

COLLEGE OF THE MARSHALL ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2003



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Regents
College of the Marshall Islands:

We have audited the financial statements of the College of the Marshall Islands (the College) as of and for the year ended September 30, 2003, and have issued our report thereon dated December 22, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the College'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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the College, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 11) as items 2003-1 and 2003-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College'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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the College in a separate letter dated December 22, 2003.

This report is intended solely for the information and use of the Board of Regents, management, 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 + Tatchell LLP

December 22, 2003



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 Regents
College of the Marshall Islands:

Compliance

We have audited the compliance of the College of the Marshall Islands (the College) 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 each of its major federal programs for the year ended September 30, 2003. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 11). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College'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 College'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 College's compliance with those requirements.

As described in items 2003-1 and 2003-2 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding cash management and special tests and provisions that are applicable to each of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the College to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the College 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, 2003.

Internal Control Over Compliance

The management of the College 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 College'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.

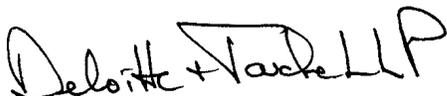
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the College'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 2003-1 and 2003-2.

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, we believe that none of the reportable conditions described above is a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended September 30, 2003, and have issued our report thereon dated December 22, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 7) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Regents, management, 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.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

December 22, 2003

COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds
Year Ended September 30, 2003

United States Department of Education

- Student Financial Assistance Programs

The College of the Marshall Islands (the College) administers student financial aid (SFA) programs within the Republic of the Marshall Islands. During the year ended September 30, 2003, the College received directly from the U.S. Department of Education funds related to the Pell Grant Program, the Supplemental Educational Opportunity Grant Program (SEOG) and Federal Work-Study Program (FWS). The College's institutional matching share for the SEOG and FWS was waived by the grantor agency for the award year ended June 30, 2003.

- Direct Grants

The College receives other grants directly from the U.S. Department of Education. Projects to which the individual grants relate to are as follows:

- Adult Education - State Grant Program
- TRIO - Student Support Services
- TRIO - Upward Bound
- Bilingual Education - Professional Development
- English Language Acquisition: National Professional Development Program

- Grant Passed Through to the College

Effective Teacher Training Project and Formal Coursework: a U.S. Department of Education grant passed through the Republic of the Marshall Islands (RepMar) to the College.

United States Department of Agriculture

- Direct Grants

The College receives the Community Facilities Grants directly from the U.S. Department of Agriculture.

- Grants Passed Through to the College

The Cooperative Extension Service and Marine Science Grant are two U.S. Department of Agriculture grants passed through other non-federal entities to the College.

United States Department of Commerce

- Direct Grant

The College receives the Community-Based Reef Monitoring grant directly from the U.S. Department of Commerce.

- Grant Passed Through to the College

The Sea Grant is a U.S. Department of Commerce grant passed through a non-federal entity to the College.

COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds, Continued
Year Ended September 30, 2003

United States Department of the Interior

- Direct Grants

The College receives the following grants directly from the U.S. Department of the Interior:

- Coral Reef Initiative Grant
- Operations and Maintenance Improvement Program
- Technical Assistance Grant

- Grants Passed Through to the College

The College receives grants passed through RepMar. Projects to which the individual grants relate to are as follows:

- Computer Instructor/Specialist
- Cycotechnology Course Instructor
- Postsecondary Vocational Program
- Midwifery Program

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2003

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Program or Award Amount	Receivable From Grantor October 1, 2002	Cash Receipts FY03	Expenditures FY03	Receivable From Grantor September 30, 2003
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Assistance Programs:						
Federal Supplemental Educational						
Opportunity Grant	84.007	\$ 30,000	\$ (1,449)	\$ 23,739	\$ 49,795	\$ 24,607
Federal Work-Study	84.033	82,427	48,224	25,843	74,356	96,737
Federal Pell Grant	84.063	2,329,494	(118,151)	1,750,283	1,973,462	105,028
Sub-total Student Financial Assistance Programs		2,441,921	(71,376)	1,799,865	2,097,613	226,372
Adult Education - State Grant Program	84.002	72,900	189,944	65,610	73,074	197,408
TRIO - Student Support Services	84.042	258,735	(162,817)	-	-	(162,817)
TRIO - Upward Bound	84.047	342,309	(223,134)	298,774	322,743	(199,165)
Bilingual Education - Professional Development	84.195	112,117	(120,086)	97,864	76,762	(141,188)
English Language Acquisition: National Professional Development Program	84.195N	182,523	6,697	99,823	101,152	8,026
<u>Pass-Through From RepMar</u>						
Effective Teacher Training Project and Formal Coursework	84.124A	208,729	(56,808)	118,509	58,240	(117,077)
Sub-total U.S. Department of Education		3,619,234	(437,580)	2,480,445	2,729,584	(188,441)
<u>U.S. Department of Agriculture</u>						
<u>Direct Program</u>						
Community Facilities Grant	10.766	-	-	42,000	35,571	(6,429)
Community Facilities Grant	10.766	75,000	86,326	75,000	-	11,326
<u>Pass-Through</u>						
Cooperative Extension Service	10.500	70,000	-	-	26,959	26,959
Marine Science Grant	10.302	-	-	58,330	38,156	(20,174)
Sub-total U.S. Department of Agriculture		145,000	86,326	175,330	100,686	11,682
<u>U.S. Department of Commerce</u>						
<u>Direct Program</u>						
Community-Based Reef Monitoring	11.463	24,000	-	19,200	13,632	(5,568)
<u>Pass-Through</u>						
Sea Grant	11.417	-	-	48,685	44,558	(4,127)
Sub-total U.S. Department of Commerce		24,000	-	67,885	58,190	(9,695)
<u>U.S. Department of the Interior</u>						
<u>Direct Program</u>						
Coral Reef Initiative Grant	15.875	20,000	-	30,000	30,000	-
Operations and Maintenance Improvement Program	15.875	6,000	659	-	-	659
Technical Assistance Grant	15.875	56,000	-	6,000	6,000	-
<u>Pass-Through From RepMar</u>						
Computer Instructor/Specialist	15.875	37,946	(19,831)	-	-	(19,831)
Cycotechnology Course Instructor	15.875	63,488	53,149	-	-	53,149
Postsecondary Vocational Program	15.875	92,000	102,912	141,949	-	(39,037)
Midwifery Program	15.875	50,000	2,348	-	-	2,348
Sub-total U.S. Department of the Interior		325,434	139,237	177,949	36,000	(2,712)
Total Federal Programs		\$ 4,113,668	\$ (212,017)	\$ 2,901,609	\$ 2,924,460	\$ (189,166)

See accompanying notes to schedule of expenditures of federal awards.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2003

(1) Scope of Review

The College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands (RepMar), was established as an independent institution pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). The Act established the College as an independent institution governed by a Board of Regents appointed by RepMar's Minister of Education. Previous to the Act, the College was a component of the College of Micronesia (COM).

The accompanying Schedule of Expenditures of Federal Awards relates solely to those grants administered by the College, and does not incorporate any grants that may still be administered by the College of Micronesia central office. The U.S. Department of the Interior has been designated as the College's cognizant agency.

a. 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 Agriculture, U.S. Department of Commerce and U.S. Department of the Interior, which are subject to OMB Circular A-133.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. All program award amounts represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

(3) Indirect Cost Allocation

The College has not entered into an approved indirect cost negotiation agreement covering the year ended September 30, 2003.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2003

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. No reportable conditions in internal control over financial reporting were identified.
3. No 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, none of which were considered to be material weaknesses.
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 College's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Student Financial Assistance Programs:	
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study	84.033
Federal Pell Grant	84.063
TRIO Cluster:	
TRIO - Upward Bound	84.047

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 College did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Financial Statement Findings

No financial statement findings are reported for the year ended September 30, 2003.

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2003-1	Cash Management	\$ -	10
2003-2	Special Tests and Provisions	\$ -	11

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Section III - Federal Award Findings and Questioned Costs

Cash Management - Federal Supplemental Educational Opportunity Grant, Federal Work-Study Program and Federal Pell Grant Program
CFDA #s 84.007, 84.033 and 84.063

Finding No. 2003-1

Criteria: Section 668.164(e) of 34 CFR 668, *Student Assistance General Provisions*, requires that whenever an institution disburses Title IV program funds by crediting a student's account and the total amount of all funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges assessed by the institution, the institution must pay the resulting credit balance directly to the student or parent as soon as possible, but no later than fourteen days after the later of: (1) the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or (2) the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.

Condition: Based on discussions with management and a review of student account records prior to the College being placed on the reimbursement system of payment (March 27, 2003), credit balances were not paid to students until the end of each semester.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with cash management requirements concerning student refunds of credit balances.

Recommendation: We recommend that the College adhere to established policies and procedures to ensure compliance with cash management requirements concerning student refunds of credit balances.

Prior Year Status: Noncompliance with cash management requirements concerning refunds to students of credit balances was reported as a finding in the Single Audits of the College for fiscal years 1999 through 2002.

Auditee Response and Corrective Action Plan dated March 12, 2004: The College partially agrees to the auditor's finding. The credit balances were not refunded to the students within the 14 day period during Fall 2002 and the early months of Spring 2003 as College management wants to discourage the students from withdrawing from their class. In the past, the College had some cases wherein students withdrew from their class after receiving their refund checks.

In addition, since the College was put on the reimbursement basis on March 27, 2003, the College has been in full compliance with all federal program regulations including the mandatory 14 day allowance in refunding the credit balances to the students.

College management also believes that since the problem has been corrected within the fiscal year, it should not be an audit finding anymore.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Special Tests and Provisions - Federal Supplemental Educational Opportunity Grant, Federal Work-Study Program and Federal Pell Grant Program
CFDA #s 84.007, 84.033 and 84.063

Finding No. 2003-2

Criteria: Section 668.22 of 34 CFR 668, *Student Assistance General Provisions*, requires that an institution must have a fair and equitable refund policy under which the institution shall make refunds of unearned tuition, fees, room and board and other charges to a student who received Title IV grant assistance.

Condition: Of \$2,097,613 in expenditures of the SFA programs, one hundred and thirty-nine disbursements to students, totaling \$219,031, were tested and the following exceptions were noted:

<u>Social Security #</u>	<u>Pell Grant Award</u>	<u>Date of Withdrawal</u>	<u>Amount to be Returned by School</u>	<u>Amount to be Returned by Student</u>
888-08-0702	\$ 1,000	10/18/2002	\$ 600	\$ -
888-08-1433	\$ 1,000	06/25/2003	\$ 738	\$ -

This condition was the result of the completed administrative withdrawal form not being forwarded by the student's instructor to the Financial Aid Office for processing within the required timeframe.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures concerning the return of the unearned portion of funds.

Effect: The effect of the above condition is noncompliance with special tests and provisions concerning the return of funds.

Recommendation: We recommend that the College adhere to established policies and procedures to ensure compliance with special tests and provisions concerning the return of funds.

Prior Year Status: Noncompliance with special tests and provisions concerning the return of funds was reported as a finding in the Single Audits of the College for fiscal years 2001 and 2002.

Auditee Response and Corrective Action Plan dated March 12, 2004: The College agrees to the auditor's finding. The College will review once again its policies and procedures with regards to the administrative withdrawal forms and will monitor the timely submission of forms to the Financial Aid Office so that return of funds can be processed on time.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2003

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, 2003:

Questioned costs as previously reported	\$ 489,618
Questioned costs of fiscal year 2003 Single Audit	<u> -</u>
Unresolved questioned costs at September 30, 2003	\$ <u>489,618</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 11).