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June 29, 2013

Mr. Carl Hacker
President
College of the Marshall Islands

Dear Mr. Hacker:

In planning and performing our audit of the financial statements of the College of the Marshall Islands (the College) as of and for the year ended September 30, 2012 (on which we have issued our report dated June 29, 2013), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, we considered the College's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the College's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated June 29, 2013, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Regents, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the College for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving the College's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

Journal Entries

The College had not established policies and procedures that determine which type of journal entries should be forwarded to the Chief Financial Officer (CFO) for review and approval. Further, independent review of payroll reports and bank reconciliations is not evident. Specifically, tests of forty-nine journal entries noted the following:

- Forty-seven entries did not reflect evidence of CFO review and approval.
- Two entries were not supported with wire transfer forms and/or other attendant documentation and worksheets.

We recommend that the College establish policies and procedures that specify which types of journal entry transactions will be provided to the CFO for review and approval. This matter was discussed in our previous letters to management in the 2008 through 2011 audits.

Disbursements

Tests of disbursements noted the following:

- One of fifteen disbursements tested (document no. 001-A-001) from fund 1710 was not recorded in the proper period.
- Two of fifteen non-payroll expenditures tested from fund 1710, three of eight from the restricted fund, and eight of sixteen from Fund 1602 were incurred or invoiced prior to approval of a purchase order and/or fund certification.
- Actual vendor invoices could not be located for two purchases ($35,391 reference no. PO 12-00158 and $62,418 reference no. PO 12-00538).

We recommend that management adhere to established review process. We further recommend that management strengthen procedures to record expenditures in the proper period and improve filing system. This matter was discussed in our previous letter to management in the 2011 audit.

SECTION II - OTHER MATTERS

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

Bookstore Collections

Bookstore collections are remitted monthly to the business office. Review and verification of bookstore sales report is currently not evident.

We recommend that the College improve bookstore collection procedures, including timely deposit of collections.

SECTION II - OTHER MATTERS, CONTINUED

Wire Transfer Documentation

Wire transfer authorization documentation for an $84,000 transfer (reference no. 105035871) could not be located.

We recommend that the College monitor the filing and handling of documents to validate executed transactions.

Accounts Receivables and Allowance for Doubtful Accounts

It is the College's policy to provide a 100% allowance for accounts receivable outstanding over 120 days. Management believes that receivables over 120 days have a high risk of being uncollected as awards from Pell and other grants should be received within the period. Thus, receivables outstanding from 1 to 120 days are considered fully collectible and a reserve is not provided. However, tests using subsequent collection percentages noted an allowance understatement of $43,923. This was corrected through a proposed audit adjustment.

We recommend that the College establish policies and procedures to estimate an allowance for all receivables. We further recommend that the College perform an evaluation of uncollectible receivables to determine accounts that should be written-off. As of September 30, 2012, accounts over 120 days of $1,115,791 represent 47% of total receivables. This matter was discussed in our previous letter to management in the 2011 audit.

Interfund Balances

Interfund balances included twelve accounts with a net receivable (debit) balance of $25,582 which either changed minimally or did not change at all from prior year. One relates to $51,000 due from the Uliga Consortium Project that closed in fiscal year 2008.

As balances of interfund receivable/payable are not reflected in the College financial statements, no reclassification or adjusting entries were proposed. However, we recommend that management perform timely review and reconciliation of interfund receivable/payable accounts. This matter was discussed in our previous letter to management in the 2011 audit.

Inventory

Tests of inventory noted reconciliations only occur at year-end.

We recommend that the College establish policies and procedures to perform periodic physical counts and reconciliation. Furthermore, physical count procedures should require independent count verifications. This matter was discussed in our previous letter to management in the 2011 audit.

SECTION II - OTHER MATTERS, CONTINUED

Due from (to) Grantor Agencies

The Due from (to) grantor agencies account included ten inactive accounts totaling $102,510 as of September 30, 2012. The College has not performed an assessment of these inactive accounts to determine if any adjustments are necessary.

We recommend that the College perform periodic assessments of the Due from (to) grantor agencies account and establish procedures to ensure that grants are closed out timely.

Health Fund and Social Security Tax Payable

The College is current in its Social Security and Health Fund tax reports and payments as of September 30, 2012. However, examination of the tax return and payment for the quarter ended June 30, 2012 indicated late payment, which resulted in penalties and interest of $6,129 and $569, respectively.

We recommend that the College comply with deadlines mandated in the Social Security Act of 1990 and Health Fund Act of 1991. This matter was discussed in our previous letter to management in the 2011 audit.

Segregation of Duties - Payroll Function

Payroll processing personnel are also authorized to make changes and to maintain payroll master files.

We recommend that access to payroll master files and edit responsibilities be performed by an individual independent of payroll processing. This matter was discussed in our previous letter to management in the 2011 audit.

Payroll

Tests of payroll disbursements noted the following:

- For one (check no. 08237), the annual leave request was not approved prior to the leave period.
- For one (check no. 78550), gross pay per the register was over by $18.75 due to incorrect summation of total hours worked per the timesheet.

We recommend that management strengthen procedures to implement prior approval of annual leave requests and perform a thorough review of calculation summarizing hours worked.

Compensatory Time

The College does not have established procedures to monitor and record compensatory time obligations.

We recommend that the College establish procedures to determine that compensatory time is timely monitored and recorded.

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SECTION II - OTHER MATTERS, CONTINUED

Procurement

Of thirty six non-payroll expenditures totaling $263,258 tested from the Unrestricted Fund, we noted the following:

- Seven did not have documentation evidencing the procurement process:

Date	Document Number	Amount
12/15/2011	12-00398	$ 40,000
10/22/2011	12-00115	30,000
11/30/2011	12-00308	30,100
09/05/2012	12-01256	35,000
10/06/2011	12-00001	4,500
01/12/2012	12-00507	19,863
02/01/2012	12-00644	20,000

- For one purchase ($94,547, reference No. PO 12-01266), procurement occurred through sole source; however, documentation of the justification or the consideration of other vendors was not in file.

We recommend that the College require support for the rationale of all sole source procurement. Specifically, support should indicate the history of the procurement, including the rationale for the procurement method. This matter was discussed in our previous letter to management in the 2011 audit.

Project Management Unit

The College does not currently have an established method to allocate costs of its project management unit (PMU). Costs incurred by the PMU should be allocated among related capital projects. Additionally, the fixed asset register does not reflect the complete cost of each construction project (whether completed or in progress) because annual PMU fees are reflected as individual line items in the register and are not allocated to specific projects. The PMU contract expired during fiscal year 2012 since related capital projects were complete; however, the PMU fee allocation is not available.

We recommend update of the fixed asset register so that each project reflects the complete cost that includes payments for project management. This matter was discussed in our previous letter to management in the 2011 audit.

SECTION III - DEFINITIONS

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The College's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.