

**PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT ORGANIZATION)**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2013

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, 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 Palau Community Action Agency (the Agency), which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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.

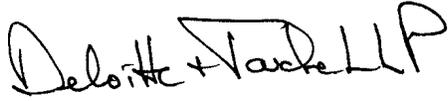
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

June 27, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Palau Community Action Agency:

Report on Compliance for Each Major Federal Program

We have audited Palau Community Action Agency's (the Agency's) 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, 2013. The Agency's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Agency's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for a major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on a Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 item 2013-001. Our opinion on each major federal program is not modified with respect to this matter.

The Agency's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program 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.

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 a 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. *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.

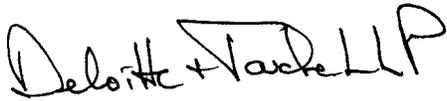
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that are not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 that we consider to be a significant deficiency.

The Agency's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Agency as of and for the year ended September 30, 2013, and have issued our report thereon dated June 27, 2014, which contained an unmodified 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 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 Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

June 27, 2014

**PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT ORGANIZATION)**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

<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	\$ 188,785
U.S. Department of Health and Human Services Head Start	93.600	* <u>1,855,814</u>
Total Federal Assistance Expended		\$ <u>2,044,599</u>
* Based on requirements imposed in the audit, this denotes a major program.		
Reconciliation:		
Total Federal Assistance Expended		\$ 2,044,599
Non-federal expenses and losses per Statement of Activities:		
BCCF Program		962
PACC program		4,473
T8AA/BBC		<u>5,803</u>
Satisfaction of program restrictions		\$ <u>2,055,837</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, \$51,680 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>Other Contributions</u>	<u>Total Available for Local Share</u>
Total local share and other income per the general ledger	\$ <u>439,098</u>	\$ <u>51,680</u>	\$ <u>(5,475)</u>	\$ <u>485,303</u>

**PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT ORGANIZATION)**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major programs | Unmodified |
| 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 programs: | |

<u>CFDA Numbers</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: | \$300,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II - Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2013-001	93.600	Equipment and Real Property Management	\$ -

**PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding Number: 2013-001
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.600, Head Start
 Grant Number: 09CH8453/47
 Area: Equipment and Real Property Management
 Questioned Costs: \$0

Criteria: In accordance with OMB Circular A – 110 property management standard, equipment records shall be maintained accurately and shall include, among other requirements, manufacturer’s serial number, model number, or other identification number.

Condition: Thirteen fixed assets with property/serial numbers did not agree to property/serial numbers recorded in the fixed asset schedule as follows:

<u>Description</u>	<u>Property/Serial No.</u>	<u>Acquisition Date</u>	<u>Cost</u>
Toyota Hilux 4x4	22R-RE4070119, #RN1106-CRMDEA	11/24/95	\$ 19,250
Rosa Bus - 26 Seat	BE635E-D00508	02/27/04	\$ 49,880
Rosa Bus - 26 Seat	BE635E-D00510	04/15/04	\$ 49,880
Rosa Bus - 26 Seat	BE635E-D00511	04/15/04	\$ 49,880
Van L300-12 Seat	JMYHNP13W5A000440	04/15/04	\$ 32,995
Van L300-12 Seat	JMYHNP13W5A000441	04/15/04	\$ 32,995
Van L300-12 Seat	JMYHNP13W5A000439	04/15/04	\$ 32,995
Nissan X-Trail SUV	JNIPNT30201132142	11/30/06	\$ 22,995
Mazda Mini Bus 2000 CE Passenger Van	JM753KY0E170122851	11/30/06	\$ 20,495
Nissan Civilian Bus <26 Seat>	TB45-091113	07/30/07	\$ 55,495
2004 Toyota Corolla-(Red)	IZZ-1810355	02/10/10	\$ 6,000
2004 Toyota Corolla-(Silver)	IZZ-1813051	02/10/10	\$ 6,016
2004 Toyota Corolla-(White)	IZZ-1813053	02/10/10	\$ 6,000

Cause: The cause of the above condition is the same as stated in the September 30, 2012 Single Audit Report dated June 12, 2013 as the matter has not been corrected.

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

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

**PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding Number: 2013-001, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.600, Head Start
Grant Number: 09CH8453/47
Area: Equipment and Real Property Management
Questioned Costs: \$0

Auditee Response and Corrective Action Plan:

The Agency understands and will comply with federal property management standards by taking these corrective actions listed below:

Name of Contact Person: Executive Director

Corrective Action:

The Executive Director will conduct a meeting with the Agency's management and responsible personnel to develop an Action Plan to reconcile the fixed asset register to reflect actual property/serial numbers.

The Agency will hire one (1) staff to the Finance Office to be a procurement clerk to share the accounting workload and inventory will be one of his/her responsibilities.

The Fiscal Officer with the HS Facility Manager and the Accounting Clerk will reconcile the Fixed Assets Schedule to reflect actual fixed assets on an annual basis. This task includes reconciling the fixed asset register, registration and insurance cards.

The Head Start Director and the Fiscal Director will ensure that the Facility and Transportation Manager and the Accounting Clerk adhere to the Maintenance Policies of the Agency. Assets and maintenance records will be monitored through monthly management meetings and reports.

The Executive Director will ensure that the Agency's management adheres to the Agency's Maintenance Policies and federal property management standards.

Completion Date: September, 2014

**PALAU COMMUNITY ACTION AGENCY
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Summary Schedule of Prior Audit Findings
Year Ended September 30, 2013

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were resolved at September 30, 2013:

Questioned costs as previously reported	\$ 10,683
Questioned costs resolved by Administration for Children and Families, U.S. Office of Head Start - Region IX, letter dated April 1, 2014	<u>(10,683)</u>
Unresolved questioned costs at September 30, 2013	\$ <u> -</u>