

PROTECTED AREAS NETWORK FUND
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017

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
Protected Areas Network Fund:

We have audited, 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, the financial statements of the Protected Areas Network Fund (PAN Fund), which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated February 16, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PAN Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PAN Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of PAN Fund's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2017-001 and 2017-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAN Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the PAN Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PAN Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

February 16, 2018

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Schedule of Findings and Responses
Year Ended September 30, 2017

Grant Revenues

Finding No. 2017-001

Criteria: Grant revenues should be recognized when related expenses are incurred.

Condition: During the year ended September 30, 2017, PAN Fund recorded grant revenues of \$148,000; however, expenses related to the grants were \$239. A proposed audit adjustment was recorded to correct grant revenues and recognize unearned revenues.

Cause: The cause of the above condition is the lack of review of journal entries.

Effect: The effect of the above condition is the overstatement of Fund revenues.

Recommendation: We recommend that PAN Fund records grant revenues when related expenses are incurred.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Regis Emesiochel, General Manager

Corrective Action: We accept this finding and will decide whether to use liability method of recording unearned revenue or to use the income method of recording.

Proposed Completion Date: Ongoing.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2017

Expenses

Finding No. 2017-002

Criteria: Expenses should be recorded when incurred.

Condition: Tests of subsequent disbursements determined unrecorded liabilities of \$115,328 at September 30, 2017. A proposed audit adjustment was recorded to record the liabilities.

Cause: The cause of the above condition is the lack of policies and procedures to record expenses in the correct period.

Effect: The effect of the above condition is the understatement of Fund expense.

Recommendation: We recommend that PAN Fund establish policies and procedures to record expenses in the correct period.

Prior Year Status: The lack of policies and procedures to record expenses in the correct period was reported as a finding in our previous management letter for fiscal year 2016.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Regis Emesiochel, General Manager

Corrective Action: We accept the findings on the \$239 account payable for Utilities, however we do not accept the findings on the \$115,054 for PAN accounts payable for PAN Office and PAN Sites/States. We request the auditor to reconsider the validity of this finding and proposed adjustment. Disbursement request for PAN Office in the amount of \$50,000 was approved in October 5, 2017. It cannot be recorded as accounts payable prior to October 5, 2017. Disbursement request for PAN States/Sites (Ngiwal, Melkeok, and Kayangel) in the amount of \$65,064 was approved on October 13, 2017. Again, to record these as accounts payable prior to approval date is not reasonable.

Proposed Completion Date: Not applicable.

Auditor Response: Accounting principles generally accepted in the United States of America require that expenses be recognized when incurred. Expenses noted in the finding were incurred in FY2017; therefore, recognition of related expenses and liabilities is necessary.

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Unresolved Prior Year Findings
Year Ended September 30, 2017

There are no unresolved findings from prior year audits of PAN Fund.