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November 20, 2020

Ms. Karen Simion
Acting President and CEO
College of Micronesia-FSM
P.O. Box 159
Kolonia, Pohnpei 96941

Dear Ms. Simion:

In planning and performing our audit of financial statements of College of Micronesia-FSM (the College) as of and for the year ended September 30, 2019 (on which we have issued our report dated November 20, 2020), 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated November 20, 2020, on our consideration of the College's internal control over financial reporting and 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 Federal cognizant agency 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 College of Micronesia-FSM for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the College's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

1. Cash

   Comment: The following cash-related matters were noted:

   - Stale-dated checks of $62,060 and invalid reconciling items of $62,242 were included in the bank reconciliation;
   - State campuses performed year-end cash counts of imprest funds; however, actual balances were not adjusted in the general ledger;
   - A September 2019 bank reconciliation (account no. 109034006) was prepared and reviewed five months after year-end; and
   - A collection of $300,500 received during the last week of September 2019 was not timely deposited.

   Recommendation: The College should strengthen procedures over preparation and review of bank reconciliations. Reconciling items should be timely adjusted and unreconciled variances should be resolved. Collections should be timely deposited.

2. Inventory

   Comment: The following inventory-related matters were noted:

   - An allowance for inventory obsolescence of $59,229 at September 30, 2019 includes items that were not in existence or were not recognized in the year-end count. Furthermore, a $64,315 additional allowance should have been provided. Management did not consider the variances material to the financial statements;
   - The College's inventory listing does not contain unique identifier numbers or codes. In addition, of 14 items test tested, six did not agree to the final inventory listing at September 30, 2019. Management did not consider the variances material to the financial statements; and
   - Inconsistent costing of inventory items was noted and relevant shipping documents supporting unit cost was not available for examination resulting in a $118,519 misstatement. Management did not consider the variances material to the financial statements.

   Recommendation: We recommend the timely evaluation and independent review of the allowance for inventory obsolescence. The College should strengthen procedures over document retention. Additionally, management should improve its inventory tagging system to facilitate accurate record keeping and accountability.

SECTION I – DEFICIENCIES, CONTINUED

3. Fixed Assets

   Comment: The following fixed assets matters were noted:

   - An asset physically marked as ID 05300 lacked details in the fixed asset register; and
   - Tag details for two of seven assets tested (asset ID nos. 04803 and 04315) were not correctly documented in the fixed asset register.

   Recommendation: The College should verify that details marked on the physical assets agree with the fixed asset register.

4. Travel Advances

   Comment: Travel advances of $148,638 have been outstanding for over one year.

   Recommendation: We recommend that travel advances be timely liquidated.

5. Liabilities

   Comment: The following outstanding liability matters were noted:

   - Deferred revenue of $99,234 has not changed since the prior year and has marginally increased over the past five years;
   - A Pell Grant refund liability of $56,435 has not changed over the past five years; and
   - Other accrued liabilities of $20,242 have not changed over the past three years.

   Recommendation: We recommend periodic monitoring and determination of propriety for long-outstanding liabilities.

6. Auxiliary and Other Revenues

   Comment: The College incorrectly recorded internal sales of $58,219, resulting in an overstatement of revenues and expenses. Management did not consider the misstatements material to the financial statements.

   Recommendation: We recommend the College review internal sales for propriety.

7. Net Position

   Comment: The beginning net position balance did not agree with the prior year audited balance by $559,101. This condition was corrected through a proposed audit adjustment.

   Recommendation: We recommend timely reconciliation of beginning net position.

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:

1. Procurement

   Comment: The following matters were noted in relation to the College's competitive policy:

   - The following procurement transactions lacked adequate competitive procurement process documentation:

Reference Number	Amount
PO19-01285	$ 42,418
PO19-02875	26,774
PO19-03191	36,184

   - A request for quotation (RFQ) was performed for PO19-02741 amounting to $32,000; however, the College's Board Policy No. 5301 requires that a formal bidding process be adopted for purchases of $25,000 or more.

   Recommendation: We recommend that the College comply with existing procurement policy.

SECTION III – DEFINITION

The definitions of a deficiency, a material weakness and a significant deficiency are 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

College of Micronesia-FSM'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.