Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA

Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

June 18, 2015

Dr. Joseph M. Daisy
President
College of Micronesia-FSM
P.O. Box 159
Kolonia, Pohnpei 96941

Dear Dr. Daisy:

In planning and performing our audit of financial statements of College of Micronesia-FSM as of and for the year ended September 30, 2014 (on which we have issued our report dated June 18, 2015), 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 College of Micronesia-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 College of Micronesia-FSM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of College of Micronesia-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 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 College of Micronesia-FSM's internal control over financial reporting and other matters as of September 30, 2014 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated June 18, 2015, on our consideration of College of Micronesia-FSM'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 College of Micronesia-FSM's internal control over financial reporting as of September 30, 2014 that we wish to bring to your attention:

1. Bank Reconciliation

Comment: The bank reconciliation for the Endowment Fund savings account was not timely performed. Several withdrawals, deposits, and interest income were not properly recorded as of September 30, 2014. The balance per book was overstated by $101,066, which was eventually adjusted by the College.

Recommendation: We recommend bank reconciliation be timely performed and reviewed.

2. Prepayments

Comment: Prepayments totaling $192,673 had been received as of September 30, 2014. This error was corrected through a proposed audit adjustment. Details follow:

Reference Number	Reference Amount
PO14-2297	$ 30,043
PO14-0561	34,960
PO14-3982	22,157
PO14-2587	36,328
TOTAL	$ 123,488

Recommendation: We recommend that the College strengthen control procedures over prepayments including requiring departments to timely submit receiving reports to the Business office. This was reported in a previous letter dated June 20, 2014.

3. Procurement – Price Comparison Analysis

Comment: Price Comparison Analysis (PCA) for contract #CT13-0566 received one quotation; and, documentation of solicitations or equivalent requests for quotations were not evident. Although PCA worksheet is in file to support vendor selections; price quotations or documentation of efforts to contact at least three potential vendors was not evident. COM-FSM Fiscal Policies state: "the price quotations and the PCA shall be attached to the PO when the items for purchase are not ordinary office supplies or food items." Further, it appears that the process could be subject to manipulation as three positive quotes were not received.

Recommendation: We recommend that the College implement verification procedures of information in the PCA including requiring the requesting department to submit price quotations and/or documentation evidencing that at least three vendors were contacted. This matter was reported in a previous letter dated June 20, 2014.

SECTION I –DEFICIENCIES, CONTINUED

4. Journal Entries

Comment: Journal entry testing performed noted the following:

1. Three of four journal vouchers tested did not reflect evidence of review and approval by the Comptroller prior to posting and did not include attendant supporting documentation.

2. Several gaps were noted in the sequencing of journal entries.

3. Review and approval by management was not evident for two payroll transactions (reference no. jv14-013 and jv14-022) and an allowance assessment entry (jv14-SC013).

4. Fourteen of fifteen auxiliary sales and other revenue transactions did not reflect evidence of independent review of journal entries prior to posting.

Recommendation: We recommend that the College establish policies and procedures that specify which types of journal entry transactions will be provided to the Comptroller or other designee for review and approval.

5. Payroll

Comment: Tests of payroll items noted the following:

1. A payroll disbursement of $3,156 was not supported by adequate evidence of independent review and approval.

2. Two of fifteen payroll payments tested noted differences in pay rate between the approved Personnel Action Form (PAF) and the payroll register.

3. Special service contract number CT14-0532 indicated a service term commencing March 2013 to March 2014. The approval date noted was June 23, 2014. It appears that the approval date for the special service contract extended beyond the agreed service term. The College fiscal policy requires an approved Purchase Order (PO) or equivalent document be processed prior to procuring goods and services.

Recommendation: We recommend payroll disbursement be supported by adequate documentation evidencing review and approval. We also recommend that the College update pay rates based on approved PAFs in a timely manner. Finally, we recommend that the College comply with existing fiscal policies.

6. Disbursement:

Comment: Test of nonpayroll disbursements noted the following:

1. PO14-2179 was not supported by a formal invoice evidencing that the purchase occurred.
2. PO14-2617 and PO14-0464 were approved after the invoice date. Such appears to be noncompliant with the College's fiscal policy which requires an approved PO or other equivalent document prior to entering into the purchase transaction.

Recommendation: We recommend that the College obtain approval prior to expenditure incurrence. Further, vendor invoices or equivalent documentation supporting actual incurrence of expenditure should be kept in file.

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. **Travel Liquidation**

   Comment: Liquidation of travel occurred beyond 10-working days upon the completion for three of thirteen travel disbursements (check nos. 24340, 25374 and 26652).

   Recommendation: We recommend that the College adhere to travel policies/procedures outlined in COM-FSM Fiscal Policies.

2. **Expenditure Approval**

   Comment: One (PO# 14-3271) of thirteen (or 8%) non-payroll expenditure tested was incurred or invoiced prior to approval of a purchase order and/or fund certification.

   Recommendation: We recommend that proper approvals be obtained prior to the expenditure incurrence.

3. **Fixed Asset Register**

   Comment: The fixed asset register as of September 30, 2014 lacked identifying tag numbers for several assets.

   Recommendation: We recommend that the College monitor assets tagging.

4. **Travel Advances**

   Comment: Gross travel advances amounted to $268,534 as of September 30, 2014. Of that amount, 80% was incurred prior to FY14 and was not cleared at year-end. The College fiscal policy requires employees to submit a final travel voucher within ten working days upon completion of the trip. It appears that the policy is not strictly complied.

   Recommendation: We recommend the College comply with the travel advance reporting policy.

5. **Unearned Revenues**

   Comment: Unearned revenue was not timely reconciled resulting in client adjusting entry during the audit.

   Recommendation: We recommend the College perform timely account reconciliations.

6. **Stale Checks**

   Comment: Stale checks amounting to $257,466 and other liabilities of $3,047 remained the same as per the 2013 financial statements.

   Recommendation: We recommend the College to revisit long outstanding liabilities and determine appropriate action to provide relevant financial report.

SECTION II – OTHER MATTERS, CONTINUED

7. Inconsistency with Student's Birth Certificate versus Official School Data

Comment: The student name on birth certificate did not match the name in the student aid report generated by Financial Aid for two students (reference nos. 8851648 and 5190472).

Recommendation: We recommend that the College continue to verify the accuracy of official school information and citizenship documentation.

8. Financial Aid Checklist

Comment: The Financial Aid eligibility determination checklist was not present in several student files.

Recommendation: We recommend that the College enforce utilization of this checklist during the eligibility determination period.

9. Textbooks Purchases

Comment: The College's textbook procurement process does not include documentation indicating concurrence among teachers within the same curriculum on the selection of textbooks to be purchased.

Recommendation: We recommend the College consider enhancement of textbook procurement process documenting consultation and concurrence among teachers within the same curriculum on the selection and use of particular textbooks prior to purchase.

10. Foundation

Comment: The Foundation's audited financial statements and Form 990 covering the year ended December 31, 2014 were not provided. An approved Form 8868, Application for Extension of Time to File an Exempt Organization Return was provided on June 18, 2015.

Recommendation: The College should timely request annual audited financial statements and Form 990 submission from the Foundation.

11. Financial Reporting

Comment: Financial statements are not timely prepared.

Recommendation: We recommend that monthly reporting is performed so that relevant financial information is available.

SECTION III – DEFINITIONS

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 College of Micronesia-FSM 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.