

PALAU COMMUNITY ACTION AGENCY
(A NONPROFIT CORPORATION)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2006

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, 2006, and have issued our report thereon dated October 8, 2007. 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 (pages 7 through 20) as items 2006-1 through 2006-3.

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, of the reportable conditions described above, we consider item 2006-1 to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated October 8, 2007.

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 as items 2006-4 and 2006-7.

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.

DeBitt & Bushe LLC

October 8, 2007

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, 2006. 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 7 through 20). 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 items 2006-4 through 2006-11, in the accompanying Schedule of Findings and Questioned Costs, the Agency did not comply with requirements regarding allowable costs/cost principles, cash management, procurement and suspension and debarment, equipment and real property management, matching, level of effort, and 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 its major federal program for the year ended September 30, 2006.

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 items 2006-4 through 2006-11.

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 item 2006-4 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, 2006, and have issued our report thereon dated October 8, 2007. 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 5) 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

October 8, 2007

PALAU COMMUNITY ACTION AGENCY
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Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Expenses and Acquisition of Equipment</u>
<u>U.S. Department of Health and Human Services</u>			
Direct grant:			
Head Start	93.600	\$ 3,106,764	\$ 1,881,677
<u>U.S. Department of the Interior</u>			
Direct grant:			
Historical Preservation Fund Grants-In-Aid	15.904	<u>362,521</u>	<u>191,836</u>
Total Federal Awards		<u>\$ 3,469,285</u>	<u>\$ 2,073,513</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, 2006

(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 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 2006, the Agency had an approved indirect cost rate of 8.7% 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 Historic Preservation program.

PALAU COMMUNITY ACTION AGENCY
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Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

(4) In-Kind Contributions

For the current fiscal year, \$53,769 related to personnel contributions by parents was not charged to the program as the contributed services from parents does not meet FASB 116 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 07/31/06	\$ 253,466	\$ 51,239	\$ 304,705
Local share for period ending 07/31/07	<u>150,143</u>	<u>2,530</u>	<u>152,673</u>
Total local share	403,609	53,769	457,378
Other miscellaneous income	<u>17,735</u>		
Total other income per the general ledger	\$ <u>421,344</u>		

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2006

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	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>
2006-1	Contributions	9
2006-2	Accounts Receivable	10
2006-3	Accrued Expenses	11

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Cost</u>	<u>Refer Page #</u>
2006-4	Procurement and Suspension and Debarment	\$ 45,945	12 - 13
2006-5	Allowable Costs/Cost Principles	\$ -	14
2006-6	Cash Management	\$ -	15
2006-7	Equipment and Real Property Management	\$ -	16
2006-8 - 9	Matching, Level of Effort, Earmarking	\$ -	17 - 18
2006-10	Reporting	\$ -	19
2006-11	Special Tests and Provisions	\$ -	20

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Section II - Financial Statement Findings

Contributions

Finding No. 2006-1

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: Our tests of in-kind contributions noted the following:

- The Agency recognized as in-kind contributions, free rentals of public facilities and land used as Head Start centers. Facility use rights for two centers (Peleliu and Ngaraard) were not provided. Rental contribution was recognized for four centers (Ngerbeched, Aimeliik, Ngaremlengui and Angaur) that were capitalized and included in the Agency's fixed assets register. Lot sizes for four centers (Ngaremlengui, Olbedekall, Peleliu and Ngiwal) were illegible in the lease agreement attachment. Lot sizes for two centers (Ngermid and Ngaraard) and the PCAA/Head Start office in Ngerbeched differed from those stipulated in the lease agreement. One lot (Ngerchemai) was not recognized by the Agency for the free use of the property. This resulted in an overstated income of \$29,321. This condition was corrected through a proposed audit adjustment.
- Understated contributions of \$39,745 due to variances between the in-kind contributions subsidiary ledger and general ledger balances. This condition was corrected through a proposed audit adjustment.
- The Agency recorded ROP contributed salaries and wages for August 2005 and September 2005, in the amount of \$17,078, which had been recorded in the prior year. This condition was corrected through a proposed audit adjustment.
- The Agency currently records contributed rental income for the use of one facility (Ngchesar Center) but has also capitalized the facility in its fixed assets register.
- Contributed construction work for the new PCAA/Head Start building, amounting to \$10,369, was not capitalized. This condition was corrected through a proposed audit adjustment.

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

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.

Prior Year Status: Lack of control procedures to ensure completeness and validity of in-kind contributions recorded was reported as a finding in the audits of the Agency for fiscal years 2004 and 2005.

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Accounts Receivable

Finding No. 2006-2

Criteria: Write-offs of accounts receivable should be approved by the Board of Directors.

Condition: Board approval for the write-off of prior year balances for media receivables of \$7,190, revolving loan receivables of \$2,644, and employee receivables of \$30,203 was not provided.

Cause: The cause of the above condition is a lack of disclosure to the Board by management.

Effect: The effect of the above condition is potential unauthorized transactions.

Recommendation: We recommend that the Agency obtain Board approval for all receivable write-offs.

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Accrued Expenses

Finding No. 2006-3

Criteria: The Agency has adopted a personnel manual, which delineates policies and procedures for accrual and usage of accumulated leave. Employees may accrue annual leave up to a maximum of 360 hours in a year. However, the Agency is only liable for 200 hours at time of termination.

Condition: The Agency ceases accrued annual leave accrual at 200 hours. The annual leave subsidiary ledger records annual leave hours up to the maximum allowed of 360. Furthermore, at time of termination, hours in excess of 200 are valid as the employee is allowed to take paid leave for the hours accumulated in excess of 200 and is given a one-time cash payment for the remaining 200 hours. Total accrued annual leave, recorded in the general ledger, for twenty-four employees were cut-off at 200 hours, although these employees had excess hours up to 360 in the subsidiary ledger. This condition was not considered material to the financial statements.

Cause: The cause of the above condition is incorrect accrual of accrued annual leave.

Effect: The effect of the above condition is an understatement of accrued annual leave liability.

Recommendation: We recommend that the Agency record liabilities based on adopted personnel policies.

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Section III - Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment

Finding No. 2006-4

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Health and Human Services / Head Start / CFDA # 93.600 / Federal Award # 09CH8461/39 / Federal Award Period 08/01/05 through 07/31/06</p>	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Further, compliance with the Agency's procurement policies should be monitored. Per the Agency's procurement regulations Article 2 Part B Section 2-201, public notice of the invitation for bid shall be furnished to all persons who have requested to be included in bidders mailing lists within the previous twelve months, be published in a newspaper of general circulation in the Republic, be publicly posted for at least fifteen days at the Office of the Procurement Officer(s), the Post Office building, Courthouse, and announced on all radio television stations within the Republic, the bidding time should be at least 30 days or at the minimum of 15 days with the approval of the Procurement Officer, and the bids must be opened publicly in the presence of at least two witnesses. Further, per Article 3 Part B Section 3-202, the invitation for bids shall include specific address/location where bids must be submitted, the date, hour, and place of bid opening, essential contractual terms and conditions, any bonding requirements, any local preference evaluation factors, and closing date of bids.</p> <p><u>Condition:</u> Of \$293,155 in non-payroll expenditures tested, we noted the following:</p> <ul style="list-style-type: none"> • Per review of submitted bids for the construction of the new Head Start and administration building (ref # Cont-093004/A), the lowest bid submitted was \$195,000. However, the contract was awarded to the highest bidder with a total contract (including change order) cost of \$220,000. • The number, date, hour, and place of the bid opening were not specified on the request for proposal, the public notice was advertised through one local radio station (was not advertised in newspapers or television stations and was not posted at the Post Office or at the Courthouse), the opening bid summary was signed by only one witness with no certification by the procurement officer and the required clauses (liquidation damages, right to inspect the place of business and contractor records shall be maintained for three years from the date of final payment by PCAA) were not included for four construction contracts (ref #s Cont-080106, #Olbedekall-083106, CONT-051206 and 086). Costs for contracts # Olbedekall-083106, CONT-051206 and 086 are not questioned as the lowest bid was chosen from an adequate number of qualified sources and costs for CONT-080106 of \$12,895 are funded locally. • The bid period was less than thirty days and there was no written documentation to support the shorter time period for three construction contracts (ref #s Cont-080106, CONT-051206 and 086). Costs for contracts CONT-051206 and 086 are not questioned as the lowest bid was chosen from an adequate number of qualified sources and costs for CONT-080106 of \$12,895 are funded locally. 	<p style="text-align: right;">\$ 25,000</p>

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Finding No. 2006-4, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Condition, Continued:</u>	
	<ul style="list-style-type: none"> • Quotations were not provided for insurance costs (ref #s API06037 for \$12,049; API06029 for \$6,391 and JV06021 for \$2,505). 	20,945
	<u>Cause:</u> The cause of the above condition is lack of policies and procedures to ensure compliance with local and federal procurement regulations.	
	<u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$160,951.	
	<u>Recommendation:</u> We recommend that the Agency ensure compliance with established procurement policies and that sole source selections and selections of high bidders be approved by the grantor.	
	Total Questioned Costs	\$ <u>45,945</u>

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Health and Human Services
Allowable Costs/Cost Principles - Head Start
CFDA #93.600, Federal Award # 09CH8461/40
Federal Award Period 08/01/06 through 7/31/07

Finding No. 2006-5

Criteria: Allowable expenses should be charged to the program in the proper period.

Condition: Of \$293,155 in non-payroll expenses tested, the following are recorded expenses related to goods received or services rendered in the subsequent period (FY 2007):

<u>Document Number</u>	<u>Session ID</u>	<u>G/L Date</u>	<u>Amount</u>
072	JV06033	08/30/06	\$ 30,089
OLBEDEKALL-083106	API06107	08/31/06	\$ 25,447
PO-14787	API06117	09/28/06	\$ 11,927

The above condition was corrected through proposed audit adjustments.

Cause: The cause of the above condition is the lack of controls to ensure proper cut-off of expenses charged to the program.

Effect: The effect of the above condition is an overstatement of expenses for the fiscal year. This condition does not affect federal reporting on the SF-269 as it falls within the budget period per grant award.

Recommendation: We recommend that the Agency ensure allowable costs are charged to the program in the proper period.

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Health and Human Services

Cash Management - Head Start

CFDA #93.600, Federal Award #s 09CH8461/39 and 09CH8461/40

Federal Award Periods 08/01/05 through 07/31/06 and 08/01/06 through 7/31/07

Finding No. 2006-6

Criteria: 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: Of \$1,472,727 in cash drawn from grantor, we tested \$622,620 of which \$344,185 (six drawdowns) had no supporting schedule of related disbursements. The Agency uses the running cash balance as a basis for drawdown. Of these six, one drawdown (CDR # 018-06) was related to indirect cost for disbursements of the Home Office Fund for which there was no analysis provided to ensure the amount allocated and drawn to date is in accordance with the indirect cost rate approved.

<u>CRN#</u>	<u>Date Received</u>	<u>Drawdown Amount</u>	<u>Cash Balance At Drawdown</u>	<u>Excess Days Until Disbursed</u>
CDR#016-06	01/05/06	\$ 41,233	\$ (17,636)	N/A
CDR#017-06	01/10/06	\$ 75,000	\$ 67,642	14 days
CDR#018-06	01/27/06	\$ 54,582	\$ 28,634	4 days
CDR#025-06	05/15/06	\$ 40,000	\$ 10,979	6 days
CDR#026-06	06/01/06	\$ 63,370	\$ 26,021	4 days
CDR#030-06	08/31/06	\$ 70,000	\$ (27,138)	N/A

The calculation of interest liability on advances was immaterial. No questioned costs result.

Cause: The cause of the above condition is the 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.

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

Prior Year Status: Lack of an effective system for managing drawdowns to meet federal requirements was reported as a finding in the audits of the Agency for fiscal years 2004 and 2005.

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

Equipment and Real Property Management - All Federal Programs

Finding No. 2006-7

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:

- For prior years acquisitions, 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;
- The last physical inventory of fixed assets took place in 2001/2002;
- The Agency purchased three vehicles with Historic Preservation funding and assigned their use to the Republic of Palau. The vehicles were not registered under the Agency. The vehicles obtained government licenses and were recorded as Republic of Palau government assets; and
- 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 number of staff to handle the accounting workload or lack of a workable system, which incorporates addressing the above requirements and issues surrounding ownership of vehicles.

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

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 and 2005.

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Health and Human Services
Matching, Level of Effort, Earmarking - Head Start
CFDA #93.600, Federal Award # 09/CH8461/39
Federal Award Periods 08/01/05 through 07/31/06

Finding No. 2006-8

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”.

Condition: Per our review of the Head Start Annual Progress Report and related Enrollment Listings, we noted the following:

- Of five hundred nine (509) students enrolled in the program, four hundred fifty-five (455) were from families with incomes below the official federal guidelines, or 89%.
- One enrolled student (hospital # 75482) was not included in the enrollment summary reports as either an over income or income eligible student.
- Of one hundred twenty-one (121) students who dropped out of the program, fifteen (15) were not included in the enrollment summary reports as either over income or income eligible students.

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 reported as a finding in the audits of the Agency for fiscal years 1995 through 2005.

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Health and Human Services
Matching, Level of Effort, Earmarking - Head Start
CFDA #93.600, Federal Award # 09/CH8461/39
Federal Award Period 08/01/05 through 07/31/06

Finding No. 2006-9

Criteria: The OMB Compliance Supplement requires that enrollment levels must adhere to levels specified in the grant awards. The program is given a thirty-day grace period to correct any deficiencies and may elect not to fill vacancies when sixty calendar days or less remain in the program's enrollment year.

Condition: During the nine-month school year in fiscal year 2006, only one month met the enrollment level specified in the grant award (509), as noted below:

<u>Month</u>	<u>Enrollment Level</u>
September	509
October	508
November	496
December	491
January	495
February	508
March	508
April	506
May	505

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 or obtain a waiver from the grantor agency.

Prior Year Status: Noncompliance with the stipulated enrollment level was reported as a finding in the audits of the Agency for fiscal years 2004 and 2005.

PALAU COMMUNITY ACTION AGENCY
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Health and Human Services
Reporting - Head Start
CFDA #93.600, Federal Grant Award # 09/CH8461/39
Federal Award Period 08/01/05 through 07/31/06

Finding No. 2006-10

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 an annual progress report.

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

- SF-269: Financial Status Report for the reporting period 02/01/06 through 07/31/06 has not been prepared.
- PCS-272: Expenditures were understated by \$23,947.
- Progress report:

- 1) Enrollment statistics differed from the reports provided to us as follows:

	<u>Per Report</u>	<u>Per Audit</u>
November	493	496
February	501	508
April	497	506

- 2) Reported children enrolled in over-income and income eligible families was sixty-four (64) and six hundred twelve (612), respectively, however, the enrollment summary report indicated fifty-eight (58) and five hundred fifty-nine (559), respectively.

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.

Prior Year Status: Erroneous reporting to the grantor agency was reported as a finding in the audits of the Agency for fiscal years 2004 and 2005.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2006

U.S. Department of Health and Human Services
Special Tests and Provisions - Head Start
CFDA #93.600, Federal Grant Award # 09/CH8461/39
Federal Award Periods 08/01/05 through 07/31/06

Finding No. 2006-11

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 fifteen children with some kind of disability. This represents three percent (3%) of total students served (509).

Cause: The cause of the above condition is not enough disabled children enrolled and lack of grantor waiver obtained.

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

Recommendation: We recommend that the Agency ensure compliance with program provisions or a waiver be obtained from the grantor.

Prior Year Status: Noncompliance with the above criteria was reported as a finding in the audits of the Agency for fiscal years 2004 and 2005.

PALAU COMMUNITY ACTION AGENCY
(A Nonprofit Corporation)

Unresolved Prior Year Comments
Year Ended September 30, 2006

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, 2006:

Questioned costs as previously reported	\$ -
Questioned costs of fiscal year 2006 Single Audit	<u>45,945</u>
Unresolved questioned costs at September 30, 2006	\$ <u>45,945</u>

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 20).



PALAU COMMUNITY ACTION AGENCY

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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, 2006

Financial Statement Findings

Contributions

Finding No. 2006-1

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency recognizes the discrepancies noted by the audit and will implement the audit recommendations for the year ending September 30, 2007. Future in-kind contributions and their recordings will be reviewed by the Content Area Manager, Headstart Director and Fiscal Manager.

Proposed Completion Date: Fiscal year 2007

Accounts Receivable

Finding No. 2006-2

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Board of Directors approved the "write-off" of Revolving Loan Fund receivables of \$2,644 and media receivables of \$7,190 during its meeting on May 17, 2007. The Board of Directors also approved the write-off of the officers and employees accounts receivable of \$30,203 during its meeting on August 1, 2007.

Proposed Completion Date: Fiscal year 2007

Accrued Expenses

Finding No. 2006-3

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency understands this finding and will record unpaid annual leave up to a maximum of 360 hours effective with the year ending September 30, 2007.

Proposed Completion Date: Fiscal year 2007

Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment Finding No. 2006-4

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency understands the recommendation and will make sure that Federal and Agency procurement policies and procedures are complied with and will obtain grantor's approval if a high bidder is selected to complete a project.

Proposed Completion Date: Fiscal year 2007

Allowable Costs/Cost Principles Finding No. 2006-5

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency understands and recognizes the audit findings. In the future the Agency will require that at least two of the Agency finance staff will review and determine that expenses are recorded in the correct accounting period. The Finance Manager will issue a memorandum to all programs informing them of the cut-off date to charge expenses to a program for year ending September 30, 2007.

Proposed Completion Date: Fiscal year 2007

Cash Management Finding No. 2006-6

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency cash drawdowns were supported by actual disbursements. The Agency has procedures and will ensure that future drawdowns are adequately supported and that there are no excess funds on hand or in the Agency's bank account.

Proposed Completion Date: Fiscal year 2007

Equipment and Real Property Management Finding No. 2006-7

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency is in the process of completing a physical inventory and will reconcile the inventory to fixed asset records. The Agency anticipates that this will be completed by September 30, 2007.

The Agency does have an equipment maintenance policy. The Agency will require the Facility and Transportation Manager to implement the equipment maintenance policy effective for the year ending September 30, 2007.

The Agency is presently working with governmental officials on transferring the ownership of the two vehicles to the Agency and will include them in the Agency asset listing.

Proposed Completion Date: Fiscal year 2007

Federal Award Findings and Questioned Costs, Continued

Matching, Level of Effort, Earmarking
Finding No. 2006-8

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency recognizes the audit finding and will enforce adherence to its enrollment guidelines and procedures. The Agency will make sure that its enrollment reports are reviewed, verified and updated to allow for substantiations of the Agency's compliance with earmarking requirements.

Proposed Completion Date: Fiscal year 2007

Finding No. 2006-9

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency recognizes the finding and will implement procedures to ensure enrollment levels match the required number as stipulated in the grant award.

Proposed Completion Date: Fiscal year 2007

Reporting
Finding No. 2006-10

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency prepared the SF 269 Financial Status report after realizing that the report had not been prepared. A revised PCS - 272 will be prepared to correctly state expenditures. The progress reports will be revised to correct the enrollment statistics.

Proposed Completion Date: Fiscal year 2007

Special Tests and Provisions
Finding No. 2006-11

Name of Contact Person: Dorotheo Nagata, Executive Director

Corrective Action: The Agency recognizes this finding and will document every effort taken to comply with Federal requirements governing the Headstart Program. The data technician will ensure that all information on returning students are reviewed and documented. The Disability Manager and Headstart Director will review the information to ensure students with disabilities are identified.

Proposed Completion Date: Fiscal year 2007



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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, 2005:

Financial Statement Findings

- Finding No. 2005-1 - Not corrected. See corrective action plan to Finding No. 2006-1.
- Finding No. 2005-2 - Corrective action has been taken.
- Finding No. 2005-3 - Corrective action has been taken.
- Finding No. 2005-4 - Corrective action has been taken.

Federal Award Findings and Questioned Costs

- Finding No. 2005-5 - Not corrected. See corrective action plan to Finding No. 2006-6.
- Finding No. 2005-6 - Not corrected. See corrective action plan to Finding No. 2006-7.
- Finding No. 2005-7 - Not corrected. See corrective action plan to Finding No. 2006-8.
- Finding No. 2005-8 - Not corrected. See corrective action plan to Finding No. 2006-9.
- Finding No. 2005-9 - Not corrected. See corrective action plan to Finding No. 2006-10.
- Finding No. 2005-10 - Not corrected. See corrective action plan to Finding No. 2006-11.