

PALAU INTERNATIONAL CORAL REEF CENTER

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2006

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

Board of Directors  
Palau International Coral Reef Center:

We have audited the financial statements of the Palau International Coral Reef Center (the Center) as of and for the year ended September 30, 2006, and have issued our report thereon dated March 23, 2007. 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 Center'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 assurance 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 Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings (pages 3 through 5) as items 2006-1 through 2006-3.

A material weakness is a 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 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 item 2006-3 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the Center in a separate letter dated March 23, 2007.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLC*

March 23, 2007

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Findings  
Year Ended September 30, 2006

Property, Plant and Equipment

Finding No. 2006-1

Criteria: Fixed assets should be identified by a control number or equivalent (e.g. model and serial # of item) in the fixed assets register and on the item itself for proper accountability of all assets.

Condition: Our tests of property and equipment noted that there are no fixed asset monitoring numbers assigned to each asset.

Cause: The cause of the above condition is the lack of proper fixed asset monitoring.

Effect: The effect of the above condition is the potential misappropriation and misstatement of fixed assets.

Recommendation: We recommend that the Center perform periodic inventories of fixed assets, reconcile the results, and further detail the register in assigning identifying numbers for each item.

Prior Year Status: The lack of fixed asset monitoring number was reported as a finding in the audits of the Center for fiscal year 2005.

Auditee Response and Corrective Action Plan: Finding No. 2006-1 is a repeat finding. I would like to point out that perhaps this occurred because we were already three months into FY2006 when we learned of the FY2005 finding. At any rate, I have discussed this extensively with my staff and we are keeping track of any new equipment procured to make sure invoices are forwarded to Angie at Administration. John Wong is working with Angie on a master list for all fixed assets so that we will have a consistently updated record of fixed assets that can be easily monitored.

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Findings, Continued  
Year Ended September 30, 2006

External Financial Reporting

Finding No. 2006-2

Criteria: Without an adequate system to monitor and identify actual expenses incurred to related grants, an entity cannot accurately report on the use of funding. Additionally, grant revenue should be recognized when allowable expenses are incurred.

Condition: The Center does not have established policies and procedures to monitor expenses incurred on a per grant basis. For the year ended September 30, 2006, grant revenues recognized differed from expenses charged against these grants. The difference in grant revenues and related grant expenses was not considered material to the financial statements.

Cause: The cause of the above condition is the lack of established policies and procedures in monitoring program expenses incurred on a per grant basis.

Effect: The effect of the above condition is the potential misstatement of grant revenues.

Recommendation: We recommend that the Center establish policies and procedures to monitor program expenses on a per grant basis. Also, we recommend that the Center ensure that grant revenues are recognized when the underlying expense is incurred.

Prior Year Status: The lack of established policies and procedures in monitoring program expenses incurred on a per grant basis was reported as a finding in the audit of the Center for fiscal year 2005.

Auditee Response and Corrective Action Plan: Finding No. 2006-2 is a repeat finding. I would like to point out that perhaps this occurred because we were already three months into FY2006 when we learned of the FY2005 finding. Since most grants go through our Research Department, I have met with Steven Victor and stressed the importance of making available to Angie all grant awards with all pertinent information as soon as they are received. Also, we have installed and trained Angie and Administration staff on a new fund accounting software (MIP SAGE), which we hope can be used to generate better reports that will clearly state status of all department accounts, especially the various grants that we receive each year.

Schedule of Findings, Continued  
Year Ended September 30, 2006

Bank Reconciliation

Finding No. 2006-3

Criteria: Bank reconciliations should be performed in a timely manner.

Condition: Our tests of bank reconciliations for three months noted all three (March 2006, July 2006 and September 2006) were prepared at the end of October 2006 and approved by the reviewer (the CEO) in November 2006. We further noted that the reconciled balance at September 30, 2006 did not agree to the general ledger balance by \$29,488 as additional adjustments were made to the general ledger, which were not included in the initial reconciliation. We also noted that deposits in transit of \$8,760 were not included as part of the monthly reconciliation. This condition was corrected through a proposed audit adjustment. We did note \$501 in deposits in transit that could not be traced to a deposit slip.

Cause: The cause of the above condition is the untimely preparation of bank reconciliations and lack of procedures in place to ensure all cash account balances are reconciled.

Effect: The effect of the above condition is the potential misstatement of cash.

Recommendation: We recommend that monthly bank reconciliations be prepared and approved in a timely manner and that deposits in transit be included in the monthly reconciliation.

Auditee Response and Corrective Action Plan: Yes, reconciliation of monthly bank statements has been a problem. I have since had a meeting with Angie Yangilmau and Waisang Mariur, our Administrative Manager, on this very issue. We will request to pick up our bank statements from the bank on the first or second week of the month rather than wait for them through the mail. We will prepare the monthly bank reconciliations and have them approved in a timely manner, and make sure that deposits in transit are included. Also, we will make sure that all cash account balances are reconciled in a timely fashion to avoid potential misstatement of cash.

PALAU INTERNATIONAL CORAL REEF CENTER

Unresolved Prior Year Comments  
Year Ended September 30, 2006

The status of unresolved prior year internal control findings is disclosed within the Schedule of Findings section of this report (pages 3 through 5).