

**COLLEGE OF THE MARSHALL ISLANDS**

**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 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, 2004, and have issued our report thereon dated June 2, 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.

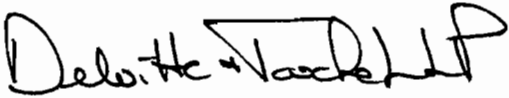
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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 over financial reporting 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 June 2, 2005.

**Compliance and Other Matters**

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 12) as items 2004-1 and 2004-2.

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, appearing to read "Deloitte Touche Tohmatsu". The signature is stylized and cursive, with the first part being "Deloitte" and the second part being "Touche Tohmatsu".

June 2, 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 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, 2004. 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 12). 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 2004-1 and 2004-2 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with the requirements regarding reporting 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, 2004.

### 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.

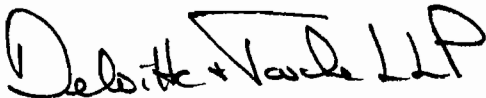
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 2004-1 and 2004-2.

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, 2004, and have issued our report thereon dated June 2, 2005. 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.



June 2, 2005

## COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds  
Year Ended September 30, 2004

### 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, 2004, 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, 2004.

- 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, 2004

### United States Department of the Interior

- Direct Grants

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

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:

Compact of Free Association  
Computer Instructor/Specialist  
Cycotechnology Course Instructor  
Postsecondary Vocational Program  
Midwifery Program

### United States Department of Labor

- Grants Passed Through to the College

The Workforce Investment Act is a U.S. Department of Labor grant passed through a non federal entity to the College.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2004

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Program or Award Amount	Receivable From (Payable To) Grantor October 1, 2003	Cash Receipts FY04	Expenditures FY04	Receivable From (Payable To) Grantor September 30, 2004
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Assistance Programs:						
Federal Supplemental Educational Opportunity Grant	84.007	\$ 50,000	\$ 24,607	\$ -	\$ 39,666	\$ 64,273
Federal Work-Study	84.033	86,055	96,737	-	52,150	148,887
Federal Pell Grant	84.063	2,148,171	105,028	2,118,671	2,199,216	185,573
Sub-total Student Financial Assistance Programs		2,284,226	226,372	2,118,671	2,291,032	398,733
Adult Education - State Grant Program	84.002	59,049	197,408	67,882	(125,736)	3,790
TRIO - Student Support Services	84.042	-	(162,817)	-	162,817	-
TRIO - Upward Bound	84.047	275,362	(199,165)	236,150	450,098	14,783
Bilingual Education - Professional Development	84.195	-	(141,188)	-	141,188	-
English Language Acquisition: National Professional Development Program	84.195N	167,454	8,026	136,271	146,574	18,329
<u>Pass-Through From RepMar</u>						
Effective Teacher Training Project and Formal Coursework	84.124A	252,445	(117,077)	64,950	143,514	(38,513)
Sub-total U.S. Department of Education		3,038,536	(188,441)	2,623,924	3,209,487	397,122
<u>U.S. Department of Agriculture</u>						
<u>Direct Program</u>						
Community Facilities Grant	10.766	56,000	(6,429)	-	6,429	-
Community Facilities Grant	10.766	75,000	11,326	-	(11,326)	-
<u>Pass-Through</u>						
Cooperative Extension Service	10.500	70,000	26,959	42,189	49,361	34,131
Marine Science Grant	10.302	100,000	(20,174)	41,745	37,399	(24,520)
Sub-total U.S. Department of Agriculture		301,000	11,682	83,934	81,863	9,611
<u>U.S. Department of Commerce</u>						
<u>Direct Program</u>						
Community-Based Reef Monitoring	11.463	30,000	(5,568)	4,800	10,368	-
<u>Pass-Through</u>						
Sea Grant	11.417	63,000	(4,127)	50,899	69,268	14,242
Sub-total U.S. Department of Commerce		93,000	(9,695)	55,699	79,636	14,242
<u>U.S. Department of the Interior</u>						
<u>Direct Program</u>						
Operations and Maintenance Improvement Program	15.875	6,000	659	-	(659)	-
Technical Assistance Grant	15.875	35,600	-	-	6,578	6,578
<u>Pass-Through From RepMar</u>						
Compact of Free Association	15.875	-	-	1,740,509*	1,740,509	-
Computer Instructor/Specialist	15.875	-	(19,831)	-	-	(19,831)
Cycotechnology Course Instructor	15.875	-	53,149	-	-	53,149
Postsecondary Vocational Program	15.875	-	(39,037)	-	-	(39,037)
Midwifery Program	15.875	-	2,348	-	-	2,348
Sub-total U.S. Department of the Interior		41,600	(2,712)	1,740,509	1,746,428	3,207
<u>U.S. Department of Labor</u>						
<u>Pass-Through</u>						
Workforce Investment Act	17.250	-	-	94,869	126,752	31,883
Sub-total U.S. Department of Labor		-	-	94,869	126,752	31,883
Total Federal Programs		\$ 3,474,136	\$ (189,166)	\$ 4,598,935	5,244,166	\$ 456,065

\*The Compact of Free Association receipts include \$199,635 of capital contributions passed-through from RepMar, of which \$167,229 was paid directly to the vendor by RepMar. The remaining balance of \$32,406 is recorded by the College as due from RepMar at September 30, 2004.

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, 2004

#### (1) Scope of Schedule

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, U.S. Department of the Interior and U.S. Department of Labor, 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, 2004.

# COLLEGE OF THE MARSHALL ISLANDS

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

### 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>
Compact of Free Association	15.875
Student Financial Assistance Programs:	
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study	84.033
Federal Pell Grant	84.063

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, 2004.

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2004-1	Reporting	\$ -	10
2004-2	Special Tests and Provisions	\$ -	11

# COLLEGE OF THE MARSHALL ISLANDS

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

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

#### Reporting – Compact of Free Association

#### CFDA # 15.875

#### Finding No. 2004-1

Criteria: Grant recipients should comply with reporting requirements as specified by the grantor.

Condition: The College did not submit quarterly federal cash transactions reports (SF-272) for the entire year ended September 30, 2004.

Cause: The cause of the above condition is lack of established policies and procedures to ensure compliance with reporting requirements.

Effect: The effect of the above condition is noncompliance with reporting requirements.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with reporting requirements.

Auditee Response and Corrective Action Plan: The College partially disagrees to the auditor's findings. CMI has adopted policies and procedures to ensure compliance with reporting requirements in the Accounting Policies and procedures approved by CMI Board of Regents as of May 2003. Furthermore, the College had been using similar report in Microsoft excel format, wherein it shows the funds that had been spent and the funds that are still available.

The College was not able to file SF-272 because RMI Government, who is the primary recipient of the funds, did not advise CMI of the new change in the Reporting Requirement of the Compact Funds.

Under OMB Circular 110 Sec. 400, the Primary Grantee should advise the Sub-Recipients of requirements imposed on them by federal laws, regulations and the provisions of contracts of grant agreements as well as any supplemental requirements imposed by the pass-through entity.

The College started using the SF-272 form in first quarter of fiscal year 2005 in order to comply with the requirement.

# COLLEGE OF THE MARSHALL ISLANDS

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

### 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. 2004-2

Criteria: When a recipient of Title IV grant or loan assistance withdraws from an institution during a period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date and return the amount unearned by the institution and the student. Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers to ED is to be initiated as soon as possible, but no later than 30 days after the date the institution determines that the student withdrew.

Condition: The College did not correctly calculate the amount earned and unearned by the institution and the student as of the student's withdrawal date.

Of \$2,291,032 in expenditures of the SFA programs, one hundred and forty-one disbursements to students, totaling \$348,873, 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 Returned by School</u>
888-09-3337	\$ 506	07/06/2004	\$ 215	\$ 185
888-09-1765	\$ 1,013	10/13/2003	\$ 545	\$ 669
888-09-3836	\$ 1,013	07/08/2004	\$ 0	\$ 469
888-09-1981	\$ 2,025	03/17/2004	\$ 968	\$ 1,134
888-09-1957	\$ 2,025	10/31/2003	\$ 0	\$ 1,174
214-41-9313	\$ 500	10/10/2003	\$ 283	\$ 320
888-08-1686	\$ 506	07/09/2004	\$ 0	\$ 243

Cause: The cause of the above condition is that the College did not use the correct start and end date for the period of enrollment.

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

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

Prior Year Status: Noncompliance with special tests and provisions concerning return of funds was reported as a finding in the Single Audits of the College for fiscal years 2001 through 2003.

Auditee Response and Corrective Action Plan: The College partially disagrees with the auditor's findings. The College did not calculate the amount correctly due to incorrect # of school break days that was inputted in the formula and not due to incorrect start and end date for the period of enrollment.

**COLLEGE OF THE MARSHALL ISLANDS**

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

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. 2004-2, Continued

Auditee Response and Corrective Action Plan, Continued:

The College has started using the online system of COD wherein the system automatically calculates the amounts to be return by the student and the College. Furthermore, in October of 2004 the College hired a qualified financial aid director to oversee all the transactions of the College Financial Aid Office. The new Director had attended various financial aid workshop/training arranged by the College in order to become updated with changes in the policies of Title IV funds.

**COLLEGE OF THE MARSHALL ISLANDS**

**Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2004**

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, 2004:

Questioned costs as previously reported	\$ 489,618
Less: Costs resolved by the grantor agency:	
Resolved per September 8, 2004 determination letter	(1,650)
Resolved per February 2, 2005 determination letter	(164,750)
Less: Costs reimbursed by the auditee to the grantor:	
Reimbursed on July 31, 2002	(7,412)
Reimbursed on January 21, 2005	(42,902)
Questioned costs of fiscal year 2004 Single Audit	<u>-</u>
Unresolved questioned costs at September 30, 2004	\$ <u>272,904</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 12).