Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA

Tel: +1 (671) 646-3884
Fax: +1 (671) 649-4265

www.deloitte.com

July 17, 2018

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, 2017 (on which we have issued our report dated July 17, 2018), 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, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated July 17, 2018, 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,

Deloitte + Touche LLP

SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving the College's internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

Due to/from Grantors

Twenty-four (24) non-moving/inactive accounts were noted during a comparison of prior year and current year ending balances, which were not timely assessed, monitored and closed out to the appropriate account. Due to/from Grantor Agencies account included eight debit balances aggregating $139,867 and sixteen credit balances aggregating $326,886. We recommend that the College perform a more robust assessment of the inactive/nonmoving Due to/from Grantor balances and establish procedures to determine if grants are completed and are timely closed out. This matter was discussed in our previous letter to management in the 2016 audit.

Journal Entries

The College has not established policies and procedures that indicate which type of journal entries should be forwarded to the Chief Financial Officer (CFO) for review and approval. Specifically, 6 of 9 journal entries tested did not reflect evidence of review and approval prior to posting. We recommend that the College establish policies and procedures that specify the 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 2016 audits.

Inventory

One of six inventory items tested reflected a discrepancy in unit cost calculations. We recommend that the College strengthen procedures over inventory unit cost calculations. This matter was discussed in our previous letter to management in the 2016 audit.

Social Security Contributions

Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Social Security Administrator a report of the wages and salaries paid by the employer, and the contributions due from the employer, under Sections 129 and 130, 213 and 214, respectively, and pay into the Fund the contributions due.

The College filed and paid social security contributions for the quarter ended 06/30/17 on 07/26/17, which is in a manner inconsistent with the criteria. Also, social contributions for the quarter ended 12/31/16 were remitted and/or paid on 01/16/17.

The College should timely pay required contributions.

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:

Fixed Assets

Tests of fixed assets noted the following:

1. The following fixed asset was not located and not operational, but was included in the fixed asset register as of September 30, 2017:

LINE #	ASSET TYPE	Asset Description	Cost
1333	FQ	Condenser Repair/Maintenance	$ 14,695

SECTION II - OTHER MATTERS

Fixed Assets, Continued

2. The following fixed assets were not located during our sighting, but were represented to be operational, and included in the fixed asset register as of September 30, 2017:

LINE #	ASSET TYPE	Asset Description	Cost
348	FQ	LATITUDE D520 LAPTOP COMPUTER	$ 1,245
744	FQ	XEROX WORKCENTRE 7232 COLORED COPIER	$ 9,448
1626	FQ	24K BTU Split Unit A/C	$ 2,095
1708	VE	Suzuki Liana	$ 5,000

3. The following fixed assets did not have a CMI tag or serial number traceable to the fixed asset register:

Line #	Asset Type	Asset Description	COST
710	FQ	SIMBABY INFANT MANIKIN	$ 26,995
730	FQ	SIMNEWBORN ADVANCE PACKAGE SIMULATOR	$ 21,995
802	FQ	SMA SOLAR TECH DC-DISCONNECT INVERTER	$ 51,111
840	FQ	PANASONIC WIRELESS PROJECTOR	$ 1,364
1753	FQ	HDX 8000-720 Media Center w/42" LCD Monitor	$ 40,014

4. Our test of fixed asset disposals indicated disposal forms of the following fixed assets were prepared and approved only on April 19, 2018:

LINE #	ASSET TYPE	Asset Description	Cost
14	FQ	COPIER NP-4050	$ 16,287
452	FQ	SATELLITE LAPTOP COMPUTER	$ 1,449
1078	VE	2 Mazda 15 Seater diesel bus/van	$ 35,000
1142	FQ	IBM System x3650 M2 7947 Quad Core Xeon E550 Server	$ 13,990

Further, the fixed asset register is not updated to reflect prior year disposals. We recommend that the fixed asset register be updated and be regularly monitored for current and potential disposals. Additionally, we recommend that all fixed assets be tagged and, when not practicable, tag numbers be maintained with the related purchase order. Also, we recommend that all fixed asset disposals be supported by approved disposal forms. This matter was discussed in our previous letter to management for fiscal year 2016.

Accounts Receivable

Tests of accounts receivable noted the following:

1. $37,634 of $60,339 in AR-Employees are aged in the prior years (2011-2016).

2. $10,613 of $95,713 in Other receivables are aged in the prior years (2014-2016).

We recommend that the clearing account be periodically monitored and be closed out to appropriate accounts by year-end. This matter was discussed in our previous letter to management for fiscal year 2016.

SECTION II - OTHER MATTERS, CONTINUED

Prepaid Expenses

Approximately $114,250 of $185,242 of prepaid expenses relate to prior years (2000-2016). We recommend that aged prepaid expenses be periodically assessed for validity and the account be properly and timely adjusted to the appropriate expense accounts. This matter was discussed in our previous letter to management in the 2016 audit.

Accounts Payable

The accounts payable aging schedule indicated one $7,325 vendor payable balance is aged more than one-year-old. We recommend that aged vendor payables be assessed for validity and be regularly monitored. This matter was discussed in our previous letter to management in 2016 audit.

Other Payables

As of September 30, 2017, outstanding other payables totaling $122,387 were not cleared or reconciled on a timely manner. Also, long outstanding debit balances within other payables amounting $5,670 remains uncleared or unreconciled. We recommend that this account be periodically monitored and be closed out to appropriate accounts by year-end.

Grants

During 2017, we noted various grants received and/or expended that were recorded to incorrect general ledger accounts. We recommend that the College establish internal control procedures relative to proper recording of financial statement transactions.

Adequacy of Documents

Certain documentation could not be provided:

Five student acknowledgement forms for Purchase Order No. 17-1366
Plant fund general ledger details from 10/01/2016 through 9/30/2017

Documentation should be on file to support all financial statement transactions.

SEFA Preparation

The Schedule of Expenditures of Federal Awards (SEFA) was not timely updated and completed.

We recommend that the SEFA be timely updated and completed. This matter was discussed in our previous letter to management in the 2016 audit.

Preparation and Review of Financial Reports

Financial statements are not timely prepared

We recommend that monthly financial reporting occur.

SECTION III - DEFINITION

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.