

Management Letter

College of the Marshall Islands

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

Year ended September 30, 2023



**Shape the future
with confidence**

May 27, 2026

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, 2023, 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:

RMI Procurement Code

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

- a. Records of technical and financial evaluation of bidders supporting vendor selection for a contract totaling \$118,444 were not provided.
- b. Procurement for subscription for software with PO #22-PO-3875 totaling \$10,893 does not have supporting price quote analysis and three price quotation from different vendors.

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

Christmas Bonuses

Condition: During the year ended September 30, 2023, the College paid Christmas bonuses totaling \$81,756 to employees. These payments lack appropriate authorization from the Board of Regents. Furthermore, these payments 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.

Inventory

Condition: The College lacks established written policies and procedures regarding inventory counts. Count sheets are not pre-numbered and/or it does not have page/ numerical control.

Recommendation: Management should establish written policies and procedures regarding inventory count procedures. Furthermore, although all inventory items are alphabetically arranged, we recommend management implement internal control procedures to effectively monitor completeness of count sheets prior to summarization.

Credit Card Replenishments

Condition: During the year ended September 30, 2023, we noted payments totaling \$60,000 made to replenish the College's credit card that were recorded directly as expenses at the time of payment. This treatment may result in misstated expenses and does not accurately reflect the nature of the underlying transactions. Credit card replenishments represent settlement of previously incurred obligations rather than new expenditures. Expenses should be recognized when the underlying goods or services are received and charged to the credit card, not when the credit card balance is paid. Recording replenishments as expenses may lead to duplicate expense recognition or improper classification within the financial statements.

Recommendation: We recommend that management implement procedures to ensure that credit card transactions are recorded as expenses at the time the charges are incurred, based on supporting documentation (e.g., credit card statements and receipts). Payments to the credit card company should be recorded as a reduction of the liability. Additionally, periodic reconciliations of credit card statements to the general ledger should be performed and reviewed to ensure accuracy and completeness.

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 \$17,076. 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
10/08/2022 - 11/04/2022	Compliant	11/22/2022
11/05/2022 - 12/02/2022	Compliant	12/19/2022
12/03/2022 - 12/31/2022	01/16/2023	01/18/2023
01/01/2023 - 01/28/2023	Compliant	02/13/2023
03/26/2023 - 04/22/2023	05/09/2023	05/09/2023
04/23/2023 - 05/20/2023	06/08/2023	06/12/2023
06/18/2023 - 07/15/2023	Compliant	07/31/2023
07/16/2023 - 08/12/2023	09/11/2023	09/11/2023
08/13/2023 - 09/09/2023	Compliant	09/25/2023
09/10/2023 – 10/07/2023	Compliant	10/23/2023

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 12/31/2022 was paid on 02/23/2023, quarter ended 03/31/2023 was paid on 04/24/2023 and quarter ending 09/30/2023 was paid on 12/15/2023. 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 \$9,775.

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 the expenses associated with the drawdown made for document 263-007 (\$161,473) and 57676 (\$162,921) could not be provided.
- b. Supporting documentation for the following recorded expense could not be provided:

Document Number	Amount
1039255	\$44,523
440-003	\$220,033
ULG2809GL	\$90,360
1039726	\$48,651
1040716	\$750
1041845	\$7,374
335-104	\$6,208

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

Reporting

Condition #1: ALN 15.875

Expenditures reported per Form SG2-Performance and Financial Evaluation quarterly report for the quarter ended June 30, 2023 did not agree to the accounting records that support the audited financial statements as follows:

Sector	Amount per Form SG2- Performance and Financial Evaluation quarterly report	Amount per accounting records	Variance
Compact Designated	\$546,532	\$492,156	\$54,376

Condition #2: ALN 84.425F

Expenditures reported per the Quarterly Budget and Expenditure Report for the quarter ended December 31, 2022 did not agree to the accounting records that support the audited financial statements as follows:

Portion	Amount per Quarterly Budget and Expenditure Report	Amount per accounting records	Variance
84.425F – Institutional Portion	\$355,323	\$350,598	\$4,725

Reporting, continued

Recommendation:

College management should strengthen controls so that required reports are accurately prepared and reviewed to evidence compliance with applicable reporting requirements.

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

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

Ernst + Young