

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, 2020



**INDEPENDENT AUDITOR’S 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***

To the Board of Directors
Palau International Coral Reef Center:

We have audited, in accordance with the 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 Palau International Coral Reef Center (“the Center”), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Center’s basic financial statements and have issued our report thereon dated February 24, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Center’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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2020-01 and 2020-02 that we consider to be material weaknesses.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Center'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 financial statements. 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*.

Center's Response to Findings

The Center's response to findings identified in our audit is described in the accompanying schedule of findings and responses. The Center's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.



Koror, Republic of Palau
February 24, 2022

**Palau International Coral Reef Center
(A State of the Republic of Palau)**

Schedule of Findings and Responses
Year Ended September 30, 2020

Finding: 2020-01

Area: General Ledger Account Reconciliation

Criteria:

Accounting principles generally accepted in the United States of America (GAAP) require general ledger account balances to be reconciled on a monthly basis to prepare monthly and annual financial statements in a timely manner. Accounting personnel should possess adequate skill, knowledge and experience to carryout the accounting functions of the Center.

Condition:

Though financial statements were generated from the Center's accounting software, numerous errors were not detected and corrected in a timely manner. Several versions of the Center's financial statements were provided but were for the wrong accounting period and contained errors. The Center failed to perform reconciliations of significant general ledger accounts. We noted the following:

1. Grants receivable subsidiary ledgers were not reconciled to the general ledger account in a timely or accurate manner. The cumulative effect of the proposed audit adjustments to correct the errors totaled \$817,260.06.
2. Deferred revenue and grant revenue were not properly accounted for and recorded in the general ledger. An audit adjustment of \$240,000 was proposed to reconcile the account.
3. Transfers between the various funds were not properly recorded as we noted that the Due to and Due from accounts did not balance and transactions were not recorded in the proper fund. Numerous audit adjustments were proposed to correct the errors and were included as part the reconciliation of grants receivable.
4. Fixed assets lapsing schedule was not reconciled to the general ledger resulting in proposed audit adjustments of \$256,717.16.
5. Accumulated depreciation and depreciation expense on the fixed asset lapsing schedule was not properly reconciled to the general ledger; depreciation expense was not properly recorded in the general ledger. Audit adjustments were proposed to correct accounting errors and properly record depreciation expense totaling \$396,965.39 and 186,898.05, respectively.
6. Assets disposed of during the year were not recorded to account for the gains/losses. The cumulative effect of the proposed audit adjustments to correct the errors totaled \$20,774.09.

**Palau International Coral Reef Center
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Schedule of Findings and Responses
Year Ended September 30, 2020

**Finding: 2020-01, Continued
Area: General Ledger Account Reconciliation**

Condition: (continued)

7. Inventory was not properly adjusted in the general ledger based on the physical count at year-end. A proposed audit adjustment of \$746.56 was recorded to correct the misstatement.
8. Accounts payable subsidiary ledger was not reconciled to the general ledger resulting in a proposed audit adjustment totaling \$3,147.17.

Cause:

The Center does not maintain a sufficient complement of personnel with an appropriate level of knowledge of accounting skills, experience, and training commensurate with its accounting and financial reporting requirements.

Effect:

The effect of the above condition is the potential for accounting errors to occur and not be prevented and detected in a timely manner. In addition, the Center could be making management decisions on inaccurate financial data and information.

Recommendation:

We recommend that the Center should provide training for existing accounting personnel and strongly consider hiring additional accounting personnel with suitable skills and knowledge capable of applying generally accepted accounting principles in recording the Center's financial transactions and preparing monthly and year-end financial statements.

The Center should establish and implement accounting policies and procedures to ensure that the general ledger control accounts are properly reviewed and reconciled on a monthly basis and independently reviewed for accuracy. Comprehensive accounting policies and procedures should be developed and implemented and made available to personnel as appropriate for guidance. The accounting policies and procedures should be updated as procedures change and/or when new accounting standards are implemented.

**Palau International Coral Reef Center
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Schedule of Findings and Responses
Year Ended September 30, 2020

Finding: 2020-01, Continued

Area: General Ledger Account Reconciliation

Auditee Response and Corrective Action Plan:

Name of Contact Person: Arnice Yuji, Administration Director, PICRC

Correction Action Taken: We concur with the finding stated above and have hired an external accountant to assist us with our books, train existing accounting personnel and recommend changes to PICRC's current Accounting Policies & Procedures.

Proposed Completion Date: The external accountant will assist us until we are fully trained and capable of. maintaining our books properly.

**Palau International Coral Reef Center
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Schedule of Findings and Responses
Year Ended September 30, 2020

**Finding: 2020-02
Area: Investments**

Criteria:

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

Condition:

Investments of \$424,772 were not adjusted to their fair market value at September 30, 2020 and related investment income was not recorded. A proposed audit adjustment of \$30,669.69 was recorded increase investments to fair market value and recognize related investment income.

Cause:

The cause is the above condition is the lack of review of and understanding of investment statements received from investment advisors.

Effect:

The effect of the above condition is an understatement of the Center's assets related investment income.

Recommendation:

We recommend that the Center record investments and investment activities in accordance with GAAP.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Arnice Yuji, Administration Director, PICRC

Correction Action Taken: We concur with the finding above and completed an annual reconciliation for FY 2021 in September 2021. From October 2021 onwards, a monthly investment reconciliation has been completed.

Proposed Completion Date: Monthly investment reconciliation has been conducted since October 2021 and will continue.