

**COLLEGE OF THE MARSHALL ISLANDS**

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

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**YEAR ENDED SEPTEMBER 30, 2010**

**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, 2010, and have issued our report thereon dated October 10, 2011. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 10 through 21), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2010-5 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2010-6 to be a significant deficiency.

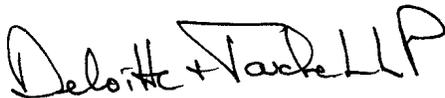
#### Compliance and Other Matters

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 2010-4.

We noted certain matters that we reported to management of the College in a separate letter dated October 10, 2011.

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 + Starks LLP". The signature is written in a cursive, flowing style.

October 10, 2011

**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, 2010. 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 21). 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.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the TRIO Upward Bound (CFDA # 84.047A) program and the Federal Pell Grants (CFDA # 84.063) program for the year ended September 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-5.

## 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-5 to be a material weakness.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 through 2010-3 to be significant deficiencies.

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, 2010, and have issued our report thereon dated October 10, 2011. 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*

October 10, 2011

## COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds  
Year Ended September 30, 2010

### 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, 2010, 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  
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:

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

## COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds, Continued  
Year Ended September 30, 2010

### 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
- Coral Reef Initiative

- 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
  - Computer Instructor/Specialist
  - Cycotechnology Course Instructor
  - Postsecondary Vocational Program
  - Midwifery Program

### 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 Department of Labor

- Grants Passed Through to the College

The Workforce Investment Act Adult Program 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.

### Agency for International Development

- Grant Passed Through to the College

The Sustainable Coastal Communities and Ecosystems (SUCCESS) Program grant is passed through University of Rhode Island to the College.

**COLLEGE OF THE MARSHALL ISLANDS**

**Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2010**

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Receivable From (Payable To) Grantor October 1, 2009	Cash Receipts FY10	Expenditures/ Adjustments FY10	Receivable From (Payable To) Grantor September 30, 2010
<u>U.S. Department of Education</u>					
<u>Direct Programs</u>					
Student Financial Assistance Programs:					
Federal Pell Grant Program	84.063	\$ 226,404	\$ 4,113,737	\$ 3,774,695	\$ (112,638)
TRIO - Upward Bound	84.047A	(85,058)	295,000	291,007	(89,051)
English Language Acquisition:					
National Professional Development Program	84.195N	(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		<u>113,184</u>	<u>4,408,737</u>	<u>4,065,702</u>	<u>(229,851)</u>
<u>U.S. Department of Agriculture Pass-Through</u>					
Initiative for Future Agriculture and Food Systems	10.302	(16,609)	-	-	(16,609)
Integrated Programs	10.303	13,779	43,653	(11,926)	(41,800)
Outreach and Assistance to Socially Disadvantaged Farmers and Ranchers	10.443	-	-	4,210	4,210
Resident Instruction Grants for Insular Area Activities	10.308	17,629	40,430	65,818	43,017
Sub-total U.S. Department of Agriculture		<u>14,799</u>	<u>84,083</u>	<u>58,102</u>	<u>(11,182)</u>
<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	13,013	-	-	13,013
Habitat Conservation	11.463	(1,063)	15,948	26,836	9,825
Coral Reef Monitoring	11.426	18,464	-	-	18,464
Educational Partnership Program	11.481	(66,972)	-	31,067	(35,905)
Effects of Sea Level Grant	Unknown	-	-	5,720	5,720
Climate Change	Unknown	(18,397)	-	-	(18,397)
Sub-total U.S. Department of Commerce		<u>(63,338)</u>	<u>15,948</u>	<u>63,623</u>	<u>(15,663)</u>
<u>U.S. Department of the Interior Direct Program</u>					
Coral Reef Grant	15.875	(375)	-	-	(375)
Technical Assistance Grant	15.875	12,775	-	-	12,775
Community-based Conservation Project	15.875	55,131	-	24,075	79,206
Coral Reef Initiative -RMI-7	15.875	-	35,000	21,400	(13,600)
<u>Pass-Through From RepMar</u>					
Compact of Free Association Program, As Amended, Sector Grants:					
Section 211(a)(1) Education Sector	15.875	-	1,118,450	1,118,450	-
Supplemental Education Grant	15.875	(50,751)	125,000	250,519	74,768
Supplemental Education Grant - ABC Toolbox	15.875	-	232,918	232,918	-
Section 211(d)(1) Public Infrastructure Sector	15.875	1,175,341	3,762,756	3,294,760	707,345
Marshall Islands Story-telling Project	15.875	6,622	-	-	6,622
Computer Instructor/Specialist	15.875	(19,831)	-	-	(19,831)
Cyrotechnology 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		<u>1,195,372</u>	<u>5,274,124</u>	<u>4,942,122</u>	<u>863,370</u>
<u>U.S. Department of Health and Human Services Pass-Through</u>					
AHEC Grant	93.824	-	-	104,448	104,448
<u>U.S. Department of Labor Pass-Through</u>					
Workforce Investment Act Adult Program	17.258	24,589	-	-	24,589
<u>U.S. National Science Foundation Pass-Through</u>					
Education and Human Resources	47.076	36,115	9,227	13,282	40,170
Islands Opportunity Alliance (LSAMP)	47.076	(8,011)	-	-	(8,011)
Sub-total U.S. National Science Foundation		<u>28,104</u>	<u>9,227</u>	<u>13,282</u>	<u>32,159</u>
<u>Agency for International Development</u>					
USAID for International Development pass through University of Rhode Island - Sustainable Coastal Communities and Ecosystems (SUCCESS) Program	98.001	-	2,732	1,851	(881)
Total Federal Programs		<u>\$ 1,312,710</u>	<u>\$ 9,794,851</u>	<u>\$ 9,249,130</u>	<u>\$ 766,989</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, 2010

#### (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, U.S. Department of Labor, 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, 2010.

**COLLEGE OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2010

**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?                     | Yes         |
| 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?   | Yes           |                                |         |                   |        |                     |  |
| 6.            | Significant deficiency(ies) identified?   | Yes           |                                |         |                   |        |                     |  |
| 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"><tr><td><u>CFDA #</u></td><td><u>Name of Federal Program</u></td></tr><tr><td>84.047A</td><td>TRIO Upward Bound</td></tr><tr><td>84.063</td><td>Federal Pell Grants</td></tr></table> | <u>CFDA #</u> | <u>Name of Federal Program</u> | 84.047A | TRIO Upward Bound | 84.063 | Federal Pell Grants |  |
| <u>CFDA #</u> | <u>Name of Federal Program</u>  |               |                                |         |                   |        |                     |  |
| 84.047A       | TRIO Upward Bound   |               |                                |         |                   |        |                     |  |
| 84.063        | Federal Pell Grants   |               |                                |         |                   |        |                     |  |
| 10.           | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133:  | \$ 300,000    |                                |         |                   |        |                     |  |
| 11.           | The College qualified as a low-risk auditee?  | Yes           |                                |         |                   |        |                     |  |

**COLLEGE OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

**Section II - Financial Statement Findings**

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2010-4	Local Noncompliance	17
2010-5	Bank and Credit Card Accounts Reconciliation	19
2010-6	Component Units	20

**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>
2010-1	84.063	Cash Management	\$ -	12
2010-2	15.875	Allowable Costs/Cost Principles	\$ 1,452	14
2010-3	15.875	Procurement and Suspension and Debarment	\$121,448	15
2010-5	All Programs	OMB Circular A-133 Reporting	\$ -	19

**COLLEGE OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-1  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.063 Federal Pell Grants  
 Requirement: Cash Management  
 Questioned Cost: \$0

Criteria: The College is reimbursed for grant funds through the advance method. Under the advance payment method, the institution must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned.

Condition: We tested 100% of Federal Pell Grant drawdowns and noted the following Pell expenditures that were not paid in a manner that minimized the time elapsed between transfer of funds and their disbursement:

Pell Award #	<u>Drawdown</u> Date	<u>Drawdown</u> Amount	<u>Disbursement</u> Date	<u>Disbursement</u> Amount	<u># of Days</u> Lapsed
5 Fall09			10/30/2009	2,457	23
5 Fall09	10/13/2009	207,000	10/30/2009	207,000	17
5 Fall09	10/16/2009	186,000	10/30/2009	21,723	14
6 Fall09			12/10/2009	50,095	55
7 Fall09			12/29/2009	5,350	74
8 Fall09			1/19/2010	108,832	95
8 Fall09	10/28/2009	100,000	1/19/2010	12,885	83
9 SP10	12/28/2009	80,000	2/12/2010	80,000	46
15 SP10			7/5/2010	13,156	46
1 Fall10			9/8/2010	5,947	49
1 Fall10	7/29/2010	200,000	9/8/2010	200,000	41
1 Fall10	8/2/2010	300,000	9/8/2010	300,000	37
1 Fall10	8/3/2010	350,000	9/8/2010	350,000	36
1 Fall10	8/13/2010	300,000	9/8/2010	195,388	26
2 Fall10			9/15/2010	104,612	33
2 Fall10	8/23/2010	100,000	9/15/2010	100,000	23
2 Fall10	9/13/2010	300,000	9/15/2010	75,387	2
3 Fall10			9/30/2010	216,468	17

We estimated a total interest liability of \$255 for the above draw downs based on the yield of 13-week U.S. Treasury bills. As this amount is below \$10,000, such is not reported as a questioned cost.

Cause: The cause of the above condition is the lack of a formal methodology and procedures over the drawdown of Federal funds.

Effect: The effect of the above condition is noncompliance with federal cash management requirements.

## COLLEGE OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-1, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.063 Federal Pell Grants  
Requirement: Cash Management  
Questioned Cost: \$0

Recommendation: We recommend that the College establish a formal methodology governing the drawdown of Federal funds to minimize the time elapsed between the receipt of Federal funds and the date applicable payments clear the bank.

Auditee Response and Corrective Action Plan: We agree with the finding and fully agree with the recommendation.

Our corrective action plan will involve eliminating all non-value added activities between disbursing of funds and drawdown. As part of the action plan, the College will explore using student ID card to be used in the same way as a credit card or a bank debit card. Student refunds will be deposited into their IDs which they will have full control of how to spend and when to spend their money being deposited into the ID. The College will ensure that student refunds are made in accordance with Title IV.

**COLLEGE OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No.: 2010-2  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact Sector Grants  
Requirement: Allowable Costs/Cost Principles  
Questioned Cost: \$1,452

Criteria: Expenditures incurred under federal programs should be in accordance with allowable costs/cost principles and should be directly related to, and in accordance with, program intent and objectives.

Condition: Of \$225,976 in payroll expenditures of the Compact Sector Grants, three (3) items totaling \$3,287 were tested. Employee contracts were not available to support the following payroll expenditures:

<u>PPE</u>	<u>Check #</u>	<u>Payroll Amount</u>	<u>Questioned Costs</u>
12/05/09	71284	\$ 927	\$ 927
06/19/10	04784	<u>1,317</u>	<u>525</u>
		\$ <u>2,244</u>	\$ <u>1,452</u>

Cause: The cause of the above condition is the lack of independent verification of employee pay rates after changes to the payroll master file.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements. Although the known questioned cost is below \$10,000, the projected questioned cost exceeds the threshold; therefore, questioned costs are reported.

Recommendation: We recommend that the College establish policies and procedures that will determine that payroll payments are supported by valid employee contracts or approved personnel action forms.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. For FY 2011, the College instituted tighter internal control and ensures proper documentation and procedures are maintained to ensure all files are filed accordingly and on a timely manner.

As part of the corrective action plan, the College is currently working on securing soft copies of files. The College hired a temporary payroll assistant to help organize and locate all files. As part of her responsibility, the payroll assistant will scan all files and save them on the server for future use.

## COLLEGE OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-3  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact Sector Grants  
Requirement: Procurement and Suspension and Debarment  
Questioned Cost: \$121,448

Criteria: Article VI, Section 1(j) (1) of the Fiscal Procedures Agreement (FPA) states that RepMar may use its own procedures for procurement, whether done by government or its Sub-Grantees, provided that they meet the standards identified in the FPA.

RepMar's Procurement Code states the following:

(a) Section 124 - unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.

(b) Section 127 - procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from three qualified sources.

(c) Section 128 - a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Of \$3,356,309 of non-payroll expenditures of the Compact Sector Grants, twenty items totaling \$2,457,930 were tested. The following items contained supporting documentation inadequate to evidence the procurement process:

- 1) For one \$44,237 item pertaining to the acquisition of laptops (Check # 34339), two vendor quotes were obtained. The requirement for receiving competitive bids for purchases over \$25,000 was not complied with.
- 2) For one \$2,690 item pertaining to the acquisition of diving equipment (Check # 37796), vendor quotes were not available. Furthermore, the receipt of goods was not documented.
- 3) For one \$57,744 item pertaining to contractual services associated with high-tide mitigation work and one \$16,777 item pertaining to the acquisition of a diesel generator (Check #s 35623 and 37007, respectively), vendor files that included a copy of the check, vendor invoice and procurement related documents were unlocatable.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures documenting procurement procedures and the basis thereof.

## COLLEGE OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

Finding No.: 2010-3, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Compact Sector Grants  
Requirement: Procurement and Suspension and Debarment  
Questioned Cost: \$121,448

Effect: The effect of the above condition is noncompliance with procurement standards

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

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. The College has moved the Office of Procurement to the main office to be closer to the new budget and compliance officer and the accounting division to improve coordination and communication. The budget and compliance officer is now responsible of reviewing all price quotes and electronic-purchase requisitions prior to preparing a PO to ensure all requests are within their allowable budget and all supporting documentation conforms to established procurement policies and grant conditions.

As part of our corrective action plan, the College will require the Budget and Compliance Officer to review check vouchers to ensure all payment requests are supported with adequate documentation before they are submitted to Accounts Payable for payment process. Furthermore, the Budget and Compliance officer will work with accounting division to review the checks being issued to ensure compliance with these corrective measures and ensure that all documents going in and out of the filing room are logged on a separate log sheet for tracking and monitoring purposes.

## COLLEGE OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

#### Finding No. 2010-4

##### 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 require 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 \$3,061,966 in non-payroll expenditures of the Unrestricted Fund, twenty seven (27) items totaling \$539,722 were tested. We noted the following items where adequate supporting documentation was inadequate to evidence the procurement process:

- 1) PO # 10-02562 for the purchase of \$63,388 of bookstore supplies was procured through the small purchases method instead of competitive bidding wherein the RFP announcement and bid evaluation were not evident.
- 2) Expenditures of \$4,637 paid through check# 34894 were not supported by vendor selection documentation.

Furthermore, of total capital asset additions tested totaling \$1,532,113, we noted one instance (check #s 33238 and 35293, PO # 9-2084 in the amount of \$58,500) wherein a vendor invoice was not available and the procurement process was not documented. Furthermore, the file copy of check# 33238 was not locatable.

Cause: The cause of the above condition is the lack of adequate internal control policies and procedures requiring documentation of procurement procedures compliant with the College's procurement policies.

Effect: The effect of the above condition is noncompliance with the College's procurement standards.

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

Prior Year Status: The above condition was reported in the audit of the College for fiscal year 2009.

Auditee Response and Corrective Action Plan: We partially agree with the finding and recommendation. Per CMI's policy, purchases more than \$25,000 require competitive bidding thus the College requests for at least 3 price quotes from different vendors. The College has always had difficulty in securing price quotes; however, documentation were made that the College exerted efforts in obtaining price quotes even if the vendors did not respond or were unable to supply the required items. One of the corrective actions that the College has undertaken to address procurement issues and continuously improve the process was to hire a Budget and Compliance officer who oversees the budget allocations, policies and procedures. The budget and compliance officer will work closely with Procurement and Supply Department along with the Accounting Department to implement and ensure policies and procedures are practiced and enforced.

**COLLEGE OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No. 2010-4, Continued

Local Noncompliance, Continued

Auditee Response and Corrective Action Plan, Continued:

Furthermore, the College's policy entails that purchases over \$25,000 require a competitive bidding, not "competitive sealed bidding" as indicated in the RMI's procurement code. A further discussion with the Board on whether or not the College's policy should be revised to reflect what is written in the RMI procurement code will be held.

## COLLEGE OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

#### Finding No. 2010-5

##### Bank and Credit Card Accounts Reconciliation/OMB Circular A-133 Reporting

Criteria: Bank and credit card account reconciliations should be performed monthly with independent review of the reconciliations occurring to allow timely completion and resolution of reconciling items and thus allow for compliance with overarching reporting requirements as stipulated in OMB Circular A-133. Furthermore, adequate segregation of duties should be in place so that no one person has the ability to handle cash transactions and also is 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 contained several unreconciled balances, which were not corrected in the month they arose. As of March 2011, the September 2010 bank reconciliation showed net unrecorded disbursements of \$236,962, which were primarily due to unrecorded credit card transactions of \$293,433. The final bank reconciliation reflected net unrecorded cash receipts of \$95,575. Additionally, credit card purchases of \$338,361 were not adequately supported by purchase orders and vendor invoices. We also noted a variance of \$4,339 between balances per recorded payable and credit card statements. Reconciliation of credit card transactions was completed six months after the fiscal year ended. The lack of timely reconciliations and subsequent resolution of unreconciled balances impacted the College's ability to comply with the reporting requirements under OMB Circular A-133.

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 reconciliations and credit card account reconciliations with the College's records.

Effect: The effect of the above condition is possible misstatements of cash, potential for unauthorized cash and credit card transactions, and noncompliance with the reporting requirements under OMB Circular A-133.

Recommendation: We recommend that management establish adequate internal control policies and procedures over reconciliation of bank and credit card accounts to facilitate compliance with reporting requirements under OMB Circular A-133. Further, we recommend that management segregate incompatible duties relative to cash and credit card accounts.

Prior Year Status: The above condition pertaining to the lack of timely bank and credit card reconciliations was reported in the audit of the College for fiscal year 2009.

Auditee Response and Corrective Action Plan: We agree with the finding and recommendation. For FY2011, the College made few changes to reflect this recommendation. The responsibility of reconciling cash accounts and credit card lies with the Chief Accountant/Accounting Services Director and the General Accountant. All credit cards have already been canceled and the College now has only one credit card. Further, the College had put restrictions on the usage and accessibility of the credit which will be kept in the vault at Business Office at all times. All credit card purchases will require prior approval from both the CFO and the President in the form of a purchase order for purchases of supplies, textbooks, and etc and Travel Authorization (TA) for authorized College travels.

## COLLEGE OF THE MARSHALL ISLANDS

### Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2010

#### Finding No. 2010-6

##### 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 by primary governments and other stand-alone governments, and to governmental component units that consistently apply governmental 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. For financial reporting purposes, these organizations appear to meet the criteria as established by GASB Statement No. 39 for inclusion in 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, 2010, 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.

**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 nonconformity with GASB Statement No. 39.

**Recommendation:** We recommend that the College comply with the financial reporting entity requirements of GASB Statement No. 39 and require compliance with the MOU requirements regarding the provision of audited financial statements by the abovementioned organizations within the stipulated timeframe. Furthermore, we recommend that the College perform an evaluation of the effect of non-inclusion of the abovementioned organizations as component units on an annual basis to determine the significance of this GAAP departure.

**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. The FCMI and CMIF are not treated by the College as component unit for the following reasons:

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 action plan, the College will continue to work with both the FCMI and CMIF on the issues of complying with the existing MOU between the College and the FCMI and CMIF.

**COLLEGE OF THE MARSHALL ISLANDS**

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2010

Finding No. 2010-6, Continued

Component Units, Continued

Auditor's Response: Based on the information provided, both entities appear to meet the criteria under GASB 39 as component units of the College. Additionally, the abovementioned MOU agreed that the audit reports would be provided.

**COLLEGE OF THE MARSHALL ISLANDS**

**Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2010**

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2010:

Questioned costs previously reported	\$ -
Questioned costs of fiscal year 2010 Single Audit	<u>122,900</u>
Unresolved questioned costs at September 30, 2010	\$ <u>122,900</u>

Unresolved Findings

The status of unresolved prior year findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 10 through 21).