

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, 2012  
AND FOR THE PERIOD FROM INCEPTION  
(NOVEMBER 2, 2010) TO SEPTEMBER 30, 2011

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 the financial statements of the Protected Areas Network Fund (PAN Fund) as of September 30, 2012 and 2011 and for the year ended September 30, 2012 and for the period from inception (November 2, 2010) to September 30, 2011, and have issued our report thereon dated June 29, 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 PAN Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered PAN Fund'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 PAN Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PAN Fund'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 was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying Schedule of Findings and Responses (pages 3 and 4), we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

*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. We consider the deficiency described in the Schedule of Findings and Responses as item 2012-01 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAN Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2012-02.

We noted certain matters that we reported to management of PAN Fund in a separate letter dated June 29, 2013.

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

*Deloitte & Touche LLC*

June 29, 2013

PROTECTED AREAS NETWORK FUND

Schedule of Findings and Responses  
Year Ended September 30, 2012

External Financial Reporting

Finding No. 2012-01

Criteria: Republic of Palau Public Law (RPPL) 7-42 authorized the Republic of Palau Ministry of Finance (MOF) to implement a tourist and visitor environmental protection and arrival fee (Green Fee) to be used for the purpose of the operation of PAN Fund and to be deposited into an account at the National Treasury.

Condition: PAN Fund is not recording receivables and transfers related to the collection of Green Fees by MOF. Additionally, MOF has recorded a transfer of Green Fees to the Micronesia Conservation Trust and to PAN sites of State Governments which PAN Fund has also not recorded.

Cause: The cause of the above condition is the lack of access to MOF recordings.

Effect: The effect of the above condition is the misstatement of Green Fee receivables and transfers. This condition was corrected through proposed audit adjustments.

Recommendation: We recommend that PAN Fund record MOF Green Fee receipts and disbursements within its general ledger.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Ms. Clarinda Ziegler, General Manager, PAN Fund

**Corrective Action:** We will establish a standardized green fee reporting process with the MOF thru a Memorandum of Understanding to access MOF recordings for PAN Fund to reconcile and record accounts receivables and transfers of green fee revenues in PAN Fund's general ledger.

**Proposed Completion Date:** September 30, 2013

PROTECTED AREAS NETWORK FUND

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2012

Local Noncompliance

Finding No. 2012-02

Criteria: Protected Area Network (PAN) sites, designated by State Governments, should be certified or approved by the ROP Ministry of Natural Resources, Environment and Tourism. Additionally, disbursements to PAN sites should be supported by quarterly reports provided by the respective State Governments.

Condition: Our tests noted the following:

- One disbursement to Ngaraard State for \$47,400 (check # 1040) was not supported by a quarterly report; and
- One disbursement to Ngiwal State for \$55,000 (check # 1035) was supported by a quarterly report that was not endorsed by the State's Governor.

Cause: The cause of the above condition is the lack of adherence to policies and procedures requiring certification of PAN site designations before disbursements are made and the lack of supporting quarterly reports.

Effect: The effect of the above condition is lack of compliance with RPPL No. 7-42.

Recommendation: We recommend that PAN Fund adhere to policies and procedures requiring certification of PAN site designations before disbursements are made and quarterly reports.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Ms. Clarinda Ziegler, General Manager, PAN Fund

**Corrective Action:** We will require submission of complete and timely reports prior to disbursements of funds. Ngiwal State submitted a signed report on 06/06/13 and Ngaraard State submitted its report on 06/13/13.

**Proposed Completion Date:** September 30, 2013

PROTECTED AREAS NETWORK FUND

Unresolved Prior Year Comments  
Year Ended September 30, 2012

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