

*Management Letter*

**College of the Marshall Islands**

(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2021*



September 26, 2024

The Board of Regents  
College of the Marshall Islands

In planning and performing our audit of the financial statements of the business-type activities of College of the Marshall Islands (the College) as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* 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 *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

### **Inter-department Transactions**

Condition: During the year ended September 30, 2021, departmental transfers-in/out of bookstore supplies amounting to \$147,172 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.

Recommendation: 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.

### **Recordation of Expenses**

Condition: Tests of College expenses resulted in the following exceptions:

- a. Certain telephone/internet utility expense totaling \$51,746, which related to 2020 billings, was expensed in 2021 while other telephone/internet utility expense totaling \$65,768, which related to 2021 billings, was recorded in 2022. As the net misstatement was not considered material to the financial statements, no audit adjustment was proposed.
- b. Electric utility expense totaling \$53,629, which related to 2020 billings, was expensed in 2021. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.
- c. Inter-account transfer of funds totaling \$275,000 was improperly recorded as expense and revenues. An audit adjustment was proposed to correct this misstatement.
- d. Grant related expense totaling \$280,500 was recorded in the incorrect GL expense account. An audit adjustment was proposed to partially correct this misstatement and remaining misstatement was not considered material to the financial statements.
- e. Prepaid supplies purchases totaling \$38,640, which was received in 2022, was expensed in 2021. An audit adjustment was proposed to correct this misstatement.
- f. Equipment purchases totaling \$97,979 were improperly recorded as expense and were not capitalized in 2021. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.
- g. Prepaid subscription totaling \$26,938, which relates to 2022, was expensed in 2021. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.
- h. Electric utility expense totaling \$51,911 was recorded in the incorrect GL expense account. An audit adjustment was proposed to correct the classification.

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

### **Monitoring of Purchases**

Condition: A \$31,506 materials purchase (Purchase Order # 22-PO-2607), which related to 2020 invoices, was recorded and capitalized in 2021. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend management establish internal control policies and procedures to facilitate the monitoring of purchases and the recording of transactions in the correct accounting period.

### **Adequacy of Documents**

Condition: The following documentation matters were noted:

- a. An approved timesheet to support student wage expense (Check # 47641) was not available.
- b. Purchase orders were not available for the following:

<b>Expense</b>	<b>Ck/ Wire #</b>	<b>Amount</b>
Utilities	1034144	\$38,732
Small Tools	1031916	\$20,074
Contractual Services	5137071	\$97,884
Materials/ Supplies	1028796	\$1,632

- c. Journal voucher relating to JV#21ADJ354 with document no. 354-001 and related supporting documentation for a recorded other expense amounting \$48,627 was not available.
- d. A vendor invoice to support subscription expense (Wire transfer #4884842 with PO# 21-PO-897) for \$84,238 was not available.
- e. Personnel Action Forms or employee contracts for five employees were not available.
- f. A Memorandum of Agreement with a landowner relating to a housing project was not available.
- g. A vendor invoice to support furniture and equipment purchase (Check #1028057 with PO# 21-PO-1349) for \$800 was not available.
- h. Detailed expenditure report to support recorded grant received/collected amounting \$160,873 was not available.

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

### **Reconciliation of Vendor Accounts**

Condition: Test of accounts payable indicated a recorded payable to a vendor (\$38,965) did not match the corresponding vendor statement (\$52,660). No reconciliation was provided during the audit. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend management establish internal control policies and procedures to facilitate timely reconciliation of vendor accounts.

### **Inventory Valuation**

Condition:

The Colleges' accounting policy states that inventory is valued at the lower of cost (first-in, first-out) or market value. An inventory item with item code #9780134469294 with a total recorded cost of \$22,060 was valued in a manner inconsistent with the accounting policy.

Recommendation:

We recommend management establish internal control policies and procedures to facilitate consistent inventory valuation.

### **Financial Management Act of 1990**

Condition:

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, 2021, we noted prepayments of \$40,894 to various local vendors.

Recommendation:

We recommend the College comply with the Financial Management Act.

### **Board Sitting Fees**

Condition:

During the year ended September 30, 2021, the College paid sitting fees of \$9,975 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.

Recommendation:

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.

### **RMI Procurement Code**

#### **Condition:**

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:

<b>PO#</b>	<b>PO Amount</b>	<b>Invoice#</b>	<b>Invoice Date</b>	<b>Amount Tested</b>
21-PO-205	\$151,482	S0995809	11/09/2020	\$ <u>77,412</u>
21-PO-1276	\$57,646	S1015190	06/07/2021	\$ 37,891
		S1015191	06/07/2021	17,395
		S1015345	06/09/2021	1,575
		S1020962	08/10/2021	<u>783</u>
				\$ <u>57,644</u>
21-PO-286	\$235,802	36287	11/13/2020	\$ <u>49,136</u>

**RMI Procurement Code, continued**

Condition, continued:

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

<b>GL Account</b>	<b>PO Number</b>	<b>PO Amount</b>	<b>Amount Tested</b>
Small Tools	21-PO-1068	\$21,663	\$17,178
Small Tools	21-PO-847	\$19,840	\$19,840
Small Tools	No PO	No PO	\$20,074
Small Tools	21-PO-1443	\$8,566	\$8,566
Small Tools	21-PO-1548	\$1,990	\$1,990
Subscriptions/Periodicals	21-PO-897	\$101,663	\$84,238
Subscriptions/Periodicals	21-PO-1320	\$58,455	\$58,455
Subscriptions/Periodicals	21-PO-1365	\$46,179	\$46,179
Subscriptions/Periodicals	21-PO-348	\$2,000	\$2,000
Supplies	21-PO-1741	\$19,198	\$19,198
Supplies	21-PO-940	\$7,136	\$1,080
Contractual Services	21-PO-1197	\$10,000	\$3,500
Building Improvement	20-PO-1690	\$15,965	\$15,965
Building Improvement	21-PO-1700	\$15,100	\$11,325
Building Improvement	22-PO-2607	\$33,984	\$8,319
Furniture & Equipment	No PO	No PO	\$795
Others	21-PO-427	\$17,200	\$12,599
Others	21-PO-242	\$1,132	\$67

Recommendation:

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

**RMI Withholding and MISSA Social Security Taxes**

Condition:

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:

<b>Payroll period</b>	<b>Date Filed</b>	<b>Date Paid</b>
09/10/2020 - 10/07/2020	10/23/2020	10/23/2020
10/08/2020 - 11/04/2020	11/25/2020	11/25/2020
12/03/2020 - 12/31/2020	01/20/2021	01/20/2021
01/01/2021 - 01/28/2021	Compliant	02/12/2021
04/23/2021 - 05/20/2021	06/07/2021	06/08/2021
07/16/2021 - 08/12/2021	08/27/2021	08/27/2021

### **RMI Withholding and MISSA Social Security Taxes, continued**

#### **Condition, continued:**

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 quarter ended 12/31/2020 was paid on 01/19/2021 and 01/21/2021. The MISSA tax deadline is the 10th of the first month of the following quarter. The College was noncompliant with this requirement.

Further, \$58,113 of MISSA tax for the month of September 2021 was not paid/ remitted.

#### **Recommendation:**

We recommend the College file and timely remit RMI withholding and MISSA tax payments in accordance with the respective established requirements.

### **Christmas Related Expense**

#### **Condition:**

During the year ended September 30, 2021, the College paid Christmas bonuses totaling \$49,750 to employees. These fees lack appropriate authorization from the Board of Regents. Furthermore, these fees may constitute wages under the Income Tax Act 1989 and thus may be subject to withholding taxes. No withholding taxes were withheld by the College. Also, these payments may constitute earnings under the Social Security Act and thus may be subject to required employer matching contributions. No employer matching contribution were paid by the College.

#### **Recommendation:**

We recommend management obtain appropriate authorization from the Board of Regents relating bonuses. Furthermore, we recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation and Marshall Islands Social Security Administration concerning the applicability of withholding taxes and the applicability of employer matching contributions, respectively, on bonuses paid to employees.



\*\*\*\*\*

This communication 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of the College for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

*Ernst + Young LLP*