

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, 2018

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, 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 the Protected Areas Network Fund (PAN Fund), which comprise the statement of net position as of September 30, 2018, and the related statements of revenues, expenses and changes 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 March 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PAN Fund'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 PAN Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of PAN Fund'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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2018-001 through 2018-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAN Fund'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*.

PAN Fund's Response to Findings

PAN Fund's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. PAN Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 PAN Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PAN Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

March 7, 2019

PROTECTED AREAS NETWORK FUND

Schedule of Findings and Responses
Year Ended September 30, 2018

Beginning Net Position

Finding No. 2018-001

Criteria: Beginning net position should agree to the prior period's ending net position unless there are prior period errors or misstatements.

Condition: There were no prior period errors or misstatements, however, fiscal year 2018 beginning net position did not agree with fiscal year 2017 ending net position by \$125,782. A proposed adjustment was recorded to correct the balance.

Cause: The cause of the above condition is the non-recording of fiscal year 2017 audit adjustments.

Effect: The effect of the above condition is the misstatement of PAN Fund's interim financial statements.

Recommendation: We recommend that PAN Fund records audit adjustments at fiscal year end.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jun Ushibata, Finance Officer

Corrective Action: We will record proposed audit adjustments at fiscal year-end.

Proposed Completion Date: September 30, 2019

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2018

Grant Revenues

Finding No. 2018-002

Criteria: Grant revenues should be recognized when related expenses are incurred.

Condition: Grant revenues differed from grant expenses by \$107,774. A proposed adjustment was recorded to correct grant revenues and unearned revenues.

Cause: The cause of the above condition is the lack of review of journal entries.

Effect: The effect of the above condition is the understatement of PAN Fund revenues.

Recommendation: We recommend that PAN Fund record grant revenues when related expenses are incurred.

Prior Year Status: The lack of review of journal entries was reported as a finding in the audit of PAN Fund for fiscal year 2017.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jun Ushibata, Finance Officer

Corrective Action: We will include recording of unearned revenues and revenues earned in the journal entry process.

Proposed Completion Date: March 30, 2019

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2018

Investments

Finding No. 2018-003

Criteria: Accounting principles generally accepted in the United States of America (GAAP) require investments to be recorded at fair value and investment activities to be recorded in the statements of revenues, expenses and changes in net position.

Condition: Investments with fair market value of \$1,214,052 at September 30, 2018 and related investment income and expenses were not recorded. A proposed adjustment was recorded to correct expenses and to recognize investments.

Cause: The cause of the above condition is the lack of review of journal entries and material errors in interim financial statements.

Effect: The effect of the above condition is the understatement of PAN Fund's assets and other income and overstatement of expenses.

Recommendation: We recommend that PAN Fund record investments and investment activities in accordance with GAAP.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jun Ushibata, Finance Officer

Corrective Action: We will incorporate recording of investments, income and expenses as part of the journal entry process.

Proposed Completion Date: September 30, 2019

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Unresolved Prior Year Findings
Year Ended September 30, 2018

The status of unresolved prior year findings is discussed in the Schedule of Findings and Responses section of this report.