasing each fiscal year. This means expansion of programs and new projects, and requires improved budgeting, accounting, and overall fiscal management of resources. In addition, states must be able to demonstrate satisfactory financial management capability in order to receive future direct or “pass-through” U.S. Federal grants, as well as a variety of grants from other countries and organizations.

PART 2. DISBURSEMENT PROCEDURES FOR STATE BLOCK GRANTS

2.1 States must submit a copy of the current and applicable state budget act, along with any current amendments, to the Director of the Bureau of National Treasury, or his designee, prior to disbursement of funds by the Bureau of National Treasury.

2.2 Funds appropriated to a state by the Olbiil Era Kelulau that are unearmarked (for general operations) will be disbursed by the Bureau of National Treasury on a monthly basis on the first week of each month.

2.3 For those states utilizing the Bureau of National Treasury for disbursement of their payroll, the amounts needed to cover their payroll for the full fiscal year shall be deducted from the amount of unearmarked funds available for general operations. These funds shall be retained to cover the state's payroll. The remainder of the available funds shall then be disbursed by the Bureau of National Treasury to the state on a monthly basis on the first week of each month.

2.4 For CIP projects or other specific purchases or expenditures under \$5,000, no bidding shall be required, but disbursements shall be made only after receipt of written request for disbursement from the state chief executive officer, the state procurement officer or their designee, to the Director of the Bureau of National Treasury, or his designee. Such written

request shall describe the project, purchase or expenditure for which the request is made and shall cite the state and/or national appropriation law authorizing the spending.

2.5 For earmarked or unearmarked CIP projects or other specific purchases or expenditures over \$5,000, disbursements shall be made only after receipt of a written request as set forth in section 2.4, plus a copy of the bid solicitation, plans, specifications, and the contract, to the Director of the Bureau of National Treasury, or his designee.

2.6 For any disbursement of operations funds by the Bureau of National Treasury directly into a State Treasury, a showing of a state appropriation for expenditure of those funds is required.

2.7 Any disbursement, obligation or expenditure of funds by any state of funds from the Compact of Free Association (Compact funds) shall be in accordance with any applicable requirements, restrictions or procedures set forth in the Compact of Free Association.

2.8 The Director of the Bureau of National Treasury, or his designee, may request further information and documentation from a state prior to disbursement of any funds.

PART 3. MAXIMUM ALLOTMENT TO STATE SALARIES AND WAGES

3.1 No state government shall expend more than fifty percent of its block grants allotment on salaries and wages.

3.2 At least fifty percent of each state's unearmarked annual block grant shall be spent on capital improvement projects and community programs; provided, however, that capital improvement and community program funds may be used to pay the salaries of those workers while they are performing work on the CIP projects and community programs.

PART 4. PROCUREMENT REQUIREMENTS

4.1 Except as otherwise specified by law, the provisions of RPPL No. 3-54, the procurement law (Chapter 6 of Title 40 of the Palau National Code Annotated), applies to every expenditure of public funds by state governments irrespective of source, including United States Federal assistance monies.

4.2 "Procurement" means the acquisition by any means, including purchase, lease or rental, of any goods or services. It also includes all functions that pertain to the obtaining of construction, goods or services, including description of requirements, selection and solicitation of sources, preparation and award of contracts and all phases of contract administration. It does not include personal service contracts with individuals who will be employed by Republic officials.

4.3 "Procurement Officer" for a state means any person authorized by a state governor or state chief executive officer, as the official responsible for procurement activities including entering

into and administering contracts.

4.4 The procurement law applies to contracts between the national and state governments or other governments, except, however, in cases in which the Procurement Officer concerned makes a written and substantiated determination that the contract involved is of such a nature that only governments may perform it.

4.5 Pursuant to Section 25(2) of the procurement law, competitive bidding is required on any items sought by the state governments of \$5,000 or more. Competitive bidding requirements are set forth in detail in the procurement law, RPPL No. 3-54.

4.6 For all small purchases under \$5,000 not put to bid, the Procurement Officer concerned, or his designee, shall obtain price quotations from at least three vendors and base the selection on competitive price, quality, delivery time, and other relevant factors.

4.7 A written documentation of the three quotes, the vendors submitting the quotes and the basis for selection shall be maintained in the purchase order file.

4.8 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 than three suppliers of the items within the Republic.

4.9 Purchase orders may be utilized for small purchases when there is no requirement to use a contract.

PART 5. REPORTING REQUIREMENTS

5.1 The Bureau of National Treasury shall submit a financial report to the Olbiil Era Kelulau and the Office of the Public Auditor detailing the amount of funding made upon disbursement of block grants to recipients thereof.

5.2 Each state government receiving funds in the form of block grants for CIP projects or other special projects shall submit within 30 days of the date the funded projects are completed a financial report to the Olbiil Era Kelulau, the Office of the Public Auditor, and the Bureau of National Treasury detailing how these funds were spent.

5.3 Each state government receiving funds in the form of block grants for governmental operations shall submit within 90 days after the end of the fiscal year, a financial report to the Olbiil Era Kelulau, the Office of the Public Auditor, and the Bureau of National Treasury detailing how these funds were spent.

5.4 Each state government shall allow the Public Auditor, or his designee, access to all records, reports, audits, reviews, papers, books, documents, recommendations, correspondence, and any other data and material that is maintained by, or available, to the state government which in any

way relates to the activities to which the Public Auditor has duties and responsibilities. Upon receipt of a request from the Public Auditor, each person in charge shall furnish to the Public Auditor or his designee the information, cooperation, and assistance requested.

PART 6. RELEASE/WITHHOLDING OF STATE BLOCK GRANTS

6.1 At the conclusion of an audit of state expenditures, the Public Auditor or his designee shall submit to the State a list of proposed findings which may be included in the state audit report. The state shall submit to the Public Auditor within 30 days after the receipt of the list of findings, its written statement of explanation or rebuttal concerning any of the adverse or critical audit findings, including any corrective action to be taken to preclude a recurrence of any adverse findings.

6.2 Each state government shall take affirmative action to comply with all recommendations and to remedy all conditions resulting in negative findings, including failure to provide adequate information, set forth in any audit report on such state government or subdivision thereof. If a state has negative findings in its audit report, the state shall develop a written plan of corrective action within 30 days of the issuance audit report and shall submit such plan to the Minister of Administration, the Director of the Bureau of National Treasury and the Public Auditor. Such plan may be used by the Public Auditor or his designee as a guideline or checklist for addressing the negative findings and for auditors to check for compliance.

6.3 No state government shall receive a further allotment of its annual block grant appropriation from the national government later than 45 days subsequent to the issuance of an audit report on that state government by the Public Auditor, unless the Public Auditor has certified that all recommendations contained in such report have been complied with and that all conditions leading to negative findings have been remedied.

6.4 Upon certification by the Public Auditor as provided by section 6.3 of this part subsequent to the specified 45 day period, all withheld block grant allotments to the state government concerned shall be released to such state government as soon as the availability of funds permits.

6.5 Upon the issuance by the Public Auditor of a state government audit report which contains any recommendations or negative findings, the auditor shall notify the Minister of Administration and the presiding officers of the Olbiil Era Kelulau.

6.6 The Minister of Administration shall serve notice on the state government of the possible withholding of block grants upon allotments and shall take appropriate steps to ensure prompt implementation of such withholding in the event that the state government fails to timely obtain the certification required by this section.

6.7 Failure by the Minister of Administration to serve the notice set forth in section 6.6 shall not be grounds for postponement or cancellation of the withholding.

