

COLLEGE OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2011, and have issued our report thereon dated June 25, 2012. Our report includes an explanatory paragraph that the financial statements exclude the financial activities of the College's component units. 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

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, 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.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs (pages 10 through 23) as items 2011-02 and 2011-07 that we consider to be significant deficiencies in internal control over financial reporting.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

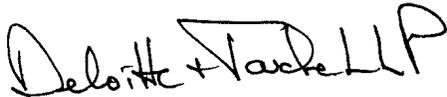
Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2011-01.

We also noted certain matters that we reported to management of the College in a separate letter dated June 25, 2012.

The College's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, pass-through entities, the cognizant audit and other federal agencies, and others within the entity 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 + Stark LLP". The signature is written in a cursive, stylized font.

June 25, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Board of Regents
College of the Marshall Islands:

Compliance

We have audited the College of the Marshall Islands' (the College) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2011. The College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 10 through 23). 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 2011-03 through 2011-06 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding equipment and real property management, procurement and suspension and debarment, and reporting that are applicable to its Compact of Free Association, As Amended, Sector Grants (CFDA # 15.875) major program; and eligibility that is applicable to its Federal Pell Grants (CFDA # 84.063) major program. Compliance with such requirements is necessary, in our opinion, for the College to comply with the 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. The results of our auditing procedures also disclosed one other instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-07.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2011-03 through 2011-06. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The College's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the College's responses and, accordingly, we express no opinion on the responses.

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, 2011, and have issued our report thereon dated June 25, 2012. 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 8) is presented for purposes 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 the 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, the cognizant audit and other federal agencies, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Tatchell LLP

June 25, 2012

COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds
Year Ended September 30, 2011

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, 2011, the College received directly from the U.S. Department of Education funds related to the Pell Grant Program.

- 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:

TRIO-Upward Bound

- Grant Passed Through to the College

Teacher Quality Enhancement Grant is passed through the Republic of the Marshall Islands (RepMar) to the College.

United States Department of Agriculture

- Grants Passed Through to the College

Grants passed through the University of Hawaii, the University of Guam, and the University of Arizona to the College are as follows:

Integrated Programs
Outreach and Assistance to Socially Disadvantaged Farmers and Ranchers
Resident Instruction Grants for Insular Area Activities

United States Department of Commerce

- Grants Passed Through to the College

Grants passed through the University of Hawaii, and the University of Guam to the College are as follows:

Habitat Conservation
Educational Partnership Program
Effects of Sea Level Grant

COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds, Continued
Year Ended September 30, 2011

United States Department of the Interior

- Direct Grants

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

- Community-based Conservation Project
- Coral Reef Initiative
- Technical Assistance Grants
- Physical Plant

- 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, As Amended, Sector Grants:
 - Education Sector
 - Supplemental Education Grant
 - Public Infrastructure Sector
 - Marshall Islands Story-telling Project

United States Department of Health and Human Services

- Grants Passed Through to the College

Area Health Education Center (AHEC) passed through the University of Guam

United States National Science Foundation

- Grant Passed Through to the College

The Education and Human Resources and Islands Opportunity Alliance (LSAMP) grants are passed through University of Arizona to the College.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2011

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY11
<u>U.S. Department of Education</u>		
<u>Direct Programs</u>		
Student Financial Assistance Programs:		
Federal Pell Grant Program	84.063	\$ 3,876,020
TRIO - Upward Bound	84.047A	298,148
Sub-total U.S. Department of Education		<u>4,174,168</u>
<u>U.S. Department of Agriculture Pass-Through</u>		
Integrated Programs	10.303	10,137
Outreach and Assistance to Socially Disadvantaged Farmers and Ranchers	10.443	10,827
Resident Instruction Grants for Insular Area Activities	10.308	151,715
Sub-total U.S. Department of Agriculture		<u>172,679</u>
<u>U.S. Department of Commerce Pass-Through</u>		
Habitat Conservation	11.463	13,448
Educational Partnership Program	11.481	9,055
Effects of Sea Level Grant	Unknown	1,763
Sub-total U.S. Department of Commerce		<u>24,266</u>
<u>U.S. Department of the Interior Direct Program</u>		
Community-based Conservation Project	15.875	(3,651)
Coral Reef Initiative -RMI-7	15.875	16,702
TA-RMI-COL-20112 General Technical Assistant Grant	15.875	135,000
DOI-OMIP-RMI-2010-1 Physical Plant	15.875	27,091
<u>Pass-Through From RepMar</u>		
Compact of Free Association Program, As Amended, Sector Grants:		
Supplemental Education Grant	15.875	196,394
Section 211(d)(1) Public Infrastructure Sector	15.875	4,090,362
Marshall Islands Story-telling Project	15.875	4,000
Sub-total U.S. Department of the Interior		<u>4,465,898</u>
<u>U.S. Department of Health and Human Services Pass-Through</u>		
AHEC Grant	93.824	169,456
<u>U.S. National Science Foundation Pass-Through</u>		
Education and Human Resources	47.076	26,437
Islands Opportunity Alliance (LSAMP)	47.076	3,244
Sub-total U.S. National Science Foundation		<u>29,681</u>
Total Federal Programs		<u>\$ 9,036,148</u>

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, 2011

(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 Health and Human Services, 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, 2011.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2011

Section I - Summary of Auditors' Results

Financial Statements

- | | | |
|----|---|-------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | No |
| 3. | Significant deficiency(ies) identified? | Yes |
| 4. | Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | | | | | | | | |
|---------------|--|---------------|--------------------------------|--------|--|--------|---------------------|--|
| | Internal control over major programs: | | | | | | | |
| 5. | Material weakness(es) identified? | No | | | | | | |
| 6. | Significant deficiency(ies) identified? | Yes | | | | | | |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified | | | | | | |
| 8. | Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | Yes | | | | | | |
| 9. | The College' major programs were as follows: | | | | | | | |
| | <table border="0" style="margin-left: 40px;"> <tr> <td style="text-align: right;"><u>CFDA #</u></td> <td><u>Name of Federal Program</u></td> </tr> <tr> <td style="text-align: right;">15.875</td> <td>Compact of Free Association, As Amended, Sector Grants</td> </tr> <tr> <td style="text-align: right;">84.063</td> <td>Federal Pell Grants</td> </tr> </table> | <u>CFDA #</u> | <u>Name of Federal Program</u> | 15.875 | Compact of Free Association, As Amended, Sector Grants | 84.063 | Federal Pell Grants | |
| <u>CFDA #</u> | <u>Name of Federal Program</u> | | | | | | | |
| 15.875 | Compact of Free Association, As Amended, Sector Grants | | | | | | | |
| 84.063 | Federal Pell Grants | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 300,000 | | | | | | |
| 11. | The College qualified as a low-risk auditee? | No | | | | | | |

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2011-01	Local Noncompliance - Taxes on Wages and Salaries	12 - 13
2011-02	Component Units	14 - 15
2011-07	Allowable Costs/Cost Principles	23

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA #</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2011-03	15.875	Equipment and Real Property Management	\$ -	16
2011-04	15.875	Procurement and Suspension and Debarment	\$ 720,111	17 - 18
2011-05	15.875	Reporting	\$ -	19
2011-06	84.063	Eligibility	\$ 10,380	20 - 22
2011-07	Nonmajor	Allowable Costs/Cost Principles	\$ 96,370	23

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No. 2011-01

Local Noncompliance - Taxes on Wages and Salaries

Criteria: Marshall Islands Revised Code 2004, Title 28 Chapter 1, *Income Tax, Part II, Tax on Wages and Salaries*, Section 105, *Employer to file return covering tax on wages and salaries*, states the following:

- (1) The employer shall, once every four (4) weeks or thirteen (13) times per year, pay the taxes withheld under Section 104 of this Chapter. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of this Chapter. The return shall contain such other information as shall be required or prescribed by the Secretary of Finance.
- (2) Every employer required to deduct and withhold any tax on the salaries and wages of any employee shall furnish to each such employee, at least once every four (4) weeks, a written statement showing the wages and salaries paid by the employer to such employee during the preceding four (4) week period and the amount of tax deducted and withheld or paid with respect to such wages and salaries.
- (3) Every employer who violates any of the provisions of this Section shall be guilty of an offense.

Further, pursuant to P.L. 2006-64 (Repeal of Government Entities Tax Exemptions Act of 2005), the College's import tax payments for purchase of textbooks and other educational materials, and for purchase of building materials for construction projects are reimbursable upon submission of certification satisfactory to the Secretary of Finance. The College can be reimbursed through application of resulting tax credits for applicable import tax payments against employee withholding income taxes.

Condition: The College has a withholding tax liability of \$487,123 as of September 30, 2011. Calculations and documentation supporting tax credits that can be applied against unpaid withholding taxes pursuant to P.L. 2006-64 are not available. Further, a copy of the withholding tax return filed for the period from June 18, 2011 to July 15, 2011 could not be located.

Cause: The cause of the above condition is the College's lack of funds to remit withholding taxes and a failure to calculate, document and apply for applicable tax credits.

Effect: The effect of the above condition is noncompliance with applicable public law on taxes on wages and salaries as noted in the criteria above.

Recommendation: We recommend that the College comply with Section 105, *Employer to file return covering tax on wages and salaries*. We further recommend that management establish policies and procedures to determine the accuracy of withholding tax payments and the application of eligible tax reimbursements.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No. 2011-01, Continued

Local Noncompliance - Taxes on Wages and Salaries, Continued

Auditee Response and Corrective Action Plan:

The College agrees with the finding and the recommendations. Going forward, the College is paying its current dues on withholding taxes. As part of its corrective action plan to remedy the outstanding balance on past dues, the College has already compiled all the documents for the import tax payments for purchase of textbooks, educational materials and for purchase of building materials for construction projects for application of reimbursements due from the Ministry of Finance. Pursuant to RMI PL 2006-64, CMI is exempted from import tax on selected items. Payment on tax is transmitted as any other; however reimbursement from the Ministry of Finance is to follow. However, said reimbursement has not been transmitted. The receivables on import tax duties will be applied to offset the past withholding taxes. If the College still has outstanding balance on past withholding taxes after applying the offsets, the College will immediately pay from its current operating budget.

The mentioned withholding tax return (June 18, 2011 to July 15, 2011) was listed on the Ministry of Finance summary of withholding taxes for CMI. Copy of the withholding tax return filed for the period from June 18, 2011 to July 15, 2011 was obtained from the Ministry of Finance. CMI will also ensure that the responsible employee should not leave the withholding tax return at the Ministry of Finance without obtaining receipt or evidence of confirmation from the Ministry of Finance. Likewise, the copy of the withholding tax return filed at the Ministry of Finance should be properly filed.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No. 2011-02

Component Units

Criteria: GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, establishes additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This guidance is applicable to financial reporting primary governments and other stand-alone governments, and to government component units that consistently apply government accounting principles generally accepted in the United States of America (GAAP).

Condition: The College has an ongoing relationship with two legally separate, tax-exempt organizations incorporated within the United States of America. During fiscal year 2011, the College provided an additional contribution to the Foundations of \$50,000, which brings the College's total contributions to \$350,000. For financial reporting purposes, these organizations appear to meet the criteria established by GASB Statement No. 39 for inclusion on the College's financial statements as component units. The College entered into a Memorandum of Understanding (MOU) with these organizations, dated September 30, 2008, which further supports their inclusion as component units of the College and requires the organizations to provide audited financial statements to the College no later than six months after their year end. At September 30, 2011, these organizations did not provide the College with audited financial statements for inclusion as component units; however, the exclusion of these component unit financial statements was not considered individually significant to warrant an audit qualification due to a GAAP departure.

The College has yet to make a GASB Statement No. 61 determination that could possibly alter conclusions reached under GASB 39.

Cause: The cause of the above condition is the lack of compliance with the MOU requiring the provision to the College of audited financial statements for the abovementioned organizations.

Effect: The effect of the above condition is potential noncompliance with GASB Statement No. 39.

Recommendation: We recommend that the College consider the financial reporting entity requirements of GASB Statement No. 39 in conjunction with GASB statement No. 61 and require compliance with the MOU requirements regarding the provision of audited financial statements by the abovementioned organizations within the stipulated timeframe.

Prior Year Status: The lack of compliance with the MOU requiring the provision to the College of audited financial statements for the abovementioned organizations was reported as a finding in the Single Audit of the College in fiscal year 2010.

Auditee Response and Corrective Action Plan:

The College disagrees with the finding that FCMI and CMIF should be included as component unit of the College of the Marshall Islands. Labeling both the FCMI and CMIF as component unit of the College will put both entities into jeopardy. Under U. S. IRS regulations, the CMIF and the FCMI are autonomous, stand-alone U. S. IRS-recognized 501(c) (3) non-profit organizations, which are controlled by independent Boards of Directors. The budgets, annual audits, and other financial accountings and decision-making processes conducted by the two originations are completely separate from the College of the Marshall Islands. The FCMI and CMIF are not treated by the College as component unit for the following reasons:

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No. 2011-02, Continued

Component Units, Continued

Auditee Response and Corrective Action Plan:, Continued

1. Both FCMI and CMIF exist as District of Columbia nonprofit corporations exclusively controlled by their respective boards of directors;
2. Neither corporation is controlled by the College or any other outside entity;
3. Neither corporation as a matter of law is a component unit of the College;
4. While their purposes are to advance the purposes of the College, they may do so in ways other than providing funds directly to the College;
5. The College does not have the power under law to access the funds of FCMI or CMIF, nor compel those two entities to transfer all or some of their funds to the College.

As part of the College's corrective action plan to remedy this issue, the College filed the Mid-Term Report with the accrediting agency explaining that it is not appropriate for CMI to have an MOU with the CMIF or FCMI (pg 120 125). CMI's 2009 Self-Study-based CMIF and FCMI MOU plan was inappropriate, no MOU currently is being maintained, and no MOU will be sought in the future.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-03
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, As Amended, Sector Grants
Requirement: Equipment and Real Property Management
Questioned Cost: \$0

Criteria: Equipment records for equipment acquired with Federal funds and federally-owned equipment shall be maintained accurately and include the following information: 1) a description of the equipment, 2) manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number; 3) source of the equipment, including the award number; 4) whether title vests in the recipient or the Federal Government; 5) acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost; 6) location and condition of the equipment and the date the information was reported; 7) unit acquisition cost; and 8) ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the awarding agency for its share. Furthermore, the recipient shall take a physical inventory of equipment and the result reconciled with the equipment records at least once every two years; maintain a control system to insure adequate safeguards to prevent loss, damage or theft of the equipment; and implement adequate maintenance procedures to keep the equipment in good condition.

Condition: The College represented that a physical inventory of equipment was performed and completed August 2011; however, documentation that a physical count was performed and results were reconciled with the equipment records within the last two fiscal years is not evident. Furthermore, the equipment property records and listing do not indicate the required information such as whether title vests in the recipient or the Federal government and the condition of the equipment or the condition of the equipment.

Cause: There appears to be weak internal controls over requiring that equipment and real property management requirements under the program are met.

Effect: The College appears to be in noncompliance with applicable equipment and real property management requirements. As reconciliation between the results and the entity's fixed asset system has not been performed, we are unable to identify the amount of questioned costs as a result of the noncompliance.

Recommendation: The College should strengthen internal controls and continue its efforts to require compliance with applicable equipment and real property management requirements.

Auditee Response and Corrective Action Plan:

The columns used in the Fixed Assets Register were patterned from the MIP System. It does not require a column to identify whether the equipments were acquired with federal funds or not. CMI has already incorporated the column and already identified as such.

Physical inventory of CMI's fixed assets is conducted every fiscal year. However, count sheets are not being used during the inventory-taking. CMI is using the Fixed Assets Register to do the count and crossed it out if the asset is unserviceable already. For additions, CMI writes it in the register. Beginning FY12, CMI will prepare a count sheet during the inventory-taking and ensures that this will be kept for proper documentation. Likewise, CMI will ensure that all the required information for the assets will be accurately included in the Fixed Asset Register.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-04
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, As Amended, Sector Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$720,111

Criteria: In accordance with applicable procurement regulations, the grantee shall maintain records that detail the history of the procurement, including the rationale behind the method of procurement chosen, selection of contract type, rationale for contract/bid selection or rejection, and basis for contract price.

Condition: Test of sixty-three transactions tested, totaling \$5,014,885, noted the following:

1. For two (or 3%) contracts, there was insufficient information to indicate what method of procurement was utilized and how the lowest and most responsible vendor was chosen.

<u>PO Number</u>	<u>Expenditure Amount</u>
11-00785	\$ 14,695
11-00094	<u>505,208</u>
	\$ <u>519,903</u>

2. For one (or 2%) project (PO Number 11-00228 for \$87,932), the procurement files provided did not include copies of the invitation for bids, newspaper publications in general circulation or equivalent documentation of adequate public notice over a reasonable period and copies of bids received, as required by RMI Procurement Code.
3. For one (or 2%) project (PO Number 11-00322 for \$105,133), the procurement files provided did not include copies of the invitation for bids, newspaper publications in general circulation or equivalent documentation of adequate public notice over a reasonable period and documentation of approval of four of five bid committee members, as required by RMI Procurement Code.
4. For one (or 2%) purchase (PO Number 11-00043 for \$7,143), the procurement files provided included only two price quotations and there was no documentation in file why the required three price quotations were not obtained. Further, the documentation of vendor selection and its related approval was not evident.

Cause: There appears to be inadequate controls exercised over compliance with applicable procurement requirements.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned costs of \$720,111 result.

Recommendation: The College should strengthen controls to document compliance with applicable procurement requirements.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-04, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, As Amended, Sector Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$720,111

Auditee Response and Corrective Action Plan:

1. a) For PO#11-00785 issued to James D. Nall Co., Inc. for \$14,694.60, the PMU Manager executed a Minor Equipment Maintenance Contract per CMI 016Co dated March 9, 2011. The contract is a sole sourced for the repair and maintenance of two damaged condenser units. It is worthy to note that the damaged condenser units were supplied by the said vendor. This contract is approved by the CMI Planning Committee which is represented by the PMU Manager and the CMI President.

b) PO#11-00094 amounting to \$505,208 was a contract to Anil Developments, Inc. to construct the Faculty Building per contract # CMI 015. The procurement documents were already provided by the PMU Manager to the Auditor.
2. For one project (PO#11-00228 for \$87,932) to Anil Developments, Inc., this particular PO was a variation order of Classroom Block 3 per contract # CMI 009B Classroom Block 3. The procurement documents were already provided by the PMU Manager to the Auditor.
3. For one project (PO#11-00322 for \$105,133) to ATD-America, this particular PO was a contract to supply classroom furniture and equipment per CMI 009F: CB3 Furniture Supply Contract. The procurement documents were already provided by the PMU Manager to the Auditor.
4. PO#11-00043 was issued to Anil Development, Inc. amounting to \$7,143. This particular PO was a contract for the installation of water supply per contract # CMI 007C: Dorm Water Supply 2. The procurement documents were already provided by PMU Manager to the Auditor.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-05
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Compact of Free Association, As Amended, Sector Grants
Requirement: Reporting
Questioned Cost: \$0

Criteria: Under the terms of the sub-awards administered by RepMar under the Compact of Free Association grant awards, the College of the Marshall Islands is required to submit: 1) a quarterly and final fund status report indicating budget, expenditures to date, open encumbrances, and remaining budget balance for each sub-account budgeted and, 2) a Quarterly and Final SF-269 (Financial Status Reports) and SF-272 (Federal Cash Transaction Report) to be submitted within 15 days after the end of the quarter to which it applies.

Condition: The College of the Marshall Islands did not prepare and submit the required reports stipulated under the terms of the sub-award agreements for the fiscal year within the timeframe specified in the criteria.

Cause: There appears to be weak internal controls over requiring that required reports stipulated in the sub-award agreements are prepared and submitted within the required timeframe.

Effect: The College appears to be in noncompliance with applicable reporting requirements. As the required reports for fiscal year 2011 have not been prepared, we are unable to identify the amount of questioned costs, if any, as a result of the noncompliance.

Recommendation: The College should strengthen controls to evidence that required reports are prepared and submitted within the specified timeframes to evidence compliance with applicable reporting requirements.

Auditee Response and Corrective Action Plan:

The College agrees with the finding and the recommendations. The College will hire a new Director of Budget and Grant who will oversee all budgets and grant planning and compliance issues are executed and monitored for compliance purposes accordingly. The College has already started filing the said quarterly reports to comply with the terms of the sub-awards administered by the RepMar under the Compact of Free Association grant awards.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-06
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.063 Federal Pell Grants
 Requirement: Eligibility
 Questioned Cost: \$10,380

Criteria: To be considered for student financial aid, the College requires that students submit the following documents: 1) Financial Aid Application (FAA); 2) Free Application for Federal Student Assistance (FAFSA); 3) Household Verification; 4) Proof of Citizenship (Birth Certificate); 5) Proof of Income; and 6) High School Diploma or GED certificate.

Condition: Of 64 Pell students tested, totaling \$124,849, the following exceptions were noted:

- For two student files, the Birth Certificate (BC) name differed from the name per school records and on the FAFSA.

<u>Document Number</u>	<u>Pell Award</u>	<u>Deficiencies Noted</u>
252-185	\$ 1,388	First name on BC does not match name on documents
251-208	\$ 1,387	First name on BC does not match records

- On the College FAA, Part B, Statement of registration status was either not completed by the student or was not completely filled out. Further, the Certification of Household size was not signed by one student. The Family information was not completed for one student.

<u>Document Number</u>	<u>Pell Award</u>	<u>Deficiencies Noted on Part B- Statement of Registration Form</u>	<u>Other Deficiencies Noted</u>
253-093	\$ 1,041	Student did not date CMI application	Certification of Household Size not signed by student
031-007	\$ 2,775	Not completed	
250-206	\$ 1,387	Not completed	
554-033	\$ 2,775	Not completely filled	
252-094	\$ 1,388	Not completed	
253-186	\$ 1,388	Not completed	
158-066	\$ 1,387	Not completely filled	
088-002	\$ 2,775	Not completed	
253-280	\$ 1,388	Not completely filled	Family information not completed
253-044	\$ 1,388	Not completed	
304-139	\$ 1,387	Not completed	

- For one student, the application form, certification of household size and proof of income were not in file.

<u>Document Number</u>	<u>Pell Award</u>	<u>Questioned Costs</u>
553-068	\$ 2,750	\$ 2,750

- For two students, information reported on the Institutional Student Information Record (ISIR) did not agree to information reported on the FAFSA.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2011

Finding No.: 2011-06, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.063 Federal Pell Grants
 Requirement: Eligibility
 Questioned Cost: \$10,380

Condition, Continued:

<u>Document Number</u>	<u>Pell Award</u>	<u>Term</u>	<u>Deficiencies Noted</u>
251-011	\$ 2,081	Pell Award #12 Spring 2011	Financial information and support was not provided on father's income. Father was named as self-employed on the College FAA application.
250-112	\$ 1,387	Pell Award #10 Spring 2011	The College FAA application reported both parents working but ISIR reported income for father only. FAFSA was not filled out.

5. Students must complete academic enrollment to be eligible for a Pell Award; however, one student did not complete the semester for the specified period:

<u>Document Number</u>	<u>Pell Award</u>	<u>Amount</u>	<u>Deficiency Noted</u>	<u>Questioned Costs</u>
040-028	Pell Award #6 - Fall 2010	\$ 2,081	Student placed on suspension for Fall 2010, but was awarded	\$ 2,081

6. A Letter of notice of Academic Suspension shall be sent to the student within 3 to 5 working days after receipt of grades at the end of each semester; however, a copy of letter of notice could not be located in two student files:

<u>Document Number</u>	<u>Pell Award</u>	<u>Term</u>	<u>Description</u>
231-006	\$ 1,387	Pell Award #13- Spring 2011	GPA 0.00
554-055	\$ 2,775	Pell Award #2 Fall 2011	GPA 0.00

7. A copy of High School Diplomas were not located in student files.

<u>Document Number</u>	<u>Pell Award</u>	<u>Term</u>	<u>Questioned Costs</u>
554-010	\$ 2,775	Pell Award #2 Fall 2011	\$ 2,775
553-068	\$ 2,775	Pell Award #1 Fall 2011	2,775
304-139	\$ 1,387	Pell Award #18 Summer 2011	1,387
304-090	\$ 1,387	Pell Award #18 Summer 2011	<u>1,387</u>
		Total	8,324
		Less cost already questioned	<u>(2,775)</u>
		Questioned cost this finding	\$ <u>5,549</u>

Cause: The cause of the above condition is the failure to ascertain that all required documents are submitted and failure to review forms for completeness and accuracy.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$10,380 result.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-06, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grants
Requirement: Eligibility
Questioned Cost: \$10,380

Recommendation: We recommend that the College strengthen internal control policies and procedures to verify student files for accuracy and completeness.

Auditee Response and Corrective Action Plan:

The College agrees with the finding and the recommendations. The College will revisit and revised if necessary its existing guidelines and procedures involved in the processing and verifying student files for accuracy and completeness and also provide training opportunities for staffs involved in the process.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2011

Finding No.: 2011-07
CFDA Program: Nonmajor Programs
Requirement: Allowable Costs/Cost Principles
Questioned Cost: \$96,370

Criteria: Expenditures should be authorized, supported and approved prior to incurrence.

Condition: Of four nonpayroll expenditures tested, totaling \$182,066, of a total population of \$624,597, the following were noted:

- For one \$8,120 travel expense (Document No. TA #11-203 to 11-212) charged to the TRIO-Upward Bound program under CFDA No. 84.047A, the travel voucher, which must be submitted within 15 days upon completion of official travel, including supporting trip report, receipts and other pertinent travel documentation, was not provided.
- For one \$88,250 item (Document No. PO #11-01486) charged to the Resident Instruction Grants for Insular Area Activities under CFDA No. 10.308, there was no receiving report or equivalent documentation of receipt of items or completion of services as of September 30, 2011.

Cause: The cause of the above condition is lack of documentation to support program expenditures.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and questioned costs of \$96,370 result.

Recommendation: We recommend that the College strengthen procedures to determine that equivalent documentation supporting program expenditures is maintained.

Auditee Response and Corrective Action Plan:

1. For TA#11-203 to 11-212 amounting to \$8,120, the Academic Coordinator and Counselor who accompanied the students to Pohnpei, FSM executed a certification to vouch the authenticity and validity of the travel made and each student signed on the certification. In addition, the if FTE students also prepared an individual trip report detailing their experiences and knowledge gained from the travel. For future Upward Bound travels, employees who are going to accompany the students must collect the boarding passes from the students after the travel to thwart possible misplacement of such document and remind the students to prepare an individual trip report upon arrival.
2. For PO#11-01486 issued to Audio Visual Innovations totaling \$88,250, the Receiving Report was prepared on February 23, 2012 per RR#17545. Such expenditure was booked in FY11 to obligate such amount since the grant will be finished by that period.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs Year Ended September 30, 2011

Questioned Costs

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 10 through 23).