

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

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

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**YEAR ENDED SEPTEMBER 30, 2014**



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**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, 2014, and the related statements of activities, of functional expense and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2015.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a significant deficiency.

**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

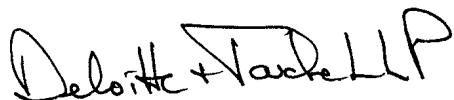
material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001.

### **The Agency's Responses to Findings**

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 26, 2015

**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, 2014. 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, 2014.

## **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 2014-001. Our opinion on the major federal program is not modified with respect to this matter.

The Agency's response to the noncompliance finding 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

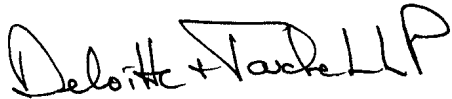
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2014, and have issued our report thereon dated June 26, 2015, 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 26, 2015

**PALAU COMMUNITY ACTION AGENCY  
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Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2014

<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	\$ <u>140,772</u>
U.S. Department of Health and Human Services Head Start	93.600	1,830,676
Drug-Free Communities Support Program Grants	93.276	<u>112,695</u>
Total U.S. Department of Health and Human Services		<u>1,943,371</u>
Total Federal Awards		\$ <u>2,084,143</u>
Reconciliation:		
Total Federal Awards Expended		\$ 2,084,143
Non-federal expenses and losses per Statement of Activities:		
BCCF Program		1,484
PACC Program		286
T8AA/BBC		690
Local Program		10,912
Embassy of Japan		<u>82,100</u>
Satisfaction of program restrictions		\$ <u>2,179,615</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, \$51,441 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 45 CFR, 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>498,603</u>	\$ <u>51,441</u>	\$ <u>(1,227)</u>	\$ <u>548,817</u>

**PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2014

**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?                     | Yes        |
| 3. Significant deficiency(ies) identified?               | Yes        |
| 4. Noncompliance material to financial statements noted? | Yes        |

*Federal Awards*

Internal control over major federal programs:

- |   |               |
|---|---------------|
| 5. Material weakness(es) identified?  | No            |
| 6. Significant deficiency(ies) identified?  | None reported |
| 7. Type of auditors' report issued on compliance for major federal 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 federal programs:  |               |

<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: | \$300,000 |
| 11. Auditee qualified as low-risk auditee?                                   | Yes       |

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Finding</u>
2014-001	Matching
2014-002	Travel Documentation

**Section III – Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2014-001	93.276	Matching, Level of Effort, Earmarking	\$ 127,205



**PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-001  
Federal Agency: U.S. Department Health and Human Services  
CFDA Program: 93.276 Drug-Free Communities Support Program Grants  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$127,205

Criteria: In accordance with applicable matching requirements, the non-federal share for a Federal award must be recorded and reported in the financial statements.

Condition: The required matching of \$127,205 from non-federal funds is not recorded in the entity's records.

Cause: Palau Community Action Agency did not monitor or record the required non-federal share of federal funds.

Effect: Palau Community Action Agency is in noncompliance with applicable matching requirements. Questioned costs of \$127,205 exist.

Recommendation: Palau Community Action Agency should strengthen monitoring controls over compliance with applicable matching requirements so that the required non-federal share of a federal award is reported and recorded in the financial statements.

Auditee Response and Corrective Action Plan: Yes, we agree that we did not properly monitor and record in a timely fashion accurate matching amounts of the required non-federal funds. We have initiated this task and so far, we have acquired and documented \$77,665 of non-federal share of matching funds. We will continued to work with Yapese Against Drugs & Alcohol (YADA) to obtain additional amounts to make up the nearly \$50,000 difference. We hope to resolve this finding by September 30, 2015.

**PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-002

Area: Travel Documentation

Criteria: Travel costs should be justified and be substantiated by invoices and receipts.

Condition: For two (or 67%) of three travel expenses tested, deficiencies exist, as follows:

1. Unjustified travel costs:

Hotel	\$ 799
Car rental	118
Per diem	<u>196</u>
	<u>1,113</u>

2. No support, such as, invoices or receipts to substantiate travel and related costs

7,873

Total costs

\$ 8,986

Cause: There appears to be weak internal control over justifying and supporting costs.

Effect: Travel costs are not justified and supported in accordance with applicable Travel Policy requirements.

Recommendation: Palau Community Action Agency should strengthen controls to verify that travel costs are justified and supported by invoices and receipts.

Auditee Response and Corrective Action Plan: Yes, we were lacking in our efforts to make sure travel arrangements for YADA comply fully with our existing Travel Policies. We will continued to work with YADA so they can provide the necessary supporting documents to resolve this finding, and to do so by September 30, 2015.

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Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2014

There are no unresolved prior audit findings.