

PALAU COMMUNITY ACTION AGENCY  
(A NONPROFIT CORPORATION)

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2012

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

Board of Directors  
Palau Community Action Agency:

We have audited the financial statements of the Palau Community Action Agency (the Agency) as of and for the year ended September 30, 2012, and have issued our report thereon dated June 12, 2013. 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

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs (pages 7 through 13) as item 2012-01 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Agency in a separate letter dated June 12, 2013.

The Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, pass-through entities, 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.

*DeLoatch & Jorde LLC*

June 12, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Palau Community Action Agency:

## Compliance

We have audited the Palau Community Action Agency's (the Agency) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Agency's major federal program for the year ended September 30, 2012. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 13). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency'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 Agency'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 of the Agency's compliance with those requirements.

As described in item 2012-03 in the accompanying Schedule of Findings and Questioned Costs, the Agency did not comply with requirements regarding eligibility that are applicable to its Head Start (CFDA # 93.600) major program. Compliance with such requirements is necessary, in our opinion, for the Agency to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-02 and 2012-04.

## Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as item 2012-03 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-02 and 2012-04 to be significant deficiencies.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Agency as of and for the year ended September 30, 2012, and have issued our report thereon dated June 12, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Agency's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, pass-through entities, 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.

*Deloitte & Touche LLC*

June 12, 2013

PALAU COMMUNITY ACTION AGENCY

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2012

<u>Grantor/CFDA Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Direct Programs:		
U.S. Department of the Interior Historical Preservation - Grants In Aid	15.904	\$ 227,123
U.S. Department of Health and Human Services Head Start	93.600	* <u>1,841,981</u>
Total Federal Assistance Expended		\$ <u>2,069,104</u>
* Based on requirements imposed in the audit, this denotes a major program.		
Reconciliation:		
Total Federal Assistance Expended		\$ 2,069,104
Non-federal expenses and losses per Statement of Activities:		
Local program		25,118
PSG program		(877)
BCCF Program		5,566
PACC program		13,208
T8AA/BBC		13,408
EU/PREP Program		(5,261)
MSIP/CSM Program		<u>(14,642)</u>
Satisfaction of program restrictions		\$ <u>2,105,624</u>

Notes: Expenses are recognized on the accrual basis of accounting, consistent with the manner in which the Agency maintains its accounting records.

For the current fiscal year, \$54,488 related to personnel contributions by parents was not charged to the program as the contributed services from parents does not meet Financial Accounting Standards Board Accounting Standards Codification 958, *Not-for-Profit Entities*, criteria - i.e. it does not require specialized skills. Accordingly, they do not qualify as contributed services. However, per CFR 45, volunteer hours from parents are considered contributed services and are allowable under the program. The following reconciles the Agency's contributions and expenses with actual in-kind Head Start contributions received:

	<u>Amount</u>	<u>Parental Contributions</u>	<u>Total Available for Local Share</u>
Local share for period ending 07/31/12	\$ 262,759	\$ 49,328	\$ 312,087
Local share for period ending 07/31/13	<u>109,881</u>	<u>5,160</u>	<u>115,041</u>
Total local share and other income per the general ledger	\$ <u>372,640</u>	\$ <u>54,488</u>	\$ <u>427,128</u>

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2012

**A. SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |  |             |
|--|-------------|
| 1. Type of auditors' report issued:                          | Unqualified |
| Internal control over financial reporting:                   |             |
| 2. Material weakness(es) identified?                         | No          |
| 3. Significant deficiency(ies) identified?                   | Yes         |
| 4. Noncompliance material to the financial statements noted? | No          |

*Federal Awards*

- |   |           |
|---|-----------|
| Internal control over major programs:   |           |
| 5. Material weakness(es) identified?  | Yes       |
| 6. Significant deficiency(ies) identified?  | Yes       |
| 7. Type of auditors' report issued on compliance for major programs:  | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes       |
| 9. Identification of major program:   |           |
| <u>CFDA Number</u> <u>Federal Program</u>   |           |
| 93.600            Head Start  |           |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs:  | \$300,000 |
| 11. Auditee qualified as a low-risk auditee?  | No        |

**B. FINANCIAL STATEMENT FINDING**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-01	Program Deficits	9



PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2012-02	Equipment and Real Property Management	\$ -	10 - 11
2012-03 - 04	Eligibility	\$ 10,683	12 - 13

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

**B. FINANCIAL STATEMENT FINDING**

Program Deficits

Finding No. 2012-01

Criteria: Grant revenues should we recognized based on grant expenses.

Condition: At September 30, 2012 the following conditions existed for Agency programs:

- Revenues exceeded expenses by \$8,150 in the ROP Appropriation Fund; and
- The EU/PREP Program and the MSIP/CSM Program had net deficiencies of \$5,261 and \$14,642, respectively. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is that grant revenues are not recognized based on grant expenses and program activities are not monitored.

Effect: The effect of the above condition is that program expenses are funded by other funding sources.

Recommendation: We recommend that the Agency monitor program activities and determine proper disposition of program deficits.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Executive Director and Fiscal Manager

**Corrective Action:**

1. The new Executive Director and Fiscal Manager will make sure that the auditors' recommendation is implemented.
2. Monthly management meetings will be held prior to the end of each month so that foreseeable expenses can be discussed and prevented.
3. The Executive Director will continue to work with the Agency's Board of Directors to solicit supplemental funds for Agency operations.
4. The Fiscal Manager will reconcile individual program expenses and grant revenues and issue monthly expense reports.

**Proposed Completion Date:** August 2013

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Finding No.: 2012-02  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/45  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: OMB Circular A-110 provides for equipment and real property management standards. Furthermore, action is required to document circumstances related to a motor accident that is investigated and reported in order to determine whether or not an employee should be financially responsible for the damage (determinations as to financial liability for motor vehicle damage should be based on the official police report of the accident).

Condition: The Agency's equipment records did not comply with federal requirements in the following areas:

1. For prior years' acquisitions, records did not indicate manufacturer's serial number, model number or other identification number. The Agency began to document such information when they performed a physical inventory of fixed assets in 2010; however, the information was not reconciled to the fixed asset records;
2. Fixed asset schedules should include property/serial numbers that agree to actual fixed assets. We noted five fixed assets with property/serial numbers that did not agree with the property/serial number recorded in the fixed asset schedule:

<u>Property/Serial No.</u>	<u>Acquisition Date</u>	<u>Description</u>	<u>Cost</u>
VG33-127554B	02/01/10	2004 Nissan X-Terra (White)	\$ 14,000
JM7KKY0F170122849	11/30/06	Mazda Mini Bus 2000 CE Passenger Van	\$ 20,495
JM753KY0E170122851	11/30/06	Mazda Mini Bus 2000 CE Passenger Van	\$ 20,495
JM753KY0E170122850	03/09/07	Mazda Mini Bus 2000 CE Passenger Van	\$ 20,495
IZZ-1813051	02/01/10	2004 Toyota Corolla-(Silver)	\$ 6,016

3. There is no record of maintenance for which compliance can be tested.

Cause: The cause of the above condition appears to be insufficient numbers of staff to handle the accounting workload or lack of a workable system, which incorporates addressing the above requirements.

Effect: The effect of the above condition is noncompliance with federal property management standards.

Recommendation: We recommend the Agency comply with federal property management standards. We also recommend that the Agency reconcile the fixed assets schedule to reflect actual property/serial numbers on the fixed assets.

Prior Year Status: Noncompliance with federal property management standards was reported as a finding in the Single Audits of the Agency for fiscal years 2004 through 2011.

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-02, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/45  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Executive Director and Head Start Program Director

**Corrective Action:**

1. The Agency will hire additional staff (procurement technician) to share the accounting workload.
2. The Fiscal Manager will segregate procurement responsibilities, acquisitions and physical inventory updates, which are included in the job description.
3. On a quarterly basis, the Fiscal Manager will reconcile fixed asset schedules to reflect actual fixed assets.
4. The Executive Director, through the Head Start Director, will ensure that the Facility and Transportation Manager adheres to the maintenance policies of the Agency. Assets and maintenance records will be monitored by the Head Start Director through monthly management meetings.
5. The Facility and Transportation Manager will ensure that records for the five assets noted are corrected and matched. The Fiscal Manager and the Head Start Director will match and verify these asset records.
6. The Executive Director will ensure that Agency management adheres to Agency maintenance policies and procedures and federal property management standards.

**Proposed Completion Date:** September 2013

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-03  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/45  
Area: Eligibility  
Questioned Costs: \$7,122

Criteria: Head Start Program Performance Standard 1305.7 requires the grantee to maintain its funded enrollment level. When a program determines that a vacancy exists, no more than thirty calendar days may lapse before the vacancy is filled. A program may elect not to fill a vacancy when sixty calendar days or less remain in the program's enrollment year.

Condition: The Program's funded enrollment level for the school year 2011-12 was five-hundred nine (509) students. The Program elected not to fill vacancies with sixty (60) days remaining in the enrollment year. The end of the month enrollment report as of March 2013 indicated five-hundred seven (507) students enrolled. This amount did not include students terminated in March 2013, as thirty days (30) had not yet lapsed. Monthly attendance reports at the end of March 2013 indicated four-hundred ninety-nine (499) students enrolled. Questioned costs result for the variance between the funded enrollment level (509) and the end of month enrollment report (507) times the cost per child to the program (\$3,561).

Cause: The cause of the above condition is that enrollment is less than the funded enrollment level.

Effect: The effect of the above condition is noncompliance with performance standards and questioned costs of \$7,122.

Recommendation: We recommend that the Agency comply with performance standards and consult with the grantor agency to determine whether end of month enrollment should be based on end of month enrollment reports that do not consider monthly terminations or monthly attendance reports.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Executive Director and Head Start Program Director

**Corrective Action:**

1. The Agency concurs with the Auditor's recommendation.
2. All data in the Agency Head Start Program Community Assessments indicate that Palau's annual birth rate has been decreasing. This is supported by the Palau National Hospital annual birth rate records. Therefore, the Head Start Program will take the following actions:
  - a) Reduce funded program enrollment by twenty-six children under sequestration mandate; and
  - b) Submit an enrollment reduction proposal to the Regional Office.

Thus funded enrollment numbers will be reflective of the program eligible children in Palau.

**Proposed Completion Date:** August 2013

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2012

Finding No.: 2012-04  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/45  
Area: Eligibility  
Questioned Costs: \$3,561

Criteria: Head Start Program Performance Standard 1305.4 states that a child is eligible based on age and income guidelines. Although copies of income verification documents need not be retained by grantees, the child or family record must include a statement, signed by an employee or the grantee (Head Start Program), identifying which income verification documents were examined stating that the child is income eligible.

Condition: Our tests of twenty-five students of a total population of four hundred ninety-two noted the following:

1. We recalculated two students' annual income which was below the poverty line; however, per the income eligibility report, the students' incomes were above the poverty line. It was represented that the family size was erroneously entered into the Child Plus system which was utilized to calculate income eligibility and resulted in the incorrect income classification.
2. We recalculated one student's annual income which was above the poverty line; however, per the income eligibility report, the student's income was below the poverty line. It was represented that the family income was not entered into the Child Plus system which was utilized to calculate income eligibility and resulted in the incorrect income classification. Program costs totaled \$3,561.

Cause: The cause of the above condition is that information entered in the Child Plus system is not reviewed prior to generation of the income eligibility report.

Effect: The effect of the above condition is misclassification of students' income eligibility and questioned costs of \$3,561.

Recommendation: We recommend that the Agency establish procedures so that entries in the Child Plus system are reviewed prior to finalizing the income eligibility report.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Executive Director and Head Start Program Director

**Corrective Action:**

1. The Agency Head Start Program will strengthen its income verification procedures. The Head Start Director and the Family and Community Partnership Manager will review and verify income documents/statements submitted by the Family Service Workers to ensure that income classifications are correct.
2. The Data Technician will receive refresher training on inputting and updating data in different sections of the ChildPlus System to reflect new changes/data in family and number in households.

**Proposed Completion Date:** August 2013

PALAU COMMUNITY ACTION AGENCY

Unresolved Prior Year Comments  
Year Ended September 30, 2012

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2012:

Questioned costs as previously reported	\$ -
Questioned costs of fiscal year 2012 Single Audit	<u>10,683</u>
Unresolved questioned costs at September 30, 2012	\$ <u>10,683</u>

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 7 through 13).



# **PALAU COMMUNITY ACTION AGENCY**

**CHEDELLEL A URREOR-NG-KLUNGIOLEL BELAU**

**P.O. BOX 3000**

**KOROR, REPUBLIC OF PALAU 96940**

**TEL.: (680) 488-1170/3022 FAX: (680) 488-1169**

## **Summary of Schedule of Prior Audit Findings**

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011:

### **FINANCIAL STATEMENT FINDINGS**

No findings reported.

### **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Finding No. 2011-01 - Not corrected. See corrective action plan for Finding No. 2012-02.

Finding No. 2011-02 - Corrective action was taken.

Finding No. 2011-03 - Corrective action was taken.