

Management Letter

College of the Marshall Islands

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

Year ended September 30, 2022



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October 3, 2025

The Board of Regents
College of the Marshall Islands

In planning and performing our audit of the financial statements of the business-type activities of College of the Marshall Islands (the College) as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Duplicate Expenses

Condition: During our audit, we noted instances where expenses were recorded more than once in the general ledger. Specifically, one item for contractual services dated 12/21/2021 for \$9,259 and one item for recruitment and expatriation travel dated 7/18/2022 for \$14,699. These duplicate entries resulted in overstated expenses for the affected period.

Recommendation: We recommend that the College implement enhanced controls over the recording and review of expenses, including periodic reconciliations and supervisory reviews. Additionally, staff should be trained to identify and prevent duplicate entries, and management should consider incorporating system-based checks to flag potential duplicates before transactions are posted.

Christmas Bonuses

Condition: During the year ended September 30, 2022, the College paid Christmas bonuses totaling \$61,200 to employees. These payments lack appropriate authorization from the Board of Regents. Furthermore, these payments may constitute wages under the Income Tax Act 1989 and thus may be subject to withholding taxes. No withholding taxes were withheld by the College. Finally, these payments may constitute earnings under the Social Security Act and thus may be subject to required employer matching contributions. No employer matching contribution were paid by the College.

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

Untimely Expense Reimbursements

Condition: During our audit, we were advised by the College's internal auditor that a reimbursement request for \$1,500 for an expense incurred in December 2021 for three "Employee of the Year" awards was not submitted or processed until July 2023 - approximately 18 months after the original transaction date.

Recommendation: We recommend that management establish or enforce a written policy that sets clear deadlines (e.g., 60 days) for submission of expense reimbursement requests. Timely reimbursement ensures accurate financial reporting, proper budgetary oversight, and compliance with grant, policy, or contract requirements.

Travel Related Expenses

Condition: During our audit, we identified payments to Air Marshall Islands, Inc. of \$112,000 and \$8,700 related to international and domestic charters of Fiji Airways aircraft for medical evacuation purposes. While the College may have acted in response to an urgent situation, the nature of these expenses does not clearly align with the College's educational mission or typical operational activities. These payments lack appropriate authorization from the Board of Regents.

Recommendation: We recommend that the College review and evaluate the circumstances surrounding this expense to ensure it was necessary, properly authorized, and in the best interest of the institution. Going forward, we recommend management develop or reinforce policies governing emergency or non-routine expenses, including clear guidelines on when such costs may be considered mission-aligned and how they should be documented and approved.

Employee Retirement Savings Plan

Condition: During our audit, we noted that the ASC Contributions 401(k) liability account was not reconciled at year-end to documentation such as payroll records or plan administrator reports. Accurate reconciliations are a key control to ensure that employee and employer contributions are properly recorded, timely remitted, and in accordance with plan terms and College employee understanding. Specifically, the liability account was understated as the account recorded a negative amount totaling \$18,290. As the misstatement was not considered material to the financial statements, no audit adjustment was proposed.

Recommendation: We recommend that management implement procedures to reconcile the ASC Contributions 401(k) liability account on a monthly or quarterly basis and ensure that all contributions are supported by payroll records and remittance confirmations from the plan administrator. This reconciliation should be reviewed and approved by someone independent of the payroll processing function.

RMI Withholding and MISSA Social Security Taxes

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

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

Payroll period	Date Filed	Date Paid
12/03/2021 - 12/31/2021	01/17/2022	01/17/2022
01/01/2022 - 01/28/2022	Compliant	02/15/2022
01/29/2022 - 02/25/2022	07/28/2022	08/01/2022
02/26/2022 - 03/25/2022	04/12/2022	04/12/2022
04/23/2022 - 05/20/2022	Compliant	06/07/2022
08/13/2022 - 09/09/2022	09/28/2022	09/30/2022
09/10/2022 - 10/07/2022	10/24/2022	10/24/2022

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

Examination of employer's Social Security quarterly tax returns for contributions withheld indicated the quarter ended 12/31/2021 was paid on 01/21/2022 and quarter ended 09/30/2022 was paid on 10/17/2022. The MISSA tax deadline is the 10th of the first month of the following quarter. The College was noncompliant with this requirement resulting in penalties and interest of \$2,783.

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

Adequacy of Documents

Condition: The following documentation matters were noted:

- a. Supporting documentation for an expense associated with a drawdown (Ref # 56289) amounting to \$106,387 could not be provided.
- b. Supporting documentation for small tools expense (Ref # 55-00278) amounting to \$206,113 could not be provided.

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

Related Party Transactions

Condition: During our audit, we noted that the College does not have a formal process in place to identify, document, and monitor related party relationships and transactions. During the year ended September 30, 2022, we noted certain transactions entered by the College with a local company owned by an employee for the following activities:

Air conditioners and related supplies	\$ 94,253
Bookstore purchases	\$ 12,207
Payroll allotments	\$ 4,905

While some related party transactions may be disclosed or known informally, the absence of a structured approach increases the risk that material related party transactions may not be appropriately identified, reviewed, or disclosed in the financial statements, as required by applicable accounting standards.

Recommendation: We recommend that management implement formal procedures to identify and monitor related party relationships and transactions including, but not limited to: (1) establishing a process for annual disclosure of related party relationships by members of the Board of Regents, executive management, and key personnel; (2) maintaining a centralized log of related parties and their transactions with the College; (3) reviewing related party transactions for propriety, reasonableness, and appropriate approval; and (4) ensuring that such transactions are properly disclosed in the financial statements in accordance with applicable financial reporting frameworks.

This communication is intended solely for the information and use of management, the Board of Regents, others within the organization, and the Office of the Auditor-General, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

October 3, 2025

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

Ernst + Young LLP