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May 31, 2018

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, 2017 (on which we have issued our report dated May 31, 2018), 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, 2017 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated May 31, 2018, 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.

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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 (the College) internal control over financial reporting as of September 30, 2017 that we wish to bring to your attention:

1. Cash

   Comment: The following cash-related matters were noted:

   - Bank reconciliations included $25,509 of stale-dated outstanding checks.
   - The bank reconciliation (GL 1404 at September 30, 2017) has unrecorded expense transactions of $2,039. The reconciliation has an unreconciled variance of $6,093. As the amount is not considered material to the financial statements, no audit adjustment was proposed.
   - State campuses performed year-end cash counts of imprest funds. However, actual balances were not adjusted in the general ledger.

   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. Tuition Receivables

   Comment: At September 30, 2017, approximately 60% of tuition receivables have been provided with an allowance which is a 5% increase over the prior year. During the year ended September 30, 2017, $548,797 of the allowance was written-off as a result of reconciliation between the subsidiary and the general ledger.

   Recommendation: The College should continue to assess long outstanding receivables and determine appropriate resolution.

3. Inventory

   Comment: The following inventory matters were noted:

   - Obsolete bookstore items were provided with an allowance of $30,737 and were not included in the general ledger at September 30, 2017. Since the amount is not considered material to the financial statements, no audit adjustment was proposed. However, we recommend management determine appropriate action for disposal of obsolete items.
   - A variance of $38,173 was noted between the inventory valuation report and the general ledger at September 30, 2017. As the amount is not considered material to the financial statements, no adjustment was proposed.

   Recommendation: We recommend management perform periodic review of subsidiary and general ledger reconciliations.

4. Prepayments

   Comment: As of September 30, 2017, prepayments of $88,943 have been outstanding for over a year.

   Recommendation: The College should review and timely reconcile prepayments.

SECTION I –DEFICIENCIES, CONTINUED

5. Fixed Assets

   Comment: The following fixed assets matters were noted:

   - Five fully depreciated assets (asset id #01073, 02164, 02647, 03605, 01325) were not operable or have been disposed of and should have been removed from the September 30, 2017 fixed asset register.

   - Three assets (asset id #5817, 05059, 03790) lacked tag numbers.

   - The existence of two fully depreciated assets (id #03499 and 05154) could not be verified through physical inspection or photograph.

   - An annual software license fee was improperly capitalized.

   Recommendation: The College should perform fixed asset physical verification and the fixed asset register should be updated.

6. Travel Advances

   Comment: Travel advances have a net balance of $100,321 at September 30, 2017. Of that total, $93,134 has been outstanding for over a year.

   Recommendation: We recommend that travel advances be timely liquidated.

7. Other Liabilities

   Comment: An unrestricted fund clearing account of $806,388 was not timely reconciled at year-end. An adjustment to correct this matter was recorded during the audit process.

   Recommendation: General ledger accounts should be regularly analyzed and reconciled.

8. Unreconciled Interfund Balances

   Comment: Interfund balances contained an unreconciled credit amount of $538,365 as of September 30, 2017. An adjustment of $596,217 was proposed during the audit process that resulted in a remaining unreconciled interfund receivable of $57,852. As the unreconciled variance is not material to the financial statements, no related adjustment was proposed.

   Recommendation: The College should timely analyze interfund and receivable accounts.

9. Operating Expenses

   Comment: Procurement documentation for an economic impact study did not indicate whether proposals from other qualified consultants were solicited. Furthermore, the agreed timeline for the final report has not been met. Invoice #0917b dated September 24, 2017 includes an airfare charge of $2,655 without adequate support.

   Recommendation: We recommend management improve documentation related to its procurement process. We also recommend management consider revisiting on-going contract service agreements.

SECTION I –DEFICIENCIES, CONTINUED

10. Procurement

Comment: The following purchase orders lack adequate competitive procurement process documentation.

PO Number	Amount
PO17-00180	$ 1,468
PO17-00287	8,103
PO17-00593	3,000
PO17-04081	4,031

Recommendation: We recommend that the College comply with its procurement policy. Management may wish to consider documenting fuel purchase agreements in formal agreements.

11. Journal Entries

Comment: JV17-067 did not indicate the signature of a preparer and a reviewer. An attendant understatement of $16,056 was noted. As the amount was not material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend management perform and document journal entry reviews.

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. Other Receivables

Comment: Restricted Fund GL account 2593 has a credit balance of $59,160 at September 30, 2017. Related accruals were recorded in the Restricted Fund GL 2598 of $50,987 and in the Unrestricted Fund GL 2598 of $11,815.

Recommendation: We recommend that receivable balances be reconciled.

2. Unearned Revenues

Comment: An unearned revenue balance of $88,397 has not moved since the prior year and has marginally increased over the past 5 years. The account has not been regularly monitored for accuracy.

Recommendation: We recommend periodic monitoring of the account and timely reversals of deferred income to appropriate revenue accounts.

SECTION III – DEFINITION

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

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.