

March 31, 2022

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, 2020 (on which we have issued our report dated March 31, 2022) and which report includes explanatory paragraphs regarding a restatement, going concern, grantor agency receivables and payables, and the impact of COVID-19, 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. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies and other matters related to the College's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated March 31, 2022, 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 that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants.

The definition of a deficiency is also set forth in the attached Appendix I.

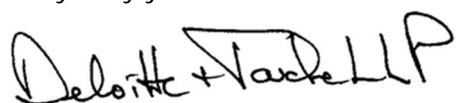
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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



## SECTION I - DEFICIENCIES

We identified, and have included below, deficiencies involving the College's internal control over financial reporting as of September 30, 2020 that we wish to bring to your attention:

### 1. Journal Entries

Journal entries were recorded during the September 30, 2020 financial reporting closing process to the following accounts that were both unsupported and unexplained:

GL Code	GL Name	Debit
2075	Other Payables - Meal Charges	\$ 76,836
2071	Other Payables	\$ 1,350

We recommend the College establish internal control policies and procedures over the posting and review of journal entries. This matter was discussed in our previous letters to management in the audits for fiscal years 2008 through 2019.

### 2. Collection Receipts

During the year ended September 30, 2020, we noted the following:

- (a) A \$3,000 check (OR# 49299) was deposited 31 business days after the next banking day;
- (b) A \$3,460 check (OR# 47765) was deposited 3 business days after the next banking day; and
- (c) A \$11,600 check (OR# 47570) was deposited 6 business days after the next banking day.

We recommend the College establish internal control policies and procedures requiring that cash collections be timely deposited. This matter was discussed in our previous letter to management in the audits for fiscal year 2019.

### 3. Inter-department Transactions

During the year ended September 30, 2020, departmental transfers-in/out of bookstore supplies amounting to \$82,053 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 (GOA34B - 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. This matter was discussed in our previous letter to management in the audits for fiscal year 2019.

### 4. Recordation of Expenses

Tests of College expenses resulted in the following exceptions:

- (a) Water utilities totaling \$10,309 relating to 2019 billings were not accrued in the prior year but were recorded in 2020.
- (b) Book purchases totaling \$31,132 received in 2019 were not accrued in the prior year but were recorded in 2020.
- (c) Prepaid supplies purchases totaling \$31,288 received in 2021 were expensed in the current year.

As the misstatements were not considered material to the financial statements, no audit adjustments were proposed.

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

## SECTION I - DEFICIENCIES, CONTINUED

5. Adequacy of Documents

(a) A vendor invoice to support travel expense (Check # 22922 for \$1,338) was not available.

(b) Purchase orders were not available for the following:

Expense	Ck#	Amount
Travel	1027272	\$17,143
Consultancy/Professional Fees	1026887	\$8,250
Contractual Services	22811	\$8,000
Travel	22922	\$5,237

(c) Purchase order, vendor invoice, check payment and procurement documents for a \$23,470 capital asset purchase were not available.

(d) An approved timesheet to support student wage expense (Check # 17322 for \$489) was not available.

We recommend the College establish internal control policies and procedures requiring that all financial statement transactions be adequately supported.

6. Monitoring of Purchases

A \$31,288 supplies purchase (Purchase Order # 20-PO-2340) with attendant receiving report did not match the corresponding vendor invoice (Invoice # 21-12984) of \$17,915. We recommend management establish internal control policies and procedures to facilitate the monitoring of purchases.

## 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. Financial Management Act of 1990

Section 146 (Subsection 1) of Financial Management Act of 1990 states that for vendors located in Republic of Marshall Islands, checks for bills of materials, supplies and incidentals of every kind and character, shall be made payable to the order of each individual person to whom the Republic is indebted, except for assignment of monies approved by the Secretary of Finance per Section 148 of the same Act, but only after an invoice and purchase order have been presented and certified that the materials, supplies, and incidentals have been received.

During the year ended September 30, 2020, we noted prepayments of \$14,703 to various local vendors. We recommend the College comply with the Financial Management Act.

2. Financial Consultants

In 2020, the College contracted foreign national Financial Consultants as independent contractors, which may not comply with local labor laws and regulations. The Office of the Attorney General subsequently issued a memorandum prohibiting foreign nationals from contracting with government agencies unless applicable labor laws and regulations are adhered to. We recommend management comply with local labor laws and regulations in contracting with foreign nationals.

## SECTION I - OTHER MATTERS, CONTINUED

3. Board Sitting Fees

During the year ended September 30, 2020, the College paid sitting fees of \$15,225 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by the College. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

4. 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.

Tests of compliance with local procurement requirements indicated the following:

- (a) Procurement of book purchases was not supported by competitive sealed bid or another appropriate procurement methodology; thus, the following purchases appear to have been sole sourced without written justification:

PO#	Invoice#	Invoice Date	Amount
19-PO-2480	S0942749	05/31/2019	\$ 1,133
	S0942906	06/03/2019	27,854
	S0943986	06/14/2019	2,144
			\$ <u>31,131</u>
20-PO-1065	S0960238	11/07/2019	\$ 4,298
	S0960239	11/07/2019	144,853
			\$ <u>149,151</u>
20-PO-1965	S0979757	06/10/2020	\$ 21,801
	S0979758	06/10/2020	28,777
	S0979842	06/11/2020	1,110
			\$ <u>51,688</u>

## SECTION II - OTHER MATTERS, CONTINUED

4. RMI Procurement Code, Continued

- (b) Supporting procurement documentation was inadequate to evidence compliance with small purchase procedures or competitive sealed bid justifying the rationale for vendor selection:

GL Account	PO Number	Amount
Insurance - Group Life Insurance	20-PO-1027	\$129,502
Consultancy/Professional Fees	Service Contract	\$30,000
Materials/Supplies	20-PO-1803	\$21,850
Materials/Supplies	20-PO-1908	\$23,508
Building Improvement	20-PO-1500	\$19,317
Travel	No PO	\$17,143
Travel	No PO	\$5,237

We recommend the College establish adequate internal control policies and procedures requiring compliance with the RepMar's Procurement Code documenting the procurement rationale. This matter was discussed in our previous letter to management in the audits for fiscal year 2019.

5. 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
09/10/2019 - 10/07/2019	08/03/2020	10/30/2020
12/03/2019 - 12/31/2019	01/16/2020	01/16/2020
01/01/2020 - 01/28/2020	02/18/2021	02/19/2021
06/18/2020 - 07/15/2020	07/29/2020	09/11/2020
07/16/2020 - 08/12/2020	10/16/2020	10/16/2020
08/13/2020 - 09/09/2020	09/23/2020	10/16/2020
09/10/2020 - 10/07/2020	10/23/2020	10/23/2020

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
06/30/2020 Supplemental	07/13/2020
09/30/2020	10/16/2020
09/30/2020 Supplemental	10/28/2020

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. This matter was discussed in our previous letters to management in the audits for fiscal years 2017 through 2019.

## 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.