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May 29, 2015

Dr. Theresa Koroivulaono
President
College of the Marshall Islands

Dear Dr. Koroivulaono:

In planning and performing our audit of the financial statements of the College of the Marshall Islands (the College) as of and for the year ended September 30, 2014 (on which we have issued our report dated May 29, 2015), 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, we considered the College's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the College's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated May 29, 2015, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Regents, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the College for their cooperation and assistance during the course of this engagement.

Very truly yours,

SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving the College's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

Journal Entries

The College had not established policies and procedures that determine which type of journal entries should be forwarded to the Chief Financial Officer (CFO) for review and approval. Further, independent review of payroll reports is not evident. Specifically, test of seven journal entries noted the following:

- Seven items tested (or 100%) items did not have evidence of review and approval by the CFO prior to posting.

- One (or 16%) item did not have any attendant supporting documentation.

We recommend that the College establish policies and procedures that specify journal entry transaction types that will be provided to the CFO for review and approval. This matter was discussed in our previous letters to management in the 2008 through 2013 audits.

Inventory

Tests of inventory noted variances in unit costs as follows:

Item Number	Quantity	Unit Cost per GL	Amount per GL	Expected Unit Cost	Expected Amount	Variance
9781424063369	160	$ 48.87	$ 7,819.20	$ 46.21	$ 7,393.40	$ 425.80
9780130423320	60	92.08	5,524.80	90.14	5,408.17	116.63
9780618775248	55	251.72	13,844.60	229.09	12,600.02	1,244.58
9780805327328	31	67.19	2,082.89	61.09	1,893.85	189.04

We recommend that the College strengthen procedures over inventory unit costs calculation.

Disbursements

Three (PO# 14-01010, PO#14-01335, and PO#14-00328) of thirty (or 10%) non-payroll expenditure items tested were incurred or invoiced prior to approval of a purchase order and/or fund certification.

We recommend that the College strengthen procedures in procurement and approval of expenditures prior to incurrence and recording in the proper period. This matter was discussed in our previous letters to management in the 2011 and 2012 audits.

Procurement

One item (PO# 14-01010) of thirty-one (or 3%) non-payroll expenditure items tested did not have documentation evidencing that a thorough review and selection of the winning contractor was made in the procurement process.

We recommend that the College strengthen procedures in the procurement process.

SECTION II - OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

Interfund Balances

Interfund balances included twenty-three accounts consisting of sixteen debit balances totaling $145,780 and seven credit balances totaling $254,650, resulting in a net debit balance of $108,850, which did not change from prior year. Further, six of these accounts are no longer in the schedule of expenditures of federal awards.

As interfund receivables/payables are not reflected in the College financial statements, no reclassification or adjusting entries were proposed. However, we recommend that management perform timely review and reconciliation of interfund receivable/payable accounts. This matter was discussed in our previous letters to management in the 2012 and 2013 audits.

Due from (to) Grantor Agencies

Due from (to) grantor agencies account included two inactive accounts with debit balance totaling $63,658 and fourteen inactive accounts with total credit balance of $190,350. The College has not performed an assessment of these inactive accounts to determine if any adjustments are necessary.

We recommend that the College perform periodic assessments of the Due from (to) grantor agencies account and establish procedures to require that grants are timely closed out.

Fixed Asset Disposal Authorization

Two of three assets (or 67%) tested were removed from the fixed asset register and books with authorization of survey/disposal from management performed after-the-fact.

We recommend that all disposals be accompanied with a properly approved survey/disposal document prior to removal from records.

Segregation of Duties - Payroll Function

Payroll processing personnel are authorized to make changes and to edit payroll master files.

We recommend that access to payroll master files and edit responsibilities be performed by an individual independent of payroll processing. This matter was discussed in our previous letters to management in the 2012 and 2013 audits.

Independent Review

Independent review of payroll reports and bank reconciliations is not evident.

We recommend that the College establish policies and procedures to document independent review and approval of payroll reports and bank reconciliations.

SECTION II - OTHER MATTERS, CONTINUED

Inconsistency with Student's Birth Certificate versus Official School Data

Information on student's birth certificate did not match the Student Aid Report generated by Financial Aid documents for the students.

We recommend that the College continue to verify for accuracy between official school information and citizenship documentation and revise accordingly and timely.

SECTION III - DEFINITIONS

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The College's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.