

PALAU COMMUNITY ACTION AGENCY

SINGLE AUDIT REPORTS

YEAR ENDED SEPTEMBER 30, 2009

**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**

Palau Community Action Agency:

We have audited the financial statements of Palau Community Action Agency (the Agency) as of and for the year ended September 30, 2009, and have issued our report thereon dated June 8, 2010. 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 Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 6 through 16) as findings 09-1 and 09-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiencies described above to be material weaknesses.

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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as finding 09-1.

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 them.

This report is intended solely for the information and use of the Board of Directors and the management of Palau Community Action Agency, others within the entity, 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. However, this report is also a matter of public record.

Deloitte & Touche LLC

June 8, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO 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**

Palau Community Action Agency:

Compliance

We have audited the compliance of Palau Community Action Agency (the Agency) 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 its major federal program for the year ended September 30, 2009. The Agency's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 6 through 16). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs 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 findings 09-3 through 09-6, in the accompanying Schedule of Findings and Questioned Costs, The Agency did not comply with requirements regarding equipment and real property management; matching, level of effort, earmarking; procurement and suspension and debarment; and reporting that are applicable to its CFDA # 93.600 Head Start 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 requirements referred to above that are applicable to its major federal program for the year ended September 30, 2009.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as findings 09-3 through 09-6 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiencies in internal control over compliance described in finding 09-5 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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 them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Agency as of and for the year ended September 30, 2009, and have issued our report thereon dated June 8, 2010. Our audit was performed for the purpose of forming our opinion on the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 5) 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 Agency. 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 financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors and the management of Palau Community Action Agency, others within the entity, 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. However, this report is also a matter of public record.

Deloitte & Touche LLC

June 8, 2010

PALAU COMMUNITY ACTION AGENCY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

| <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 | \$ 254,436 |
| U.S. Department of Health and Human Services Head Start | 93.600 | * \$ <u>1,670,508</u> |
| Total Federal Assistance Expended | | \$ <u>1,924,944</u> |

* Based on requirements imposed in the audit, this denotes a major program.

Reconciliation:

Expenses and losses per Statement of Activities:

| | |
|--------------------------------------|---------------------|
| Headstart | \$ 1,668,157 |
| Historical preservation | 254,436 |
| Renewable energy | 26,142 |
| MSIP / CSM | 13,533 |
| Local program | 11,305 |
| Acquisition of equipment: | |
| Headstart | 2,351 |
| Renewable energy | <u>32,870</u> |
| Satisfaction of program restrictions | \$ <u>2,008,794</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, \$30,252 related to personnel contributions by parents was not charged to the program as the contributed services from parents does not meet FASB 116 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 07/31/09 | \$ 269,220 | \$ 28,961 | \$ 298,181 |
| Local share for period ending 07/31/10 | <u>68,922</u> | <u>1,291</u> | <u>70,213</u> |
| Total local share | 338,142 | 30,252 | 368,394 |
| Other miscellaneous income | <u>-</u> | | |
| Total other income per the general ledger | \$ <u>338,142</u> | | |

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

Part I - Summary of Auditors' Results Section

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 that are not considered to be material weaknesses? | Yes |
| 4. Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | Internal control over major programs: | | | | | |
|--|---|---|--------|------------|--|
| 5. Material weakness(es) identified? | Yes | | | | |
| 6. Significant deficiency(ies) identified that is not considered to be a material weakness? | 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. The Agency's major programs were as follows: | | | | | |
| <table><thead><tr><th><u>CFDA Number</u></th><th><u>Name of Federal Program or Cluster</u></th></tr></thead><tbody><tr><td>93.600</td><td>Head Start</td></tr></tbody></table> | <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> | 93.600 | Head Start | |
| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> | | | | |
| 93.600 | Head Start | | | | |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 | | | | |
| 11. The Agency qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No | | | | |

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Part II - Financial Statement Findings Section

| <u>Reference Number</u> | <u>Finding</u> |
|-------------------------|----------------|
| 09-1 | Procurement |
| 09-2 | Contributions |

Part III - Federal Award Findings and Questioned Cost Section

| <u>Reference Number</u> | <u>CFDA Number</u> | <u>Finding</u> | <u>Questioned Costs</u> |
|---------------------------|--------------------|--|-------------------------|
| 09-3 | 93.600 | Equipment Real Property Management | \$ 0 |
| 09-4 | 93.600 | Matching, Level of Effort, Earmarking | 13,584 |
| 09-5 | 93.600 | Procurement and Suspension and Debarment | 59,193 |
| 09-6 | 93.600 | Reporting | 0 |
| Total Questioned Costs \$ | | | <u><u>72,777</u></u> |

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Procurement

Finding No. 09-1

Criteria: The Agency's procurement policies, Article 2, Part B, Section 2-201, require public notice of the invitation for bid to: 1) be furnished to all persons who have requested to be included in bidder mailing lists within the previous twelve months, 2) be published in a newspaper of general circulation in the Republic, 3) be publicly posted for at least fifteen days at the Office of the Procurement Officer(s), the Post Office building, and the Courthouse, and 4) be announced on all radio and television stations within the Republic. The bidding time should be at least 30 days, or a minimum of 15 days with the approval of the Procurement Officer, and the bids must be opened publicly in the presence of at least two witnesses. Further, per Article 3, Part B, Section 3-202, the invitation for bids shall include specific address/location where bids must be submitted, the date, hour, and place of bid opening, essential contractual terms and conditions, any bonding requirements, any local preference evaluation factors, and the closing date of bids.

Condition: Of \$41,249 in non-federal procurement tested, we noted the following for one item procured (check nos. 2042, 2047):

- The request for proposal was not numbered and there was no issuance date;
- There was no evidence in file that the public notice was advertised through all radio and television stations within the Republic or publicly posted at the Post office building or the Courthouse;
- There was no evidence in file concerning the decision for selection of contractor;
- The contractor signed the contract on 09/19/08, which was prior to authorization by Agency officials (Executive Director, signed on 09/19/08 and President of the Board, signed on 09/24/08);
- The bid opening was not signed by the Procurement Officer/Fiscal Manager, however, it was signed by two witnesses; and
- There was no evidence in file that price quotations were obtained.

Cause: The cause of the above condition is lack of controls to ensure compliance with procurement policy.

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

Recommendation: We recommend that the Agency ensure compliance with established procurement policies.

Prior Year Status: Lack of controls to ensure compliance with procurement policy was reported as a finding in the audit of the Agency for fiscal year 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name and Title of Responsible Personnel: Executive Director, Doroteo Nagata

Specific Corrective Action Procedures: The Agency has started implementing the auditors' recommendation.

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 09-1, Continued

Auditee Response and Corrective Action Plan, Continued:

- The Fiscal Manager will arrange for procurement training for all staff who are assigned to procure goods and services for each program.
- The Fiscal Manager will review all procurements that are done through bidding for enforcement and compliance with procurement procedures and regulations.

Timeline of Performance: July 31, 2010

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Contributions

Finding No. 09-2

Criteria: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, (formerly Statement of Financial Accounting Standard (SFAS) No. 116) states that “contributions received shall be recognized as revenues or gains in the period received...contributions received shall be measured at their fair values.”

Condition: Our tests of in-kind contributions noted that the Agency recognized as in-kind contributions, free rentals of public facilities and land used as Head Start centers. One lot (Ngerchemai) was not recognized by the Agency for the free use of the property.

Cause: The cause of the above conditions is lack of control procedures to ensure completeness and validity of in-kind contributions.

Effect: The effect of the above condition is a possible misstatement of in-kind contributions.

Recommendation: We recommend that the Agency ensure in-kind contributions are valid, complete and adequately supported.

Prior Year Status: Lack of control procedures to ensure completeness and validity of in-kind contributions was reported as a finding in the Single Audits of the Agency for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name and Title of Responsible Personnel: Executive Director, Doroteo Nagata

Specific Corrective Action Procedures: The Agency has control procedures and guidelines that ensure in-kind contributions recorded are valid, complete and supported.

- The Head Start Director and Facility & Transportation Manager will calculate the Ngerchemai lot rental value and add the value to in-kind contribution of the program.
- The Fiscal Manager will adjust in-kind contributions to reflect revenue from this lot.

Timeline of Performance: July 2010

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 09-3
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600 Head Start
Grant Number: 09CH8461/42
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: OMB Circular A-110 provides for equipment and real property management standards.

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

- For prior year acquisitions, records did not indicate manufacturer's serial number, model number or other identification number. The Agency had begun to document such information when they performed a physical inventory of fixed assets in 2007/2008; however, the information was not reconciled to the fixed assets records;
- Records did not identify location, use and condition of the property;
- Grant award numbers were documented in the physical verification sheets, but this information has not been reconciled to the fixed asset records, which, in effect, eliminates a trail for identification of the source of such assets or the percentage of Federal funding; and
- There is no documented maintenance policy in place for which compliance can be tested.

Cause: The cause of the above condition appears to be insufficient number 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.

Prior Year Status: Noncompliance with federal property management standards was reported as a finding in the audits of the Agency for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name and Title of Responsible Personnel: Executive Director, Doroteo Nagata

Specific Corrective Action Procedures:

- The Fiscal Manager will review physical inventory records to ensure serial numbers, model numbers or other ID numbers, location, use and conditons of the property/assets are included.
- The Fiscal Manager will review and update the recording of all assets that are co-owned (local and federal) in the fixed asset listings.
- The Fiscal Manager will ensure that inventory records are reconciled to fixed assets record.

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 09-3, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600 Head Start
Grant Number: 09CH8461/42
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

- The Head Start Director will work with the Facility and Transportation Manager to develop a maintenance policy.

Timeline of Performance: December 2010

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 09-4
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600 Head Start
Grant Number: 09CH8461/42
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$13,584

Criteria: In accordance with 45 CFR § 1305.4, at least 90% of enrollees must come from families whose income is below the official Federal poverty guidelines.

Condition: The Center's final enrolled student count at the end of school year 2009 indicated that 509 students were enrolled. The Center's final count of over income students enrolled at the end of school year 2009 was 55 students. As 10% of enrolled students would have allowed the Center to serve 51 over income students, the Center served 4 ineligible students.

Cause: The cause of the above condition is a lack of control to limit the number of over income students enrolled at the Center.

Effect: The Center's grant application indicates the cost per child is \$3,396. The effect of the above condition is questioned costs of \$13,584 (cost per child of 4 students).

Recommendation: We recommend that the Center limit the enrollment of over income students to levels allowed by the grant award.

Auditee Response and Corrective Action Plan:

Name and Title of Responsible Personnel: Executive Director, Doroteo Nagata

Specific Corrective Action Procedures: The Agency will strengthen enforcement and adherence to its written enrollment guidelines and procedures.

- The Executive Director will work with the Head Start Director to ensure enforcement and adherence to the Agency's written enrollment guidelines and procedures.
- The Head Start Director will ensure that student files are updated annually and that reports substantiate Agency compliance with earmarking requirements.
- The Head Start Director and the Community Partnership Area Manager will review income verifications to ensure validity, completeness and support.

Timeline of Performance: August 2010

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 09-5
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.600 Head Start
 Grant Number: 09CH8461/42
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$59,193

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Furthermore, in accordance with applicable procurement requirements, the grantee will conduct procurement transactions in a manner providing full and open competition, and will maintain records sufficient to detail the significant history of a procurement. These records will include a rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Additionally, per CFR Section 92.36 provision IV, a grantee is not allowed to specify only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance of other relevant requirement of procurement.

Condition: Of \$96,503 non-payroll expenses tested, we noted the following:

- For three (or 11%) small purchase items procured, the price quotation obtained, and used for selection, was for items different than requested:

| <u>Check/ Document #</u> | <u>Description</u> | <u>Check #</u> | <u>Date</u> | <u>FY09 Expenses</u> |
|------------------------------|--------------------------------|----------------|-------------|--------------------------|
| 09-0177 | Bulb energy savings light | 41011 | 08/07/09 | \$ 508 |
| 373973/3 | Tires, #14 205/75R 8PR Federal | 41106 | 08/21/09 | 1,610 |
| 39460/3 | Tire, #16 7.50 T703 Naco | 41338 | 09/24/09 | <u>2,303</u> |
| Total Questioned Cost | | | | \$ <u>4,421</u> |

- For four items (or 15%), no procurement records were provided to demonstrate open competition in the selection of the vendor:

| <u>Check/ Document #</u> | <u>Description</u> | <u>Check #</u> | <u>Date</u> | <u>FY09 Expenses</u> |
|------------------------------|---|----------------|-------------|--------------------------|
| 1031050695 | Fuel | 39919 | 12/04/08 | \$ 6,300 |
| 430090593 | Fuel | 40677 | 05/21/09 | 4,146 |
| 72557 | Leadcare II analyzer kit | 40544 | 04/23/09 | 15,010 |
| Contract | Training for Head Start monitoring review | 40146 | 01/29/09 | <u>25,456</u> |
| Total Questioned Cost | | | | \$ <u>50,912</u> |

- For one item (or 3%) the brand name alone was specified in the quotation solicitation and sole source justification was not substantiated:

| <u>Check/ Document #</u> | <u>Description</u> | <u>Check #</u> | <u>Date</u> | <u>FY09 Expenses</u> |
|------------------------------|--------------------------|----------------|-------------|--------------------------|
| 112517 | Laptop Apple MacBook Pro | 41340 | 09/29/09 | \$ <u>3,860</u> |

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 09-5, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600 Head Start
Grant Number: 09CH8461/42
Area: Procurement and Suspension and Debarment
Questioned Costs: \$59,193

Cause: The cause of the above condition is the Agency did not follow applicable procurement requirements.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$59,193.

Recommendation: We recommend that the Agency enforce compliance with procurement policies.

Prior Year Status: Lack of policies and procedures to ensure compliance with procurement regulations was reported as a finding in the audits of the Agency for fiscal years 2006 through 2008.

Auditee Response and Corrective Action Plan:

Name and Title of Responsible Personnel: Executive Director, Doroteo Nagata

Specific Corrective Action Procedures: The Agency understands the Auditors' recommendation and has begun implementing it.

- The Fiscal Manager/Procurement Officer has strengthened enforcement and adherence to the Agency's Procurement Policy and Procedures.
- The Fiscal Manager will conduct procurement training annually, or as needed, as part of enforcement and adherence to Procurement Policy and Procedures.

Timeline of Performance: April 2010

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 09-6
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600 Head Start
Grant Number: 09CH8461/42
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, the Agency is required to submit financial reports i.e., form SF-269 and an annual progress report. In addition, the required reports should reflect accurate data.

Condition: Total outlays reported on FSR 269 as of September 30, 2009, do not reconcile with total expenses per the general ledger as of 9/30/09, as follows:

| <u>Outlays Per FSR</u> | <u>Expenses Per G/L</u> | <u>Variance</u> |
|------------------------|-------------------------|-----------------|
| \$ 1,807,932 | \$ 1,846,471 | \$ (38,539) |

Cause: The cause of the above condition is that the Agency did not maintain underlying accounting records to support reported amounts.

Effect: The effect of the above condition is noncompliance with applicable reporting requirements. No questioned costs result from this condition as reported outlays were less than actual expenses.

Recommendation: We recommend that the Agency ensure that underlying accounting records are maintained to substantiate reported amounts.

Prior Year Status: Lack of maintaining underlying records to support reported amount was reported as a finding in the audits of the Agency for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name and Title of Responsible Personnel: Executive Director, Doroteo Nagata

Specific Corrective Action Procedures: The Agency understands the finding and the Fiscal Manager will review and ensure that accounting records are correct and support filings before they are submitted.

Timeline of Performance: April 2010

PALAU COMMUNITY ACTION AGENCY

Unresolved Prior Year Comments
Year Ended September 30, 2009

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, 2009:

| | |
|---|-------------------|
| Questioned costs as previously reported | \$ 184,049 * |
| Questioned costs of fiscal year 2009 Single Audit | <u>72,777</u> |
| Unresolved questioned costs at September 30, 2009 | \$ <u>256,826</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 6 through 16).

* Questioned costs as previously reported differ from the 2008 report by \$13,045 due to an addition error in the 2008 report.



PALAU COMMUNITY ACTION AGENCY

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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, 2008:

FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding No. 08-1 - Not corrected. See corrective action plan to Finding No. 09-2.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding No. 08-2 - Corrective action was taken.

Finding No. 08-3 - Corrective action was taken.

Finding No. 08-4 - Not corrected. See corrective action plan to Finding No. 09-3.

Finding No. 08-5 - Not corrected. See corrective action plan to Finding No. 09-4.

Finding No. 08-6 - Not corrected. See corrective action plan to Finding No. 09-5.

Finding No. 08-7 - Not corrected. See corrective action plan to Finding No. 09-6.

Finding No. 08-8 - Corrective action was taken.