

COLLEGE OF THE MARSHALL ISLANDS

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2005

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN 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, 2005, and have issued our report thereon dated March 20, 2006. 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 an opinion 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 reportable 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 caused by error or fraud 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.

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated March 20, 2006.

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 & Touche LLP

March 20, 2006

**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, 2005. 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 (page 9). 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.

In our opinion, 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, 2005.

Internal Control Over Compliance

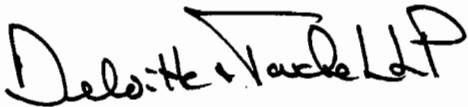
The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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, 2005, and have issued our report thereon dated March 20, 2006. 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, 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, appearing to read "Deloitte & Touche LLP", is written over a faint, larger version of the same signature.

March 20, 2006

COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds
Year Ended September 30, 2005

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, 2005, 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 the 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, 2005.

- 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
English Language Acquisition: National Professional Development Program
TRIO-Upward Bound

- Grant Passed Through to the College

Teacher Quality Enhancement Grant: a U.S. Department of Education grant passed through the Republic of the Marshall Islands (RepMar) to the College.

United States 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

- 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, 2005

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
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, 2005

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Program or Award Amount	Receivable From (Payable To) Grantor October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From (Payable To) Grantor September 30, 2005
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Assistance Programs:						
Federal Supplemental Educational Opportunity Grant	84.007	\$ 50,000	\$ 64,273	\$ 74,648	\$ 49,250	\$ 38,875
Federal Work-Study Program	84.033	75,718	148,887	206,839	81,769	23,817
Federal Pell Grant Program	84.063	2,213,829	185,573	2,339,380	2,217,708	63,901
Sub-total Student Financial Assistance Programs		2,339,547	398,733	2,620,867	2,348,727	126,593
Adult Education - State Grant Program	84.002A	53,145	3,790	44,312	38,009	(2,513)
TRIO - Upward Bound	84.047A	325,362	14,783	294,794	296,102	16,091
English Language Acquisition: National Professional Development Program	84.195N	170,036	18,329	177,236	181,169	22,262
<u>Pass-Through From RepMar</u>						
Teacher Quality Enhancement Grant	84.336A	574,565	(38,513)	259,639	199,764	(98,388)
Sub-total U.S. Department of Education		3,462,655	397,122	3,396,848	3,063,771	64,045
<u>U.S. Department of Agriculture</u>						
<u>Pass-Through</u>						
Cooperative Extension Service	10.500	70,000	34,131	50,927	80,005	63,209
Marine Science Grant	10.302	100,000	(24,520)	10,217	25,822	(8,915)
Sub-total U.S. Department of Agriculture		170,000	9,611	61,144	105,827	54,294
<u>U.S. Department of Commerce</u>						
<u>Pass-Through</u>						
Sea Grant	11.417	-	14,242	63,980	42,309	(7,429)
Sub-total U.S. Department of Commerce		-	14,242	63,980	42,309	(7,429)
<u>U.S. Department of the Interior</u>						
<u>Direct Program</u>						
Coral Reef Initiative Grant	15.875	53,000	-	83,000	82,625	(375)
Technical Assistance Grant	15.875	172,356	6,578	110,847	150,981	46,712
<u>Pass-Through From RepMar</u>						
Compact of Free Association	15.875	1,665,000	-	1,655,407	1,648,344	(7,063)
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		1,890,356	3,207	1,849,254	1,881,950	35,903
<u>U.S. Department of Labor</u>						
<u>Pass-Through</u>						
Workforce Investment Act	17.258	20,000	31,883	-	24,588	56,471
Sub-total U.S. Department of Labor		20,000	31,883	-	24,588	56,471
Total Federal Programs		\$ 5,543,011	\$ 456,065	\$ 5,371,226	5,118,445	\$ 203,284

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, 2005

(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 Cabinet. 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, 2005.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs Year Ended September 30, 2005

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. No reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no 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 Program	84.033
Federal Pell Grant Program	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, 2005.

Section III - Federal Award Findings and Questioned Costs

No federal award findings are reported for the year ended September 30, 2005.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2005

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2005:

	Questioned Costs as Previously Reported	Questioned Costs Resolved in FY2005	Questioned Costs at September 30, 2005
Unresolved questioned costs fiscal year 1998	\$ 9,789	\$ -	\$ 9,789
Unresolved questioned costs fiscal year 1999	135,388	16,488	118,900
Unresolved questioned costs fiscal year 2000	118,601	8,601	110,000
Unresolved questioned costs fiscal year 2002	<u>9,126</u>	<u>9,126</u>	<u>-</u>
	\$ <u>272,904</u>	\$ <u>34,215</u>	238,689
Questioned costs of fiscal year 2005 Single Audit			<u>-</u>
			\$ <u>238,689</u>