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December 29, 2020

Dr. Irene Taafaki
President
College of the Marshall Islands

Dear Dr. Taafaki:

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, 2019 (on which we have issued our report dated December 29, 2020), 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, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated December 29, 2020, 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, 2019 that we wish to bring to your attention:

1. Journal Entries

We noted journal entries made during the financial reporting closing process for September 30, 2019 which are:

(a) Multiple entries made to record and adjust a vendor payment; however, net effect is incorrect.

(b) Payables amounting to $10,670 were reversed but were valid payables as of year-end.

Such were adjusted during the audit process.

We recommend the College adopt stricter internal control policies and procedures regarding posting of transactions and review of journal entries. This matter was discussed in our previous letters to management in the 2008 through 2018 audits.

2. Interest Income

During the year ended September 30, 2019, we noted that the College:

(a) Recorded interest income from time certificate of deposits (TCDs) at the date of credit resulting in a $32,303 understatement of interest income; and

(b) Recorded, during the financial reporting closing process, additional deposits to TCDs as interest income resulting in a $105,000 overstatement of interest income.

Such were adjusted during the audit process.

We recommend the College review the posting of transactions, including interest accruals.

3. Collection Receipts

During the year ended September 30, 2019, we noted the following:

(a) A $43,440 check (Check # 170190) was deposited one business day after the next banking day; and

(b) A $47,800 check (Check # 14761) was deposited nine business days after the next banking day.

We recommend the College establish policies and procedures requiring that cash collections be timely deposited on the next banking day.

4. Inter-department Transactions

During the year ended September 30, 2019, departmental transfers-in/out of bookstore supplies amounting to $107,218 were recorded as revenues and expenses. Internal transactions and services between the College and its auxiliary enterprises (bookstore) shall be eliminated per GASB 34 and the Implementation Guide (GQA34B - No. 128). As the misstatement was not considered material to the financial statements, no audit adjustment was proposed. We recommend the College monitor departmental transfers of supplies and require elimination of such entries at year end as part of the financial reporting closing process.

SECTION I – DEFICIENCIES, CONTINUED

4. Purchase Orders

Our tests of College expenses resulted in the following exceptions:

(a) A $5,000 check (Check # 22177) was paid without a corresponding approved purchased order (PO).

(b) A $5,000 PO (PO#19-PO2201) was incorrectly voided by the AP accountant in the system.

(c) Purchase of a $3,309 airplane ticket (Check #s 19949 and 19950 dated 11/25/2018) exceeded the PO amount.

We recommend the College review the process of PO approval and deobligation. Further, we recommend the College review amounts reflected in POs prior to approval.

5. Accrual of Purchases

A $173,928 purchase of books per PO#18-2120 dated 05/21/2018 and an invoice dated 05/29/2018, which were received in August 2018, were not accrued in 2018. Instead, the College recorded the purchase on 11/14/2018, the payment date. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.

We recommend the College establish policies and procedures requiring timely recording of transactions in the correct accounting period.

6. Receivables

The student tuition aging report included an invalid $189,388 credit balance. College management subsequently recorded an adjustment to correct this error.

We recommend the College implement internal control procedures to facilitate a timely and accurate receivable reconciliation process.

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. RMI Withholding and MISSA Social Security Taxes

The College filed and paid income taxes withheld in a manner inconsistent with 48 MIRC Chapter 1, Income Tax Act of 1989, Section 105.

Examination of employer's Withholding tax returns (Form 1178) indicated the following:

Payroll period	Date Filed	Date Paid
03/26/19 - 04/22/19	05/22/2019	05/28/2019
06/18/19 - 07/15/19	08/06/2019	08/19/2019
09/10/19 - 10/07/19	08/03/2020	08/03/2020

SECTION II - OTHER MATTERS

1. RMI Withholding and MISSA Social Security Taxes, Continued

Further, we noted the following regarding employers' Withholding taxes:

Payroll period	Date Paid
09/10/18 - 10/07/18	11/19/2018
01/29/19 - 02/25/19	05/15/2019
02/26/19 - 03/25/19	10/21/2019
04/23/19 - 05/20/19	06/06/2019
05/21/19 - 06/17/19	07/08/2019
07/16/19 - 08/12/19	09/16/2019

Form 1178 is due within two weeks following the preceding four week pay period. The College was noncompliant with this requirement.

Examination of employer's Social Security quarterly tax returns for contributions withheld indicated the following:

QTR ending	Date Paid
03/31/2019	04/25/2019
06/30/2019	08/02/2019
09/30/2019	10/21/2019

The MISSA tax deadline is the 10th of the first month of the following quarter. The College was noncompliant with this requirement.

We recommend the College file and timely remit RMI withholding and MISSA tax payments in accordance with the respective established requirements. Further, we recommend tax returns be reviewed prior to filing.

This matter was discussed in our previous letters to management in the 2017 and 2018 audits.

2. RMI Procurement Code

RepMar's Procurement Code states the following:

(a) Section 126.7 - Award shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to the Government taking into consideration price and the evaluation factors set forth in the Request for Proposals. No other factors or criteria shall be used in the evaluation. The contract file shall contain the basis on which the award is made.

(b) Section 127 - Procurement of goods and services not exceeding $25,000 may be made in accordance with small purchase procedures promulgated by RepMar's Policy Office. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than $25,000. RepMar's Ministry of Finance has previously declared that if small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

(c) Section 128 - a contract may be awarded for supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

(d) Section 129 - Notwithstanding any other provision of this Chapter, the Chief Procurement Officer, the head of a Purchasing Agency, or a designee of either officer may make or authorize others to make emergency procurement when there exists a threat to public health, welfare, or safety under emergency conditions as defined in regulations promulgated by the Policy Office; provided, that such emergency procurement shall be made with such competition as is practicable under the circumstances.

SECTION II - OTHER MATTERS, CONTINUED

2. RMI Procurement Code, Continued

Tests of compliance with local procurement requirements indicated the following:

(a) A $173,928 purchase of books per PO#18-2120 dated 05/21/2018 and the invoice dated 05/29/2018 was processed with various price quotations and price comparison sheets indicating the selected vendor as the lowest bidder; however, no competitive sealed bidding process was utilized by the College. Further, updated written documentation of the basis of emergency purchase and vendor selection was not provided. The above purchase does not appear to constitute an emergency condition, but appears to indicate a lack of planning as to timing of purchasing books.

(b) The following airline ticket purchases were acquired without consideration of the most economical airfare. Details as follows:

Route	**Cost**
Majuro to Philadelphia v.v	$ 7,627
Majuro to Iowa v.v	7,427
Majuro to Atlanta v.v	3,309
Total	$ 18,363

(c) The College has an internal procurement guideline/policy that no quotations are required to process and approve travel authorizations (TAs). However, no signed policy manual was provided. Thus, the policy contradicts RepMar's policy on small item purchases, wherein price or rate quotations shall be obtained from an adequate number of qualified sources.

We recommend the College establish adequate internal control policies and procedures requiring compliance with the RepMar's Procurement Code documenting the procurement rationale.

3. Inventory

At September 30, 2019, inventory items were assigned costs inconsistent with the first-in first-out inventory (FIFO) costing method. Books (142 pieces) were assigned unit costs based on invoice prices per the latest invoice of 100 books purchased resulting in a $546 overstatement. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed. We recommend the College consistently apply the FIFO method and review the Inventory Report costing computation as part of the financial reporting closing process.

4. Capital Assets

Tests of capital assets noted the following:

1. The following capital assets did not have a College tag or serial number traceable to the capital asset register:

Line #	Asset Type	Asset Description	Cost
804	FQ	SMA SOLAR TECH DC-DISCONNECT INVERTER	$ 51,111
1336	FQ	Water Supply Pump	$ 23,282
54	FQ	POLYCOM VIEWSTATION	$ 6,566

SECTION II - OTHER MATTERS, CONTINUED

4. Capital Assets, Continued

2. The following capital assets are tagged with an incorrect College tag number or were tagged but not reflected in the capital asset register:

Line #	Asset Type	Asset Description	Cost
-	VE	Vehicle Kia Flatbed	$ 19,995
-	FQ	Studio HD550 4K	$ 11,995
-	CP	SlingStgudio CameraLink-Wireless Video Connectivety	$ 6,092
18	FQ	FIREPROOF FILE CABINET(2)	$ 1,638
1325	FQ	Generator Plenum	$ 22,611
54	FQ	POLYCOM VIEWSTATION	$ 6,566

3. Tests of disposals indicated that disposal forms for the following capital assets did not have a College tag or serial number traceable to the capital asset register:

Line #	Asset Type	Asset Description	Cost
1097	FQ	Scissorlift Machine	$ 8,250

4. Test of disposals indicated that disposal forms for the following capital assets were not timely prepared and approved:

Line #	Date Disposed	Asset Description	Cost
274	10/23/2019	ROSA 34-SEATER BUS	$ 49,850
1097	04/14/2020	Scissorlift Machine	$ 8,250

5. Examination of the capital assets register indicated that prior year assets with status of 'obsolete' and adjustments are included in the register.

We recommend that capital assets be tagged and, when not practicable, tag numbers be maintained with the related purchase order. Also, we recommend that capital asset disposals be supported by approved disposal forms. This matter was discussed in our previous letters to management in the 2017 and 2018 audits.

5. Adequacy of Documents

An approved leave form related to annual leave payment (Check # 30419) was not available. We recommend the College require that annual leave payments be retained on file to support financial statement transactions.

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.