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May 5, 2017

Dr. Theresa Koroivulaono
President
College of the Marshall Islands

Dear Dr. Koroivulaono:

In planning and performing our audit of the financial statements of the College of the Marshall Islands (the College) as of and for the year ended September 30, 2016 (on which we have issued our report dated May 5, 2017), 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, 2016 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated May 5, 2017, on our consideration of the College'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 management, the Board of Regents, others within the organization, and the Office of the Auditor-General 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 the College for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving the College's internal control over financial reporting as of September 30, 2016 that we wish to bring to your attention:

Due to/from Grantors

Twelve (12) non-moving/inactive accounts were noted during a comparison of prior year and current year ending balances, which were not timely assessed, monitored and closed out to the appropriate account. Due to/from Grantor Agencies account included one debit balance of $2,396 and eleven credit balances aggregating $168,313. We recommend that the College perform a more robust assessment of the inactive/nonmoving Due to/from Grantor balances and establish procedures to determine if grants are completed and are timely closed out.

Journal Entries

The College has not established policies and procedures that indicate which type of journal entries should be forwarded to the Chief Financial Officer (CFO) for review and approval. Further, independent review of payroll reports is not evident. Specifically, 5 of 9 journal entries tested did not reflect evidence of review and approval prior to posting. We recommend that the College establish policies and procedures that specify the journal entry transaction types that will be provided to the CFO for review and approval. This matter was discussed in our previous letters to management in the 2008 through 2015 audits.

Inventory

Variances in unit costs of 2 of 10 inventory items tested resulted from incidental costs related to inventory purchases, such as port fees, not being included in inventory cost calculations. Further, 2 of 10 inventory test counts noted discrepancies in quantities due to a lack of independent verification of initial counts. We recommend that the College strengthen procedures over inventory unit cost calculations. We further recommend that the College strengthen inventory count procedures by including verification of initial counts.

Procurement

Procurement documents evidencing full and open competition or vendor selection were not provided for two purchases (PO#16-00162, PO#15-01323). We recommend that the College strengthen procedures over the procurement process.

RepMar Appropriations and Small Grants

Tests of restricted revenue noted differences between amounts recorded by the College and confirmations received. We recommend that the College perform regular and timely reconciliations.

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:

Cash

One check annotated on the bank reconciliation was identified to be an invalid reconciling item. We recommend that the College strengthen procedures in determining bank reconciling items.

Fixed Assets

Tests of fixed assets noted the following:

1. The following assets were not located, were not operational, or were replaced but were included in the fixed asset register as of September 30, 2016:

LINE #	ASSET TYPE	Asset Description	Cost
407	FQ	GOTCHA OLIVE SOFA LOVE SEAT	$ 650
534	FQ	NEC MULTISYNC LCD4620 46" MONITOR	$ 4,888
1041	FQ	VERSATABLE REVOLUTION COMPUTER DESK	$ 749
1293	FQ	10t Chiller Unit	$ 12,120
1910	FQ	9K BTU Split Unit Aircondition	$ 1,417
2013	FQ	Shelving Case Style Double Face Adder 76 1/4 X 48W X 18"D	$ 449

2. Three assets did not have a CMI tag or serial number traceable to the fixed asset register. See summary below:

Line #	Asset Type	Asset Description	COST
2552	FQ	36K BTU Inverter Split Unit A/C	$ 1,995
614	FQ	CRUNDFOGS 30HP WATER PUMP	$ 16,311
705	FQ	RH20 WARDROBE, WCR,HK 3 DRAWER, RH	$ 942

We recommend that the fixed asset register be updated and be regularly monitored for current and potential disposals. Additionally, we recommend that all assets be tagged and when not practicable, tag numbers be maintained with the related purchase order.

SECTION II - OTHER MATTERS, CONTINUED

Accounts Receivable

Tests of accounts receivable noted the following:

1. An adjustment for a course load adjustment during add/drop week for one student (ID# 237532; Semester: Fall 2015) was not made until after year-end.

2. One student's (ID# 239873; Semester: Fall 2015) receivable was not properly aged based on enrollment date.

3. $67,591 of $95,713 in AR-Employees are aged in the prior years (2011-2015). Partial close out of the clearing account was performed in February 2017 through a College provided adjusting journal entry.

We recommend that the College establish better coordination between the Registrar's Office and the Business Office and determine that charges for withdrawn students or course load adjustments are timely recorded/adjusted. Further, we recommend that the College continue to strengthen procedures to determine that receivables are correctly aged. Lastly, we recommend that the clearing account be periodically monitored and be closed out to appropriate accounts by year-end.

Prepaid Expenses

Approximately $66,909 of $160,555 of prepaid expenses relate to prior years (2000-2015). We recommend that all old prepaid expenses be periodically assessed for validity and the account be properly and timely adjusted to the appropriate expense accounts.

Segregation of Duties – Payroll Masterfile Authorization

Payroll processing personnel are authorized to make changes and to edit employee wage rates without approval from management. We recommend that edits to wage rates performed by payroll personnel be approved by non-Payroll section management. This matter was discussed in our previous letters to management in the 2013 and 2015 audits.

Accounts Payable

Per the accounts payable aging schedule, seven vendor payable balances are aged between one to seven years old aggregating $56,355. We recommend that aged vendor payables be assessed for validity and be regularly monitored.

SEFA Preparation

The Schedule of Expenditures of Federal Awards (SEFA) was not timely updated and completed. We recommend that the SEFA be timely updated and completed.

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

The College'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.