

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

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

YEAR ENDED SEPTEMBER 30, 2015

**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 net position as of September 30, 2015, and the related statements of revenues, expenses and change in net position 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 30, 2016.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-002 that we consider to be material weaknesses.

Compliance and Other Matters

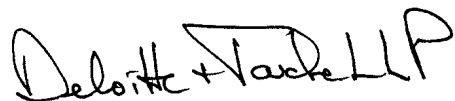
As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances 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 2015-001.

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 result 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 + Tuckers LLP". The signature is written in a cursive, stylized font.

June 30, 2016

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON 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 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended September 30, 2015. The Agency's major federal programs are 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 each of the Agency's major federal programs 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 each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Basis for Qualified Opinion on CFDA 15.904 Historic Preservation Fund Grants-In-Aid

As described in the accompanying Schedule of Findings and Questioned Costs, the Agency did not comply with requirements regarding CFDA 15.904 Historic Preservation Fund Grants-In-Aid as described in finding number 2015-001 for Reporting. Compliance with such requirement is necessary, in our opinion, for the Agency to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 15.904 Historic Preservation Fund Grants-In-Aid

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 CFDA 15.904 Historic Preservation Fund Grants-In-Aid for the year ended September 30, 2015.

Unmodified Opinion on CFDA 93.600 Head Start

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 CFDA 93.600 Head Start identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2015.

Other Matters

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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.

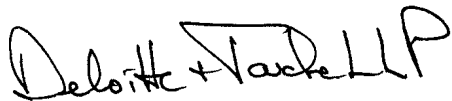
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be a material weakness.

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

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, 2015, and have issued our report thereon dated June 30, 2016, 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 + Tuck LLP". The signature is written in a cursive, stylized font.

June 30, 2016

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2015

<u>Grantor/CFDA Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Direct Programs:		
U.S. Department of the Interior		
Historic Preservation Funds Grants-In-Aid	15.904	\$ <u>284,087</u>
Total U.S. Department of the Interior		284,087
U.S. Department of Health and Human Services		
Drug-Free Communities Support Program Grants	93.276	253,009
Head Start	93.600	<u>1,760,279</u>
Total U.S. Department of Health and Human Services		<u>2,013,288</u>
Total Federal Awards		\$ <u><u>2,297,375</u></u>
Reconciliation to the financial statements:		
Total federal awards expended		\$ 2,297,375
Depreciation		46,230
Non-federal awards		<u>612,216</u>
Total expenses per financial statements		\$ <u><u>2,955,821</u></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, \$32,380 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	\$ 378,164	\$ <u>32,380</u>	\$ (3,314)	\$ 407,230

**PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2015

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? | None reported |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

Internal control over major federal programs:

- | | |
|---|---------------|
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | None reported |
| 7. Type of auditors' report issued on compliance for major federal programs | Qualified |
| CFDA Number Name of Federal Program or Cluster | |
| 15.904 Historic Preservation Funds Grants-In-Aid | Qualified |
| 93.600 Head Start | 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: | |

CFDA Number	Name of Federal Program or Cluster
15.904	Historic Preservation Funds Grants-In-Aid
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

Reference Number	Finding
2015-001	Reporting
2015-002	Reconciliation of Accounting Records to General Ledger

Section III – Federal Award Findings and Questioned Costs

Reference Number	CFDA Number	Finding	Questioned Costs
2015-001	15.904	Reporting	Unknown

**PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-001
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.904 Historic Preservation Funds Grants-In-Aid
 Federal Award No.: 70-12-41964 and P14AF00120
 Area: Reporting
 Questioned Costs: Unknown

Criteria: In accordance with applicable reporting requirements, Federal share of expenditures reported on SF 425, Federal Financial Report, must be supported by and be reconciled with the underlying accounting records.

Condition: Program Year 2012 and 2013 Federal share of expenditures reported on the SF 425 Federal Financial Report was not reconciled to the underlying accounting records, as shown below. In addition, a related accounts receivable credit balance of \$10,767 recorded in Fund 320 was also not reconciled.

	Federal Share of Expenditures Reported				Variance between SF 425 and EOY Report	General Ledger, Fund 320 expenses	Variance between EOY Report and General Ledger
	FY2014 SF425	FY2015 SF425	FY2015 Expenses	End of Year Report			
Program Year 2012	146,815	208,864	62,049	75,571	(13,522)		
Program Year 2013	102,252	222,384	120,133	113,823	6,310		
Totals	249,067	431,248	182,182	189,394	(7,212)	165,705	23,689

Cause: Palau Community Action Agency management did not effectively monitor compliance with reporting reconciliation requirements.

Effect: The Palau Community Action Agency is in noncompliance with applicable reporting requirements. Due to the absence of a required reconciliation, we are not able to assess whether questioned costs result from this matter.

Recommendation: Palau Community Action Agency management should monitor the reconciliation process so that the required reconciliation is completed in accordance with applicable reporting requirements.

Auditee Response and Corrective Action Plan: To strengthen monitoring of the reconciliation process so as to be in compliance, PCAA and HPF management will schedule a meeting no later than end of July 2016 to address current challenges and find solutions to improve reconciliation and reporting. Issues to be addressed include, but not limited to, 1. accurate tracking of Federal expenditures by PCAA and HFP, 2. accurate and timely reconciliation of Federal expenditures with accounting records, 3. Filing of a reconciled SF 425, 4. Reconciliation of all fund accounts

**PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2015

Finding No.: 2015-002
Area: Reconciliation of Accounting Records to General Ledger (GL)

Criteria: Reconciliation of accounting records to the general ledger must be completed prior to audit commencement.

Condition: During the performance of the audit, we noted the following:

1. Supporting schedules, originally provided, had to be revised and corrected to reflect recorded amounts.
2. Bank reconciliations had to be revised and adjustments made to agree to the GL balance
3. Head Start receivables had to be revised numerous times due to adjustments made to correct related revenues and expenses.
4. The capital assets GL account and schedules were revised and adjusted many times during the audit as a result of unrecorded amounts or errors in recorded amounts.
5. Accounts payable adjustments were made to the GL account due to invalid recorded payables.
6. Accrued salaries and wages and the annual leave schedule had to be revised and adjustments posted to reflect correct amounts
7. Revenues and expenses were adjusted to reflect accurate amounts

Cause: There appears to be weak internal control over reconciliation of accounting records to general ledger accounts. This matter appears to have occurred due to the absence of an experienced accountant who is well versed in the performance of required reconciliations of the financial statements and the matters stated in the condition.

Effect: Audit process was not efficient due to reconciling processes occurring during audit fieldwork.

Recommendation: Palau Community Action Agency should strengthen controls so that reconciliation of accounting records is performed during the closing process.

Auditee Response and Corrective Action Plan: To ensure proper preparation before the next audit begins, PCAA Executive Director and Fiscal Officer will meet at the earliest (by mid-August at the latest) to discuss how we can be better at the reconciliation process and to address other needs of the Finance Office. A complete checklist detailing all that needs to be done to prepare for an audit will be created to ensure an efficient audit. In addition, a reconciliation workshop/training will be conducted, focusing specifically on reconciliation of accounting records to general ledger accounts. This will be facilitated by an experienced accountant, who we may have to hire as a way forward.

**PALAU COMMUNITY ACTION AGENCY
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Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended September 30, 2015

Finding #	CFDA #	Requirement	Questioned Costs Resolved	Questioned Costs Unresolved	Status
2014-001	93.276	Matching, Level of Effort, Earmarking	\$77,665	\$49,450	PCAA has been continually working with YADA Program to properly monitor and record required non-federal share in a timely and accurate manner. PCAA was able to collect federal required matching of \$77,665 and still working with the Program to collect
2014-002		Travel Documentation			PCAA's travel Policies is being properly implemented to ensure that all travels and travel documentations are in compliance with internal and federal requirements. Based on report no. A-09-16-28754 dated Feb. 11, 2016 from U.S. Dept. of Health & Human Services states that if the organization implements its corrective action plan would sufficiently address the