

COLLEGE OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2009

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) and its discretely presented component units, collectively a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2009, and have issued our report thereon dated June 30, 2010. 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 16) as item 2009-3 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

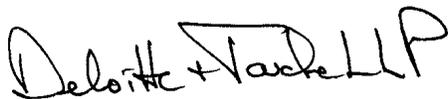
Compliance and Other Matters

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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-2.

We also noted certain matters that we reported to management of the College in a separate letter dated June 30, 2010.

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 them.

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 + Stach LLP". The signature is written in a cursive, stylized font.

June 30, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL AWARD 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 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, 2009. The College's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 16). Compliance with the requirements of laws, regulations, contracts and grants applicable to its one major federal program 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 its Student Financial Assistance Cluster and its Compact of Free Association Sector Grants major program (CFAD# 15.875) for the year ended September 30, 2009. However, the results of our auditing procedures disclosed one 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 2009-1.

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 the 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, 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 control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

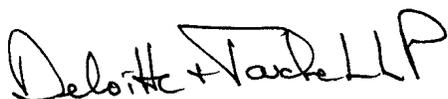
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the College and its discretely presented component units as of and for the year ended September 30, 2009, and have issued our report thereon dated June 30, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the College's basic financial statements. 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 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.

The College's response to the finding identified in our audit is 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.



June 30, 2010

COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds
Year Ended September 30, 2009

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, 2009, 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:

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

- Grant Passed Through to the College

Teacher Quality Enhancement Grants 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:

Initiative for Future Agriculture and Food Systems
Integrated Programs
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:

Sea Grant Support
Pacific Islands Integrated Oceanic Observing System
Habitat Conservation
Coral Reef Monitoring
Educational Partnership Program
Climate Change

COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds, Continued
Year Ended September 30, 2009

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 Grant
- Technical Assistance Grant
- Community-based Conservation Project

- 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 Program, As Amended, Sector Grants:
 - Education
 - Supplemental Education Grant
 - Public Infrastructure
- Marshall Islands Story-telling Project
- 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 grant passed through RepMar to the College.

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, 2009**

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Receivable From (Payable To) Grantor October 1, 2008	Cash Receipts FY09	Expenditures FY09	Receivable From (Payable To) Grantor September 30, 2009
<u>U.S. Department of Education</u>					
<u>Direct Programs</u>					
Student Financial Assistance Programs:					
Federal Supplemental Educational					
Opportunity Grants	84.007	\$ 32,714	\$ 22,496	\$ -	\$ 10,218
Federal Work-Study Program	84.033	22,496	32,714	-	(10,218)
Federal Pell Grant Program	84.063	139,563	3,417,886	3,504,727	226,404
Sub-total Student Financial Assistance Programs		194,773	3,473,096	3,504,727	226,404
TRIO - Upward Bound	84.047A	49,996	380,216	245,162	(85,058)
English Language Acquisition:					
National Professional Development Program	84.195N	33,902	33,902	(5,507)	(5,507)
<u>Pass-Through From RepMar</u>					
Teacher Quality Enhancement Grants	84.336A	(22,655)	-	-	(22,655)
Sub-total U.S. Department of Education		256,016	3,887,214	3,744,382	113,184
<u>U.S. Department of Agriculture Pass-Through</u>					
Initiative for Future Agriculture and Food Systems	10.302	(4,421)	15,474	3,286	(16,609)
Integrated Programs	10.303	(5,443)	5,000	24,222	13,779
Resident Instruction Grants for Insular Area Activities	10.308	300	-	17,329	17,629
Sub-total U.S. Department of Agriculture		(9,564)	20,474	44,837	14,799
<u>U.S. Department of Commerce Pass-Through</u>					
Sea Grant Support	11.417	(8,383)	-	-	(8,383)
Pacific Islands Oceanic Observing System	11.417	5,000	-	8,013	13,013
Habitat Conservation	11.463	(1,063)	-	-	(1,063)
Coral Reef Monitoring	11.426	4,083	-	14,381	18,464
Educational Partnership Program	11.481	(40,918)	56,250	30,196	(66,972)
Climate Change		-	32,981	14,584	(18,397)
Sub-total U.S. Department of Commerce		(41,281)	89,231	67,174	(63,338)
<u>U.S. Department of the Interior Direct Program</u>					
Coral Reef Grant	15.875	(375)	-	-	(375)
Technical Assistance Grant	15.875	4,476	-	8,299	12,775
Community-based Conservation Project	15.875	16,734	-	38,397	55,131
<u>Pass-Through From RepMar</u>					
Compact of Free Association Program, As Amended, Sector Grants:					
Section 211(a)(1) Education Sector	15.875	228,853	1,353,853	1,125,000	-
Supplemental Education Grant	15.875	-	151,383	100,632	(50,751)
Section 211(d)(1) Public Infrastructure Sector	15.875	366,200	4,957,167	5,766,308	1,175,341
Marshall Islands Story -telling Project	15.875	6,622	-	-	6,622
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		619,139	6,462,403	7,038,636	1,195,372
<u>U.S. Department of Labor Pass-Through</u>					
Workforce Investment Act Adult Program	17.258	24,589	-	-	24,589
Sub-total U.S. Department of Labor		24,589	-	-	24,589
<u>U.S. National Science Foundation Pass-Through</u>					
Education and Human Resources	47.076	15,478	-	20,637	36,115
Islands Opportunity Alliance (LSAMP)	47.076	940	14,000	5,049	(8,011)
Sub-total U.S. National Science Foundation		16,418	14,000	25,686	28,104
Total Federal Programs		\$ 865,317	\$ 10,473,322	\$ 10,920,715	\$ 1,312,710

COLLEGE OF THE MARSHALL ISLANDS

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Total Federal Programs		\$ 865,317	\$ 10,473,322	\$ 10,920,715	\$ 1,312,710

COLLEGE OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

(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, 2009.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

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 that is not considered to be a material weakness? | Yes |
| 4. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | | | | | | | | |
|---------------|--|---------------|--------------------------------|--------|--|-------------|--------------------------------------|--|
| | Internal control over major programs: | | | | | | | |
| 5. | Material weakness(es) identified? | No | | | | | | |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | None reported | | | | | | |
| 7. | Type of auditors' report issued on compliance for major programs: | Unqualified | | | | | | |
| 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: center;"><u>CFDA #</u></td> <td style="text-align: center;"><u>Name of Federal Program</u></td> </tr> <tr> <td style="text-align: center;">15.875</td> <td style="text-align: center;">Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants</td> </tr> <tr> <td style="text-align: center;">SFA Cluster</td> <td style="text-align: center;">Student Financial Assistance Cluster</td> </tr> </table> | <u>CFDA #</u> | <u>Name of Federal Program</u> | 15.875 | Economic, Social and Political Development of the Territories:
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| 15.875 | Economic, Social and Political Development of the Territories:
Compact of Free Association, As Amended, Sector Grants | | | | | | | |
| SFA Cluster | Student Financial Assistance Cluster | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$ 327,621 | | | | | | |
| 11. | The College qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | Yes | | | | | | |

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2009-2	Local noncompliance	13
2009-3	Bank and Credit Card Accounts Reconciliation	15

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>
2009-1	SFA Cluster	Eligibility	\$ -	11

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding Number: 2009-1
Federal Agency: U.S. Department of Education
CFDA Program: Student Financial Assistance Cluster
Requirement: Eligibility
Questioned Cost: \$0

Criteria: In accordance with 34 CFR 668.32 (f), to be eligible for Federal Student Assistance funds, a student must make satisfactory academic progress in his or her course of study according to the institution's published standards of satisfactory progress. The College has established both a qualitative and quantitative measures to determine a student's academic progress. For students who are required to take remedial courses, it is the College's policy that students may take no more than 30 credits worth of non-credit coursework using Pell Grant funds.

Condition: Of \$3,500,282 in student aid expenses recorded by the College for the year ended September 30, 2009, 85 items, totaling \$255,223, were tested. We noted the following expenditures that did not meet the above-mentioned criteria.

- 1) Student with ID# 397225 was paid a total award of \$2,366 for 14 credits during Fall 2008, which included a 4-credit developmental course that is no longer eligible as the 30 maximum credits had been taken in previous semesters. The difference between eligible courses and amount paid was \$592.
- 2) Student with ID# 121112 was paid a total award of \$2,365 for 13 credits during Fall 2008, which included a 4-credit developmental course that is no longer eligible as the 30 maximum credits had been taken in previous semesters. The difference between eligible courses and amount paid was \$592.

Accordingly, the exceptions have been extrapolated to determine a potential questioned cost, which exceeds the \$10,000 threshold.

Cause: The cause of the above condition was the exclusion of certain developmental courses in calculating accumulated remedial courses to determine remaining allowable remedial courses that may be paid by the Federal Pell grant.

Effect: The effect of the above condition is noncompliance with Student Eligibility requirements of the Federal Pell Grant Program. However, no questioned cost is reported as the College subsequently reimbursed the Federal account and charged the amount of \$1,184 to local funds.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding Number: 2009-1, Continued
Federal Agency: U.S. Department of Education
CFDA Program: Student Financial Assistance Cluster
Requirement: Eligibility
Questioned Cost: \$0

Recommendation: We recommend that management establish policies and procedures to govern evaluation of student's eligibility relative to determination and calculation of remedial or developmental courses that are eligible to be paid by the Federal Pell Grant Program.

Auditee Response and Corrective Action Plan: The College recognized this issue and prepared a Journal Voucher charging the questioned cost to Unrestricted/General Fund. Moreover, the College is looking into purchasing a software/program that will monitor the financial aid awarded to students. The College is also in the process of purchasing an integrated information system which will integrate systems for Financial Aid, Registrar, Academic Departments, Financial Departments and Institutional Research.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding Number 2009-2

Local Noncompliance

Criteria: In accordance with the College’s procurement policies, purchases more than one thousand dollars (\$1,000), but less than twenty five thousand dollars needs three or more quotations and is subject to review and approval by the Procurement Officer and Comptroller. Purchases more than twenty five thousand dollars (\$25,000) are subject to competitive bid. A committee consists of the Comptroller, the Procurement Officer, the Requesting Department Head, will do the selection of the Vendor to ensure that proper vendor is selected. The approved bid shall be forwarded to the President for approval.

Condition: Of \$2,776,946 in non-payroll expenditures for the Unrestricted Fund of the College, thirty (30) items, totaling \$352,553 were tested. We noted the following items where the supporting documentation was inadequate to evidence the procurement process:

<u>Item #</u>	<u>PO #</u>	<u>Check #</u>	<u>Amount</u>
1	9-1958	34319	\$ 14,165
2	9-0844	2009-0058	\$ 11,907
3	9-1953	2009-0128	\$ 3,453

For item #s 1 through 3, purchases were not supported by price quotes to evidence compliance with the College’s requirement of at least three or more quotations for purchases of more than \$1,000 but less than \$25,000.

Furthermore, as of September 30, 2009, the College recorded a prepayment of \$30,097, for which informal price quotes were obtained from three vendors. However, two vendors responded that they could not meet the order’s requirements and additional quotations were obtained from online companies dated July 28, 2009 while the purchase order was approved on July 27, 2009. As such, documentation presented was not adequate to evidence compliance with the College’s procurement policies that require competitive bidding for purchases over \$25,000.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring the documentation of procurement procedures to ensure compliance with the College’s procurement policies

Effect: The effect of the above condition is noncompliance with procurement standards as established by the College.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding Number 2009-2, Continued

Local Noncompliance

Recommendation: We recommend that the College ensure supporting documentation is adequate to comply with established procurement policies. Specifically, supporting documentation should indicate the history of procurement, including the rationale for and method of procurement.

Auditee Response and Corrective Action Plan: In previous years, Deloitte & Touche reviewed and understood that the practice of textbook ordering relates to issues of academic freedom that standard industry practice. Yet, since then CMI has taken steps to strengthen controls over textbook ordering.

Per CMI's policy, purchases more than \$25,000 requires competitive bidding thus the College requested for at least 3 price quotes from different vendors. Consequently, the requests to bid were advertised in the College's website as recommended on FY2008. Also, as discussed last fiscal year in the course of the audit, we purchase textbooks from booksellers based in Honolulu (Barnes & Nobles) or directly from the publisher. The College has always had challenges in seeking price quotes or obtaining a vendor to supply to the College due to its geographical location. Recently, we've made some contacts with the publishers (Cengage and Pearson) to supply us with the books they publish. Buying books in volume from a single bookseller in Honolulu save cost and the College has received a good customer service, thus far. We might be able to find other suppliers online but most of them do not carry the number of copies we want and do not ship to the Marshall Islands.

One of the corrective actions that the College has undertaken to address procurement issues was to hire a Director who will oversee the whole division and focus on ensuring that the College complies with policies and procedures. One of the initiatives of the Procurement Division is to implement archiving/backing up of supporting documents for all items approved for purchase. Moreover, the College will prepare an annual or semi-annual procurement plan for us to be able to identify easily the lowest vendor for a particular item. The Procurement Office has also proposed establishment of a formal CMI Bids and Awards Committee, separate from the Bid Committee who awards projects related to construction or infrastructure, pending approval and discussion.

Also, the College's policy entails that purchases over \$25,000 requires a competitive bidding, not "competitive sealed bidding" as indicated in the RMI's procurement code.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No. 2009-3

Bank and Credit Card Accounts Reconciliation

Criteria: Bank reconciliations and credit card accounts reconciliations should be performed monthly in a timely manner. Additionally, an independent review of the reconciliations should occur to allow timely completion and resolution of reconciling items.

Additionally, adequate segregation of duties should be in place so that no one person has the ability to handle cash transactions and is also authorized to access and reconcile related financial records.

Condition: Our examination of bank reconciliations prepared throughout the year revealed that although the bank reconciliations were being prepared on a monthly basis, they did contain several and certain material unreconciled balances, which were not corrected in the month in which they arose. As of October 2009, the September 2009 bank reconciliation showed net unreconciled balances of \$1,186,062 with items ranging from \$30 to \$300,000 from transactions dated between June 2008 and September 2009. Such was later reduced to \$288,701 and further adjustments made in December 2009 and May 2010 reduced such net unreconciled balance to \$22,690. Furthermore, reconciliation of credit card statements to accounting records did not occur throughout the year. Such was only completed in June 2010.

Additionally, we noted inadequate segregation of duties in the custody, recording and reconciliation of the general operating bank account and the College's credit card account. The College assigned the same person to enter, process and confirm online wire payments to vendors through its online cash management system. The same person also has access to accounting records and reconciliation of cash accounts. Also, reconciliation of credit card statements to the accounting records is performed by the same person to whom the College's credit card was issued and who has sole custody and authority to use the credit card.

Cause: The cause of the above condition is lack of established policies and procedures to maintain adequate segregation of duties relative to custody, recording and reconciliation of cash and credit card accounts, and to allow timely completion of bank reconciliation and credit card account reconciliation with the College's records.

Effect: The effect of the above condition is possible misstatements of cash and the potential for unauthorized cash and credit card transactions.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2009

Finding No. 2009-3, Continued

Bank and Credit Card Accounts Reconciliation

Recommendation: We recommend that management establish adequate internal policies and procedures to govern reconciliation of bank accounts and credit card accounts. Further, we recommend that management segregate incompatible duties relative to cash and credit card accounts.

Auditee Response and Corrective Action Plan: The responsibility of reconciling cash accounts lies with the Chief Accountant/Accounting Services Director. If there are reconciling/suspense items they are forwarded to the CFO for identification of the transaction and the Accounting Services Director prepares the Journal Vouchers with the supporting documentation. Furthermore, bank reconciliations are being reviewed by the CFO. Requests for wire transfers are reviewed and signed by the authorized check signatories before they are wired, as evidenced by the wire transfer form and the check prepared. Controls are in place to ensure that wire transfers are authorized. In the past year, the CFO wires the funds upon receipt of the wire transfer form using her log on ID in the cash management system of the bank. The CFO is covered by fidelity bond, so as the other check signatories. One of the corrective actions that the College plans to do is segregate the duty of entering wire transfer requests and the approval or authorization in the cash management system.

The responsibility of credit card reconciliation has been designated to both the Chief Accountant/General Accountant, which is vacant at the moment and expected to be filled on August, and the Procurement Director who knows all the purchases made through the Purchase Orders processed. The adjustments made amounting to \$346,919 were to properly record the payments made and expenditures incurred which were identified. The College maintains a credit card transaction logs for all purchases. The College does not receive the paper statements on a timely fashion and there is no option to access the statements online, only the activities or transactions made. What the College has done is access the transactions/activities online and made the necessary payments as soon as the charge appears or when sufficient funds are available, such as purchasing textbooks for a semester. What the College does now is maintain a log sheet for all credit card transactions.

The College commits that the credit card reconciliation be done on a regular and timely fashion especially with the increase in the number of credit card holders. Furthermore, additional staffs have been assigned to prepare the reconciliation.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2009

Questioned Costs

There are no unresolved questioned costs or matters of noncompliance from prior year Single Audits of the College.