

June 5, 2009

To the Board of Regents of  
College of Micronesia-FSM:

In planning and performing our audit of the financial statements of the College of Micronesia-FSM (COM-FSM) as of and for the year ended September 30, 2008 (on which we have issued our report dated June 5, 2009), 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 COM-FSM'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 COM-FSM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of COM-FSM'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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to COM-FSM's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to the management, also dated June 5, 2009, on our consideration of COM-FSM'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.

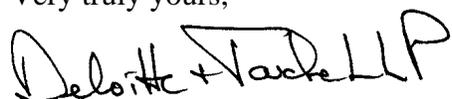
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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

This report is intended solely for the information and use of the Board of Regents, management and others within the organization, 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 COM-FSM for their cooperation and assistance during the course of this engagement.

Very truly yours,



**SECTION I – CONTROL DEFICIENCIES**

We identified, and have included below, control deficiencies involving COM-FSM's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

**1. Expenditures**

Comment: The following fiscal year 2007 transactions were recorded as expense in 2008:

<u>Acct #</u>	<u>Amount</u>	<u>Description</u>	<u>Travel Completed</u>
8101	\$3,489	TA07-0445	September 2007
8101	\$6,808	TA07-0381	August 2007
8101	\$5,187	TA07-0380	August 2007

Recommendation: We recommend that transactions be recorded in the proper accounting period.

Auditee Response: The College was not able to record the above travel in fiscal year 2007 because the duly approved travel claims and supporting documents were only received in fiscal year 2008. The College could not record travel advances as expenditures without the proper supporting documents. Please note that the above travel were recorded as travel advances to employees in fiscal year 2007.

**2. Unbilled Expenditures**

Comment 1: Receivables from UOG of \$23,996 have not been billed as of May 2009.

Comment 2: The College has not requested a cash drawdown for certain expenditures related to Transfer #23 in the amount of \$42,100.

Recommendation: Reimbursable expenditures should be timely billed.

Auditee Response:

Comment 1: The account has not been billed to UOG because the College has not received the appropriate documents to record the actual expenditures and receivables from UOG.

Comment 2: The account is being analyzed and reconciled with Financial Aid Office vis-à-vis the work study account before making any drawdown or any appropriate action.

**3. Stale Dated Checks**

Condition: The following accounts have stale dated checks over 4 years old that should be written off.

<u>Account #</u>	<u># of Stale checks</u>	<u>Amount</u>
151-4102	140	\$ 29,540
101-4102	412	<u>87,455</u>
Total	552	<u>\$116,995</u>

**3. Stale Dated Checks, Continued**

Recommendation: We recommend that outstanding stale dated checks be written off after 4 years per the College policy.

Auditee Response: We agree on this finding and as discussed with the auditor, the write – off for the above accounts will be recorded in fiscal year 2009.

**4. Outstanding Check Lists**

Comment: Outstanding check lists include checks issued over 1 year ago.

Recommendation: We recommend that the College should consider reclassification of dated outstanding checks to a liability account.

Auditee Response: We concur and adjustments will be made in the next fiscal year.

**SECTION III – DEFINITION**

The definition of a control deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *control deficiency* 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 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 is not always met. A deficiency in *operation* exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications 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**

COM-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.