

PALAU COMMUNITY ACTION AGENCY  
(A NONPROFIT CORPORATION)

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS  
BASED UPON THE AUDIT 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, 2004, and have issued our report thereon dated July 25, 2005. 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 Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control on financial reporting that, in our judgment, could adversely affect the Agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-1 through 2004-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, none of the reportable conditions described above is considered to be a material weakness.

## 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 grants, 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 that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 19) as items 2004-5 through 2004-11.

This report is intended solely for the information and use of the management of the Agency, federal awarding agencies, pass-through entities and 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.

*Deloitte + Touche LLC*

July 25, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE  
TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Palau Community Action Agency:

Compliance

We have audited the compliance of the Palau Community Action Agency (the Agency) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2004. The Agency's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 19). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs 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 on the Agency's compliance with those requirements.

As described in Findings 2004-5 through 2004-11, in the accompanying Schedule of Findings and Questioned Costs, the Agency did not comply with requirements regarding cash management, equipment and real property management, matching, level of effort, earmarking, reporting, and special tests and provisions that are applicable to its Head Start program. Compliance with such requirements is necessary, in our opinion, to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

## Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Agency's ability to administer a major federal program in accordance with applicable requirements of laws, regulations contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2004-5 through 2004-11.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding 2004-5 to be a material weakness.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Agency as of and for the year ended September 30, 2004, and have issued our report thereon dated July 25, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. 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 financial statements. This schedule is the responsibility of the management of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the management of the Agency, federal awarding agencies, pass-through entities and 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.

*Deloitte & Touche LLC*

July 25, 2005

PALAU COMMUNITY ACTION AGENCY  
(A Nonprofit Corporation)

Schedule of Awards Selected for Audit in  
Accordance with OMB Circular A-133  
Year Ended September 30, 2004

The following list specifies the major federal awards selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

<u>Original Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services	93.600	Head Start Program	\$ <u>2,124,397</u>
		Total federal program expenditures	\$ <u>2,568,404</u>
		% of total federal program expenditures tested	<u>83%</u>

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2004

	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Expenses and Acquisition of Equipment</u>
<u>Program Title</u>			
<u>U.S. Department of Health and Human Services</u>			
Direct grants:			
Head Start Program	93.600	\$ <u>1,794,434</u>	\$ <u>2,124,397</u>
Total U.S. Department of Health and Human Services		<u>1,794,434</u>	<u>2,124,397</u>
<u>U.S. Department of the Interior</u>			
Direct grant:			
Historical Preservation Program	15.904	-	148,807
Pass through grant:			
Agreement between the Government of the United States and the Government of the Republic of Palau for the Implementation of Section 211(b) of the Compact of Free Association	15.875	<u>265,200</u>	<u>295,200</u>
Total U.S. Department of the Interior		<u>265,200</u>	<u>444,007</u>
Total Federal Awards		<u>\$ 2,059,634</u>	<u>\$ 2,568,404</u>

See accompanying notes to the schedule of expenditures of federal awards.

PALAU COMMUNITY ACTION AGENCY  
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Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2004

(1) Scope of Review

The Palau Community Action Agency (the Agency) was incorporated in 1967, under the laws of the Trust Territory of the Pacific Islands, as a nonprofit corporation. The primary purpose of the Agency is to administer community action programs and other related anti-poverty programs, as well as other programs for which it has been appointed as the Grantee Agency. The U.S. Department of the Interior has been designated as the Agency's cognizant audit agency.

Programs Subject to OMB Circular A-133

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Education, U.S. Department of Health and Human Services and the U.S. Department of the Interior, which are subject to OMB Circular A-133.

(2) Summary of Significant Accounting Policies

Basis of Accounting

For purposes of preparation of the accompanying Schedule of Expenditures of Federal Awards, certain accounting procedures were followed, which help illustrate the program award amount and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. All program or award amounts represent the total allotment or grant award received. All expenses and acquisition of equipment are reported as such.

Indirect Cost Allocation

For fiscal year 2004, the Agency had an approved indirect cost rate of 9.1% from the U.S. Department of Health and Human Services.

(3) Definition of Federal Awards Received

United States Department of Health and Human Services

• Direct Grants

The Agency received a grant directly from the U.S. Department of Health and Human Services, to fund the Head Start Program.

United States Department of the Interior

• Direct Grant

The Agency received directly from the U.S. Department of the Interior, a grant to fund the Historical Preservation program.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs  
Year Ended September 30, 2004

**Section I - Summary of Auditors' Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. Reportable conditions in internal control over financial reporting were identified.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, one of which is considered to be a material weakness.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The Agency's one major program was:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Head Start Program	93.600

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Agency did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2004-1	Revenue	9
2004-2	Accounts Receivable	10
2004-3	Property, Plant and Equipment	11
2004-4	Accrued Expenses	12

**Section III - Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Cost</u>	<u>Refer Page #</u>
2004-5	Cash Management	\$ -	13
2004-6	Equipment and Real Property Management	\$ -	14
2004-7 - 9	Matching, Level of Effort, Earmarking	\$ -	15 - 17
2004-10	Reporting	\$ -	18
2004-11	Special Tests and Provisions	\$ -	19

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

**Section II - Financial Statement Findings**

Revenue

Finding No. 2004-1

Criteria: Statement of Financial Accounting Standard (SFAS) No. 116 states that "contributions received shall be recognized as revenues or gains in the period received...contributions received shall be measured at their fair values."

Condition: The Agency recognized as in-kind contributions, free rentals of public facilities and land used as Head Start centers. Lot sizes for six centers were illegible in the lease agreement attachment. Eight lots were not recognized by the Agency for the free use of properties.

Cause: The cause of the above condition is lack of control procedures to ensure completeness and validity of in-kind contributions recorded.

Effect: The effect of the above condition is a possible misstatement of in-kind contributions.

Recommendation: We recommend that the Agency ensure in-kind contributions recorded are valid, complete and adequately supported.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Accounts Receivable

Finding No. 2004-2

Criteria: Management is responsible for establishing and maintaining adequate internal control to safeguard assets and to ensure accurate and complete financial reporting.

Condition: Total outstanding receivables from employees and officers increased by \$6,267 to a year end balance of \$62,850. Seventy-nine percent of this balance (\$49,919) was reserved in the allowance for doubtful accounts. In addition, outstanding receivables from media services and the revolving loan fund amounted to \$7,190 and \$2,644, respectively, which primarily related to previous years.

Cause: The cause of the above condition is a lack of effective follow-up procedures on outstanding travel advances and effective collection procedures.

Effect: The effect of the above condition is potential uncollectible receivables.

Recommendation: We recommend that the Agency establish collection procedures or disciplinary constraints, such as disallowing future travel or borrowings, to minimize bad debts.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Property, Plant and Equipment

Finding No. 2004-3

Criteria: All assets owned by the Agency should be recorded.

Condition: The Agency utilizes eight facilities, which were constructed for the Head Start Program by third parties. There are no records of ownership for these buildings and accordingly, they are not reflected in the Agency's financial statements.

Cause: The cause of the above condition appears to be lack of administrative procedures to address ambiguity of ownership interests.

Effect: The effect of the above condition is a possible misstatement of assets.

Recommendation: We recommend that the Agency clarify issues of ownership of such facilities and record any assets owned.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Annual and Sick Leave

Finding No. 2004-4

Criteria: The Agency has adopted a personnel manual, which delineates policies and procedures for accrual and usage of accumulated leave.

Condition: Our tests of four employees' annual leave and sick leave accruals noted the following:

- One employee, SS# 6021386, was granted sick leave in excess of three days, however, the leave application was not supported by a doctor's slip contrary to established policies.
- One employee, SS# 6021386, had overstated annual leave by 12 hours.

Cause: The cause of the above condition appears to be a slack in enforcement of personnel policies.

Effect: The effect of the above condition is an immaterial misstatement of accrued annual leave.

Recommendation: We recommend that the Agency enforce strict adherence to adopted personnel policies.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

**Section III - Federal Award Findings and Questioned Costs**

Cash Management - Head Start Program  
CFDA #93.600

Finding No. 2004-5

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, or the Common Rule, requires that when funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement.

Condition: There currently is no independent review of drawdown requests to ensure such requests are for actual expenditures incurred or that advances are disbursed within three business days. The current system does not monitor disbursements against drawdowns. Our review of the system noted the following exceptions to the 3-day rule:

<u>CRN#</u>	<u>Date</u>	<u>Drawdown Amount</u>	<u>Advance Amount</u>	<u>Advance Disbursed After 3 Business Days</u>	<u>Excess Days</u>
01-04	10/16/03	\$ 111,744	\$ 50,000	\$ 2,182	2 days
04-04	11/26/03	\$ 104,247	\$ 33,391	\$ 17,573	5 days
05-04	12/30/03	\$ 133,210	\$ 87,054	\$ 28,106	3 - 8 days
06-04	02/06/04	\$ 125,534	\$ 83,211	\$ 82,671	2 - 13 days
07-04	02/26/04	\$ 138,199	\$ 120,452	\$ 38,920	3 - 8 days
09-04	03/30/04	\$ 100,000	\$ 81,676	\$ 74,510	5 - 9 days
17-04	07/21/04	\$ 106,770	\$ 33,482	\$ 21,670	3 - 4 days
19-04	08/25/04	\$ 125,117	\$ 33,482	\$ 18,470	3 - 8 days

Cause: The cause of the above condition is lack of an effective system for managing drawdowns to meet federal requirements.

Effect: The effect of the above condition is noncompliance with federal cash management procedures. No interest income was earned on the advances as PCAA maintains a non-interest bearing checking account for holding and disbursing federal funds.

Recommendation: We recommend that the Agency implement a system to track disbursements against advances of federal funds.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Equipment and Real Property Management - Head Start Program  
CFDA #93.600

Finding No. 2004-6

Criteria: OMB Circular A-110 provides for equipment and real property management standards.

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

- Records did not indicate manufacturer's serial number, model number or other ID number (the Agency had begun to document such information when they performed a physical inventory of fixed assets in 2002, however, such documentation was not completed and the inventory work has not been reconciled to the fixed asset records of the Agency);
- Records did not identify location, use and condition of property;
- Grant award numbers were documented in the physical verification sheets but such have not been reconciled to the fixed asset records of the Agency, which in effect eliminates a trail for identification of the source of such assets; and
- The last physical inventory of fixed assets took place in 2001/2002. No inventory procedures were planned for fiscal years 2004 and 2005.

Cause: The cause of the above condition appears to be insufficient number 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.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Matching, Level of Effort, Earmarking - Head Start Program  
CFDA #93.600

Finding No. 2004-7

Criteria: Per the OMB Compliance Supplement, “Grantees are required to contribute at least 20 percent of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved by ACF (42 USC 9835 (b); 45 CFR sections 1301.20 and 1301.21).” The Agency’s grant award provides for a 16.97% local match.

Condition: The total non-federal share contributed to the Head Start program for fiscal year 2004, amounted to \$253,182 or a match of 11%.

Cause: The cause of the above condition is recognition of various contributions by the Head Start Program, which are not allowed as in-kind contributions by Statements of Financial Accounting Standards No. 116.

Effect: The effect of the above condition is noncompliance with the matching requirement.

Recommendation: We recommend that the Agency recognize as in-kind contribution only matters, which are allowed under Statements of Financial Accounting Standards No. 116.

PALAU COMMUNITY ACTION AGENCY  
(A Nonprofit Corporation)

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Matching, Level of Effort, Earmarking - Head Start Program  
CFDA #93.600

Finding No. 2004-8

Criteria: Per 45 CFR § 1305.4 and the OMB compliance supplement, “at least 90% of the enrollees must come from families whose income is below the official Federal poverty guidelines”. The Head Start grantee must verify the income level of the enrollee and document which verification document was used (e.g., check stub, written statement from employer, etc.)

Condition: Of twenty-two students tested, we noted the following:

1. One student (hospital # 68092) was documented to have both parents employed. Only one check stub was on file and used in the determination of the child’s income status. There was no documentation of verification of the other parent’s income.
2. One student (hospital # 59739) was documented to have both parent employed, however, only one check stub was on file and used in the determination of the household’s income level. The missing check stub was subsequently provided at our request. Our recalculation showed the child’s household income still fell below the official Federal poverty level.
3. One student (hospital # 62526) was documented to have both parents employed, however, only one check stub was on file and used in the determination of the household income level. The missing check stub was subsequently provided at our request. Our recalculation showed the child’s household income exceeded the official Federal poverty level. There was no documentation on file to justify enrollment of the child.
4. Fourteen children were returning students (hospital #s 61097, 61725, 62252, 62595, 62757, 64126, 64843, 64887, 66530, 67040, 67051, 67483, 68354 and 76695). There was no documentation of the income status of returning students in the enrollment summary report, thus, we were unable to determine whether the Agency met the minimum percentage of low-income children.

Cause: The cause of the above condition is that established enrollment guidelines have not been adequately implemented and reports are not updated to enable substantiation of the Agency’s compliance with earmarking requirements.

Effect: The effect of the above condition is possible noncompliance with enrollment earmarking requirements.

Recommendation: We recommend the Agency enforce adherence to the written enrollment guidelines and procedures. Further, the Agency enrollment summarization reports should be such that allow for substantiation of the Agency’s compliance with earmarking requirements.

Prior Year Status: Lack of effective enrollment guidelines was raised as a finding in the audits of the Agency for fiscal years 1995 through 2003.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Matching, Level of Effort, Earmarking - Head Start Program  
CFDA #93.600

Finding No. 2004-9

Criteria: The OMB Compliance Supplement requires that enrollment levels must adhere to levels specified in the grant awards.

Condition: During the nine-month school year in fiscal year 2004, only one month (February) met the enrollment level specified in the grant award (509), as noted below:

<u>Month</u>	<u>Enrollment Level</u>
September	403
October	449
November	409
December	445
January	503
February	509
March	488
April	484
May	481

Cause: The cause of the above condition appears to be a high turnover of students for unknown reasons.

Effect: The effect of the above condition is noncompliance with the stipulated enrollment level.

Recommendation: We recommend that the Agency implement procedures to ensure enrollment levels match the required number as stipulated in the grant award.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Reporting - Head Start Program  
CFDA #93.600

Finding No. 2004-10

Criteria: The OMB Compliance Supplement delineates reporting requirements for the Head Start Program. The Agency is required to submit financial reports, forms SF-269 and PCS-272. In addition, the Agency submits a annual progress report.

Condition: The following exceptions were noted from our review of the submitted federal financial reports:

- SF-269: Expenditures reported were understated by \$35,288.
- PCS-272: Expenditures were understated by \$4,163
- Progress report: Enrollment statistics differed from the reports provided to us as follows:

	<u>Per Report</u>	<u>Per Audit</u>
November	463	409
February	498	509
April	489	484

Cause: The cause of the above condition is utilizing preliminary unadjusted interim financial reports at report preparation dates resulting in the above variances.

Effect: The effect of the above condition is erroneous reporting to the grantor agency.

Recommendation: We recommend that the Agency ensure data reported to the grantor are accurate and based on complete underlying records.

PALAU COMMUNITY ACTION AGENCY  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2004

Special Tests and Provisions - Head Start Program  
CFDA #93.600

Finding No. 2004-11

Criteria: Per 45 CFR § 1305.6(c), at least 10% of enrollment opportunities must be made available to children with disabilities as defined under 45 CFR § 1305.2(a). An exception to this rule may be granted if a determination is made that the grantee made every effort to comply but was unable to do so.

Condition: Enrollment records identified only 11 children with some kind of disability. This represents two percent (2%) of total students served (509).

Cause: The cause of the above condition is lack of adequate information available of returning students to enable identification of all children with disabilities.

Effect: The effect of the above condition is possible noncompliance with Federal requirements governing Head Start programs.

Recommendation: We recommend that the Agency ensure Head Start records are up-to-date and are such as will enable substantiation of the Agency's compliance with Federal regulations.

PALAU COMMUNITY ACTION AGENCY  
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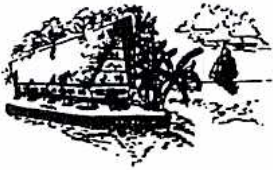
Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2004

Questioned Costs

There are no prior year unresolved questioned costs of the Agency.

Unresolved Prior Year Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 8 through 19).



# PALAU COMMUNITY ACTION AGENCY

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KOROR, REPUBLIC OF PALAU 96940

Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and Compliance for the Year Ended September 30, 2004

## **Financial Statement Findings**

### Revenue

#### Finding No. 2004-1

The Agency understands the auditor's recommendation. Head Start Director and the Facility and Transportation Manager will review the eight centers' lease agreement and work with the governors and land commission offices of the states where the centers are located and obtain the correct and legible land sizes used by the program. The Finance Manager will review the fair value of these lots and make adjustments to in-kind contribution net total. Executive Director will be responsible to see these are done prior to July 31, 2005.

### Accounts Receivable

#### Finding No. 2004-2

The Agency understands the auditor's finding and the auditor's recommendation have been implemented. Staff with receivables that have not made arrangements to clear the receivables before the end of the fiscal year will not be allowed to travel. The Agency will continue to collect outstanding receivables. The Executive Director is responsible to see that the receivables are collected accordingly.

### Property, Plant and Equipment

#### Finding No. 2004-3

The Agency understands the auditor's recommendation. Head Start Director and Facility and Transportation Manager will work with the governors and landowners of states where these centers are located at, to clarify and obtain records of ownership for the said eight centers. Copies of the records of ownership will be forwarded to Finance Manager. Finance Manager will make adjustments to asset ledger and in-kind contribution. Executive Director will make sure that these are done prior to July 31, 2005.

### Accrued Expenses

#### Finding No. 2004-4

The Agency understands this recommendation and has made adjustment to the annual and sick leave noted on the finding. The Agency will continue to enforce strict adherence to its personnel policies.

## **Federal Award Findings and Questioned Costs**

### Cash Management Finding No. 2004-5

The Agency understands the Federal Common Rule requirement regarding disbursements of federal funds. The Agency has begun implementing the auditor's recommendation. It has purchased the MIP Accounting software. This accounting software program will be able to track and source expenses by program. The Finance Manager will review the program expenses and make draw down requests accordingly. Drawdowns will be based on actual expenses incurred. The program will be in full operation by the end of July 2005. Finance Manager is responsible to track disbursements against advanced federal funds and make sure no unnecessary advance is drawn.

### Equipment and Real Property Management Finding No. 2004-6

The Agency will comply with federal property management standards. The inventory form has been revised to include serial, model or other identification number, location, use and condition of the assets. To identify the trail source of asset, physical inventory will be verified and reconciled to the fixed asset records. New assets received will be recorded on the asset inventory form by content area managers who obtained the assets, and a copy of the record will be forwarded to Finance Manager. The physical inventory will be conducted by appropriate content area managers. Reconciliation of the inventory of assets record will be done by the finance staff. Finance Manager is responsible to see that inventory and reconciliation of all assets are completed by February 28, 2006.

### Matching, Level of Effort, Earmarking Finding No. 2004-7

The Agency has been made aware of FAS No.116 and will comply with the recommendation and the standard. Detailed in-kind contribution work plan will be prepared by the Head Start Director and will be submitted to the Regional Office for approval. Head Start Director with the content area managers will compile documented in-kind contributions and submit the report to Finance Manager for allowability verification. The Executive Director with the assistance of Finance Manager will make sure the Agency complies with both 45 CFR Section 1301.20 and 1301.21 and Statements of Financial Accounting Standards No. 116 requirements.

### Finding No. 2004-8

The Agency understands this finding and will comply with the recommendation. To ensure that established enrollment guidelines and procedures are implemented, no child, new or returning will be enrolled into the program until Head Start Director through the assistance of the Family and Community Partnership Manager, has certified that the income of enrollees have been calculated correctly and documents used (check stub, other forms, written statement from employer, etc.) have been checked and documented. The Family and Community Partnership Manager is responsible to make sure that all documents justifying the eligibility of the child enrollment into the program are complete and available for Head Start Director's review. The Head Start Director will review and sign all completed enrollment forms within thirty (30) days of enrollment. The Head Start Director is also responsible to see that PPS 1304.40 requirements are followed and Agency program enrollment guidelines and procedures are enforced and adhered to.

## **Federal Award Findings and Questioned Costs, Continued**

### Matching, Level of Effort, Earmarking, Continued Finding No. 2004-9

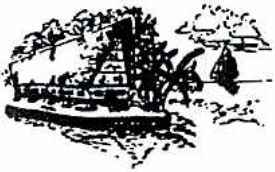
The Agency understands the auditor's recommendation and will implement procedures to ensure enrollment level specified in the grant award is adhered to. Head Start Director is responsible to make sure that enrollment level stipulated in the grant is met. Head Start Director will review the attendance report with appropriate manager(s) and sign the report for concurrence and compliance. Enrollment reports will include conditions and causes of student turnover and absenteeism. The reports will be submitted to Finance Manager on a monthly basis.

### Reporting Finding No. 2004-10

The Agency will comply with the auditor's recommendations. The Executive Director will work with Head Start Director and Finance Manager to ensure that reports submitted are accurate and based on complete and verified records. Head Start Director will review the enrollment report and sign for concurrence before the report is forwarded to the Finance Manager and Executive Director. Finance Manager will prepare financial reports to the grantor agency. The Executive Director is responsible to make sure that statistics reported to the grantor agency are accurate and based on complete enrollment records.

### Special Tests and Provisions Finding No. 2004-11

The Agency understands the auditor's recommendation and PP 1305.6c requirement. The Agency will make every effort to comply with PPS requirement. Head Start Director will work with Disability Manager to ensure that 10% of enrollment opportunities are made available to special children. Disability content area manager will update her records on all returning children to include identification of the ones with disabilities and submit the report to the Head Start Director. The report must include every effort taken to recruit children with disabilities, and causes and justifications if 10% requirement is not met. Head Start Director will review and sign the report for compliance purposes, and forward copies to the Executive Director and Finance Manager.



# PALAU COMMUNITY ACTION AGENCY

CHELDELLEL A URREOR-NG-KLUNGIOLEL BELAU

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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, 2003:

### **Federal Award Findings and Questioned Costs**

Finding No. 2003-1 - Corrective action has been taken.

Finding No. 2003-2 - Not corrected. See corrective action plan to Finding No. 2004-8.

Finding No. 2003-3 - Corrective action has been taken.