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December 22, 2021

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, 2020 (on which we have issued our report dated December 22, 2021), 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, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated December 22, 2021, 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,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, flowing style.

**SECTION I – DEFICIENCIES**

We identified the following deficiencies involving the College's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

1. Cash

Comment: The following cash-related matters were noted:

- Stale-dated checks of \$42,837 and invalid reconciling items of \$82,199 were included in the bank reconciliation.
- As of September 30, 2020, the imprest fund balances were based on State Campus bank reconciliations. However, for one imprest fund, (GL#1732) the actual bank balance of the imprest fund was not agreed to the bank statement and for another imprest fund (GL#1752) the State Campus bank reconciliation does not agree with the general ledger balance.

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.

2. Inventory

Comment: The following inventory-related matters were noted:

- An additional allowance of \$237,491 should have been provided. This condition was corrected through a proposed audit adjustment.
- The College's inventory listing does not contain unique identifier numbers or codes. In addition, of ten items tested, two did not agree to the final inventory listing at September 30, 2020. Management did not consider the variances to be material to the financial statements.
- There is an inconsistency in the costing of inventory items. While the College uses the average method for inventory valuation, the carrying costs of inventory items change on a year to year basis with no corresponding purchase or documented rationale.

Recommendation: We recommend 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:

- One of seven assets tested was not tagged.
- One of seven assets tested was tagged (asset ID 0850) but such information was not documented in the fixed asset register.
- One of seven assets tested was not in good working condition.

Recommendation: The College should consider conducting periodic verification of fixed assets and tagging applicable property and equipment to facilitate accurate record keeping and accountability and to improve control procedures over fixed asset monitoring.

4. Travel Advances

Comment: Travel advances of \$163,170 have been outstanding for over a year.

Recommendation: We recommend that travel advances be timely liquidated.

5. Auxiliary and Other Revenues

Comment: The College incorrectly recorded internal sales of \$109,626, 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.

**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 procurement transactions lacked adequate competitive procurement process documentation:

<u>Reference Number</u>	<u>Amount</u>
PO20-02129	\$ 85,000
PO20-02130	85,000
PO20-02131	85,000
PO20-03405	67,839
PO20-00140	40,387
PO20-01393	16,798
CT20-0480	53,274
CT20-0138	4,705

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.