

*Financial Statements and Reports on Internal Control
and Compliance*

College of the Marshall Islands

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

Year ended September 30, 2022

with Report of Independent Auditors



**Shape the future
with confidence**

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

Financial Statements and Reports on Internal Control and Compliance

Year ended September 30, 2022

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Report of Independent Auditors

Board of Regents
College of the Marshall Islands

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of the business-type activities of College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

We do not express an opinion on the accompanying financial statements of the College. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The College was unable to provide adequate accounting records supporting the amounts for student accounts receivable (stated at \$2,653,627), federal grants receivable (stated at \$1,215,487), federal grants payable (stated at \$3,384,740), and accounts payable (stated at \$995,744) in the accompanying statement of net position at September 30, 2022. As a result of these matters, we were unable to obtain sufficient appropriate audit evidence to support the completeness, existence, accuracy and classification of these balances and whether any adjustments to these balances or related financial statement items were necessary.

Furthermore, as discussed in Note 3 to the financial statements, the College has not implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The amount by which these matters would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities of the College is not reasonably determinable.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the College's financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*) and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of the College and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2025, 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 purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an engagement to conduct an audit in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Ernst + Young LLP

October 3, 2025

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

Statement of Net Position

September 30, 2022

ASSETS

Current assets:

Cash and cash equivalents	\$ 347,834
Time certificates of deposit	3,375,845
Student accounts receivable, net of allowance for doubtful accounts of \$3,096,816	2,653,627
Other receivables, net	582,557
Federal grants receivable	1,215,487
Prepaid expenses	183,232
Inventory	<u>606,583</u>
Total current assets	<u>8,965,165</u>

Noncurrent assets:

Investments	1,940,624
Deposits for capital asset acquisitions	1,321,491
Capital assets:	
Nondepreciable capital assets	402,153
Capital assets, net of accumulated depreciation	<u>8,449,785</u>
	<u>8,851,938</u>
Total noncurrent assets	<u>12,114,053</u>
Total assets	\$ <u><u>21,079,218</u></u>

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	\$ 995,744
Withholding taxes payable	13,126
Social security taxes payable	410,224
Student refunds payable	253,377
Federal grants payable	3,384,740
Accrued liabilities	489,182
Unearned revenue	<u>2,091,416</u>
Total current liabilities	<u>7,637,809</u>

Commitments and contingencies

Net position:

Net investment in capital assets	8,851,938
Restricted:	
Endowment - nonexpendable	1,940,624
Unrestricted	<u>2,648,847</u>
Total net position	<u>13,441,409</u>
Total liabilities and net position	\$ <u><u>21,079,218</u></u>

See accompanying notes.

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

Statement of Revenues, Expenses and Changes in Net Position

Year ended September 30, 2022

Operating revenues:	
Student tuition and other fees	\$ 7,617,797
Less: Scholarship discounts and allowances	(7,504,155)
	113,642
Private gifts, grants and donations - restricted	382,831
Quarantine facilities fee	285,473
Other	217,075
	<u>999,021</u>
Net operating revenues	
Operating expenses:	
Salaries and employee benefits	8,039,692
Student grants	4,404,901
Student housing, meal and other related	1,449,342
Depreciation	1,431,094
Subscriptions and membership dues	900,285
Books and school supplies	804,587
Travel, representation and entertainment	631,349
Student aid	622,424
Utilities	600,506
Supplies	526,997
Small tools and equipment	511,402
Communication	463,185
Contractual services	379,385
Stipends	254,685
Repairs and maintenance	141,065
Import tax	120,939
Fuel	86,979
Insurance	82,116
Land lease	81,774
COVID-19 vaccine drive related	70,444
Graduation and Christmas related	58,984
Postage and shipping	25,913
Miscellaneous	98,228
	<u>21,786,276</u>
Total operating expenses	
Operating loss	(20,787,255)
Nonoperating revenues (expenses):	
U.S. federal grants	16,817,025
RepMar contributions	3,722,857
Other grants	185,960
Investment loss	(337,257)
	<u>20,388,585</u>
Total nonoperating revenues, net	
Change in net position	(398,670)
Net position at beginning of the year	<u>13,840,079</u>
Net position at end of the year	<u>\$ 13,441,409</u>

See accompanying notes.

College of the Marshall Islands
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Statement of Cash Flows

Year ended September 30, 2022

Cash flows from operating activities:	
Cash received from student tuition and fees	\$ 7,458,113
Other receipts	869,766
Cash payments to suppliers for goods and services	(12,340,947)
Student scholarships paid	(7,498,810)
Cash payments to employees for services	(8,041,899)
Net cash used in operating activities	(19,553,777)
Cash flows from noncapital financing activities:	
Cash received from U.S. federal grants	17,939,026
Cash received from other grants	185,960
RepMar contributions received	3,722,857
Cash provided by noncapital financing activities	21,847,843
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(2,353,656)
Cash flows from investing activities:	
Additions to time certificates of deposit	(350,000)
Purchase of investments	(504)
Cash used in investing activities	(350,504)
Net change in cash and cash equivalents	(410,094)
Cash and cash equivalents at beginning of year	757,928
Cash and cash equivalents at end of year	\$ 347,834
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$(20,787,255)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	1,431,094
Changes in assets and liabilities:	
Student accounts receivable	(527,866)
Other receivables	(10,845)
Prepaid expenses	(10,365)
Inventory	(67,563)
Accounts payable	29,701
Withholding taxes payable	(62,287)
Social security taxes payable	85,057
Student refunds payable	5,345
Accrued liabilities	(6,975)
Unearned revenue	368,182
Net cash used in operating activities	\$(19,553,777)

See accompanying notes.

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

Notes to Financial Statements

Year ended September 30, 2022

1. Organization

On April 1, 1993, College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, was established as an independent institution governed by a Board of Regents appointed by the Republic of the Marshall Islands (RepMar) Cabinet pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). Prior to enactment of the Act, the College was a component of the College of Micronesia (COM). The College operates another program, the Land Grant program, but results of its operations are substantially reported within the financial statements of COM. Therefore, the accompanying financial statements relate solely to those accounting records maintained within the College and do not incorporate any accounts related to its operations that may be accounted for as a separate component of COM.

2. Basis of Presentation

Financial Statement Presentation

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The financial statement presentation required by GASB Statement Nos. 34 and 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows, and replaces the fund-group perspective previously required. Other GASB Statements are required to be implemented in conjunction with GASB Statements 34 and 35. Therefore, the College has also implemented, where applicable, Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statement Nos. 14 and 34*.

To conform to these requirements, equity is presented in the following net position categories:

- Net investment in capital assets: capital assets, net of accumulated depreciation and related debt, plus construction or improvement of those assets.
- Restricted: Nonexpendable net position subject to externally imposed stipulations that require the College to maintain such permanently. Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to the principal.

College of the Marshall Islands
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Notes to Financial Statements, continued

2. Basis of Presentation, continued

Financial Statement Presentation, continued

- Restricted: Expendable net position whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire with the passage of time. As of September 30, 2022, the College has no expendable restricted net position.
- Unrestricted: net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by the action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use for the same purpose, it is the College's policy to use unrestricted resources first, then restricted resources as they are needed.

Basis of Accounting

For financial statement purposes, the College is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under an accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. The College reports as a business-type activity. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents include cash on hand, cash held in demand and savings accounts, and short-term investments in U.S. Treasury obligations with maturity dates within three months of acquisition by the College. Time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position.

Investments

Investments and related investment earnings are reported at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie, the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

College of the Marshall Islands
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Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Receivables

Student accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Other receivables include amounts due from the College of Micronesia, employees and officers, and other sources. Receivables are recorded net of estimated allowance for uncollectible amounts.

The allowance for uncollectible accounts is established through a provision charged to income. Accounts are charged against the allowance when management believes that the collection of the balance is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing balances that may be uncollectible, based on evaluations of collectability and prior loss experience.

Federal Grants Receivable

Reimbursements due to the College for expenditures on federally funded reimbursement and grant programs are reported as federal grants receivable, which are recorded net of estimated allowance for uncollectible amounts.

Prepaid Expenses

Certain payments made to vendors for goods and services reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Inventory

Inventory consists of items purchased for resale at the College's bookstore. Inventory is valued at the lower of cost (first-in, first-out) or market value.

Deposits for Capital Asset Acquisitions

Deposits for capital asset acquisitions represent downpayments to vendors for IT related equipment to be placed into service upon receipt.

Capital Assets

Capital assets with a cost that equals or exceeds \$5,000 are capitalized. Such assets are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets.

College of the Marshall Islands
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Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The College has no items that qualify for reporting in this category.

Unearned Revenue

Unearned revenues include amounts received for tuition, fees, and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences

The College recognizes the cost of accrued annual leave at the time such leave is earned. As of September 30, 2022, the College recorded \$245,002 of accrued annual leave, which is included within the statement of net position as accrued liabilities. The College does not participate in an employee pension plan.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The College has no items that qualify for reporting in this category.

Classification of Revenues and Expenses

The College has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating - Operating revenues and expenses include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) others.

Nonoperating - Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, most federal grants, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as RepMar appropriations and investment income.

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

Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Classification of Revenues and Expenses, continued

Scholarship Discounts and Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition, fees, and other student charges, the College has recorded a scholarship discount and allowance.

Taxes

Corporate profits are not subject to income tax in the Republic of the Marshall Islands. The Government of the Republic of the Marshall Islands imposes a gross receipts tax of 3% on revenues. The College is specifically exempt from this tax.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective dates of GASB Statement No. 84, 89, 90, 91, 92 and 93 by one year and GASB Statement No. 87 by 18 months; however, earlier application of the provisions addressed in GASB Statement No. 95 is encouraged and is permitted to the extent specified in each pronouncement as originally issued. In accordance with GASB Statement No. 95, the College's management has elected to postpone implementation of these statements.

College of the Marshall Islands
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Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

During the year ended September 30, 2022, the College implemented the following pronouncements:

- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 92, *Omnibus 2020*, which enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which increases consistency and comparability related to the reporting of fiduciary component units; mitigates costs associated with the reporting of certain pension plans and other postemployment benefit (OPEB) plans as fiduciary component units; and enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of this statement did not have a material effect on the accompanying financial statements.
- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, which establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The implementation of this statement did not have a material effect on the accompanying financial statements.

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

Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- GASB Statement No. 99, *Omnibus 2022*, which provides clarification guidance on several of its recent statements that address different accounting and financial reporting issues identified during implementation of the new standards and during GASB's review of recent pronouncements. GASB Statement No. 99:
 - 1) Amends guidance in GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requiring that the accounting and financial reporting of Supplemental Nutrition Assistance Program (SNAP) transactions should follow the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 2) Requires disclosures related to nonmonetary transactions, in the notes to financial statements, of the measurement attribute(s) applied to the assets transferred rather than the basis of accounting for those assets. These provisions were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 3) Provides guidance on accounting for pledges of future revenues when resources are not received by the pledging government. The guidance addresses the process of blending a component unit created to issue debt on behalf of a primary government when that component unit is required to be presented as a blended component unit. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 4) Provides clarification of provisions in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.
 - 5) Provides terminology updates related to certain provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and terminology used in GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. These updates were effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

College of the Marshall Islands
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Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Recently Adopted Accounting Pronouncements, continued

- 6) GASB Statement No. 93, *Replacement of Interbank Offered Rates*, which amended GASB Statement No. 53 to address transition away from the London Interbank Offered Rate (LIBOR). GASB Statement No. 99 extends the period during which the LIBOR is considered an appropriate benchmark interest rate to when LIBOR ceases to be determined using methodology in place as of December 31, 2021. This guidance was effective upon issuance and implementation did not have a material effect on the accompanying financial statements.

The College has not implemented GASB Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. Management is unable to ascertain the impact, if any, on the accompanying financial statements.

Upcoming Accounting Pronouncements

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. In accordance with GASB Statement No. 95, GASB Statement No. 91 will be effective for the fiscal year ending September 30, 2023.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 94 will be effective for the fiscal year ending September 30, 2023.

College of the Marshall Islands
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Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Management does not believe that this Statement, upon implementation, will have a material effect on the financial statements. GASB Statement No. 96 will be effective for the fiscal year ending September 30, 2023.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. This Statement contains guidance whose effective dates are in future periods. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 99:

- 1) Modifies guidance in GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, to bring all guarantees under the same financial reporting requirements and disclosures effective for the fiscal year ending September 30, 2024.
- 2) Provides guidance on classification and reporting of derivative instruments within the scope of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the fiscal year ending September 30, 2024.
- 3) Provides clarification of provisions in GASB Statement No. 87 related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives effective for the fiscal year ending September 30, 2023.
- 4) Provides clarification of provisions in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP assets effective for the fiscal year ending September 30, 2023.
- 5) Provides clarification of provisions in GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability effective for the fiscal year ending September 30, 2023.

College of the Marshall Islands
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Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

- 6) Modifies accounting and reporting guidance in GASB Statement No. 53 related to termination of hedge. Guidance is effective for the fiscal year ending September 30, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections - An Amendment of GASB Statement No. 62*. This Statement enhances accounting and financial reporting requirements for accounting changes and error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. Requirements applicable to changes in accounting principles apply to the implementation of a new pronouncement if there is no specific transition guidance in the new pronouncement. The Statement also requires that aggregate amounts of adjustments to, and restatements of, beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 100 will be effective for the fiscal year ending September 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid, provided the services have occurred, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or noncash means. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 101 will be effective for the fiscal year ending September 30, 2025.

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

Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of this Statement is to provide users of the government financial statements with essential information about risks related to a government's vulnerabilities due to ascertain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact to have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 102 will be effective for the fiscal year ending September 30, 2025.

In April 2024, GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues identified through agenda research conducted by GASB. This Statement establishes new accounting and financial reporting requirements - or modifies existing requirements - related to the following: a) management's discussion and analysis (MD&A); b) unusual or infrequent items; c) presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position; d) information about major component units in basic financial statements; e) budgetary comparison information; and f) financial trends information in the statistical section. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 103 will be effective for the fiscal year ending September 30, 2026.

In September 2024, GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed.

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

Notes to Financial Statements, continued

3. Summary of Significant Accounting Policies, continued

Upcoming Accounting Pronouncements, continued

In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. Management is evaluating the effect that this Statement, upon implementation, will have on the financial statements. GASB Statement No. 104 will be effective for the fiscal year ending September 30, 2026.

4. Deposits and Investments

The deposit and investment policies of the College are governed by the Board of Regents. As such, the Board of Regents is authorized to delegate certain responsibilities to third parties. Investment managers have discretion to purchase, sell, or hold the specific securities to meet the objectives set forth in the investment policy.

Generally, the College can invest in cash and cash equivalents, bonds, U.S. and non-U.S. equities, and fixed income securities in the ratio of global equities (60%) and fixed income (40%).

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized or collateralized with securities held by the pledging financial institution but not in the College's name. The College does not have a deposit policy for custodial credit risk.

As of September 30, 2022, the carrying amounts of the College's total deposits were \$3,720,819 and the corresponding bank balances were \$3,871,816. Of the bank balance amounts, \$438,779 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2022, bank deposits in the amount of \$250,000, were FDIC insured. Bank deposits of \$3,433,037 are maintained in financial institutions not subject to depository insurance. The College does not require collateralization of its deposits; therefore, deposit levels more than FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

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

Notes to Financial Statements, continued

4. Deposits and Investments, continued

Investments

Investments held by the College consist of money market funds, mutual funds, and equity securities. As of September 30, 2022, investments are as follows:

Exchange-traded funds	\$1,209,749
Mutual funds	719,080
Money market funds	<u>11,795</u>
	<u>\$1,940,624</u>

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Except for investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the College's investment policy.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of September 30, 2022, the College's investments were held in the College's name and were administered by investment managers in accordance with the College's investment policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The College categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

Notes to Financial Statements, continued

4. Deposits and Investments, continued

Investments, continued

The College has the following recurring fair value measurements as of September 30, 2022:

		Fair Value Measurements Using		
September 30, 2022	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments by fair value level:				
Exchange-traded funds	\$1,209,749	\$1,209,749	\$ ---	\$ ---
Mutual funds	<u>719,080</u>	<u>719,080</u>	<u>---</u>	<u>---</u>
Total investments by fair value level	1,928,829	<u>\$1,928,829</u>	<u>\$ ---</u>	<u>\$ ---</u>
Investments measured at amortized cost:				
Money market funds	<u>11,795</u>			
	<u>\$1,940,624</u>			

Exchange-traded funds and mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

5. Other Receivables

Summarized below are the College's other receivables as of September 30, 2022:

Advance to Marshall Islands National Telecommunications Authority	\$144,331
Employees and officers	96,948
Other	<u>438,214</u>
	679,493
Less allowance for uncollectible accounts	<u>(96,936)</u>
	<u>\$582,557</u>

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

Notes to Financial Statements, continued

6. Capital Assets

Summarized below are the College's investment in capital assets and changes for the year ended September 30, 2022:

	Estimated Useful Lives	Balance at October 1, 2021	Additions	Deletions	Balance at September 30, 2022
Nondepreciable capital assets:					
Construction in progress		\$ <u>---</u>	\$ <u>402,153</u>	\$ <u>---</u>	\$ <u>402,153</u>
Depreciable capital assets:					
Furniture, vehicles and equipment	3 - 5 years	1,136,397	479,857	(108,000)	1,508,254
Buildings and improvements	20 years	<u>21,607,598</u>	<u>150,155</u>	<u>---</u>	<u>21,757,753</u>
		22,743,995	630,012	(108,000)	23,266,007
Less accumulated depreciation		<u>(13,493,128)</u>	<u>(1,431,094)</u>	<u>108,000</u>	<u>(14,816,222)</u>
		<u>9,250,867</u>	<u>(801,082)</u>	<u>---</u>	<u>8,449,785</u>
Net investment in capital assets		\$ <u>9,250,867</u>	\$ <u>(398,929)</u>	\$ <u>---</u>	\$ <u>8,851,938</u>

7. RepMar Contributions

The College is dependent upon RepMar to provide annual appropriations in an amount sufficient to provide stable financial backing to meet the educational and vocational needs of the community. During the year ended September 30, 2022, the College received \$3,722,857 from RepMar to administer various postsecondary functions and to improve facilities as follows:

General Fund	\$1,822,529
Compact Sector Funds:	
Education Sector Grant	987,003
Public Infrastructure Development Sector Grant	500,000
Ebeye Special Needs Sector Grant	125,000
Supplemental Education Grant	<u>288,325</u>
	<u>\$3,722,857</u>

For the year ended September 30, 2023, the Nitijela of RepMar appropriated \$3,254,784 to fund operations of the College, \$500,000 to fund preventive maintenance of capital assets, and \$82,770 for the College's endowment fund.

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

Notes to Financial Statements, continued

8. Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

9. Related Party Transactions

The College is a component unit of RepMar and is therefore affiliated with all RepMar-owned and affiliated entities, including the Marshall Islands National Telecommunications Authority (NTA). During the year ended September 30, 2021, the College paid an advance of \$144,331 to NTA for the purpose of upgrading telecommunication services at Batkan, Majuro Atoll, which is to be applied as credit by NTA against the College's future monthly telecommunication costs. Application of credit has yet to occur as of September 30, 2022.

10. Commitments

In 2000, the College executed two lease agreements for parcels of land and attached buildings and improvements located on Arrak Island. The leases commenced on July 1, 2000 for periods of thirty years each, ending on June 30, 2030, with options to renew for additional terms of thirty years. The terms of the leases call for rent to be paid in equal quarterly installments, with increases totaling \$800 in the quarterly installments, every five years.

In 2007, the College executed a sublease agreement for a parcel of land adjacent to the main campus in Uliga. The lease commenced on March 1, 2007, for a term of thirty years, ending on February 13, 2037.

In 2014, the College executed a lease agreement for a parcel of land at Lotodrik and Barkan Wetos in Uliga. The lease commenced April 1, 2014, for a term of thirty years, ending on March 31, 2044.

In 2020, the College executed a memorandum of agreement for the use of school facilities located in Ebeye. The agreement commenced August 9, 2020, for a term of three years, ending on August 9, 2023.

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

Notes to Financial Statements, continued

10. Commitments, continued

Future minimum lease payments under these leases are as follows:

Year ending September 30,

2023	\$ 104,350
2024	97,684
2025	97,684
2026	100,884
2027	100,884
2028 - 2032	324,418
2033 - 2037	101,293
2038 - 2042	79,418
2043 - 2044	<u>23,825</u>
	<u>\$1,030,440</u>

In 2022, the College executed a land use agreement for a portion of land at Ledrikdrik Weto in Arrak Island. The lease commenced on October 25, 2021, for a term of twenty years, ending on October 24, 2041. The term of the lease calls for rent to be received in equal quarterly installments, with increases totaling \$150 in the quarterly installments, every five years starting in 2025.

Future minimum lease income for the subsequent years ending September 30 is as follows:

Year ending September 30,

2023	\$ 11,840
2024	11,840
2025	12,440
2026	12,440
2027	12,440
2028 - 2032	64,000
2033 - 2037	67,000
2038 - 2042	<u>56,947</u>
	<u>\$248,947</u>

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

Notes to Financial Statements, continued

11. Contingencies

Sick Leave

It is the policy of the College to record expenditures for sick leave when leave is taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. There is no liability for unpaid accumulated sick leave since the College does not have a policy to pay any amounts when employees separate from service. The estimated accumulated sick leave as of September 30, 2022 was \$117,192.

Accreditation

The College is accredited by the Accrediting Commission for Community and Junior Colleges (ACCJC). Based on the comprehensive evaluation during June 2021, ACCJC reaffirmed accreditation of the College for eighteen (18) months and required that the College submit a Follow-up Report on October 1, 2022. On October 1, 2022, the College submitted a Follow-Up Report, and the follow-up visit was held virtually in October 17-18, 2022. At its January 2023 meeting, ACCJC acted to reaffirm the College's accreditation for the remainder of the cycle.

12. Subsequent Event

On June 27, 2025, ACCJC determined that the College was out of compliance with eligibility requirements over financial accountability. Accordingly, ACCJC issued Warning and required Special Report to address the deficiencies within 18 months.



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Regents
College of the Marshall Islands

We were engaged to audit, 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 (*Government Auditing Standards*), the financial statements of the business-type activities of College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands, which comprise the statement of net position as of September 30, 2022, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated October 3, 2025.

Report on Internal Control Over Financial Reporting

In planning the engagement to audit the financial statements, we considered the College’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-001, 2022-003 through 2022-005 and 2022-007 to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2022-002 and 2022-006 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The College's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The College's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an engagement to conduct an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

October 3, 2025



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Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Regents
College of the Marshall Islands

Report of Independent Auditors on Compliance for Each Major Federal Program

Qualified Opinion on Each Major Federal Program

We have audited the College of the Marshall Islands' (the College's) compliance with the types of compliance requirements identified as subject to audit in the in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2022. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Each Major Federal Program section of our report, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2022.

Basis for Qualified Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the College and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of the College's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on Each Major Federal Program

As described in items 2022-008 through 2022-023 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding the following:

<i>Finding No.</i>	<i>Assistance Listing No.</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2022-008	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Activities Allowed or Unallowed / Allowable Costs/Cost Principles
2022-009	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Allowable Costs/Cost Principles
2022-010	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Equipment and Real Property Management
2022-011	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Period of Performance
2022-012	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Procurement and Suspension and Debarment
2022-013	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Reporting
2022-014	84.047	TRIO Upward Bound	Activities Allowed or Unallowed / Allowable Costs/Cost Principles
2022-015	84.047	TRIO Upward Bound	Allowable Costs/Cost Principles
2022-016	84.047	TRIO Upward Bound	Cash Management
2022-017	84.047	TRIO Upward Bound	Eligibility
2022-018	84.047	TRIO Upward Bound	Reporting
2022-019	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Activities Allowed or Unallowed / Allowable Costs/Cost Principles

2022-020	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Allowable Costs/Cost Principles
2022-021	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Cash Management
2022-022	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Procurement and Suspension and Debarment
2022-023	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Reporting

Compliance with such requirements is necessary, in our opinion, for the College to comply with requirements applicable to those programs.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the College’s federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the College’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the College’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the College’s compliance with the

compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the College's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the College's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The College's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The College is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The College's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses:

<i>Finding No.</i>	<i>Assistance Listing No.</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2022-008	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Activities Allowed or Unallowed / Allowable Costs/Cost Principles
2022-009	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Allowable Costs/Cost Principles
2022-010	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Equipment and Real Property Management
2022-011	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Period of Performance
2022-012	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Procurement and Suspension and Debarment
2022-013	15.875	Economic, Social, and Political Development of the Territories: Compact of Free Association, As Amended, Sector Grants	Reporting
2022-014	84.047	TRIO Upward Bound	Activities Allowed or Unallowed / Allowable Costs/Cost Principles
2022-015	84.047	TRIO Upward Bound	Allowable Costs/Cost Principles
2022-016	84.047	TRIO Upward Bound	Cash Management
2022-017	84.047	TRIO Upward Bound	Eligibility
2022-018	84.047	TRIO Upward Bound	Reporting
2022-019	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Activities Allowed or Unallowed / Allowable Costs/Cost Principles
2022-020	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Allowable Costs/Cost Principles

2022-021	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Cash Management
2022-022	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Procurement and Suspension and Debarment
2022-023	84.425	Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	Reporting

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the College’s response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The College’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The College is responsible for preparing a corrective action plan to address each audit finding included in our auditor’s report. The College’s corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We were engaged to audit the financial statements of the College as of and for the year ended September 30, 2022, and have issued our report thereon dated October 3, 2025, which states that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements, due to our inability to obtain sufficient appropriate audit evidence to support the completeness, existence, accuracy and classification of balances at year-end related to student accounts receivable, federal grants receivable and payable, and accounts payable, and the amount by which implementation of GASB Statement No. 87 would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities of the College. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Because of the significance of the matters discussed above, it is inappropriate to, and we do not, express an opinion on the Schedule of Expenditures of Federal Awards.

Ernst + Young LLP

October 3, 2025

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

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Assistance Listing Number	Other Identification Number	Federal Expenditures	Research and Development Cluster
Direct from US Department of Agriculture:					
National Institute of Food and Agriculture:					
Resident Instruction Grants for Insular Areas		10.308	2021-70004-35101	\$ 863	\$ 863
Resident Instruction Grants for Insular Areas		10.308	2021-70004-35098	45,256	45,256
Total US Department of Agriculture				<u>\$ 46,119</u>	<u>\$ 46,119</u>
Direct from US Department of Education:					
Student Financial Assistance Cluster:					
Federal Pell Grant Program		84.063		\$ 7,504,155	\$ -
Subtotal Student Financial Assistance Cluster				7,504,155	-
TRIO Cluster:					
TRIO Upward Bound		84.047A		269,114	-
Subtotal TRIO Cluster				269,114	-
Education Stabilization Fund:					
COVID-19 Higher Education Emergency Relief Fund- Student Aid Portion		84.425E	P425E204126	3,227,350	-
COVID-19 Higher Education Emergency Relief Fund- Institutional Portion		84.425F	P425F202732	3,880,351	-
COVID-19 Higher Education Emergency Relief Fund- Minority Serving Institution		84.425L	P425L200219	3,019,576	-
Subtotal Educational Stabilization Fund				10,127,277	-
Total US Department of Education				<u>\$ 17,900,546</u>	<u>\$ -</u>
US Department of Health and Human Services:					
Pass-through from University of Hawaii:					
Area Health Education Centers	5 U77HP08404-14-00		93.107	\$ 90,102	\$ 90,102
Total US Department of Health and Human Services				<u>\$ 90,102</u>	<u>\$ 90,102</u>
US Department of the Interior:					
Pass through from the Republic of the Marshall Islands:					
Economic, Social and Political Development of the Territories, Compact of Free Association Program, As Amended:	9870076103		15.875		
Compact Capital Fund				\$ 294,142	\$ -
Education Sector Grant				987,003	-
Supplemental Education Grant				288,325	-
Ebeye Special Needs- Adult Education				125,000	-
Total Department of the Interior				<u>\$ 1,694,470</u>	<u>\$ -</u>
National Science Foundation:					
Pass through from the University of Hawaii:					
Education and Human Resources:					
Partnership for Advanced Marine and Environmental Science Training for Pacific Islanders	1954994	47.076		\$ 4,425	\$ 4,425
Islands of Opportunity Alliance	1826864	47.076		16,725	16,725
Total National Science Foundation				<u>\$ 21,150</u>	<u>\$ 21,150</u>
Total Federal Expenditures of Federal Awards				<u>\$ 19,752,387</u>	<u>\$ 157,371</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2022

1. Scope of Audit

The College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands (RepMar), was established as an independent institution governed by a Board of Regents appointed by RepMar's Cabinet pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). Prior to the enactment of the Act, the College was a component of the College of Micronesia (COM).

The U.S. Department of the Interior has been designated as the College's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the College under programs of all federal grants from the US, including the pass-through federal grants from the RMI government for the year ended September 30, 2022. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position or cash flows of the College.

3. Summary of Significant Accounting Policies

All expenditures and capital outlays that represent the federal share are reported as expenditures. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements. No amounts were passed through to subrecipients. Pass-through entity identifying numbers are presented where available.

4. Indirect Cost Rate

The College of the Marshall Islands has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

Notes to Schedule of Expenditures of Federal Awards, continued

5. Assistance Listing Number 15.875

ALN 15.875 represents funding from the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association (the Compact), which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under ALN 15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

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

Schedule of Findings and Questioned Costs

Year ended September 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?

 X **Yes** **No**

Significant deficiency(ies) identified?

 X **Yes** **None reported**

Noncompliance material to financial statements noted?

 Yes X **No**

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 X **Yes** **No**

Significant deficiency(ies) identified?

 Yes X **None reported**

Type of auditor's report issued on compliance for major federal programs:

All major programs

Qualified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X **Yes** **No**

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

Schedule of Findings and Questioned Costs, continued

Section I - Summary of Auditors' Results, continued

Federal Awards, continued

Identification of major federal programs:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social, and Political Development of the Territories <u>TRIO Cluster:</u>
84.047A	TRIO Upward Bound
84.425	<u>Education Stabilization Fund:</u>
84.425E	Higher Education Emergency Relief Fund Student Aid Portion
84.425F	Higher Education Emergency Relief Fund Institutional Portion
84.425L	Higher Education Emergency Relief Fund Minority Serving Institution

Dollar threshold used to distinguish between
Type A and Type B Programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ **Yes** X **No**

Section II - Financial Statement Findings

<u>Finding Number</u>	<u>Finding</u>
2022-001	Schedule of Expenditures of Federal Awards Preparation
2022-002	Summary Schedule of Prior Audit Findings
2022-003	Timely Financial Reporting
2022-004	Due To/From Grantor Agencies, Receivables, and Payables
2022-005	Adoption of New Accounting Standard
2022-006	House Renovation Costs
2022-007	RMI Procurement Code

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

Schedule of Findings and Questioned Costs, continued

Section III - Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>ALN</u>	<u>Requirement</u>	<u>Questioned Costs</u>
2022-008	15.875	Activities Allowed or Unallowed/ Allowable Costs/Cost Principles	\$ 8,764
2022-009	15.875	Allowable Costs/Cost Principles	7,277
2022-010	15.875	Equipment and Real Property Management	--- ***
2022-011	15.875	Period of Performance	6,443
2022-012	15.875	Procurement and Suspension and Debarment	112,538
2022-013	15.875	Reporting	---
2022-014	84.047A	Activities Allowed or Unallowed/ Allowable Costs/Cost Principles	440
2022-015	84.047A	Allowable Costs/Cost Principles	8,842
2022-016	84.047A	Cash Management	--- ***
2022-017	84.047A	Eligibility	54,380
2022-018	84.047A	Reporting	---
2022-019	84.425	Activities Allowed or Unallowed/ Allowable Costs/Cost Principles	1,138,362
2022-020	84.425	Allowable Costs/Cost Principles	---
2022-021	84.425	Cash Management	--- ***
2022-022	84.425	Procurement and Suspension and Debarment	3,318,665
2022-023	84.425	Reporting	---
Total Questioned Costs			<u>\$4,655,711</u>

*** Questioned costs are undeterminable. See related finding for more information.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-001
Area: Schedule of Expenditures of Federal Awards Preparation

Criteria: Paragraph 200.510(b) of OMB Uniform Guidance Part 200 states that the auditee must prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with paragraph 200.502. At a minimum, the schedule must:

- List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the Assistance Listings information is not available. For a cluster of programs, it must also provide the total for the cluster.
- Include the total amount provided to subrecipients from each Federal program.
- For loan or loan guarantee programs described in § 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- Include notes that describe the significant accounting policies used in preparing the schedule and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in paragraph 200.414

Condition: The SEFA was found to be incomplete during examination, as it initially included only Accounts Payable Vouchers (APVs) and cash disbursements for reporting purposes. General vouchers, which are essential for adjustments and accruals, were not included in the extraction process.

Cause: The College lacks internal control policies and procedures over complete and accurate SEFA preparation and review. The College's Business and Accounting Office employees responsible for reporting the amounts on the SEFA do not appear to fully recognize the necessity of including general vouchers in the extraction process and do not appear to know how expenditures should be reported.

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

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-001, continued
Area: Schedule of Expenditures of Federal Awards Preparation

Effect: The College is noncompliant with the criteria. Information on the SEFA is used for audit planning and by grantors. An incorrect SEFA can delay an audit beyond the reporting deadline and cause unnecessary audit costs.

Identified as a Repeat Finding: 2021-001

Recommendation: College management should establish internal control policies and procedures to facilitate thorough review process for SEFA reporting. In addition, College management should examine personnel staffing requirements and qualifications associated with the College's Business and Accounting Office. College employees responsible for federal grants should have adequate training of the SEFA reporting requirements. Furthermore, the College should establish a checklist or standard operating procedure for SEFA preparation to ensure that all relevant expenditures are captured and reported accurately.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-002
Area: Summary Schedule of Prior Audit Findings

Criteria: In accordance with the Uniform Guidance (2 CFR Part 200, Subpart F – Audit Requirements, Section 200.511), auditees must prepare a Summary Schedule of Prior Audit Findings. This schedule should report the status of all findings from prior audits, including whether the findings were corrected, remain uncorrected, or are partially corrected, and any reasons for recurrence.

Condition: During our audit, we noted that the College did not prepare or include a Summary Schedule of Prior Audit Findings as required by the Uniform Guidance. This schedule is essential to track the status of previously reported findings and demonstrate whether corrective actions have been implemented.

Cause: The absence of this required schedule appears to be due to the lack of formal policies and procedures for ensuring required audit documentation is prepared and a limited awareness or understanding of Uniform Guidance requirements.

Effect: The failure to prepare a Summary Schedule of Prior Audit Findings results in noncompliance with federal audit requirements under Uniform Guidance and delays in audit resolution, which could impact grantor or oversight agency reviews.

Recommendation: We recommend that management develop and implement formal procedures to ensure that a Summary Schedule of Prior Audit Findings is prepared and reviewed annually as part of the audit process. Furthermore, we recommend management provide training on audit compliance requirements to relevant personnel to ensure understanding and consistent implementation.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-003
Area: Timely Financial Reporting

Criteria: Timely financial reporting should be facilitated by an internal control structure conducive to the preparation and independent review of reconciliations of all significant general ledger accounts.

Condition: The College did not finalize closing fiscal year September 30, 2022 financial information (trial balance, subsidiary and general ledgers) until May 15, 2025. Further, although the College have an established set of policies and procedures regarding preparation and review of reports, accurate and timely preparation and review of reconciliations and reports were not performed. During the year ended September 30, 2022, various accounting records did not appear to have been processed and timely updated as evidenced by the following:

1. The current year beginning net position of the Plant Fund was not reconciled to the prior year audited ending net position, with a noted variance of \$372,306.
2. General Ledger Account # 5991 - Depreciation Expense subledger was not reconciled with general ledger balance.
3. Capital asset register reflected a duplicated transaction totaling \$104,003.
4. Prior year additions to General Ledger Account # 1611 - Building & Improvement totaling \$82,426 was recorded as current year additions.
5. Asset disposal totaling \$108,000 was erroneously recorded in the general ledger.
6. General Ledger Account #s 1611 - Building & Improvement and 1613 – Vehicle/ Boat subledgers were not reconciled with general ledger balance.
7. \$953,663 adjustment recorded under General Ledger Account # 4111 – Federal Grant has incorrect program code.
8. Various expenditures totaling \$845,939 were not reversed upon capitalization of related capital assets.
9. Inter-account transfer of funds totaling \$350,000 was improperly recorded as expense and revenues.

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

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-003, continued
Area: Timely Financial Reporting

Condition, continued:

10. Payment for purchase of various IT equipment with Document #1034969 dated 01/05/22 amounting \$1,115,378 was recorded as expense when paid, however, appears to have been received by the College in fiscal year 2023 as evidenced by the payment terms set forth in the service contract and actual payments made to the vendor for the remaining balance. Actual receiving reports evidencing receipt of purchased items were not provided. Furthermore, another payment for purchase of IT equipment with Document #55-00278 dated 08/26/22 amounting \$206,113 was recorded as expense when paid, however, was received by the College on 06/16/23.

Cause: The College lacks strict implementation of internal control policies and procedures over timely year-end closing processes and over timely reviews and reconciliations of significant general ledger accounts.

Effect: Audit adjustments were proposed related to misstatements noted in Condition #s 1 through #5, and #8 through #10. Misstatements related to Condition # 6 were not considered material to the financial statements; hence, no audit adjustment was proposed. Condition # 7 did not have a financial impact to the financial statements.

Identified as a Repeat Finding: 2021-002

Recommendation: College management should strictly implement internal control policies and procedures to facilitate timely and accurate general ledger reconciliation processes. Furthermore, College management should examine personnel staffing requirements and qualifications associated with the College's business and accounting office.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No. 2022-004
Area: Due To/From Grantor Agencies
Area: Receivables
Area: Payables

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework requires that entities must maintain complete and accurate financial records that are readily available for audit. Proper documentation of general ledger accounts is essential to ensure accurate and complete financial reporting. Specifically, reconciliations between subsidiary ledgers and the general ledger are a critical control to ensure reliability.

Condition #1: As of September 30, 2022, the College recorded receivable balances of \$6,429,936 less an allowance for credit losses of \$3,193,752. Specifically, the matters below were noted:

1. General Ledger Account # 1101 AR-Students - subledger has 19,804 entries with a net debit balance of \$5,678,754. Out of which, 14,542 entries have debit balance aggregating \$11,619,415 and 5,262 entries have credit balance aggregating \$5,940,741. Furthermore, one entry (Bill Number 441-001) is under the name College of the Marshall Islands amounting to \$192,006.
2. For the following general ledger accounts, subledgers were not provided during the audit, specifically, only current year movement listing was submitted:
 - General Ledger Account # 1103 AR-Students Clearing Account to 1101 (Temporary Account) \$ 67,303
 - General Ledger Account # 1133 AR-Employee (Temporary Account) \$ 81,943
 - General Ledger Account # 1134 Travel Advances (Temporary Account) \$ 9,342
3. For the following general ledger accounts, subledgers were not provided during the audit:
 - General Ledger Account # 1071 Security Deposit-Housing \$ 79,506
 - General Ledger Account # 1121 Other Receivables \$ 43,978
 - General Ledger Account # 1135 A/R Employee (Prepaid Card) \$ 5,664
 - General Ledger Account # 1140 A/R NTA Advances (Tower) \$144,331
 - General Ledger Account # 1145 A/R President's Housing Project \$ 73,800
 - General Ledger Account # 1231 Due from Land Grant \$240,929

Condition #2: As of September 30, 2022, the College recorded due to grantor agency balances of \$3,384,740 and due from grantor agency balances of \$1,215,487. Specifically, General Ledger Account #s 1150 A/R Federal Programs (\$1,140,907), 1160 A/R Non-Federal Programs (\$74,580), 2211 Due To/From Federal Programs (\$3,155,534) and 2212 Due To/From Other Grants (\$229,206) subledgers were not provided during the audit.

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

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-004, continued
Area: Due To/From Grantor Agencies
Area: Receivables
Area: Payables

Condition #3: As of September 30, 2022, the College recorded accounts payable balances of \$995,744. Specifically, the matters below were noted:

1. For the following general ledger accounts, subledger was not provided during the audit, specifically, only current year movement listing was provided:

- General Ledger Account # 2061 Other Payroll Deduct. & Allot. \$ 40,993
- General Ledger Account # 2071 Other Payables \$ 16,993
- General Ledger Account # 2075 Other Payables-Meal Charges \$ 71,945

2. For the following general ledger accounts, subledger was not provided during the audit:

- General Ledger Account # 2002 Accounts Payable (Temporary) \$690,693
- General Ledger Account # 2081 Other Payable-Federal Grants \$ 30,645

Cause: Inadequate staffing or lack of training in reconciling subledgers and the lack of established internal control policies and procedures over formal month-end reconciliation procedures between account balance subledgers and the general ledger.

Effect: The failure to maintain updated subsidiary ledgers increases the risk of misstatement of financial statements as general ledger account balances may be incomplete, overstated, or understated. Such results in an audit scope limitation leading to a report modification.

Identified as a Repeat Finding: 2021-003

Recommendation: We recommend that management implement formal policies and procedures to ensure that account balance subsidiary ledgers are properly maintained and readily accessible for audit. Furthermore, we recommend management evaluate and, if necessary, upgrade financial systems to ensure accurate and complete record-keeping. Finally, we recommend management conduct training to reinforce the importance of proper financial documentation and audit readiness.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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

Schedule of Findings and Questioned Costs, continued

Finding No. 2022-005
Area: Adoption of New Accounting Standard

Criteria: GASB Statement No. 87, Leases, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract, was effective September 30, 2022.

Condition: As of September 30, 2022, the College has not implemented GASB Statement No. 87, Leases.

Cause: Lack of adequate internal control policies and procedures over adoption of new accounting standards.

Effect: The amount by which these matters would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities of the College is not reasonably determinable. Such results to a report modification.

Recommendation: We recommend management establish adequate internal control policies and procedures over adoption of new accounting standards.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-006
Area: House Renovation Costs

Criteria: Construction projects should be aligned with the College's mission with approval by the College's Board of Regents. Furthermore, construction project budgets are essential for financial planning and control, ensuring projects stay on track and within financial limits. Such assist in avoiding cost overruns, managing resources effectively, and making informed decisions throughout the project lifecycle.

Condition: In 2021, the College executed a service contract with a construction company for building renovations on a house leased by the College from a third party. In 2022, additional service contracts and variation orders were negotiated with the same construction company. No documentation was available to support the procurement process with this construction company and no project budget was available to support the construction project. Total renovation costs recorded by the College amounted to \$206,688, including construction company costs of \$134,932. The renovation project was substantially completed during the year ended September 30, 2022. In 2023, the College's legal counsel advised that the leased house was sold by the third party to the College's former President and husband for \$75,000.

Cause: No apparent approval obtained by management from the College's Board of Regents to support the construction project; no construction project budget was developed to demonstrate financial planning and control; and no documentation was retained to demonstrate compliance with the applicable procurement requirements.

Effect: Renovation costs of \$206,688 have no apparent financial benefit to the College due to the house sale and noncompliance with the applicable procurement requirements.

Recommendation: We recommend all capital projects be approved by the College's Board of Regents to demonstrate alignment with the College's mission. Furthermore, we recommend that documentation be adequate to comply with the applicable procurement requirements, including retention of documentation indicating the history of procurement and the rationale for contractor or vendor selection. Finally, we recommend the College ascertain the ability to recover all attendant renovation costs through legal avenues.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-007
Area: RMI Procurement Code

Criteria: 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.

Condition: Tests of compliance with local procurement requirements indicated the following:

- a. Procurement of laptop purchases with PO #21-PO-2102 totaling \$622,424 were sole sourced per written justification dated 09/01/21. However, determination of sole source procurement appears inadequate. Specifically, the College published an Invitation to Bid on October 2021 for another purchase of various IT equipment, which includes laptops.
- b. Service contract with a construction company with PO #s 22-PO-2949 and 22-PO-3402 totaling \$73,063 was sole sourced. The College's determination of sole sourcing appears inadequate because there are other available sources of the required service/ construction item on the island.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-007, continued
Area: RMI Procurement Code

Criteria, continued:

- c. Service contract with a construction company with PO #s 22-PO-2588, 22-PO-2969 and 22-PO-2974 totaling \$98,210 was sole sourced. The College's determination of sole sourcing appears inadequate because there are other available sources of the required service/construction item on the island. Furthermore, service contract has been executed prior to the date of sole source written justification document.

Cause: The College lacks adequate internal control policies and procedures over compliance with RepMar's Procurement Code.

Effect: The effect of the above condition is noncompliance with RepMar's Procurement Code.

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

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-008
 Pass-Through Entity: Republic of the Marshall Islands
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact of Free Association Program, As Amended
 Area: Activities Allowed or Unallowed
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$8,764

Criteria: In accordance with the applicable activities allowed or unallowed requirements, institutions must demonstrate that costs incurred are allowable under the relevant program legislation, federal awarding agency regulations, and the terms and conditions of the award and consistent with the purpose of the grant.

Federal program expenditures should be necessary and reasonable for the performance of the Federal award in accordance with allowable costs/cost principles requirements and be adequately documented.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition: For seven (or 15%) of forty-six items, aggregating \$45,045 of \$1,436,730 in total payroll expenditures, deficiencies were noted, as follows:

<u>Item #</u>	<u>Check#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	55287	Salaries and wages and benefits	\$ 3,828	\$2,549
2	49523	Benefits	12	12
3	51393	Salaries and wages and benefits	1,338	1,338
4	51616	Salaries and wages and benefits	1,171	1,171
5	49741	Salaries and wages and benefits	153	153
6	52930	Salaries and wages and benefits	154	154
7	55878	Salaries and wages and benefits	<u>3,387</u>	<u>3,387</u>
			<u>\$10,043</u>	<u>\$8,764</u>

For item #s 1 through 4, there was no approved employment contract or other supporting documents on file to substantiate whether such expenditures were allowable costs of the underlying grants. For item #1, only \$2,549 is included in the total questioned costs, which relates to the salaries - overload for which no approved overload contract was provided.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-008, continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Activities Allowed or Unallowed
Area: Allowable Costs/Cost Principles
Questioned Costs: \$8,764

Condition, continued:

Item #s 5 through 7 relates to salaries and wages and related fringe benefits (employer contributions for social security and health insurance) of employees whose designation do not appear to be related and consistent with the purpose of the related subgrant. Furthermore, such were not supported by adequate documentation to ascertain whether such expenditures are associated to underlying subgrant.

Cause: The College lacks adequate internal controls over compliance with the applicable activities allowed or unallowed requirements.

Effect: The College is not in compliance with the applicable activities allowed or unallowed requirements and allowable costs/cost principles requirements. Accordingly, questioned costs of \$8,764 result because the projected questioned costs exceed the \$25,000 threshold.

Recommendation: College management should improve internal control policies and strengthen controls and procedures over compliance with the applicable federal regulations on activities allowed or unallowed.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-009
 Pass-Through Entity: Republic of the Marshall Islands
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact of Free Association Program, As Amended
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$7,277

Criteria: Federal program expenditures should be necessary and reasonable for the performance of the Federal award in accordance with allowable costs/cost principles requirements and be adequately documented.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Condition: For nine (or 20%) of forty-six items, aggregating \$45,045 of \$1,436,730 in total payroll expenditures, deficiencies were noted, as follows:

<u>Item #</u>	<u>Check#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	53163	Salaries and wages and benefits	\$ 208	\$ Undeterminable
2	54180	Salaries and wages and benefits	231	\$ Undeterminable
3	54497	Salaries and wages and benefits	187	\$ Undeterminable
4	54504	Salaries and wages and benefits	16	\$ Undeterminable
5	50921	Salaries and wages and benefits	1,021	\$ Undeterminable
6	55241	Salaries and wages and benefits	250	250
7	50097	Salaries and wages and benefits	2,509	2,509
8	51398	Salaries and wages	1,600	1,600
9	51386	Salaries and wages and benefits	<u>2,918</u>	<u>2,918</u>
			<u>\$8,940</u>	\$ <u><u>7,277</u></u>

Item #s 1 through 5 relate to employee’s salaries and wages and related fringe benefits (employer contributions for social security and health insurance) allocated and charged to federal grant for which we noted discrepancies in either a) the hours paid compared to the hours recorded on the approved timesheet or b) the rate paid compared to the rate per contract.

For item # 6, we noted discrepancies in either a) the hours paid compared to the hours recorded on the approved timesheet or b) the rate paid compared to the rate per contract. Furthermore, a copy of the check payment to support the amount paid to the employee was not on file.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-009, continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Allowable Costs/Cost Principles
Questioned Costs: \$7,277

Condition, continued:

Item #s 7 through 9 relate to salaries – overload or adjunct that were not supported by adequate documentation (i.e. instructor’s schedule) to ascertain whether service was received or expenditure was an allowable cost of the underlying grant.

Cause: The College lacks adequate internal controls over compliance with the applicable federal regulations relating to allowable costs/cost principles, specifically, obtaining and retaining sufficient documentation to support all transactions.

Effect: The College is not in compliance with the applicable allowable costs/cost principles requirements. Accordingly, questioned costs result of \$7,277 as the projected questioned costs exceed the \$25,000 threshold. For item #s 1 through 5, questioned costs related to federal expenditures that may result from discrepancies noted are not determinable.

Identified as a Repeat Finding: 2021-006

Recommendation: College management should improve internal control policies and strengthen controls requiring obtaining and retaining sufficient documentation to support all transactions.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-010
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Equipment and Real Property Management
Questioned Costs: \$ Undeterminable

Criteria: Non-federal entities other than states must follow Sections 200.313(c) through (e) of the Uniform Guidance. Section 200.313(d) states that procedures for managing equipment, whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:

- a. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property;
- b. A physical inventory of the property must be carried out and the results reconciled with the property records at least once every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Condition: Capital assets records do not meet the criteria above and are not effectively maintained since updates to the records occur only once a year. Specifically, we noted the following deficiencies:

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-010, continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Equipment and Real Property Management
Questioned Costs: \$ Undeterminable

Condition, continued:

1. Certain information in the capital assets records are either incomplete or missing, such as the source of funding for the property (including the FAIN), who holds title, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property).
2. An inventory of capital assets has been performed on an annual basis; however, the result of the physical inventory was not completely reflected/reconciled with the property records.
3. As capital assets records are not effectively maintained, it does not appear that the College has effectively developed means to adequately safeguard capital assets from loss, damage, or theft, or to reasonably investigate such occurrences.
4. Long-lived assets are not routinely evaluated for possible impairment.

Cause: The College lacks adequate internal control policies and procedures over compliance with the applicable federal property rules and regulations and lacks effective procedures governing property maintenance, as well as periodic assessment of asset impairment conditions. Moreover, internal control policies and procedures requiring periodic and timely performance and independent review of capital assets reconciliations and related general ledger accounts are not effectively implemented.

Effect: The College is not in compliance with the applicable equipment and real property management requirements. Questioned costs, if any, that may result from inadequate property records, maintenance procedures, and the absence of timely reconciliations are not determinable.

Capital outlays within the program for fiscal years are summarized as follows:

<u>Fiscal Year</u>	<u>Capital Outlays</u>
2022	\$131,200
2021	\$207,400
2020	\$248,700
2019	\$249,400
2018	\$359,000

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-010, continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Equipment and Real Property Management
Questioned Costs: \$ Undeterminable

Identified as a Repeat Finding: 2021-007

Recommendation: College management should establish and strengthen internal control policies and procedures over compliance with the applicable federal regulations on equipment and real property management.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-011
 Pass-Through Entity: Republic of the Marshall Islands
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact of Free Association Program, As Amended
 Area: Period of Performance
 Questioned Costs: \$6,443

Criteria: The terms of the sub-awards administered by RepMar under the Compact of Free Association grant awards stipulate the period of performance during which time only costs resulting from obligations of the funding period may be charged.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Condition: For thirty-five (or 61%) of fifty-seven items, aggregating \$20,314 of \$418,739 in total payroll expenditures, the following costs of salaries charged to the program were incurred prior to the funding period stipulated in the grant awards:

<u>Item #</u>	<u>Check #</u>	<u>Check Date</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	49423	10/08/21	Salaries	\$ 148	\$ 148
2	49424	10/08/21	Salaries	29	29
3	49671	10/08/21	Salaries	30	30
4	49662	10/08/21	Social Security Tax	10	10
5	49664	10/08/21	Social Security Health Fund	19	19
6	49600	10/08/21	Salaries	1,128	1,128
7	49536	10/08/21	Salaries	752	752
8	49544	10/08/21	Social Security Tax	68	68
9	49543	10/08/21	Social Security Health Fund	19	19
10	49989	10/22/21	Salaries	171	68
11	49992	10/22/21	Social Security Tax	10	4
12	49967	10/22/21	Social Security Health Fund	5	2
13	49975	10/22/21	Social Security Health Fund	6	2
14	49936	10/22/21	Salaries	1,262	505
15	49918	10/22/21	Salaries	1,235	494
16	49954	10/22/21	Salaries	833	333
17	49940	10/22/21	Social Security Tax	86	34

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-011, continued
 Pass-Through Entity: Republic of the Marshall Islands
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact of Free Association Program, As Amended
 Area: Period of Performance
 Questioned Costs: \$6,443

Condition, continued:

<u>Item #</u>	<u>Check #</u>	<u>Check Date</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
18	49929	10/22/21	Social Security Health Fund	41	17
19	49816	10/22/21	Social Security Health Fund	3	1
20	49839	10/22/21	Social Security Health Fund	2	1
21	49881	10/22/21	Social Security Health Fund	30	12
22	50099	10/22/21	Salaries	2,100	840
23	50077	10/22/21	Salaries	800	320
24	50084	10/22/21	Salaries	2,100	840
25	50085	10/22/21	Social Security Tax	150	60
26	50087	10/22/21	Social Security Tax	180	72
27	50069	10/22/21	Social Security Tax	90	36
28	50073	10/22/21	Social Security Tax	180	72
29	50081	10/22/21	Social Security Tax	210	84
30	50069	10/22/21	Social Security Tax	60	24
31	50047	10/22/21	Social Security Tax	84	34
32	50101	10/22/21	Social Security Tax	324	130
33	49862	10/22/21	Salaries	502	201
34	49866	10/22/21	Social Security Health Fund	27	11
35	50050	10/22/21	Social Security Health Fund	106	43
				<u>\$12,800</u>	<u>\$6,443</u>

Cause: The College lacks adequate internal controls over compliance with the applicable federal regulations relating to period of performance.

Effect: The College is not in compliance with the applicable period of performance requirements. Accordingly, questioned costs of \$6,443 result because the projected questioned costs exceed the \$25,000 threshold. For item #s 10 through 25, only \$4,240 is included in the total questioned costs, which relates to costs incurred prior to the funding period stipulated in the grant awards.

Identified as a Repeat Finding: 2021-008

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-011, continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Period of Performance
Questioned Costs: \$6,443

Recommendation: College management should improve internal control policies and strengthen controls to comply with the applicable period of performance requirements. Specifically, review should be made to ensure all costs charged to the program are within the funding period stipulated in the grant awards.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-012
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$112,538

Criteria: Under the terms of the sub-awards administered by RepMar under the Compact of Free Association grant awards, RepMar authorizes the College to use its own procedures for procurement provided they meet the RepMar 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.

2 CFR 200.318(h) states that the recipient or subrecipient must award contracts only to responsible contractors that possess the ability to perform successfully under the terms and conditions of a proposed contract. The recipient or subrecipient must consider contractor integrity, public policy compliance, proper classification of employees, past performance record, and financial and technical resources when conducting a procurement transaction.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-012, continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$112,538

Criteria, continued:

2 CFR 200.214 states that recipients and subrecipients are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, as well as 2 CFR part 180. The regulations in 2 CFR part 180 restrict making Federal awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from receiving or participating in Federal awards.

2 CFR 180.300 states that when an entity enters into a covered transaction with another person at the next lower tier, the entity must verify that the person with whom the entity intends to do business is not excluded or disqualified by doing the following:

- (a) Checking SAM.gov Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

2 CFR 200.320 states that for micro-purchases, to the extent practicable, the recipient or subrecipient should distribute micro-purchases equitably among qualified suppliers.

Per OMB Compliance Supplement April 2022, a non-federal entity must perform a cost or price analysis in connection with every procurement action more than the simplified acquisition threshold, including contract modifications, and that analysis supported the procurement action (2 CFR section 200.323 and 48 CFR section 15.404-3).

48 CFR section 15.404-3 states that:

- (a) The contracting officer is responsible for the determination of a fair and reasonable price for the prime contract, including subcontracting costs. The contracting officer should consider whether a contractor or subcontractor has an approved purchasing system, has performed cost or price analysis of proposed subcontractor prices, or has negotiated the subcontract prices before negotiation of the prime contract, in determining the reasonableness of the prime contract price. This does not relieve the contracting officer from the responsibility to analyze the contractor's submission, including subcontractor's certified cost or pricing data.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-012, continued
 Pass-Through Entity: Republic of the Marshall Islands
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact of Free Association Program, As Amended
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$112,538

Criteria, continued:

(b) The prime contractor or subcontractor shall: (1) conduct appropriate cost or price analyses to establish the reasonableness of proposed subcontract prices; (2) include the results of these analyses in the price proposal; and (3) when required by paragraph (c) of this subsection, submit subcontractor certified cost or pricing data to the Government as part of its own certified cost or pricing data.

2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Condition: For six (or 75%) of eight items, aggregating \$121,524 in total non-payroll expenditures, supporting procurement documentation was not sufficient to substantiate compliance with the procurement method, as follows:

<u>Item #</u>	<u>PO #</u>	<u>PO Amount</u>	<u>Description</u>	<u>FY 2022 Expenditures</u>	<u>Questioned Costs</u>
1	21-PO-1165	\$6,781	Materials and supplies	\$ 6,781	\$ 6,781
2	22-PO-2494	\$3,717	Representation and entertainment	3,717	3,717
3, 4	22-PO-2949/ 22-PO-3402	\$73,063	Minor repairs and maintenance	73,063	73,063
5	22-PO-3458	\$24,750	Repair – vehicles or equipment	24,750	24,750
6	22-PO-2166	\$10,000	Repair – vehicles or equipment		
				<u>4,227</u>	<u>4,227</u>
				<u>\$112,538</u>	<u>\$112,538</u>

For item # 1, there was no vendor quotations on file.

For item #s 2, 5 and 6, there were no adequate vendor quotations on file.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-012, continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$112,538

Condition, continued:

For item #s 3 and 4, procurement was not supported by competitive sealed bid. Furthermore, there were no documentation on file to support compliance with 48 CFR section 15.404-3.

Moreover, the College has no internal control policies and procedures over verification that an entity with which the College plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded.

Cause: The College did not follow internal control policies and procedures over documentation of the procurement process to satisfy compliance with the applicable procurement requirements. Furthermore, the College lacks internal control policies and procedures over 1) verification that an entity with which the College plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded; 2) distribution of micro-purchases equitably among qualified suppliers; 3) compliance with 48 CFR section 15.404-3.

Effect: The College is not in compliance with the applicable procurement requirements. The total questioned cost is \$112,538.

Identified as a Repeat Finding: 2021-009

Recommendation: Responsible personnel should ensure that documentation is adequate to comply with the applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the solicitation process and rationale for contractors or vendor selection. Furthermore, the College should establish internal control policies and procedures over 1) verification that an entity with which the College plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded; 2) distribution of micro-purchases equitably among qualified suppliers; 3) compliance with 48 CFR section 15.404-3.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-013
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Reporting
Questioned Costs: \$0

Criteria: Under the terms of the sub-awards administered by RepMar under the Compact of Free Association grant awards, the College is required to submit:

1. As supporting report for the initial payment request, a duly accomplished standard Form SG1-Subgrant Objectives and Budget Proposal, accompanied by an expenditure budget breakdown;
2. As supporting report for subsequent payment requests, a duly accomplished standard Form SG2-Performance and Financial Evaluation quarterly report;
3. Duly accomplished Form SG2-Performance and Financial Evaluation final report within 30 calendar days after the end of the MOA's term. If the organization is receiving subsidy or subgrant in the new fiscal year or new funding period, the prior year's or prior funding period's SG2 final report is required to be submitted together with the SG1 report, before the initial payment can be released under the new subsidy or subgrant MOA.

Further, the College shall maintain an acceptable financial management system during the term of the sub-award agreement including an accurate, current and complete disclosure of financial activity of Company funds and consistency with all financial administration, program monitoring, performance reporting and enforcement provisions of the Financial Management Act.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control-Integrated Framework" issued by the COSO.

Conditions:

1. The expenditure budget breakdown that accompanies the Form SG1-Subgrant Objectives and Budget Proposal for the U.S. Compact Funding subaward for the Supplemental Education Grant could not be provided.
2. The College did not provide the required Form SG2- Performance and Financial Evaluation quarterly report for the quarter ended September 30, 2022 for the U.S. Compact Funding subaward for the Education Sector Grant.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-013, continued
 Pass-Through Entity: Republic of the Marshall Islands
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact of Free Association Program, As Amended
 Area: Reporting
 Questioned Costs: \$0

Conditions, continued:

3. The College did not provide the required Form SG2-Performance and Financial Evaluation final report for the U.S. Compact Funding subaward for the Education Sector, Ebeye Special Needs Adult Education, Compact Capital Fund and Supplemental Education Grant.
4. The underlying quarterly expenditures report for the following U.S. Compact Funding subaward sectors and related quarters could not be provided:

Sector	Quarter
Supplemental Education Grant	1 st Quarter ended December 31, 2021
Ebeye Special Needs Adult Education	1 st Quarter ended December 31, 2021
Compact Capital Fund	2 nd Quarter ended March 31, 2022
Ebeye Special Needs Adult Education	2 nd Quarter ended March 31, 2022
Compact Capital Fund	3 rd Quarter ended June 30, 2022
Ebeye Special Needs Adult Education	3 rd Quarter ended June 30, 2022

5. Expenditures reported per the Form SG2-Performance and Financial Evaluation quarterly report did not agree to the quarterly expenditures reported in SEFA as follows:
 - a. 1st Quarter ended December 31, 2021

Sector	Amount per Form SG2- Performance and Financial Evaluation quarterly report	Amount as reported in SEFA	Variance
Supplemental Educational Grant	\$339,289	\$338,325	\$ 964
Ebeye Special Needs – Adult Education	\$127,692	\$125,000	\$2,692

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-013, continued
 Pass-Through Entity: Republic of the Marshall Islands
 Federal Agency: U.S. Department of the Interior
 AL Program: 15.875 Economic, Social and Political Development of the Territories
 Federal Award No.: Compact of Free Association Program, As Amended
 Area: Reporting
 Questioned Costs: \$0

Conditions, continued:

b. 2nd Quarter ended March 31, 2022

Sector	Amount per Form SG2- Performance and Financial Evaluation quarterly report	Amount as reported in SEFA	Variance
Compact Capital Fund	\$155,124	\$60,035	\$95,089
Ebeye Special Needs – Adult Education	\$ 37,752	\$38,265	\$(513)

c. 3rd Quarter ended June 30, 2022

Sector	Amount per Form SG2- Performance and Financial Evaluation quarterly report	Amount as reported in SEFA	Variance
Compact Capital Fund	\$448,795	\$349,750	\$ 95,045
Ebeye Special Needs – Adult Education	\$ 62,555	\$ 66,536	\$(3,981)

No reconciliation was provided to reconcile the quarterly expenditures reported in SEFA against the expenditures reported per the Form SG2- Performance and Financial Evaluation quarterly report.

Cause: The College lacks adequate internal controls over the accurate preparation and review of required reports as stipulated in the sub-award agreements. Furthermore, the College lacks adequate internal controls regarding retaining sufficient documentation to support all reported transactions.

Effect: The College appears to be in noncompliance with the applicable reporting requirements. No questioned costs are presented as the total expenditures per SEFA for the fiscal year were reconciled with the federal awards received from the RMI Government.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-013, continued
Pass-Through Entity: Republic of the Marshall Islands
Federal Agency: U.S. Department of the Interior
AL Program: 15.875 Economic, Social and Political Development of the Territories
Federal Award No.: Compact of Free Association Program, As Amended
Area: Reporting
Questioned Costs: \$0

Identified as a Repeat Finding: 2021-010

Recommendation: College management should strengthen controls so that required reports are accurately prepared and reviewed to provide evidence of compliance with the applicable reporting requirements and retain sufficient documentation to support all reported transactions.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-014
 Federal Agency: U.S. Department of Education
 AL Program: 84.047A TRIO Upward Bound
 Federal Award No.: P047A171556-21
 Area: Activities Allowed or Unallowed
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$440

Criteria: In accordance with the applicable activities allowed or unallowed requirements, institutions must demonstrate that costs incurred are allowable under the relevant program legislation, federal awarding agency regulations, and the terms and conditions of the award and consistent with the purpose of the Upward Bound program.

Federal program expenditures should be necessary and reasonable for the performance of the Federal award in accordance with allowable costs/cost principles requirements and be adequately documented.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Conditions:

1. For fourteen (or 74%) of nineteen items, aggregating \$1,599 of \$82,998 in total non-payroll expenditures, deficiencies were noted, as follows:

<u>Item #</u>	<u>Check#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	1034572	Stipends	\$ 20	\$ 20
2	1034794	Stipends	35	35
3	1034826	Stipends	40	40
4	1035264	Stipends	40	40
5	1035279	Stipends	40	40
6	1035478	Stipends	40	40
7	1035755	Stipends	35	35
8	1036213	Stipends	15	15
9	1036214	Stipends	40	40
10	1036236	Stipends	40	40
11	1036566	Stipends	25	25
12	1036692	Stipends	30	30

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-014, continued
 Federal Agency: U.S. Department of Education
 AL Program: 84.047A TRIO Upward Bound
 Federal Award No.: P047A171556-21
 Area: Activities Allowed or Unallowed
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$440

Conditions, continued:

<u>Item #</u>	<u>Check#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
13	1036948	Stipends	30	30
14	1038344	Stipends	<u>55</u>	<u>55</u>
			<u>\$485</u>	<u>\$485</u>

There was no supporting documentation provided to ascertain whether such expenditures were allowable costs of the underlying grants. Only \$245 questioned costs are reported at this finding as \$240 questioned costs are included and reported at finding # 2022-016.

- For three (or 7%) of forty-one items, aggregating \$24,427 of \$186,116 in total payroll expenditures, deficiencies were noted, as follows:

<u>Item #</u>	<u>Check#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	49803	Salaries and wages and benefits	\$ 40	\$ 40
2	50150	Salaries and wages and benefits	43	43
3	51131	Salaries and wages and benefits	<u>112</u>	<u>112</u>
			<u>\$195</u>	<u>\$195</u>

There was no approved employment contract or other supporting documents on file to substantiate whether such expenditures were allowable costs of the underlying grants.

Cause: The College lacks adequate internal controls over compliance with the applicable federal regulations relating to activities allowed or unallowed, specifically, obtaining and retaining sufficient documentation to support all transactions.

Effect: The College is not in compliance with the applicable activities allowed or unallowed and allowable costs/cost principles requirements. Accordingly, total questioned costs of \$680, of which \$240 is reported at finding # 2022-016, result because the projected questioned costs exceed the \$25,000 threshold.

Recommendation: College management should improve internal control policies and strengthen controls requiring obtaining and retaining sufficient documentation to support all transactions.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-014, continued
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Activities Allowed or Unallowed
Area: Allowable Costs/Cost Principles
Questioned Costs: \$440

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-015
 Federal Agency: U.S. Department of Education
 AL Program: 84.047A TRIO Upward Bound
 Federal Award No.: P047A171556-21
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$8,842

Criteria: Federal program expenditures should be necessary and reasonable for the performance of the Federal award in accordance with allowable costs/cost principles requirements and be adequately documented.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Conditions:

1. For four (or 21%) of nineteen items, aggregating \$1,599 of \$82,998 in total non-payroll expenditures, deficiencies were noted, as follows:

<u>Item #</u>	<u>Check/ Invoice #</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	22-5005	Student Housing Expenses	\$ 268	\$ 26
2	22-5206	Student Housing Expenses	268	26
3	22-6090	Student Housing Expenses	268	26
4	22-6028	Student Housing Expenses	<u>268</u>	<u>26</u>
			<u>\$1,072</u>	<u>\$104</u>

For item #s 1 through 4, these pertain to cost of meals provided to 61 students for Summer 2022 semester for which no supporting listing of students was on file. Based on our examination, it appears that there are only 55 students for Summer 2022. Only \$104 is included in the total questioned costs, which relates to the equivalent cost of 5 excess meals.

2. For twenty-three (or 56%) of forty-one items, aggregating \$24,427 of \$186,116 in total payroll expenditures, deficiencies were noted, as follows:

<u>Item #</u>	<u>Check#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	51241	Salaries and wages	\$ 375	\$ 375
2	54717	Salaries and wages and benefits	418	418
3	54807	Salaries and wages and benefits	418	418

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-015, continued
 Federal Agency: U.S. Department of Education
 AL Program: 84.047A TRIO Upward Bound
 Federal Award No.: P047A171556-21
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$8,842

Conditions, continued:

<u>Item #</u>	<u>Check#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
4	54909	Salaries and wages and benefits	418	418
5	54912	Salaries and wages and benefits	418	418
6	51955	Salaries and wages and benefits	682	682
7	51957	Salaries and wages and benefits	1,991	996
8	57284	Salaries and wages and benefits	1,010	14
9	50165	Salaries and wages and benefits	223	56
10	51956	Salaries and wages and benefits	1,411	83
11	52567	Salaries and wages and benefits	1,411	83
12	53885	Salaries and wages and benefits	1,411	83
13	55824	Salaries and wages and benefits	184	74
14	55825	Salaries and wages and benefits	181	1
15	56108	Salaries and wages and benefits	1,037	118
16	56181	Salaries and wages and benefits	413	112
17	56191	Salaries and wages and benefits	407	123
18	53553	Salaries and wages and benefits	648	341
19	56107	Salaries and wages and benefits	523	163
20	52228	Salaries and wages and benefits	1,021	1,021
21	56789	Salaries and wages and benefits	1,429	1,429
22	56791	Salaries and wages and benefits	1,037	1,037
23	54234	Salaries and wages and benefits	640	275
			<u>\$17,706</u>	<u>\$8,738</u>

For item #s 1 through 5, there was no approved employment contract to substantiate the amount paid to employees.

For item # 6, there were no hours worked per approved timesheet.

For item #s 7 through 8, approval of the amount paid to employees relating to incentive or bonus was not on file. Only \$1,010 is included in the total questioned costs, which relates to the amount paid to the employee for incentive or bonus, and related fringe benefits (employer contributions for social security and health insurance).

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-015, continued
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Allowable Costs/Cost Principles
Questioned Costs: \$8,842

Conditions, continued:

For item #s 9 through 19 and 23, we noted discrepancies in either a) the hours paid compared to the hours recorded on the approved timesheet or b) the rate paid compared to the rate per contract. Only \$1,512 is included in the total questioned costs, which relates to the variance between the amount paid to the employee against the recalculated amount based on provided supporting documentation.

For item #s 18 through 23, approval of the amount paid to employees relating to leave was not on file.

For item # 23, the copy of the check payment to support the amount paid to employee was not on file.

Cause: The College lacks adequate internal controls over compliance with the applicable federal regulations relating to allowable costs/cost principles, specifically, obtaining and retaining sufficient documentation to support all transactions.

Effect: The College is not in compliance with the applicable allowable costs/cost principles requirements. Accordingly, questioned costs of \$8,842 result because the projected questioned costs exceed the \$25,000 threshold.

Identified as a Repeat Finding: 2021-011

Recommendation: College management should improve internal control policies and strengthen controls requiring obtaining and retaining sufficient documentation to support all transactions.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-016
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Cash Management
Questioned Costs: \$ Undeterminable

Criteria: Per OMB Compliance Supplement April 2022, non-federal entities must establish written procedures to implement the requirements of 2 CFR section 200.305. Specifically, 2 CFR section 200.305(b) states that for recipients other than States, payment methods must minimize the time elapsing between the transfer of funds from the Federal agency and the disbursement of funds by the recipient.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Condition: The College does not have written procedures to implement the requirements set in the criteria above. Furthermore, no detailed listing of expenditures supporting the following drawdowns during the year was on file to ascertain whether the expenditures were incurred prior to the date of the reimbursement request:

<u>Drawdown Amount</u>
\$ 31,928
\$ 31,929
\$ 44,991
\$ 41,652
\$112,832

Cause: The College lacks written policies and procedures over cash management, including retaining documentation supporting cash drawdowns.

Effect: The College is not in compliance with the applicable cash management requirements. Questioned costs, if any, that may result from inadequate records are not determinable.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-016, continued
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Cash Management
Questioned Costs: \$ Undeterminable

Recommendation: College management should establish written internal control policies and procedures, including retaining documentation supporting cash drawdowns.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-017
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Eligibility
Questioned Costs: \$54,380

Criteria: Per OMB Compliance Supplement April 2022, an individual is eligible to participate in a Regular Upward Bound project if the individual meets all of the following requirements:

- (a) is a citizen, national, or permanent resident of the United States, or is in the United States for other than a temporary purpose;
- (b) is a potential first-generation college student, a low-income individual, or an individual who has a high risk for academic failure;
- (c) has a need for academic support in order to pursue successfully a program of education beyond high school; and
- (d) at the time of initial selection has completed the 8th grade but has not entered the 12th grade and is at least 13 years old but not older than 19. A veteran, regardless of age, who meets all other criteria is eligible to participate.

A citizen, national, or permanent resident of the United States, includes a permanent resident of Guam, the Northern Mariana Islands, the Trust Territory of the Pacific Islands (Palau), or resident of one of the Freely Associated States - the Federated States of Micronesia or the Republic of the Marshall Islands.

Moreover, 34 CFR Part 645.6(b) defines “Individual who has a high risk for academic failure” as an individual who:

- (a) Has not achieved at the proficient level on State assessments in reading or language arts;
- (b) Has not achieved at the proficient level on State assessments in math;
- (c) Has not successfully completed pre-algebra or algebra by the beginning of the tenth grade; or
- (d) Has a grade point average of 2.5 or less (on a 4.0 scale) for the most recent school year for which grade point averages are available.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-017, continued
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Eligibility
Questioned Costs: \$54,380

Criteria, continued:

Furthermore, to be eligible for a stipend, participants must show evidence of satisfactory participation in project activities, including regular attendance and performance in accordance with the number of sessions in which a student participated. Stipends for regular projects may not exceed \$40 per month from September to May of the academic year and \$60 for each of the summer months (June, July, and August).

34 CFR Part 645.43(c) states that for each participant, a grantee must maintain a record of the basis for the grantee's determination that the participant is eligible to participate in the project and the basis for the grantee's determination that the participant has a need for academic support in order to pursue successfully a program of education beyond secondary school.

2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control-Integrated Framework" issued by the COSO.

Conditions: Of 17 students tested, aggregating \$54,380 of \$208,665 in total participant benefits, we noted noncompliance, as follows:

1. For 1 student (Student Case Number C000421743), no documentation was on file to support whether the individual is a citizen, national, or permanent resident of the United States (including a permanent resident of Guam, the Northern Mariana Islands, the Trust Territory of the Pacific Islands (Palau), or resident of one of the Freely Associated States - the Federated States of Micronesia or the Republic of the Marshall Islands), or is in the United States for other than a temporary purpose.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-017, continued
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Eligibility
Questioned Costs: \$54,380

Conditions, continued:

2. For the 17 students listed below, no documentation on file to support the basis for the grantee's determination that the participant has a need for academic support to successfully pursue a program of education beyond secondary school.

<u>Item #</u>	<u>Student Case Number</u>
1	C000303202
2	C000374298
3	C000421743
4	C000421735
5	C000374297
6	C000374309
7	C000374311
8	C000421736
9	C000374317
10	C000303229
11	C000374318
12	C000374321
13	C000421746
14	C000421747
15	C000401854
16	C000374325
17	C000303220

3. For the 4 students listed below, no documentation was on file to support whether the individual at the time of initial selection has completed the 8th grade but has not entered the 12th grade and is at least 13 years old but not older than 19.

<u>Item #</u>	<u>Student Case Number</u>
1	C000374298
2	C000421743
3	C000374317
4	C000374321

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-017, continued
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Eligibility
Questioned Costs: \$54,380

Conditions, continued:

4. For the 2 students listed below, no documentation was on file to support whether the individual is a potential first- generation college student, a low-income individual, or an individual who has a high risk for academic failure.

<u>Item #</u>	<u>Student Case Number</u>
1	C000374298
2	C000374297

Cause: The College lacks adequate internal control policies and procedures over eligibility determinations, including obtaining required documentation and verification to support the College's determination that the participant is eligible to participate in the project.

Effect: The College is not in compliance with the applicable eligibility requirements. The total questioned cost is \$54,380.

Identified as a Repeat Finding: 2021-012

Recommendation: College management should improve internal control policies and strengthen controls so that eligibility determinations, including obtaining required documentation and verification, are performed in accordance with the applicable eligibility requirements.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-018
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Reporting
Questioned Costs: \$0

Criteria: Performance Reporting - Per OMB Compliance Supplement Addendum April 2022, grantees must submit an annual performance report to ED each year of the project period.

The following line items contain critical information:

Section II, *Record Structure for Participant List for Upward Bound and Upward Bound Math-Science Projects*, fields:

- 16 Eligibility (at time of initial selection)
- 17 At Risk: Reading Language Arts or Math Proficiency Not Achieved (at time of initial selection)
- 18 At Risk: Low Grade Point Average (at time of initial selection)
- 19 At Risk: Pre-Algebra or Algebra Course Not Successfully Completed by Beginning of 10th Grade (at time of initial selection)
- 20 Limited English Proficiency (at time of initial selection)
- 24 Date of First Project Service
- 25 Grade Level at First Service
- 27 Participant Status for reporting year
- 28 Participation Level for reporting year
- 29 Served by Another Federally Funded College Access Program for reporting year
- 30 Grade Level at the beginning of academic year being reported
- 37 Secondary School Retention and Graduation Objective – Numerator, for reporting year
- 45 Date of Last Project Service

In addition, under the terms of the grant award, all recipients are required to submit a final performance report within 120 days after the expiration or termination of grant support.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-018, continued
Federal Agency: U.S. Department of Education
AL Program: 84.047A TRIO Upward Bound
Federal Award No.: P047A171556-21
Area: Reporting
Questioned Costs: \$0

Conditions:

1. Section II of the Annual Performance Report which pertains to source data file could not be provided during the audit.
2. Final Performance Report could not be provided during the audit.

Cause: The College lacks adequate internal controls over compliance with the applicable federal regulations relating to reporting, specifically, retaining sufficient documentation to support reported information.

Effect: The College appears to be in noncompliance with the applicable reporting requirements. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Recommendation: College management should strengthen controls so that required reports and supporting records are retained to evidence compliance with the applicable reporting requirements.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-019
Federal Agency: U.S. Department of Education
AL Program: 84.425 Education Stabilization Fund
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Activities Allowed or Unallowed
Area: Allowable Costs/Cost Principles
Questioned Costs: \$1,138,362

Criteria: In accordance with the applicable activities allowed or unallowed requirements, institutions must demonstrate that costs incurred are allowable under the relevant statutory provisions and consistent with the purpose of the ESF “to prevent, prepare for, and respond to coronavirus”. Allowable expenditures incurred and liquidated prior to December 27, 2020 must have been “to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus”. Further, beginning December 27, 2020, any unused HEERF I Institutional Portion funds, new HEERF II Institutional Portion funds and HEERF III Institutional Portion Funds, may be used to defray expenses associated with coronavirus (including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll) and to make additional financial grants to students. HEERF I and HEERF II funds may also have been used to carry out student support activities authorized by the Higher Education Act (HEA) that address needs related to coronavirus.

HEERF Frequently Asked Questions (FAQ) Rollup Document dated October 14, 2020 states that:

- Question #38: Institutions can use CARES Act funds under Section 18004(a)(2) to make scholarships to students. Section 18004(a)(2) of the CARES Act state that institutions may use funds specifically “for grants to students for any component of the student’s cost of attendance (as defined under section 472 of the HEA), including food, housing, course materials, technology, health care, and child care”.
- Question #47: Institution may use funds from the Institutional Portion of its section 18004(a)(1) allocation to purchase equipment or software, pay for online licensing fees, or pay for internet service to enable students to transition to distance learning as such costs are associated with a significant change in the delivery of instruction due to the coronavirus. An institution may also use Institutional Portion funds for any other costs for computer system upgrades that are reasonably related to “significant changes to the delivery of instruction due to the coronavirus.” This would not include, for example, previously planned upgrades to computer systems.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-019, continued
Federal Agency: U.S. Department of Education
AL Program: 84.425 Education Stabilization Fund
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Activities Allowed or Unallowed
Area: Allowable Costs/Cost Principles
Questioned Costs: \$1,138,362

Criteria, continued:

Per HEERF I, II, and III Lost Revenue FAQ published March 19, 2021, sources of lost revenue that are not reimbursable under the HEERF grant programs include the following:

- Capital outlays associated with facilities related to athletics (including fees assessed for capital athletic facility construction);
- Acquisition of real property (including bond revenue);
- Contributions or donations to the institution;
- Marketing or recruitment activities;
- Revenue related to sectarian instruction or religious worship;
- Alcohol sales; and
- Investment income (including endowment and quasi-endowment revenue).

Federal program expenditures should be necessary and reasonable for the performance of the Federal award in accordance with allowable costs/cost principles requirements and be adequately documented.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-019, continued
 Federal Agency: U.S. Department of Education
 AL Program: 84.425 Education Stabilization Fund
 AL Sub-Program: 84.425F HEERF - Institutional Portion
 Federal Award No.: COVID-19 P425F202732
 AL Sub-Program: 84.425L HEERF - Minority Serving Institution
 Federal Award No.: COVID-19 P425L200219
 Area: Activities Allowed or Unallowed
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$1,138,362

Condition: For fifty items (or 66%) of seventy-six items, aggregating \$4,539,770 of \$10,127,277 in total non-payroll expenditures, deficiencies were noted as follows:

<u>Item #</u>	<u>Check/ PO#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	1034969	Small tools	\$1,115,378	\$1,115,378
2	1035648	Vehicles	101,250	337,500
3	1035874	Vehicles	67,500	---
4	1038536	Small tools	540	540
5	1038150	Others	645,544	645,544
6	22-PO-2880	Small tools	4,796	8,191
7	22-PO-3676	Subscriptions/ periodicals	22,984	22,984
8	236-003	Scholarships and grants	2,048	2,048
9	236-005	Scholarships and grants	587	587
10	236-027	Scholarships and grants	715	715
11	236-028	Scholarships and grants	116	116
12	236-038	Scholarships and grants	419	419
13	236-039	Scholarships and grants	1,269	1,269
14	236-041	Scholarships and grants	1,623	1,623
15	236-043	Scholarships and grants	1,202	1,202
16	236-051	Scholarships and grants	874	874
17	236-070	Scholarships and grants	83	83
18	236-096	Scholarships and grants	573	573
19	236-098	Scholarships and grants	203	203
20	236-101	Scholarships and grants	721	721
21	236-112	Scholarships and grants	2,655	2,655
22	236-117	Scholarships and grants	1,080	1,080
23	236-119	Scholarships and grants	855	855
24	236-150	Scholarships and grants	183	183
25	236-156	Scholarships and grants	3,885	3,885
26	236-173	Scholarships and grants	989	989
27	236-191	Scholarships and grants	1,108	1,108

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

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-019, continued
 Federal Agency: U.S. Department of Education
 AL Program: 84.425 Education Stabilization Fund
 AL Sub-Program: 84.425F HEERF - Institutional Portion
 Federal Award No.: COVID-19 P425F202732
 AL Sub-Program: 84.425L HEERF - Minority Serving Institution
 Federal Award No.: COVID-19 P425L200219
 Area: Activities Allowed or Unallowed
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$1,138,362

Condition, continued:

<u>Item #</u>	<u>Check/ PO#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
28	236-202	Scholarships and grants	1,205	1,205
29	236-210	Scholarships and grants	1,895	1,895
30	236-213	Scholarships and grants	444	444
31	236-224	Scholarships and grants	105	105
32	236-243	Scholarships and grants	182	182
33	236-256	Scholarships and grants	872	872
34	236-270	Scholarships and grants	1,459	1,459
35	236-274	Scholarships and grants	158	158
36	236-278	Scholarships and grants	2,889	2,889
37	236-301	Scholarships and grants	381	381
38	236-321	Scholarships and grants	112	112
39	236-329	Scholarships and grants	699	699
40	236-346	Scholarships and grants	736	736
41	236-350	Scholarships and grants	1,647	1,647
42	236-388	Scholarships and grants	2,432	2,432
43	236-412	Scholarships and grants	3,675	3,675
44	236-425	Scholarships and grants	1,202	1,202
45	236-446	Scholarships and grants	539	539
46	236-458	Scholarships and grants	1,607	1,607
47	236-467	Scholarships and grants	58	58
48	236-481	Scholarships and grants	1,421	1,421
49	236-494	Scholarships and grants	1,513	1,513
50	236-519	Scholarships and grants	923	923
			<u>\$2,005,334</u>	<u>\$2,177,479</u>

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-019, continued
Federal Agency: U.S. Department of Education
AL Program: 84.425 Education Stabilization Fund
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Activities Allowed or Unallowed
Area: Allowable Costs/Cost Principles
Questioned Costs: \$1,138,362

Condition, continued:

Item # 1 was not supported by adequate documentation (i.e. justification of the purpose prior to purchase and receiving reports) to ascertain whether such expenditure is associated to distance learning due to coronavirus. There is no evidence of communication or consultation with the grantor agency that this expenditure is allowable. No questioned cost is reported at this finding as questioned cost is reported and included at finding # 2022-022.

For item #s 2 and 3, justification for the expenditures indicated on the file is to accommodate the increasing number of students, which appears to be inconsistent and not directly associated with significant changes to the delivery of instructions due to the coronavirus. There is no evidence of communication or consultation with the grantor agency that these expenditures are allowable. The \$337,500 questioned cost is reported at this finding, which pertains to the total contract price charged against the grant related to these transactions.

Item # 4 was not supported by adequate documentation (i.e. vendor invoice and receiving report) to ascertain whether such expenditure is an allowable cost of the underlying grant.

Item # 5 relates to lost revenue from decreased appropriation (contribution) to the College, which is not reimbursable under the HEERF grant program.

Item # 6 is standard cost and not associated with coronavirus. Specifically, expenditure relates to purchase of hardware device as part of the College's firewall system for its new centers and locations. There is no evidence of communication or consultation with the grantor agency that this expenditure is allowable. \$8,191 questioned cost is reported at this finding which pertains to the total invoice price charged against the grant related to this transaction.

Item # 7 is standard recurring cost and not associated with coronavirus. Specifically, expenditure relates to annual software subscription of the College. There is no evidence of communication or consultation with the grantor agency that this expenditure is allowable. No questioned cost is reported at this finding as questioned cost is reported and included at finding # 2022-022.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-019, continued
Federal Agency: U.S. Department of Education
AL Program: 84.425 Education Stabilization Fund
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Activities Allowed or Unallowed
Area: Allowable Costs/Cost Principles
Questioned Costs: \$1,138,362

Condition, continued:

Item #s 8 through 50 pertain to relinquishment of student's outstanding debt with the College, whereas the College directly credited student's accounts and got reimbursement from the CARES Act funds under Section 18004(a)(2). These are not associated with coronavirus. There is no evidence of communication or consultation with the grantor agency that these expenditures are allowable.

Cause: The College lacks adequate internal controls over compliance with the applicable activities allowed or unallowed requirements.

Effect: The College is not in compliance with the applicable activities allowed or unallowed requirements and allowable costs/cost principles requirements. Only \$1,039,117 questioned cost is reported at this finding as \$1,138,362 is reported and included at finding # 2022-022.

Identified as a Repeat Finding: 2021-014

Recommendation: College management should improve internal control policies and strengthen controls and procedures over compliance with the applicable federal regulations on activities allowed or unallowed.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-020
 Federal Agency: U.S. Department of Education
 AL Program: 84.425 Education Stabilization Fund
 AL Sub-Program: 84.425F HEERF - Institutional Portion
 Federal Award No.: COVID-19 P425F202732
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$0

Criteria: Federal program expenditures should be necessary and reasonable for the performance of the Federal award in accordance with allowable costs/cost principles requirements and be adequately documented.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Condition: : For two items (or 3%) of seventy-six items, aggregating \$4,539,770 of \$10,127,277 in total non-payroll expenditures, deficiencies were noted as follows:

<u>Item #</u>	<u>PO#</u>	<u>Description</u>	<u>Expense Amount</u>	<u>Questioned Cost</u>
1	21-PO-2102	Small tools	\$311,212	\$311,212
2	21-PO-2102	Small tools	311,211	311,211
			<u>\$622,423</u>	<u>\$622,423</u>

Item #s 1 and 2 pertain to purchase of 750 units of laptop, however, there was no student distribution log to support distribution made to students.

Cause: The College lacks adequate internal controls over compliance with the applicable federal regulations relating to allowable costs/cost principles, specifically, obtaining and retaining sufficient documentation to support all transactions.

Effect: The College is not in compliance with the applicable allowable costs/cost principles requirements. No questioned costs are reported at this finding as questioned costs are reported at finding # 2022-022.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-020, continued
Federal Agency: U.S. Department of Education
AL Program: 84.425 Education Stabilization Fund
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
Area: Allowable Costs/Cost Principles
Questioned Costs: \$0

Identified as a Repeat Finding: 2021-015

Recommendation: College management should improve internal control policies and strengthen controls requiring obtaining and retaining sufficient documentation to support all transactions.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-021
 Federal Agency: U.S. Department of Education
 AL Program: 84.425 Education Stabilization Fund
 AL Sub-Program: 84.425E Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion
 Federal Award No.: COVID-19 P425E204126
 AL Sub-Program: 84.425F HEERF - Institutional Portion
 Federal Award No.: COVID-19 P425F202732
 AL Sub-Program: 84.425L HEERF - Minority Serving Institution
 Federal Award No.: COVID-19 P425L200219
 Area: Cash Management
 Questioned Costs: \$ Undeterminable

Criteria: Per OMB Compliance Supplement April 2022, non-federal entities must establish written procedures to implement the requirements of 2 CFR section 200.305. Specifically, 2 CFR section 200.305(b) states that for recipients other than States, payment methods must minimize the time elapsing between the transfer of funds from the Federal agency and the disbursement of funds by the recipient.

Furthermore, per OMB Compliance Supplement April 2022, for CRRSAA HEERF II and ARP HEERF III, the Certification and Agreements and/or Supplemental Agreements requires that Student Aid Portion (ALN 84.425E) should be disbursed within 15 calendar days of the drawdown from ED’s G5 grants system and Institutional Aid Portion, (a)(2), and (a)(3) funds (all other ALNs) should be disbursed within 3 calendar days of the drawdown from G5.

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Condition: The College does not have written procedures to implement the requirements set in the criteria above. Furthermore, monitoring of actual disbursements of the following drawdowns during the year was not performed:

<u>AL Sub-Program</u>	<u>Drawdown Amount</u>
84.425E	\$750,000
84.425E	\$250,000
84.425E	\$650,000
84.425F	\$350,000
84.425F	\$552,500

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-021, continued
 Federal Agency: U.S. Department of Education
 AL Program: 84.425 Education Stabilization Fund
 AL Sub-Program: 84.425E Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion
 Federal Award No.: COVID-19 P425E204126
 AL Sub-Program: 84.425F HEERF - Institutional Portion
 Federal Award No.: COVID-19 P425F202732
 AL Sub-Program: 84.425L HEERF - Minority Serving Institution
 Federal Award No.: COVID-19 P425L200219
 Area: Cash Management
 Questioned Costs: \$ Undeterminable

Condition, continued:

<u>AL Sub-Program</u>	<u>Drawdown Amount</u>
84.425F	\$900,000
84.425F	\$550,000
84.425F	\$351,000
84.425F	\$350,000
84.425F	\$450,000
84.425F	\$820,000
84.425F	\$250,000
84.425F	\$350,000
84.425F	\$292,650
84.425F	\$150,000
84.425F	\$150,000
84.425L	\$750,000
84.425L	\$360,589
84.425L	\$1,150,000
84.425L	\$350,000
84.425L	\$150,000

Cause: The College lacks written policies and procedures over cash management, including monitoring of actual disbursements of drawdowns.

Effect: The College is not in compliance with the applicable cash management requirements. Questioned costs, if any, that may result from non-monitoring of actual disbursements are not determinable.

Recommendation: College management should establish written policies and procedures over cash management, including monitoring of actual disbursements of drawdowns.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-022
Federal Agency: U.S. Department of Education
Federal Award No.: COVID-19 P425E204126
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Procurement and Suspension and Debarment
Questioned Costs: \$3,318,665

Criteria: Under the terms of the sub-awards administered by RepMar under the Compact of Free Association grant awards, RepMar authorizes the College to use its own procedures for procurement provided they meet the RepMar 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.

2 CFR 200.318(h) states that the recipient or subrecipient must award contracts only to responsible contractors that possess the ability to perform successfully under the terms and conditions of a proposed contract. The recipient or subrecipient must consider contractor integrity, public policy compliance, proper classification of employees, past performance record, and financial and technical resources when conducting a procurement transaction.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-022, continued
Federal Agency: U.S. Department of Education
Federal Award No.: COVID-19 P425E204126
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Procurement and Suspension and Debarment
Questioned Costs: \$3,318,665

Criteria, continued:

2 CFR 200.214 states that recipients and subrecipients are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, as well as 2 CFR part 180. The regulations in 2 CFR part 180 restrict making Federal awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from receiving or participating in Federal awards.

2 CFR 180.300 states that when an entity enters into a covered transaction with another person at the next lower tier, the entity must verify that the person with whom the entity intends to do business is not excluded or disqualified by doing the following:

- (a) Checking SAM.gov Exclusions; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

2 CFR 200.319 states that:

- (a) All procurement transactions under the Federal award must be conducted in a manner that provides full and open competition and is consistent with the standards of this section and § 200.320.
- (c) (6) Examples of situations that may restrict competition include specifying only a “brand name” product instead of allowing “an equal” product to be offered and describing the performance or other relevant requirements of the procurement.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-022, continued
Federal Agency: U.S. Department of Education
Federal Award No.: COVID-19 P425E204126
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Procurement and Suspension and Debarment
Questioned Costs: \$3,318,665

Criteria, continued:

(d) (2) The recipient or subrecipient must have written procedures for procurement transactions. These procedures must ensure that all solicitations incorporate a clear and accurate description of the technical requirements for the property, equipment, or service being procured. The description may include a statement of the qualitative nature of the property, equipment, or service to be procured. When necessary, the description must provide minimum essential characteristics and standards to which the property, equipment, or service must conform. Detailed product specifications should be avoided if at all possible. When it is impractical or uneconomical to clearly and accurately describe the technical requirements, a “brand name or equivalent” description of features may be used to provide procurement requirements. The specific features of the named brand must be clearly stated.

2 CFR 200.320 states that there are specific circumstances in which the recipient or subrecipient may use a noncompetitive procurement method. The noncompetitive procurement method may only be used if one of the following circumstances applies:

- (1) The aggregate amount of the procurement transaction does not exceed the micro-purchase threshold (see paragraph (a)(1) of this section);
- (2) The procurement transaction can only be fulfilled by a single source;
- (3) The public exigency or emergency for the requirement will not permit a delay resulting from providing public notice of a competitive solicitation;
- (4) The recipient or subrecipient requests in writing to use a noncompetitive procurement method, and the Federal agency or pass-through entity provides written approval; or
- (5) After soliciting several sources, competition is determined inadequate.

2 CFR 200.320 states that for micro-purchases, to the extent practicable, the recipient or subrecipient should distribute micro-purchases equitably among qualified suppliers.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-022, continued
Federal Agency: U.S. Department of Education
Federal Award No.: COVID-19 P425E204126
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Procurement and Suspension and Debarment
Questioned Costs: \$3,318,665

Criteria, continued:

Per OMB Compliance Supplement April 2022, a non-federal entity must perform a cost or price analysis in connection with every procurement action in excess of the simplified acquisition threshold, including contract modifications, and that analysis supported the procurement action (2 CFR section 200.323 and 48 CFR section 15.404-3).

48 CFR section 15.404-3 states that:

- (a) The contracting officer is responsible for the determination of a fair and reasonable price for the prime contract, including subcontracting costs. The contracting officer should consider whether a contractor or subcontractor has an approved purchasing system, has performed cost or price analysis of proposed subcontractor prices, or has negotiated the subcontract prices before negotiation of the prime contract, in determining the reasonableness of the prime contract price. This does not relieve the contracting officer from the responsibility to analyze the contractor's submission, including subcontractor's certified cost or pricing data.
- (b) The prime contractor or subcontractor shall: (1) conduct appropriate cost or price analyses to establish the reasonableness of proposed subcontract prices; (2) include the results of these analyses in the price proposal; and (3) when required by paragraph (c) of this subsection, submit subcontractor certified cost or pricing data to the Government as part of its own certified cost or pricing data.

2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control-Integrated Framework" issued by the COSO.

Conditions: Of twenty-one items, aggregating \$3,218,880 of \$10,113,117 in total non-payroll expenditures, deficiencies were noted, as follows:

- 1. For 1 item (or 5%), procurement did not provide full and open competition in the solicitation process. The invitation to bid (ITB) specified particular models, including a requirement for a specific "brand name" product instead of allowing "an equal" product to be offered.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-022, continued
 Federal Agency: U.S. Department of Education
 Federal Award No.: COVID-19 P425E204126
 AL Sub-Program: 84.425F HEERF - Institutional Portion
 Federal Award No.: COVID-19 P425F202732
 AL Sub-Program: 84.425L HEERF - Minority Serving Institution
 Federal Award No.: COVID-19 P425L200219
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$3,318,665

Conditions, continued:

Furthermore, for solicitation with brand name indicated, solicitation did not include “brand name or equivalent” description in the ITB. Furthermore, there was no documentation on file to support compliance with 48 CFR section 15.404-3.

<u>Item #</u>	<u>PO #</u>	<u>Contract Amount</u>	<u>Description</u>	<u>FY 2022 Expenditures</u>	<u>Questioned Cost</u>
1	No PO	\$1,593,397	Small tools	<u>\$1,115,378</u>	<u>\$1,115,378</u>

2. For 1 item (or 5%), procurement was sole sourced with written justification but does not appear to be justified. Furthermore, there was no documentation on file to support compliance with 48 CFR section 15.404-3.

<u>Item #</u>	<u>PO #</u>	<u>PO Amount</u>	<u>Description</u>	<u>FY 2022 Expenditures</u>	<u>Questioned Cost</u>
2	21-PO-2102	\$622,423	Small tools	<u>\$622,423</u>	<u>\$622,423</u>

3. For 13 items (or 62%), supporting procurement documentation was not sufficient to substantiate compliance with procurement method:

<u>Item #</u>	<u>PO #</u>	<u>PO Amount</u>	<u>Description</u>	<u>FY 2022 Expenditures</u>	<u>Questioned Cost</u>
3	No PO	No PO	Charter	\$ 14,174	\$ 14,174
4	21-PO-1866	\$19,422	Small Tools	19,422	19,422
5	22-PO-3676	\$22,984	Subscriptions/Periodicals	22,984	22,984
6	22-PO-3677	\$22,440	Subscriptions/Periodicals	22,440	22,440
7	22-PO-3366	\$7,390	Subscriptions/Periodicals	7,390	7,390
8	22-PO-3321	\$46,179	Subscriptions/Periodicals	46,179	46,179
9	21-PO-897	\$101,663	Subscriptions/Periodicals	13,175	13,175
10	22-PO-3309	\$4,225	Subscriptions/Periodicals	4,225	4,225
11	22-PO-3241	\$14,000	Subscriptions/Periodicals	14,000	14,000
12	22-PO-3488	\$7,631	Subscriptions/Periodicals	7,631	7,631
13	22-PO-3549	\$12,200	Subscriptions/Periodicals	12,200	12,200

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-022, continued
 Federal Agency: U.S. Department of Education
 Federal Award No.: COVID-19 P425E204126
 AL Sub-Program: 84.425F HEERF - Institutional Portion
 Federal Award No.: COVID-19 P425F202732
 AL Sub-Program: 84.425L HEERF - Minority Serving Institution
 Federal Award No.: COVID-19 P425L200219
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$3,318,665

Conditions, continued:

<u>Item #</u>	<u>PO #</u>	<u>PO Amount</u>	<u>Description</u>	<u>FY 2022 Expenditures</u>	<u>Questioned Cost</u>
14	22-PO-3777	\$4,550	Subscriptions/Periodicals	4,550	4,550
15	22-PO-2461	\$3,779	Small Tools	3,779	3,779
				<u>\$192,149</u>	<u>\$192,149</u>

For item #s 3, 5 through 6, and 8 through 14, there were no vendor quotations on file.

For item #s 7 and 15, vendor solicitation is inadequate.

For item #4, selected vendor is not the lowest bidder, and no justification of vendor selection was on file.

For item #8, there was no documentation on file to support compliance with 48 CFR section 15.404-3.

4. For an additional 3 items (or 14%), there was no documentation on file to support compliance with 48 CFR section 15.404-3:

<u>Item #</u>	<u>Contract Amount</u>	<u>Description</u>	<u>FY 2022 Expenditures</u>	<u>Questioned Cost</u>
17	\$958,368	Room and board	\$958,368	\$958,368
18	\$474,870	Room and board	430,347	430,347
19	\$337,500	Vehicles	337,500	337,500
			<u>\$1,726,215</u>	<u>\$1,726,215</u>

For item # 19, no questioned cost is reported at this finding as questioned cost is reported and included at finding # 2022-019.

Moreover, the College has no internal control policies and procedures over verification that an entity with which the College plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded.

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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-022, continued
Federal Agency: U.S. Department of Education
Federal Award No.: COVID-19 P425E204126
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Procurement and Suspension and Debarment
Questioned Costs: \$3,318,665

Cause: The College did not follow internal control policies and procedures over documentation of the procurement process to satisfy compliance with the applicable procurement requirements. Furthermore, the College lacks internal control policies and procedures over 1) verification that an entity with which the College plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded; 2) distribution of micro-purchases equitably among qualified suppliers; 3) compliance with 48 CFR section 15.404-3.

Effect: The College is not in compliance with the applicable procurement requirements. The total questioned cost is \$3,318,665.

Identified as a Repeat Finding: 2021-016

Recommendation: Responsible personnel should ensure that documentation is adequate to comply with the applicable procurement requirements. Specifically, documentation should indicate the history of procurement, including the solicitation process and rationale for contractors or vendor selection. Furthermore, the College should establish internal control policies and procedures over 1) verification that an entity with which the College plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded; 2) distribution of micro-purchases equitably among qualified suppliers; 3) compliance with 48 CFR section 15.404-3.

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.

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

Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-023
Federal Agency: U.S. Department of Education
AL Program: 84.425 Education Stabilization Fund
AL Sub-Program: 84.425E Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion
Federal Award No.: COVID-19 P425E204126
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Reporting
Questioned Costs: \$0

Criteria: Annual Reporting - Per OMB Compliance Supplement Addendum April 2022, ED will be collecting an annual report for HEERF grantees in April 2022. ED will require institutions to report on their uses of HEERF I CARES Act funds, HEERF II CRRSAA funds, and HEERF III ARP funds in advance of the ARP annual reporting deadline.

Quarterly Public Reporting for (a)(1) Student Aid Portion - Per OMB Compliance Supplement Addendum April 2022, institutions that received a HEERF 18004(a)(1) Student Aid Portion award are required to publicly post certain information on their website no later than 30 days after award and update that information every 45 days thereafter. On August 31, 2020, the frequency of reporting after the initial 30-day period decreased from every 45 days thereafter to every calendar quarter. On May 13, 2021, ED published an additional notice for student aid public reporting under CRRSAA and ARP, which requires that institution publicly post certain information on their website. Institutions must publicly post their report as soon as possible, but no later than 30 days after the publication of the notice or 30 days after the date ED first obligated funds under HEERF I, II, or III to the institution for Emergency Financial Aid Grants to Students, whichever comes later. The report must be updated no later than 10 days after the end of each calendar quarter.

Quarterly Public Reporting for (a)(1) Institutional Portion and (a)(2), and (a)(3) funds - Per OMB Compliance Supplement Addendum April 2022, Quarterly Budget and Expenditure form must be conspicuously posted on the institution's primary website on the same page the reports of the IHE's activities as to the emergency financial aid grants to students (Student Aid Portion) are posted. The form must be posted covering each quarterly reporting period no later than 10 days after the end of each calendar quarter. Any changes or updates after initial posting must be conspicuously noted after initial posting and the date of the change must be noted in the "Date of Report" line.

Furthermore, as required by 2 CFR 200.334, regardless of the need to submit an audit, all financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a federal award must be retained for a period of three years from the date of submission of the last HEERF grant's final expenditure report.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-023, continued
 Federal Agency: U.S. Department of Education
 AL Program: 84.425 Education Stabilization Fund
 AL Sub-Program: 84.425E Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion
 Federal Award No.: COVID-19 P425E204126
 AL Sub-Program: 84.425F HEERF - Institutional Portion
 Federal Award No.: COVID-19 P425F202732
 AL Sub-Program: 84.425L HEERF - Minority Serving Institution
 Federal Award No.: COVID-19 P425L200219
 Area: Reporting
 Questioned Costs: \$0

Criteria, continued:

Furthermore, 2 CFR 200.303(a) states that the subrecipient must establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the COSO.

Conditions:

1. Total annual expenditures per the Annual Report Data Collection System differ from cumulative expenditures from 01/01/21 through 12/31/21 per underlying accounting records, as follows:

<u>Annual Expenditures</u>	<u>Student Portion</u>	<u>Institution Portion</u>	<u>Minority Serving Institution</u>
Annual Data Collection System	\$2,628,200	\$2,223,328	\$ ---
Underlying accounting records	<u>2,554,416</u>	<u>1,917,546</u>	<u>338,297</u>
Over (under) reporting	<u>\$ 73,784</u>	<u>\$ 305,782</u>	<u>\$(338,297)</u>

2. ALN 84.425E COVID-19 HEERF-Student Aid Portion

- A. Quarterly reports for quarters ended 12/31/2021 and 03/31/2022 that were publicly posted in the website, along with relevant documentation evidencing compliance (i.e., webmaster logs, or other relevant documentation establishing good-faith indication that the institution posted the required information at approximately timelines established by the public reporting requirements) on whether the College was timely in publicly posting its quarterly report could not be provided.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-023, continued
Federal Agency: U.S. Department of Education
AL Program: 84.425 Education Stabilization Fund
AL Sub-Program: 84.425E Higher Education Emergency Relief Fund (HEERF) - Student Aid Portion
Federal Award No.: COVID-19 P425E204126
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Reporting
Questioned Costs: \$0

Conditions, continued:

B. Relevant documentation evidencing compliance (i.e., webmaster logs, or other relevant documentation establishing good-faith indication that the institution posted the required information at approximately timelines established by the public reporting requirements) on whether the College was timely in publicly posting its quarterly report for quarters ended 06/30/2022 and 09/30/2022, could not be provided.

**3. 84.425F COVID-19 HEERF-Institutional Portion
84.425L COVID-19 HEERF-Minority Serving Institution**

A. Relevant documentation evidencing compliance (i.e., webmaster logs, or other relevant documentation establishing good-faith indication that the institution posted the required information at approximately timelines established by the public reporting requirements) on whether the College was timely in publicly posting its quarterly report for quarters ended 12/31/2021, 03/31/2022, 06/30/2022 and 09/30/2022, could not be provided.

Cause: The College lacks adequate internal controls over the timely and accurate preparation and review of required reports as stipulated in the Compliance Supplement. Furthermore, the College lacks adequate internal controls regarding retaining sufficient documentation to support all reported transactions.

Effect: The College is not in compliance with the applicable reporting requirements. No questioned costs are presented as the identified reporting differences do not represent overpayments, and we are unable to quantify the impact of late reporting on the program.

Identified as a Repeat Finding: 2021-017

Recommendation: College management should strengthen controls so that required reports are timely and accurately prepared and reviewed and submitted within the specified timeframes to evidence compliance with the applicable reporting requirements and retain sufficient documentation to support all reported transactions.

College of the Marshall Islands
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Schedule of Findings and Questioned Costs, continued

Finding No.: 2022-023, continued
Federal Agency: U.S. Department of Education
AL Program: 84.425 Education Stabilization Fund
AL Sub-Program: 84.425E Higher Education Emergency Relief Fund (HEERF) - Student Aid
Portion
Federal Award No.: COVID-19 P425E204126
AL Sub-Program: 84.425F HEERF - Institutional Portion
Federal Award No.: COVID-19 P425F202732
AL Sub-Program: 84.425L HEERF - Minority Serving Institution
Federal Award No.: COVID-19 P425L200219
Area: Reporting
Questioned Costs: \$0

Views of Auditee and Planned Corrective Actions: The College agrees with the finding and provides details in its Corrective Action Plan.



Fiscal Year 2022 Audit Corrective Action Plan

Finding Number	Planned Corrective Action Plan	Questioned Costs	Anticipated Completion Date	Responsible Contact Person
2022-001	<p><u>Schedule of Expenditures of Federal Awards Preparation</u></p> <p>The College accepts the finding. As of FY2025, the College has taken the steps to make the necessary adjustments that were identified to ensure this is not repeated. As part of ongoing continuous quality improvements, staff were trained to ensure they can properly do the tasks.</p>	none	September 30, 2025	Stevenson B. Kotton
2022-002	<p><u>Summary Schedule of Prior Audit Findings</u></p> <p>The College accepts the finding. Proper training has been provided to the key staff to ensure this is not repeated. The prior year summary schedule for prior year findings has been prepared and will be revised for the FY2023 audit fieldworks.</p>	none	September 30, 2025	Stevenson B. Kotton
2022-003	<p><u>Timely Financial Reporting</u></p> <p>College of the Marshall Islands acknowledges the finding and confirms that substantial corrective measures have been implemented during FY2025. A new Director of Financial Affairs and Business Services has been hired, the office has been reorganized to strengthen oversight, and targeted training has been provided to newly recruited staff. Internal controls have been reinforced, a year-end closing calendar established, and comprehensive reconciliations and asset recordings are actively underway and scheduled for full completion by December 2025 to ensure timely and accurate financial reporting going forward.</p>	none	September 30, 2025	Stevenson B. Kotton
2022-004	<p><u>Payables and Receivables</u></p> <p>College of the Marshall Islands acknowledges the finding and confirms that the reorganization of the Business Office and the recruitment of skilled accounting staff have already addressed this matter. The new team began resolving the issues during the audit fieldwork by updating and reconciling subsidiary ledgers with the general ledger, clearing old balances, and strengthening internal reconciliation processes. The reconciliation of both accounts payable and accounts receivable general ledgers is actively ongoing and scheduled for full completion by September 30, 2025. These efforts, along with upgraded systems and institutionalized reconciliation procedures, will ensure accurate and complete record-keeping and prevent</p>	none	September 30, 2025	Stevenson B. Kotton



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	recurrence of similar issues in future audits.			
2022-005	<p><u>Adoption of New Accounting Standard</u></p> <p>College of the Marshall Islands acknowledges the finding and will address the implementation of GASB Statement No. 87 (Leases) in the subsequent years. The College has established internal control procedures to guide the adoption of new accounting standards and has tasked the Financial Affairs and Business Services team to lead the effort. Key staff have begun receiving training, and all lease agreements are being reviewed, classified, and prepared for proper recording. Full implementation and recognition of lease assets and liabilities under GASB 87 will be completed in the coming years to ensure full compliance with applicable accounting standards.</p>	none	September 30, 2025	Stevenson B. Kotton
2022-006	<p><u>House Renovation Costs</u></p> <p>College of the Marshall Islands acknowledges the finding and is currently gathering all related documentation and engaging all parties involved to review the matter thoroughly. The original intent of the project was to acquire the property for the College, and discussions on this matter were still ongoing during the audit fieldwork. The College will complete its internal review and determine the appropriate course of action, ensuring compliance with procurement requirements, proper documentation, and Board of Regents approval for any future capital projects.</p>	none	September 30, 2025	Stevenson B. Kotton
2022-007	<p><u>RMI Procurement Code</u></p> <p>College of the Marshall Islands acknowledges the finding and confirms that during the audit fieldwork, the College was unable to locate the required procurement documents due to the limitations of its previous manual filing system. Since then, the College has upgraded and institutionalized a cloud-based filing system to ensure proper record retention, easy retrieval, and full compliance with the RMI Procurement Code. Internal control procedures have been strengthened, and proper training has been provided to staff and will continue to be conducted twice a year to reinforce compliance requirements and best practices. With the improved filing system, enhanced controls, and ongoing training, this issue is not expected to recur in the future.</p>	none	September 30, 2025	Stevenson B. Kotton
2022-008	<p><u>Activities Allowed or Unallowed & Allowable Costs/Cost Principles</u></p> <p>College of the Marshall Islands acknowledges the finding and agrees that certain payroll expenditures were not adequately supported by employment or overload contracts, and some salaries and related benefits charged were not</p>	\$8,764	September 30, 2025	Stevenson B. Kotton



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	<p>clearly aligned with the purpose of the related subgrants. These gaps occurred because of inadequate internal controls and the limitations of the previous manual filing system, which made it difficult to locate and verify supporting documents during the audit fieldwork.</p> <p>To address this, the College has upgraded and institutionalized a cloud-based filing system to ensure complete, accessible, and properly organized documentation for all grant-funded positions and expenditures. Internal controls have been strengthened to require signed employment and overload contracts, proper funding source verification, and supervisory review before any grant-related payroll costs are charged. With the upgraded systems and the support of newly hired skilled staff, the College is now better equipped to maintain compliance and oversight. Staff have been trained and will continue to be trained twice a year on federal allowability and cost principles to prevent recurrence of similar issues in future audits.</p>			
2022-009	<p><u>Allowable Costs/Cost Principles</u></p> <p>College of the Marshall Islands acknowledges the finding and confirms that during the audit fieldwork, the required supporting documents could not be located due to the limitations of the previous manual filing system. The College has since upgraded and institutionalized a cloud-based filing system to ensure accurate recordkeeping, easy retrieval, and compliance with federal documentation requirements. Internal control procedures have been strengthened, and staff have received proper training, which will continue to be conducted twice a year on compliance with federal allowable cost principles and documentation standards. These measures will prevent recurrence of similar issues and ensure that all federal expenditures are adequately supported and fully compliant going forward.</p>	\$7,277	September 30, 2025	Stevenson B. Kotton
2022-010	<p><u>Equipment and Real Property Management</u></p> <p>College of the Marshall Islands acknowledges the finding and confirms that a new system has been put in place to transition from manual to automated processes for improved recordkeeping and monitoring. The College has implemented the MIP Fixed Asset Module to maintain complete and accurate capital asset records, conduct timely reconciliations, and strengthen asset safeguarding controls. Internal procedures have been enhanced to ensure periodic physical inventory, prompt updates, and independent reviews of capital asset records. The full reconciliation and migration of all capital asset data into the new system is</p>	none	September 30, 2025	Stevenson B. Kotton



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	actively ongoing and scheduled to be completed by December 2025. These measures will ensure compliance with federal property management requirements and prevent recurrence of similar issues in the future.			
2022-011	<p><u>Period of Performance</u></p> <p>College of the Marshall Islands acknowledges the finding and confirms that this resulted from gaps in the previous manual filing and monitoring system, which made it difficult to verify funding period dates during the audit fieldwork. The College has since upgraded and institutionalized a cloud-based filing system and strengthened internal controls to ensure all costs are properly aligned with the funding periods stipulated in the grant awards. With the upgraded systems and the support of newly hired skilled staff, the College is now better equipped to maintain accurate documentation and monitoring. Staff have been trained—and will continue to be trained twice a year—on compliance with federal grant requirements, including period of performance rules. These measures will ensure timely verification and prevent similar issues from recurring in future audits.</p>	\$6,443	September 30, 2025	Stevenson B. Kotton
2022-012	<p><u>Procurement and Suspension and Debarment</u></p> <p>College of the Marshall Islands acknowledges the finding and confirms that the gaps noted resulted mainly from the previous manual filing system and limited internal procurement controls. The College has since upgraded and institutionalized a cloud-based filing system to ensure complete documentation, proper retention, and easy retrieval of procurement records. Internal control policies and procedures have been strengthened to ensure compliance with the RMI Procurement Code, including vendor selection documentation, verification of suspension and debarment status, and equitable distribution of micro-purchases. In addition, newly hired staff dedicated to Procurement and Accounts Payable have been onboarded to improve oversight and compliance. With these new systems, strengthened controls, and added staffing capacity, the College is now better positioned to maintain full compliance. Staff have been trained—and will continue to be trained twice a year—on procurement requirements and federal regulations to prevent recurrence of similar issues in future audits.</p>	\$112,538	September 30, 2025	Stevenson B. Kotton
2022-013	<p><u>Reporting</u></p> <p>College of the Marshall Islands acknowledges the finding and agrees that there were deficiencies in the submission and reconciliation of required reports—including missing Form</p>	none	September 30, 2025	Stevenson B. Kotton



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	<p>SG1 expenditure budget breakdowns, missing and delayed Form SG2 performance and financial evaluation reports, and variances between the reported expenditures and the SEFA amounts. These issues primarily resulted from the limitations of the previous manual filing and reporting system, which hindered timely retrieval and review of supporting documents during the audit fieldwork.</p> <p>To address this, the College has upgraded and institutionalized a cloud-based filing and reporting system to ensure all supporting documents and reports are systematically organized, accessible, and securely retained. Internal controls have been strengthened to enforce timely preparation, review, and submission of required Form SG1 and SG2 reports, and to ensure accurate reconciliation of reported expenditures against SEFA. With the upgraded systems and the support of newly hired skilled staff, the College is now better equipped to maintain proper documentation and meet federal reporting requirements. In addition, staff have been trained and will continue to be trained twice a year on federal reporting standards and sub-award requirements to prevent similar issues from recurring in future audits.</p>			
2022-014	<p><u>Activities Allowed or Unallowed & Allowable Costs/Cost Principles</u></p> <p>College of the Marshall Islands acknowledges the finding and agrees that the noted questioned costs arose from missing supporting documentation and employment contracts due to limitations in the previous manual filing system, which made timely retrieval difficult during the audit fieldwork. The College has since upgraded and institutionalized a cloud-based filing system to improve recordkeeping, accessibility, and documentation retention for all program expenditures. Internal controls have been strengthened to ensure that all stipends, salaries, and benefits charged to the TRIO Upward Bound program are fully supported by proper documentation, verified, and reviewed before payment and reporting. With the upgraded systems and the support of newly hired skilled staff, the College is now better equipped to ensure compliance. Staff have been trained—and will continue to be trained twice a year—on federal grant cost principles and documentation requirements to prevent recurrence of similar issues in future audits.</p>	\$440	September 30, 2025	Stevenson B. Kotton
2022-015	<p><u>Allowable Costs/Cost Principle</u></p> <p>The College of the Marshall Islands acknowledges the</p>	\$8,842	September 30, 2025	Stevenson B. Kotton



	<p>finding and agrees that some payroll and non-payroll expenditures charged to the TRIO Upward Bound program lacked sufficient supporting documentation, including missing employment contracts, timesheets, and student meal listings, as well as discrepancies between paid hours/rates and approved documentation. These gaps arose primarily from inadequate internal controls and the limitations of the previous manual filing system, which hindered timely verification during the audit fieldwork.</p> <p>To address this, the College has upgraded and institutionalized a cloud-based filing system to ensure complete, organized, and easily accessible documentation for all program expenditures. Internal controls have been strengthened to require proper supporting documents including signed employment contracts, verified timesheets, approval for incentive and leave payments, and student listings—before any program costs are processed or reported. With the upgraded systems and the support of newly hired skilled staff, the College is now better equipped to ensure accuracy and compliance. Staff have been trained—and will continue to be trained twice a year—on federal cost principles and documentation standards to prevent recurrence of similar issues in future audits.</p>			
2022-016	<p><u>Cash Management</u></p> <p>College of the Marshall Islands acknowledges the finding and agrees that the absence of written cash management procedures and the lack of supporting expenditure listings for drawdowns created gaps in compliance with federal requirements. These issues stemmed from inadequate internal controls and the limitations of the previous manual filing system, which made it difficult to verify that drawdowns were fully supported by incurred expenditures during the audit fieldwork.</p> <p>To address this, the College has drafted new cash management policies and procedures in accordance with 2 CFR 200.305, which are now being circulated for review and approval. These policies will require maintaining detailed expenditure listings to support every reimbursement request and ensuring that funds are drawn only after related costs have been incurred. The College has also upgraded and institutionalized a cloud-based filing system to ensure complete documentation and easy retrieval of drawdown support records. With the upgraded systems and the support</p>	Undeterminabl e	September 30, 2025	Stevenson B. Kotton



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	of newly hired skilled staff, the College is now better equipped to comply with cash management requirements. Staff have been trained and will continue to be trained twice a year on federal cash management and documentation standards to prevent recurrence of similar issues in future audits.			
2022-017	<p><u>Eligibility</u></p> <p>College of the Marshall Islands acknowledges the finding and agrees that several participant files lacked the required eligibility documentation, including proof of citizenship/residency, verification of academic support needed, documentation of age and grade level at initial selection, and confirmation of first-generation or low-income status. These gaps resulted from weak internal controls and the limitations of the previous manual filing system, which hindered proper tracking and retention of eligibility records during the audit fieldwork.</p> <p>To address these deficiencies, the College has upgraded and institutionalized a cloud-based filing system to ensure complete, organized, and easily retrievable participant eligibility documentation. Internal control policies and procedures have been strengthened to require that all eligibility documents including citizenship/residency proof, age and grade verification, academic support need assessments, and first-generation/low-income eligibility forms—are obtained, reviewed, and approved before a student is enrolled and receives any program benefits or stipends. The TRIO Office has implemented a new eligibility checklist and supervisory review process to verify completeness and compliance for every participant file.</p> <p>With the upgraded systems and the support of newly hired skilled staff, the College is now better positioned to maintain accurate eligibility records. Staff have been trained and will continue to be trained twice a year on federal eligibility requirements and documentation standards to prevent recurrence of similar issues in future audits.</p>	\$54,380	September 30, 2025	Stevenson B. Kotton
2022-018	<p><u>Reporting</u></p> <p>College of the Marshall Islands acknowledges the finding and agrees that both the Section II source data file of the</p>	none	September 30, 2025	Stevenson B. Kotton



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	<p>Annual Performance Report (APR) and the required Final Performance Report could not be provided during the audit. This occurred due to inadequate internal controls and the limitations of the previous manual filing system, which led to incomplete retention and difficulty retrieving submitted reports during the audit fieldwork.</p> <p>To correct this, the College has upgraded and institutionalized a cloud-based filing system to ensure all source data files, APR submissions, and Final Performance Reports are properly stored, organized, and easily accessible. Internal control policies and procedures have been strengthened to require that all performance reports are submitted on time, with verified source data and confirmation of successful submission retained in the system. The TRIO Office has established a reporting calendar, supervisory review process, and digital archive protocol to ensure all APR and final reports are prepared, submitted, and properly retained.</p> <p>With the upgraded systems and the support of newly hired skilled staff, the College is now better equipped to meet federal reporting requirements. Staff have been trained—and will continue to be trained twice a year—on performance reporting procedures and federal reporting standards to prevent recurrence of similar issues in future audits.</p>			
2022-019	<p><u>Activities Allowed or Unallowed/ Allowable Costs/Cost Principles:</u></p> <p>The College agrees with the finding. We take note previous corrective actions did not fully resolve the issue. The College will implement monthly/quarterly budget-to-actual reconciliations as a new agenda item during its monthly grant meetings. The College will enforce stricter oversight by the grants office to ensure compliance with allowable cost principles.</p>	\$1,138,362	September 30, 2025	Stevenson B. Kotton
2022-020	<p><u>Allowable Costs/ Cost Principles:</u></p> <p>The College agrees with the finding. To address the repeat finding, the College will evaluate and strengthen internal controls by updating its policies/procedures addressing activities allowed or unallowed requirements. The College will conduct regular refresher training to ensure proper and full use and utilization of its document management system and all other College systems.</p>	none	September 30, 2025	Stevenson B. Kotton



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2022-021	<p><u>Cash Management:</u></p> <p>The College agrees with the finding. To strengthen internal controls over cash management, the College will establish written guidelines that will clearly define timelines, responsibilities, and approval processes for drawdown and disbursements. The College will reconcile drawdowns to expenditures on a monthly/quarterly basis.</p>	Undeterminable	September 30, 2025	Stevenson B. Kotton
2022-022	<p><u>Procurement and Suspension and Debarment:</u></p> <p>The College agrees with the finding and takes note of the previous corrective actions that did not fully resolve the issue. The College will update its Purchasing and Accounts Payable Policy to require SAM.gov verification prior to awarding contracts. The College will conduct mandatory procurement training to strengthen compliance with federal requirements.</p>	\$3,318,665	September 30, 2025	Stevenson B. Kotton
2022-023	<p><u>Reporting:</u></p> <p>The College agrees with the finding. To address the repeat finding, the College will implement a standardized reporting check list and a calendar utilizing its Asana Project Management tool to track and monitor all required federal and grant deadlines.</p>	none	September 30, 2025	Stevenson B. Kotton