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June 30, 2010

Dr. Kenneth Woodbury
President
College of the Marshall Islands

Dear Dr. Woodbury:

In planning and performing our audit of the financial statements of the College of the Marshall Islands (the College) and its discretely presented component units as of and for the year ended September 30, 2009 (on which we have issued our report dated June 30, 2010), 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. 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, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents and management, also dated June 30, 2010, 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 the Board of Regents, management, 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, 2009 that we wish to bring to your attention:

(1) Credit Card Purchases

As of September 30, 2009, we noted a variance of $12,956 between the recorded payable to the credit card issuer and the balance per the bank statements. Furthermore, the following exceptions were noted during tests of credit card transactions.

a) The following credit card purchases were not supported by vendor invoices or transaction receipts:

Transaction Date	Amount
04/11/2009	$ 459
04/22/2009	$ 26
04/24/2009	$ 24
10/25/2008	$ 10
04/15/2009	$ 43
11/03/2008	$ 27
01/03/2009	$ 3,221

b) The following credit card purchases occurred prior to an approved purchase order:

PO#	Amount	Date of PO Approval	Date of Actual Purchase
9-0844	$ 11,907	02/10/2009	01/09/2009
9-2092	$ 40,612	08/14/2009	08/03/2009
9-1953	$ 3,453	07/27/2009	07/20/2009
9-1243	$ 5,758	04/15/2009	04/01/2009
9-2096	$ 4,453	08/14/2009	07/21/2009
9-2300	$ 200	09/28/2009	09/03/2009

We recommend that management establish adequate internal control policies and procedures to govern credit card purchases and reconciliation of statements to the accounting records.

(2) Procurement - U.S. Department of the Interior - CFDA # 15.875: Compact Sector Grants

Of $5,841,940 in non-payroll expenses for the Compact Sector Grants, thirty one (31) items, totaling $4,934,257, were tested. We noted one instance wherein an expense of $1,000 was paid through check #32190 and was not supported by informal price quotations. Accordingly, the error has been extrapolated to determine potential questioned costs, which is less than the $10,000 threshold. Thus, questioned costs were not reported. We recommend that the College ensure that supporting documentation is adequate to comply with federal procurement requirements as stipulated in the Fiscal Procedures Agreement of Compact, as amended. Specifically, supporting documentation should indicate the history of a procurement, including the rationale for and the method of procurement.

(3) Journal Entries

Two (2) general journal vouchers examined, JV#'s 09ADJ356, which recorded disbursements of $97,282 for the direct deposit of employee pay; and 09ADJ200, which recorded $224,518 of student aid expense, did not indicate evidence of independent review.

We recommend that management ensure that independent review of journal entries occurs prior to being posted. This matter was discussed in our previous letter to management in the audit of fiscal year 2008.

SECTION II — OTHER MATTERS

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

(1) Accounts Receivables – Students

It is the College's policy to provide an allowance of 100% to accounts receivable outstanding for over 120 days. Management believes that receivables over 120 days have a high risk of not being collected as awards from Pell and other grants should have been received within the 120 day time frame (if students are eligible). Thus, receivables outstanding from 1 to 120 days are considered fully collectible and a reserve is unnecessary. However, based on the College's collection history, there are receivables that are less than 120 days outstanding that may also not be collected. We recommend that management establish policies and procedures to estimate the reserve necessary for 1 to 120 days outstanding receivables. Furthermore, we recommend evaluation of receivables to determine accounts that should be written-off. As of September 30, 2009, receivables over 120 days of $457,472 comprise 49% of total outstanding receivables.

(2) Federal Grants Receivable

Certain receivable balances for the following grants have not changed since the fiscal year ended 2007:

Sea Grant Support (CFDA 11.417)	$ (8,383)
Habitat Conservation (CFDA 11.463)	$ (1,063)
Computer Instruction (CFDA 15.875)	$ (19,831)
Cycotechnology Instructor (CFDA15.875)	$ 53,149
Post Secondary Vocational (15.875)	$ (39,037)
Midwifery Program (15.875)	$ 2,348
Workforce Investment Act (17.258)	$ (24,589)

Furthermore, the preparation of the schedule of expenditures of federal awards was only completed in May 2010.

We recommend that management establish policies and procedures to execute periodic reconciliations of federal receivables. Long outstanding balances should be investigated and be timely resolved.

(3) Prepayments

As of September 30, 2009, the College recorded prepayments of $214,742 of which $15,176 has been outstanding for over nine months and the oldest item was dated October 1, 2000. This condition occurred due to a lack of prepayments reconciliation. We recommend that management establish policies and procedures to govern reconciliation of prepayment accounts.

(4) Travel Advances

Per Section 7.8.3, Administrative Leave for Travel of the HR Manual, Administrative Leave may be granted to Employees by the President to attend official meetings and professional conferences off campus or off island, or to temporarily change assignment in the performance of College duties. Leave taken under this subsection requires the Employee to file a Travel Report upon his or her return to the College. The Travel Report shall be submitted within fifteen (15) days of the Employee's return. However, as the following travel advances have not been liquidated as of September 30, 2009, noncompliance with the College's policies was noted.

TA#	Date	Amount
7-0028	10/27/2006	$ 2,067
8-0152	04/17/2008	$ 888
8-0184	05/24/2008	$ 1,540
9-0077	02/05/2009	$ 510
9-0145	04/02/2009	$ 990
9-0146	04/02/2009	$ 2,110
9-0158	04/15/2009	$ 1,940
9-0236	06/17/2009	$ 500
9-0235	06/17/2009	$ 820

We recommend that management establish adequate controls and procedures to require compliance with the stated policies relative to travel reporting and liquidation of travel advances.

(5) Physical Inventory Count and Reconciliation

Reconciliation of physical count and inventory records and reconciliation of inventory records with the general ledger occurs only at year-end.

We recommend that management establish policies and procedures so that physical counts and reconciliations to inventory records and general ledger accounts occur periodically. Furthermore, physical counts should be performed by personnel who are not responsible for the day-to-day custody of inventories and who do not have access to inventory records or who can process inventory transactions or adjustments. During the physical inventory observation on October 2, 2009, we noted that inventory counts were performed by the bookstore manager, without verification by another person. Although an accounting technician assisted with the inventory taking, the former was not tasked to verify the stated counts.

(6) Fixed Assets Reconciliation

The College conducts an annual physical count of fixed assets. However, for fiscal year 2009, such was completed only in December 2009. Reconciliation of the physical count with fixed asset register and accounting records did not occur timely. We recommend that management establish controls and procedures to enable fixed asset records to be timely reconciled with physical counts and with the general ledger.

(7) General Ledger and Subsidiary Ledger Reconciliations

Monthly accounts receivable and payable reports are submitted to the Controller. However, reconciliations of these accounts are not subjected to independent reviews and approval.

We reiterate the importance of independent review of account reconciliations. This matter was discussed in our previous letter to management in the audit of fiscal year 2008.

(8) Segregation of Duties – Payroll Process

The same person assigned to process payroll is also responsible for maintaining the payroll master files. We recommend that management segregate incompatible duties in payroll processing. Access to the master files and edit responsibilities should be performed by an individual independent of payroll processing.

(9) Restrict Access to Pricing data in the Bookstore Point of Sale System

During fiscal year 2009, the Business Office implemented a new point of sale system for the Bookstore. The Bookstore Manager, who is also the storekeeper, has the ability to change the sale price in the system. Although it is the College's policy to have management approval of pricing, since the person at the point of sale has the ability to change rates, there is a risk that unauthorized rates are input into the system.

We recommend that management restrict access to pricing data in the bookstore point of sale system to personnel authorized to make pricing changes.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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 College or competence to perform the control effectively.

APPENDIX II

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.