

PALAU INTERNATIONAL CORAL REEF CENTER
(A COMPONENT UNIT OF THE REPUBLIC OF PALAU)

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2010

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 International Coral Reef Center:

We have audited the financial statements of the Palau International Coral Reef Center (the Center) as of and for the year ended September 30, 2010, and have issued our report thereon dated August 9, 2011. 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

In planning and performing our audit, we considered the Center'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 the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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 through 7), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Responses as items 2010-1 through 2010-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of 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 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 2010-1.

We noted certain matters that we reported to management of the Center in a separate letter dated August 9, 2011.

The Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Center's responses and, accordingly, we express no opinion on it.

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

Deloitte & Touche LLC

August 9, 2011

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Findings and Responses
Year Ended September 30, 2010

Deferred Revenue

Finding No. 2010-1

Criteria: Grant funds received should be used for purposes stipulated in the grant agreement.

Condition: The Center has deferred revenue of \$144,761 related to grant funds received, which is in excess of total cash at September 30, 2010, indicating that grant funds received are being used for purposes unrelated to the grant. Additionally, the Center has internally restricted cash of \$127,766 at September 30, 2010. Significant deferred revenue balances noted are as follows:

<u>Grant Name</u>	<u>Amount</u>
Fund 201C: NOAA Coral Monitoring - 2008	\$ 22,574
Fund 253A: Packard MPA - Year 2	\$ 37,733

Cause: The cause of the above condition is the use of grant funds for purposes unrelated to the grant.

Effect: The effect of the above condition is the potential violation of grant terms and conditions.

Recommendation: We recommend that the Center establish policies and procedures to assist in ensuring that grant monies are used for purposes stipulated in the grant agreement and that unexpended grant funds are monitored.

Prior Year Status: The lack of policies and procedures in monitoring the use of grant monies was reported as a finding in the audits of the Center for fiscal years 2007 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Yimnang Golbuu, Interim Chief Executive Officer

Corrective Action Plan: Some grants are multi-year and when they are received in advance, they are deferred until such time that projects are implemented and corresponding expenses are incurred and revenues recognized. Also, cash on hand fluctuates every month and the year-end balance is usually less than deferred revenue if the multi-year grants are still in their early stages. Due to cash flow shortages, we are forced to use grant funds for regular operations, but will reimburse the funds once cash allotments are received. We will assess each grant fund and formulate policies to make sure that grant funds are truly restricted and can only be used for intended purposes/allowable costs under the respective grants. We are already creating separate accounts for major grants received, which will be used in line with the stipulations set by respective grants.

Proposed Completion Date: June 2011

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Accounts Payable and Accrued Expenses

Finding No. 2010-2

Criteria: Expenses should be recorded at the time liabilities are incurred.

Condition: Our tests of accrued expenses disclosed unrecorded liabilities of \$73,600 at September 30, 2010. The condition was corrected through proposed audit adjustments.

Cause: The cause of the above condition is the lack of appropriate cutoff procedures and controls.

Effect: The effect of the above condition is a misstatement of liabilities and expenses.

Recommendation: We recommend that the Center implement policies and procedures to record expenses at the time liabilities are incurred.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Yimnang Golbuu, Interim Chief Executive Officer

Corrective Action Plan: The Administrative Manager and the Accounting Officer will undergo further training on the MIP Sage accounting program. Hopefully, this training will enable them to recognize and record expenses at the time liabilities are incurred to avoid misstatements of liabilities and expenses. It boils down to maintenance of accounts and keeping them up to date so that the financial position is accurate. Thus, we will provide training and implement policies and procedures to resolve this problem.

Proposed Completion Date: June 2011

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Net Assets

Finding No. 2010-3

Criteria: Net asset accounts should only be adjusted for prior year errors and misstatements and when closing net income for the period.

Condition: During the year ended September 30, 2010, the Center recorded contributed capital assets of \$169,558 directly to net asset accounts. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the improper accounting for contributions.

Effect: The effect of the above condition is a misstatement of beginning net assets and contribution accounts.

Recommendation: We recommend that the Center record contributed capital assets as capital contributions.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Yimnang Golbuu, Interim Chief Executive Officer

Corrective Action Plan: The Administrative Manager and the Accounting Officer will undergo further training on the MIP Sage accounting program. Hopefully, further training and review of generally accepted accounting principles will enable them to make correct postings and proper recording of contributions. We will be recording contributions of capitalized assets as revenues from here on to prevent misstatements of beginning net assets and contributions accounts.

Proposed Completion Date: May 2011

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

Receivables

Finding No. 2010-4

Criteria: The Center's Financial Policies and Procedures, Section 2.07, *Sales and Receivables*, subsection (a) *Accounts Receivable Write-off Procedures*, requires, for receivables deemed uncollectible, the approval of the Chief Executive Officer and the individual responsible for the revenue before write-off can begin. Additionally, approval of the Board of Directors should be obtained for all receivable write-offs.

Condition: The Center wrote-off receivables amounting to \$54,494 during the year ended September 30, 2010 without evidence of approval by the Chief Executive Officer, other responsible individuals or the Board of Directors.

Cause: The cause of the above condition is the lack of adherence to the Financial Policies and Procedures manual.

Effect: The effect of the above condition is noncompliance with the Financial Policies and Procedures manual.

Recommendation: We recommend that the Center ensure compliance with established Financial Policies and Procedures and obtain approval of the Board of Directors for all receivable write-offs.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Yimnang Golbuu, Interim Chief Executive Officer

Corrective Action Plan: The Administrative Manager and the Accounting Officer will have to aggressively collect receivables due to the Center. A list of those deemed uncollectible will be made available for the CEO and Board of Directors to review and subsequently approve for write-off, in accordance with existing financial policies and procedures.

Proposed Completion Date: June 2011

PALAU INTERNATIONAL CORAL REEF CENTER

Schedule of Findings and Responses, Continued
Year Ended September 30, 2010

External Financial Reporting

Finding No. 2010-5

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

Condition: Grant revenues differed from grant expenses by \$80,651 during the year ended September 30, 2010. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of proper recognition of grant revenues.

Effect: The effect of the above condition is a misstatement of grant revenues.

Recommendation: We recommend that the Center ensure that grant revenues are recognized when allowable expenses are incurred.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Yimnang Golbuu, Interim Chief Executive Officer

Corrective Action Plan: Grant revenues should be recognized as expenses are incurred during the implementation of projects so that misstatements are avoided and grant balances are updated at all times. Both the Administrative Manager and the Accounting Officer will ensure that this is performed to prevent further confusion. Again, this boils down to maintenance of accounts in a timely manner.

Proposed Completion Date: June 2011

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Unresolved Prior Year Comments
Year Ended September 30, 2010

The status of unresolved prior year internal control findings is disclosed within the Schedule of Findings and Responses section of this report (pages 3 through 7).