

COLLEGE OF THE MARSHALL ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2012

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, 2012, and have issued our report thereon dated June 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 25) as item 2012-2 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

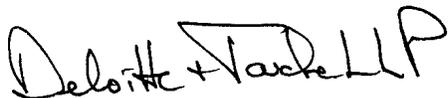
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-1.

We also noted certain matters that we reported to management of the College in a separate letter dated June 29, 2013.

The College's response to the findings 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. However, this report is also a matter of public record.

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June 29, 2013

**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 College of the Marshall Islands' (the College's) 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, 2012. 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 9 through 25). 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 of the College's compliance with those requirements.

As described in items 2012-3 and 2012-4 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding equipment and real property management and procurement and suspension and debarment that are applicable to its Compact of Free Association, As Amended, Sector Grants (CFDA # 15.875) major program. Compliance with such requirements is necessary, in our opinion, for the College to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

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 items 2012-3 and 2012-4 to be material weaknesses.

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 2012-5 through 2012-9 to be significant deficiencies.

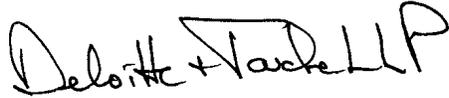
Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended September 30, 2012, and have issued our report thereon dated June 29, 2013, which contained an unqualified opinion on those financial statements. 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 (pages 6 - 7) 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of

Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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.

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

June 29, 2013

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY12
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
<u>Direct Program</u>		
Distance Learning and Telemedicine Loans and Grants	10.855	\$ 100,053
<u>Pass-Through from University of Arizona:</u>		
Integrated Programs	10.303	26,020
<u>Pass-Through from University of Guam:</u>		
Resident Instruction Grants for Insular Area Activities	10.308	58,836
Distance Education Grants for Institutions of Higher Education in Insular Areas	10.322	22,540
<u>Pass-Through from University of Hawaii:</u>		
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	8,805
Subtotal Pass-Through University of Arizona, University of Guam and University of Hawaii:		<u>116,201</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>216,254</u>
<u>U.S DEPARTMENT OF COMMERCE</u>		
<u>Direct Programs</u>		
Habitat Conservation	11.463	2,688
Educational Partnership Program	11.481	(82)
Merrifield / UH Effects of Sea Level Grant	11.Unknown	<u>1,055</u>
TOTAL U.S. DEPARTMENT OF COMMERCE		<u>3,661</u>
<u>U.S. DEPARTMENT OF THE INTERIOR</u>		
Economic, Social and Political Development of the Territories:	15.875	
<u>Direct Programs</u>		
Community-based Conservation Project	15.875	48,239
Coral Reef Initiative -RMI-7	15.875	7,181
TA-RMI-COL-20112 General Technical Assistant Grant	15.875	142,500
TA-RMI-COL-201-1 Student Retention Plan	15.875	<u>63,761</u>
Subtotal Direct Programs		261,681
<u>Pass-Through From RepMar</u>		
Compact of Free Association Program, As Amended, Sector Grants:		
Education Sector Grant	15.875	1,000,000
Supplemental Education Grant	15.875	214,181
Section 211(d)(1) Public Infrastructure Sector	15.875	1,848,132
Marshall Islands Story-telling Project	15.875	<u>11,935</u>
Subtotal Pass-Through RepMar		<u>3,074,248</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR		<u>3,335,929</u>

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Expenditures/ Adjustments FY12
<u>U.S. NATIONAL SCIENCE FOUNDATION</u>		
<u>Pass-Through University of Hawaii</u>		
Education and Human Resources	47.076	17,317
Education and Human Resources	47.076	11,297
Canadian High Commission Grant	47.Unknown	24,228
NOAA-Maritime for Vocational Programs	47.Unknown	15,000
Coastal Storms Program - RCUH	47.Unknown	<u>7,258</u>
 TOTAL U.S. NATIONAL SCIENCE FOUNDATION		 <u>75,100</u>
 <u>U.S. DEPARTMENT OF EDUCATION</u>		
<u>Direct Programs</u>		
TRIO - Upward Bound	84.047A	311,277
Federal Pell Grant Program	84.063	<u>4,794,759</u>
 TOTAL U.S. DEPARTMENT OF EDUCATION		 <u>5,106,036</u>
 <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
<u>Pass-Through University of Guam:</u>		
AHEC Grant	93.824	<u>284,023</u>
 TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		 <u>284,023</u>
 U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT		
<u>Pass-Through University of Rhode Island:</u>		
URI - Success Project	98.001	<u>5,000</u>
 TOTAL U.S.AGENCY FOR INTERNATIONAL AID		 <u>5,000</u>
 TOTAL FEDERAL AWARDS		 <u>\$ 9,026,003</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, 2012

(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.

- 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 Agriculture, U.S. Department of Commerce, U.S. Department of the Interior, U.S. National Science Foundation, U.S. Department of Education, U.S. Department of Health and Human Services, and U.S. Agency for International Development, which are subject to OMB Circular A-133.

(2) Summary of Significant Accounting Policies

- 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, 2012.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:

- | | | |
|----|--|--------------------------|
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs:
CFDA Program 15.875
All other major programs | Qualified
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: | |

<u>CFDA #</u>	<u>Name of Federal Program</u>
15.875	Economic, Social and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants
84.047	TRIO – Upward Bound
84.063	Federal Pell Grants

- | | | |
|-----|--|------------|
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$ 300,000 |
| 11. | The College qualified as low-risk auditee? | No |

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-1	Local Noncompliance - Taxes on Wages and Salaries	11 - 12
2012-2	Component Units	13 - 14

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

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>
2012-3	15.875	Equipment and Real Property Management	\$ -	15
2012-4	15.875	Procurement and Suspension and Debarment	\$ 196,154	16 - 18
2012-5	15.875	Reporting	\$ -	19
2012-6	84.047	Cash Management	\$ -	20
2012-7	84.047	Eligibility	\$ -	21
2012-8	84.063	Cash Management	\$ -	22 - 23
2012-9	84.063	Eligibility	\$ 1,387	24 - 25

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No. 2012-1

Local Noncompliance - Taxes on Wages and Salaries

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

- (1) The employer shall, once every four (4) weeks or thirteen (13) times per year, pay the taxes withheld under Section 104 of this Chapter. The employer shall, along with the taxes, within two (2) weeks following the preceding four (4) week period make a full, true and correct return showing all wages and salaries paid by the employer to the employees during the preceding four (4) week period and showing the tax due and withheld thereon as provided in Section 104 of this Chapter. The return shall contain such other information as shall be required or prescribed by the Secretary of Finance.
- (2) Every employer required to deduct and withhold any tax on the salaries and wages of any employee shall furnish to each such employee, at least once every four (4) weeks, a written statement showing the wages and salaries paid by the employer to such employee during the preceding four (4) week period and the amount of tax deducted and withheld or paid with respect to such wages and salaries.
- (3) Every employer who violates any of the provisions of this Section shall be guilty of an offense. Further, pursuant to P.L. 2006-64 (Repeal of Government Entities Tax Exemptions Act of 2005), the College's import tax payments for purchase of textbooks and other educational materials, and for purchase of building materials for construction projects are reimbursable upon submission of certification satisfactory to the Secretary of Finance. The College reimburses through application of resulting tax credits for the applicable import tax payments against employee withholding income taxes.

Comment: The College has withholding tax payable of \$567,090 as of September 30, 2012 related to unremitted taxes in fiscal years 2010 and 2011. Calculation and documentation of tax credits that can be applied against unpaid withholding taxes pursuant to P.L. 2006-64 is not available. Subsequently, the College provided tax credits approval from RepMar for \$183,864 dated June 6, 2013, which decreased the withholding tax payable to \$383,226 as of September 30, 2012.

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

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

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

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No. 2012-1, Continued

Local Noncompliance - Taxes on Wages and Salaries, Continued

Prior Year Status: The College's lack of funds to remit withholding taxes and failure to calculate, document and apply for any applicable tax credits was reported as finding 2011-01 in the Single Audit of the College in fiscal year 2011.

Auditee Response and Corrective Action Plan: The College agrees with the finding and the recommendations. Going forward, the College is paying its current dues on withholding taxes. The College is currently working with the Ministry of Finance on the receivables on the import tax duties to be used to offset the past obligations on these withholding taxes. Pursuant to RMI PL 2006-64, CMI is exempted from import tax on selected items. Currently, CMI is paying the import tax duties, however such will be used to offset the withholding tax liabilities with the Ministry of Finance.

According to the most recent report from the Ministry of Finance, CMI now owes a total of \$273,774 on withholding taxes from previous years compared to what was reported as of September 30, 2012. The College will continue to work with MOF to provide request for reimbursements on any future import tax duties to offset the remaining balance until it is zeroed out.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No. 2012-2

Component Units

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

Condition: Although the College did not provide additional contribution to the Foundations during fiscal year 2012, 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 established by GASB Statement No. 39 for inclusion on the College's financial statements as component units. The College entered into a Memorandum of Understanding (MOU) with these organizations, dated September 30, 2008, which further supports their inclusion as component units of the College and requires the organizations to provide audited financial statements to the College no later than six months after their yearend. At September 30, 2012, these organizations did not provide the College with audited financial statements for inclusion as component units. The College included the financial statements of the CMI Foundation based on internally maintained financial information while the financial statements of the Friends of CMI, which are believed to be not material, are not included due to absence of account balances and financial activities.

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 above-mentioned organizations as component units on an annual basis to determine the significance of this GAAP departure. We further recommend that the College take reasonable steps to resolve this matter with the Foundations.

Prior Year Status: The lack of compliance with the MOU requiring the provision to the College of audited financial statements for the abovementioned organizations was reported as findings 2010-06 and 2011-02 in prior Single Audits of the College.

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

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-2, Continued

Component Units, Continued

Auditee Response and Corrective Action Plan: Continued

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

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

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

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-3
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact of Free Association, As Amended, Sector Grants
Requirement: Equipment and Real Property Management
Questioned Cost: \$0

Criteria: Equipment records for equipment acquired with Federal funds and federally-owned equipment shall be maintained accurately and include the following information: 1) a description of the equipment, 2) manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number; 3) source of the equipment, including the award number; 4) whether title vests in the recipient or the Federal Government; 5) acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost; 6) information from which one can calculate the percentage of Federal participation in the cost of the equipment; 7) location and condition of the equipment and the date the information was reported; 8) unit acquisition cost; and 9) ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

Furthermore, the recipient shall take a physical inventory of equipment and reconcile the results with the equipment records at least once every two years; maintain a control system to insure adequate safeguards to prevent loss, damage or theft of the equipment; and implement adequate maintenance procedures to keep the equipment in good condition.

Condition: The plant fund trial balance was not provided until March 11, 2013, due to pending completion of the fixed asset inventory count. Further, the College was not able to substantially complete a physical count and reconciliation in fiscal year 2011. Therefore, it appears that an inventory of fixed assets was not performed and completed, and results were not reconciled to fixed asset records at least once within the last two fiscal years. Furthermore, an equipment listing was not made available.

Cause: The cause of the above condition is weak internal controls over requiring that equipment and real property management requirements under the program are met.

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements. No questioned costs result as we were unable to assess the overall cumulative monetary value of the deficiencies above.

Recommendation: We recommend that the College strengthen controls to determine compliance with applicable equipment and real property management requirements.

Prior Year Status: Weak controls over requiring that equipment and real property management requirements was reported as finding 2011-03 in the Single Audit of the College for fiscal year 2011.

Auditee Response and Corrective Action Plan: As reported in FY2011's audit response, the College has already incorporated the column and had already addressed the issue. Furthermore, the College is in the final stages of completing a new database for keeping record of all assets purchase by CMI. The database will also address all the concerns raised in Finding No. 2012-3 and will also be use as a tool to manage our fixed asset inventory.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-4
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact of Free Association, As Amended, Sector Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$196,154

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

Condition: Tests of sixteen items totaling \$2,090,271 noted the following:

1. Documentation of method of procurement utilized, vendor selection, and competitive procurement were not for five purchases (or 31%), as follows:

<u>PO Number</u>	<u>PO Amount</u>
12-01692	\$ 14,506
12-00740	3,442
12-00158	35,391
12-01677	16,906
12-00877	<u>7,191</u>
	\$ <u>77,436</u>

2. One purchase (or 7%) of \$36,172 was procured from the same vendor and split into two purchase orders (Purchase order #9-1500 and #9-1501). Price quotes or any equivalent documentation evidencing competition was not available.
3. One purchase (or 7%) of \$62,418 (Purchase order #12-00538), was procured through sole source. The supporting sole source documentation indicated that other potential vendors were contacted; however, adequate information to verify justification and copies of correspondences with other potential orders was not evident.
4. One purchase (or 7%) of \$20,128 (Purchase order #12-01057) was procured through sole source; however, sole source justification indicated that only one price quote was obtained from a supplier that previously won a bid for similar items. Documentation that other potential vendors were contacted was not evident.

Cause: There appears to be weak internal controls over compliance with applicable procurement requirements.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements and questioned cost of \$196,154.

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

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-4, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact of Free Association, As Amended, Sector Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$196,154

Prior Year Status: Weak controls over compliance with applicable procurement requirements were reported as finding 2011-04 in the Single Audits of the College for fiscal years 2010 and 2011.

Auditee Response and Corrective Action Plan:

1. a) For Finding No. 2012-4 (1a) [PO#12-01692] was issued to [Vendor] as a sole source to install the CMI fire pumps. It is worthy to note that [Vendor] is the only qualified plumbing service provider on island and was also economically feasible for the College to contract them. All required supporting documents (invoices, receiving reports, and etc.) were provided to the Auditor. Like all other CMI projects, it was handled by the CMI PMU along with the Planning Committee.
 - b) For Finding No. 2012-4 (1b) [PO#12-00740] was issued to [Vendor] as a sole source to provide the *Fire Protection Materials* for CMI 011-12. All required supporting documents (invoices, receiving reports, and etc.) were provided to the Auditor except the communication between the CMI PMU and the vendors.
 - c) For Finding No. 2012-4 (1c) [PO#12-00158] was issued to [Vendor] as a sole source to provide *office furniture* for Admin. Building CMI 008F. All the required supporting documents (invoices, receiving reports, and etc.) were provided to the Auditor except the correspondence between the CMI PMU and the vendors to help justify sole sourcing. The corrective action plan to avoid repeating the same issue is to strengthen internal control by providing proper training to staff involved in the process and centralizing procuring of items above \$15,000 to the Procurement Department at Business Office.
 - d) For Finding No. 2012-4 (1d) [PO#12-01677] was issued to [Vendor] as a sole source to provide the *Fire & Jockey Pumps Equipment* for CMI 020. All required supporting documents (invoices, receiving reports, and etc.) were provided to the Auditor except the communication between the CMI PMU and the vendors to help justify sole sourcing. The corrective action plan to avoid repeating the same issue is to strengthen internal control by provide proper training and centralizing procuring of items above \$15,000 to the Procurement Department at Business Office.
 - e) For Finding No. 2012-4 (1b) [PO#12-00877] was issued to [Vendor] as a sole source to provide the *Water Supply-Level Sensors* for CMI 07C. All required supporting documents (invoices, receiving reports, and etc.) were provided to the Auditor except the communication between the CMI PMU and the vendors.
2. For Finding No. 2012-4 (2) [PO# 9-1500 & 1501] were issued to [Vendor] to purchase equipment and furniture for CMI-002F Classroom Block 2 and CMI 004F CB2 respectively. The handling of the procurement for the above projects was handled by the PMU manager. All supporting documents were provided to the Auditor except the communications to the vendors requesting for price quotes. The corrective action plan to avoid repeating the same issue is to strengthen internal control by provide proper training and centralizing procuring of items above \$15,000 to the Procurement Department at Business Office.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-4, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact of Free Association, As Amended, Sector Grants
Requirement: Procurement and Suspension and Debarment
Questioned Cost: \$196,154

Auditee Response and Corrective Action Plan, Continued:

3. For Finding No. 2012-4 (3) [PO# 12-00538] was issued to [Vendor] to purchase equipment and furniture for CMI-002F Classroom Block 2 and CMI 004F CB2 respectively. The handling of the procurement for the above projects was handled by the PMU manager. All supporting documents were provided to the Auditor except the correspondence to the vendors requesting for price quotes. The corrective action plan to avoid repeating the same issue is to strengthen internal control by providing proper training to staff involved in the process and centralizing procuring of items above \$15,000 to the Procurement Department at Business Office.
4. For Finding No. 2012-4 (3) [PO# 12-01057] were issued to [Vendor] to supply Clocks & Cables per project CMI 011. The procuring of the said request was handled by the PMU manager. All supporting documents were provided to the Auditor except the communications to the vendors requesting for price quotes. The corrective action plan to avoid repeating the same issue is to strengthen internal control by providing proper training to staffs involved in the process and centralizing procuring of items above \$15,000 to the Procurement Department at Business Office.

Auditor Response: Documentation provided to us did not substantiate competitive procurement. As indicated in the auditee responses, the documentation of communication with vendors, of solicitations and of price quotes was not provided. Such documentation is necessary to effect resolution.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-5
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories
Grant Number: Compact of Free Association, As Amended, Sector Grants
Requirement: Reporting
Questioned Cost: \$0

Criteria: Under the terms of the sub-award administered by RepMar under the Compact of Free Association grant awards, the College is required to submit: 1) quarterly Financial Status Reports (FSRs) and, 2) an annual report at the end of the fiscal year.

Condition: Total expenditures of \$916,667 reported in the quarterly FSRs did not agree to total expenditures of \$3,062,314 recorded in the general ledger. The total expenditures reported in the FSR were lower by \$2,145,647. On April 7, 2013, revised FSRs were provided by the College with total program expenditures of \$3,062,314 reported. These revised reports were provided after the variances between original FSRs and GL balances were communicated to the College. Furthermore, independent review of the FSRs and supporting documentation of submission was not evident. In addition, copy of the annual report was not provided.

Cause: The cause of the above condition is weak controls to determine that required reports as stipulated in the sub-award agreements are timely prepared and submitted.

Effect: The cause of the above condition is noncompliance with applicable reporting requirements. No questioned costs result since amount could not be determined.

Recommendation: We recommend that the College strengthen controls to determine that required reports are timely prepared and submitted.

Prior Year Status: Weak controls to determine that required reports as stipulated in the sub-award agreements are timely prepared and submitted was reported as finding 2011-05 in the Single Audit of the College for fiscal year 2011.

Auditee Response and Corrective Action Plan: The College submitted the said reports. As a way forward in improving the reporting procedure, the Director of Budget and Grant will prepare the reports and submitted them to the CFO for final review and signature. The said reports will be submitted along with the quarterly disbursement requests to Ministry of Finance.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-6
Federal Agency: U.S. Department of Education
CFDA Program: 84.047 TRIO Upward Bound Program
Grant Number: P047A091134
Requirement: Cash Management
Questioned Cost: \$0

Criteria: Applicable federal regulations state the following:

- Payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients.
- Recipients are paid in advance, provided they maintain or demonstrate the willingness to maintain (1) written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient and (2) financial management systems that meet the standards for fund control and accountability.
- Cash advances to a recipient organization are limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project

Condition: Tests of cash management requirements noted the following:

1. Copies of program drawdowns during fiscal year 2012 were misplaced and could not be located.
2. Independent check and review of program drawdowns was not performed.
3. Program requests for drawdown are not based on either actual disbursements or expenditures incurred as recorded in the general ledger; therefore, the drawdown to which a specific expenditure was included could not be identified.
4. Since advance drawdowns were made throughout the grant performance period, an accumulated payable to grantor agency of \$81,388 is recorded as of September 30, 2012. The grant was subsequently closed-out in fiscal year 2013; however, the College has not addressed the possibility that the over drawdown may need to be returned to the grantor agency.

Cause: The cause of the above condition is the lack of established procedures over cash drawdown activities.

Effect: The effect of the above condition is potential noncompliance with cash management requirements. No questioned costs result since projected interest liability could not be determined.

Recommendation: We recommend that the College establish written cash management procedures to determine that federal cash drawdowns are made and disbursed in accordance with applicable federal requirements.

Auditee Response and Corrective Action Plan: The College agrees with the finding and the recommendations. The College will revisit and revised if necessary its existing guidelines and procedures involved in processing requesting for disbursements and processing payments. All drawdown requests are now filed accordingly (by grant) and proper trainings will be provided to the staffs involved in the process.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-7
Federal Agency: U.S. Department of Education
CFDA Program: 84.047 TRIO Upward Bound Program
Grant Number: P047A091134
Requirement: Eligibility
Questioned Cost: \$0

Criteria: Applicable compliance supplement states the following eligibility requirements:

- An individual is eligible to participate in a Regular, Veterans, or Math-Science Upward Bound project if the individual meets all the following requirements: (a) is a citizen, national, or permanent resident of the United States, or is in the United States for other than a temporary purpose; (b) is a potential first-generation college student, a low-income individual, or an individual who has a high risk for academic failure; (c) has a need for academic support in order to pursue successfully a program of education beyond high school; and (d) at the time of initial selection has completed the 8th grade but has not entered the 12th grade and is at least 13 years old but not older than 19. A veteran, regardless of age, who meets all other criteria, is eligible to participate.

Condition: Tests of twenty student files noted the following:

- One student file (or 5%) was not provided.
- For two students (or 10%), the student name in the application form did not match the name in the supporting birth certificate. No questioned costs result since the students were eligible.

Cause: The cause of the above condition was failure to turn over all program documentation prior to grant close-out.

Effect: The effect of the above condition is potential noncompliance with applicable eligibility requirements. The average program expense per student amounts to \$5,093; however, since the projected questioned costs exceed \$10,000, finding is reportable.

Recommendation: We recommend that the College strengthen procedures over maintenance of program documentation and improve its filing system.

Auditee Response and Corrective Action Plan: The College agrees with the finding and the recommendations. As a way forward, the College is now in the stages of completing a new Grant Management Manual that will set the guidelines (policies and procedures) on how grants are managed. Once the Manual is completed and approved by CMI's government body, the staffs will be trained on how to best implement the guidelines in the manual.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-8
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.063 Federal Pell Grants
 Grant Number: 03022400
 Requirement: Cash Management
 Questioned Cost: \$0

Criteria: Per Chapter 1 of Volume 4: 2011-2012 Federal Student Aid Handbook: “It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory time frames.”

Condition: Tests of student receivables and disbursements noted the following:

1. For three (or 19%) of sixteen student receivable accounts tested, totaling \$31,432, the College did not release refunds owed within the 14-day time frame, as follows:

<u>Document Number</u>	<u>Refund Owed to Student</u>	<u>Refund Date</u>	<u>Pell Drawdown Date</u>	<u>Days Elapsed</u>
017-072	\$ 400	12/14/2012	10/9/2012	66
023-023	\$ 26	12/14/2012	10/29/2012	46
022-035	\$ 177	12/14/2012	10/29/2012	46

2. For five (or 100%) of five student disbursements tested, totaling \$24,280, the College did not release refunds owed within the 14-day timeframe, as follows:

<u>Document Number</u>	<u>Refund Owed to Student</u>	<u>Refund of Pell Grant</u>	<u>Drawdown Date</u>	<u>Days Elapsed from Drawdown date</u>
598-127	\$ 214	12/14/2012	08/29/2012	109
	<u>163</u>	05/03/2012	03/29/2012	37
	<u>377</u>			
114-122	239	05/03/2012	02/07/2012	86
	<u>226</u>	12/09/2011	08/29/2011	106
	<u>466</u>			
344-103	184	08/02/2012	06/14/2012	51
	153	12/09/2011	09/15/2011	86
	<u>40</u>	05/03/2012	03/29/2012	37
	<u>377</u>			
026-319	178	12/09/2011	10/05/2011	66
	<u>222</u>	05/03/2012	03/29/2012	37
	<u>401</u>			
186-093	<u>48</u>	05/08/2012	03/07/2012	62
	<u>48</u>			

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2012

Finding No.: 2012-8, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grants
Grant Number: 03022400
Requirement: Cash Management
Questioned Cost: \$0

Cause: The cause of the above condition is failure to ascertain that compliance with federal regulations is adhered to and weak controls over student refund policies.

Effect: The effect of the above condition is noncompliance with compliance requirement of disbursing refunds within 14-day time frame. No questioned costs are presented since the projected interest liability is below \$10,000; but exceeds \$250.

Recommendation: We recommend that the College strengthen control policies and procedures to comply with applicable federal regulations on issuing Pell student refunds.

Auditee Response and Corrective Action Plan: The College advances the students' anticipated refunds during the registration week after deducting all *tuition and fees* into the students' ID card which is used on CMI campus like the regular bank debit card. The students have the full control of how and when their fund is to be used for educational purposes. A month prior to the last day of instruction, all students' accounts are closed and if students have balance on their ID cards, it is refunded back to the students within the 14 day period. This was imitated to ensure students use their Pell grants for educational purposes.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-9
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.063 Federal Pell Grants
 Grant Number: 03022400
 Requirement: Eligibility
 Questioned Cost: \$1,387

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

Condition: Of 75 Pell students tested totaling \$195,846, the following exceptions were noted:

1. For one item (or 1%) of \$1,387 (Document No. 186-347), copy of High School diploma or its equivalent was not located in the student file.
2. A Letter of Notice of Academic Suspension shall be sent to the student within 3 to 5 working days after receipt of grades at the end of each semester; however, a copy of the letter of notice could not be located in six student files (or 8%) or was sent to student beyond required timeframe. No questioned costs result since applicants were eligible prior to obtaining unsatisfactory academic progress.

<u>Reference Number</u>	<u>Term</u>	<u>Pell Award</u>	<u>Description of Unsatisfactory Academic Progress</u>
601-077	Pell Award #5 Fall 2012	\$ 2,081	GPA 1.25
027-037	Pell Award #5 Fall 2011	2,775	GPA 0.00
184-023	Pell Award #9 Spring 2012	2,457	GPA 0.00
114-080	Pell Award #8 Spring 2012	2,775	3 of 12 credits completed
185-017	Pell Award #10 Spring 2012	2,728	GPA 0.00
026-093	Pell Award #4 Fall 2011	2,775	3 of 7 credits completed

3. For six student files (or 8%), the Birth Certificate (BC) name or date of birth (DOB) was different from name or DOB noted on school records and/or on the FAFSA. No questioned costs result since applicants were eligible.

<u>Reference Number</u>	<u>Pell Award</u>	<u>Deficiency Noted</u>
186-257	\$ 2,358	DOB on BC does not match FAFSA application
027-037	2,775	Name on BC does not match GED certificate
027-013	2,775	DOB on BC does not match FAFSA application
114-010	2,775	Name on BC does not match FAFSA application
185-017	2,728	DOB on BC does not match FAFSA application
026-016	1,387	DOB on BC does not match FAFSA application

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-9, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grants
Grant Number: 03022400
Requirement: Eligibility
Questioned Cost: \$1,387

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

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$1,387. This finding is reportable since the projected questioned costs exceed \$10,000.

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

Prior Year Status: The failure to ascertain that all required documents are submitted and failure to review forms for completeness and accuracy was reported as finding 2011-06 in the Single Audit of the College for fiscal year 2011.

Auditee Response and Corrective Action Plan: The College agrees with the finding and the recommendations. The current database that is currently in used is not fully capable of detecting discrepancies; however, the new system which will be launched in FY13 will help staffs detect inconsistencies in student records and reporting.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Prior Audit Findings
Year Ended September 30, 2012

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, 2012:

Questioned costs as previously reported:

At September 30, 2010	\$ 122,900
At September 30, 2011	<u>826,861</u>

Questioned costs as previously reported	<u>949,761</u>
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Less: Questioned cost resolved	(10,380) ^(A)
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Add: Questioned costs of fiscal year 2012 Single Audit	<u>197,541</u>
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Unresolved questioned costs at September 30, 2012	\$ <u><u>1,136,922</u></u>
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^(A)Resolved through a grantor agency determination dated January 17, 2012.

The status of unresolved prior audit findings is discussed within the Schedule of Findings and Questioned Costs section of this report (pages 9 through 25).