

PALAU COMMUNITY ACTION AGENCY  
(A NONPROFIT CORPORATION)

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2011

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 the financial statements of the Palau Community Action Agency (the Agency) as of and for the year ended September 30, 2011, and have issued our report thereon dated November 14, 2012. 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

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency'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 Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Agency in a separate letter dated November 14, 2012.

This report is intended solely for the information and use of the Board of Directors, management of the Agency, others within the entity, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

*Deloitte & Touche LLC*

November 14, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Palau Community Action Agency:

Compliance

We have audited the Palau Community Action Agency's (the Agency) 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, 2011. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 7 through 13). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, 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 items 2011-01 through 2011-03.

## Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 through 2011-03. 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.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Agency as of and for the year ended September 30, 2011, and have issued our report thereon dated November 14, 2012. Our audit was performed for the purpose of forming our opinion on the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Agency. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

This report is intended solely for the information and use of the Board of Directors, management of the Agency, others within the entity, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

*Deville & Joubert LLC*

November 14, 2012

PALAU COMMUNITY ACTION AGENCY

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2011

<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	\$ 256,976
U.S. Department of Health and Human Services Head Start	93.600	* <u>1,608,549</u>
Total Federal Assistance Expended		\$ <u>1,865,525</u>
* Based on requirements imposed in the audit, this denotes a major program.		
Reconciliation:		
Total Federal Assistance Expended		\$ 1,865,525
Non-federal expenses and losses per Statement of Activities:		
Local program		18,535
MSIP/CSM		14,183
PSG program		1,118
PACC program		4,935
Other		<u>352</u>
Satisfaction of program restrictions		\$ <u>1,904,648</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, \$59,386 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>Total Available for Local Share</u>
Local share for period ending 07/31/11	\$ 261,316	\$ 57,185	\$ 318,501
Local share for period ending 07/31/12	<u>79,493</u>	<u>2,201</u>	<u>81,694</u>
Total local share	340,809	59,386	400,195
Other miscellaneous income	<u>-</u>		
Total other income per the general ledger	\$ <u>340,809</u>		

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2011

**A. SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |  |             |
|--|-------------|
| 1. Type of auditors' report issued:                          | Unqualified |
| Internal control over financial reporting:                   |             |
| 2. Material weakness(es) identified?                         | No          |
| 3. Significant deficiency(ies) identified?                   | No          |
| 4. Noncompliance material to the 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:  | Unqualified |
| 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 program:   |             |
| <u>CFDA Number</u> <u>Federal Program</u>   |             |
| 93.600            Head Start  |             |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs:  | \$300,000   |
| 11. Auditee qualified as a low-risk auditee?  | No          |

**B. FINANCIAL STATEMENT FINDINGS**

No findings reported.



PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2011-01	Equipment and Real Property Management	\$ -	9 - 10
2011-02	Eligibility	\$ -	11 - 12
2011-03	Reporting	\$ -	13

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Finding No.: 2011-01  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/44  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: OMB Circular A-110 provides for equipment and real property management standards. Furthermore, action is required to document circumstances related to a motor accident that is investigated and reported in order to determine whether or not an employee should be financially responsible for the damage (determinations as to financial liability for motor vehicle damage should be based on the official police report of the accident).

Condition: The Agency's equipment records did not comply with federal requirements in the following areas:

1. For prior years' acquisitions, records did not indicate manufacturer's serial number, model number or other identification number. The Agency began to document such information when they performed a physical inventory of fixed assets in 2010; however, the information was not reconciled to the fixed asset records;
2. Records did not identify use and condition of the property; and
3. There is no documented maintenance policy in place for which compliance can be tested.

Cause: The cause of the above condition appears to be insufficient numbers of staff to handle the accounting workload or lack of a workable system, which incorporates addressing the above requirements.

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

Recommendation: We recommend the Agency comply with federal property management standards.

Prior Year Status: Noncompliance with federal property management standards was reported as a finding in the audits of the Agency for fiscal years 2004 through 2010.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Doroteo Nagata, Executive Director, Eydeline Ikeya, Head Start Director and Augusta Kintaro, Fiscal Manager

**Corrective Action:**

1. The Agency hired additional finance staff to share the accounting work load.

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-01, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/44  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

2. The Fiscal Manager started working with the Program Directors on completing the bi-annual inventory and fixed assets records. The reconciliation will be completed by October 30, 2012.
3. The Maintenance Policy and Procedures were approved by the Board of Directors on February 17, 2012.

**Proposed Completion Date:** October 2012

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-02  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/44  
Area: Eligibility  
Questioned Costs: \$-0-

Criteria: In accordance with Head Start Program Performance Standard 1305, the program must develop a criteria for defining recruitment, selection and enrollment priorities based on results of the Community Need Assessment. The program must have a formal process for establishing selection criteria and selecting children and families that are considered eligible to receive Head Start Services. The recruitment, selection and enrollment criteria must be based on family income, ages of children, children with disabilities, family types, other family factors and the availability of services in the respective communities. In addition, the Policy Council should approve the 2011 community assessment and criteria for defining recruitment, selection and enrollment priorities.

Condition: There was no evidence that the Policy Council approved the Community Need Assessment and the criteria for defining recruitment, selection and enrollment priorities. It was represented that there were discussions and review of the community assessment during the board meetings; however there was no evidence of formal approval.

Cause: The cause of the above condition is that there was no evidence that the Policy Council approved the 2011 community assessment.

Effect: The effect of the above condition is lack of compliance with Head Start policies.

Recommendation: We recommend that the Agency comply with established Head Start policies.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Doroteo Nagata, Executive Director and Eydeline Ikeya, Head Start Director

**Corrective Action:**

1. The Agency updated its Community Need Assessment in fiscal year 2011. Assessment results were used to develop the fiscal year 2011 grant application including goals and objectives. Recruitment, selection and enrollment criterias were not changed. The proposal was submitted to the Policy Council and the Board of Directors. The Agency solicited one approval for the updated Community Need Assessment results and the fiscal year 2011 grant application. Discussion and approval of the results of the updated assessment and the content of the fiscal year 2011 grant fund application are reflected in the Policy Council meeting minutes dated April 16, 2010 and the Board of Directors meeting minutes dated April 26, 2010.
2. In the future, the Agency will present and obtain separate approval from the Board of Directors and the Policy Council for community assessment and for grant funding application.

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-02, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/44  
Area: Eligibility  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

3. The Agency's PY 2011 recruitment, selection and enrollment criterias and priorities did not change; therefore, no approval was required.

**Proposed Completion Date:** October 2012

PALAU COMMUNITY ACTION AGENCY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2011

Finding No.: 2011-03  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.600 Head Start  
Grant Number: 09CH8461/44  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: In accordance with applicable reporting requirements, the Agency is required to submit financial reports i.e. form SF 425 and an annual progress report. In addition, the required report should reflect accurate data.

Condition: Total cash receipts reported on the SF 425 as of September 30, 2011, does not reconcile with the total general ledger as of 09/30/2011, as follows:

<u>Cash Receipts Per SF 425</u>	<u>Cash Receipts Per General Ledger</u>	<u>Variance</u>
\$ 1,380,543	\$ 1,426,814	\$ (46,271)

It was represented that the variance was reported subsequent to September 30, 2011. There was no documentation provided to determine that the variance was reported subsequent to September 30, 2011.

Cause: The cause of the above condition is that the Agency did not reconcile accounting records to reported amounts.

Effect: The effect of the above condition is noncompliance with applicable reporting requirements. No questioned cost results from this condition as reported cash receipts were less than actual cash receipts.

Recommendation: We recommend that the Agency determine that underlying accounting records are maintained to substantiate reported amounts.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Doroteo Nagata, Executive Director and Augusta Kintaro, Fiscal Manager

**Corrective Action:** The Agency hired additional finance staff (accounting technician) to better distribute and segregate the work load in the Finance Office. The new staff will assume some of the Fiscal Manager's responsibilities, allowing her additional time to review expenses and other reports. The Fiscal Manager will verify the reconciliations of the reports.

**Proposed Completion Date:** September 30, 2012

PALAU COMMUNITY ACTION AGENCY

Unresolved Prior Year Comments  
Year Ended September 30, 2011

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2011:

Questioned costs as previously reported \$ 185,661

Questioned costs resolved during the year ended September 30, 2011:

Per clearance documents from the U.S. Department of Health and Human Services:

<u>Date of Letter</u>	<u>Code</u>	
June 7, 2011	317919100/306908100	(13,584)
June 7, 2011	099905100	(59,193)
November 28, 2011	217908105	(112,884)

Questioned costs of fiscal year 2011 Single Audit \_\_\_\_\_ -

Unresolved questioned costs at September 30, 2011 \$           -          

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 7 through 13).



**PALAU COMMUNITY ACTION AGENCY**

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**Summary of Schedule of Prior Audit Findings**

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2010:

**FINANCIAL STATEMENT FINDINGS**

No findings reported.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Finding No. 2010-01 - Not corrected. See corrective action plan for Finding No. 2011-01.

Finding No. 2010-02 - Corrective action was taken

Finding No. 2010-03 - Corrective action was taken