

May 22, 2007

Board of Regents
College of Micronesia-FSM:

In planning and performing our audit of the financial statements of College of Micronesia-FSM (the College), as of and for the year ended September 30, 2006, on which we have issued our report dated May 22, 2007, we developed the following recommendations concerning matters related to the College's internal control and certain observations and recommendations on other accounting and administrative matters. Our observations and recommendations are summarized below.

Finding No. 2006-01 - Deferred Income and Receivables

Criteria: For external financial reporting purposes, contract receivables should be recorded when valid reimbursable expenses have been incurred.

Condition: Upon receipt of a contract, the College records receivables and deferred revenue. When valid expenses are recognized, revenue is recognized and the deferred revenue is reduced. As of fiscal year end, receivables that have been recorded in this manner should be netted with the remaining deferred revenue. However, the College does not routinely analyze its receivables/deferred revenue to be able to determine the adjustment required for external financial reporting purposes.

Cause: The cause of this condition is that the receivable/deferred revenue has to be recorded in the College's system to enable a budgetary balance to be loaded.

Effect: During the fiscal year, deferred revenue and related receivables are overstated. However, at year-end, provided that the appropriate adjustment is captured, no financial statement effect will result from this condition.

Prior Year Status: This finding was reported in the fiscal year 2005 management letter.

Recommendation: At each year end, or until the College can determine if an alternative manner of capturing the required budgetary authorization exists, the College should identify and accumulate data necessary to net the remaining deferred revenue with the applicable receivables.

Finding No. 2006-02 - Receivables

Criteria: Management should review its receivables and assess them for collectibility on a quarterly basis.

Condition: Management engages in a formal assessment of receivables only at fiscal year end.

Cause: The current accounting system does not support aging of receivables.

Effect: The effect of this condition is a potential negative impact on operating cash flows.

Finding No. 2006-02 – Receivables, Continued

Recommendation: Management should consider acquiring software that has the capability to better age receivables.

Finding No. 2006-03 - Assessment of Interfund Receivables and Payables

Criteria: GAS Statement No. 34 requires that interfund receivables and payables be periodically assessed to determine collectibility and to determine whether such represent long-term receivables/payables based on the ability of a fund to repay its debt.

Condition: The College has not engaged in a formal process to assess interfund payables and receivables in accordance with GAS 34 requirements.

Cause: The College has not formalized its review process.

Effect: The effect of this condition is that interfund balances can represent long-term assets or liabilities or could represent a requirement to record a permanent transfer. While no net impact may occur in the consolidated external financial statement presentation, the financial position of individual funds may be materially misstated.

Prior Year Status: This finding was reported in the fiscal year 2005 management letter.

Recommendation: We recommend that a formal assessment of interfund balances occur on a quarterly basis.

Finding No. 2006-04 – Bank Reconciling Items

Criteria: Unidentified bank reconciling items should be cleared in a timely manner.

Condition: The following bank reconciling items are not resolved:

<u>G/L Code</u>	<u>Amount</u>	<u>Date</u>	<u>Description</u>
1551	\$ 60.00	09/30/05	Bank posting error
1552	(12.29)	May 2006	unidentified check debited by bank
1552	(600.00)	Apr 2006	unidentified check debited by bank
1552	(1,029.80)	Nov 2004	unidentified check debited by bank
1552	(376.00)	Mar 2004	Mar 2004 beginning balance understated
1552	630.00	Nov 2003	Double credit entry by bank
1702	(50.08)		Unreplenished bank charge
1732	(100.00)	Sep 2006	unidentified check debited by bank
1732	1,000.00	Apr 2003	unidentified deposit by bank
1752	1,479.26	2003	unidentified deposit by bank

Cause: Reconciling items are not resolved in a timely manner.

Effect: The effect of this condition is a potential internal control weakness.

Recommendation: Unidentified bank reconciling items should be resolved in a timely manner.

Finding No. 2006-05 – Bank Charges

Criteria: COM-FSM should have sufficient balances in its payroll checking account.

Condition: COM-FSM paid \$9,861 for NSF charges in FY 2006.

Cause: COM-FSM did not appear to monitor the payroll checking account balance. As a result, various payroll checks bounced and bank charges for NSF checks occurred.

Effect: The effect of this condition is that unnecessary expenses were incurred by the College.

Recommendation: COM-FSM should monitor the payroll checking account balance to avoid unnecessary bank charges.

Finding No. 2006-06 – Missing Cash Collection

Criteria: Cash collected should equal the amount banked.

Condition: For 1 (or 4%) of 25 cash receipts tested, the cash receipts for the day did not equal the amount banked.

<u>Date of Receipt</u>	<u>Receipt #</u>	<u>Amount</u>	<u>Amount of Deposit</u>	<u>Discrepancy</u>
08/09/06	10979	\$12,167.90	\$8,714.90	\$3,453.00

Cause: The cause of this condition is that cash was kept in the vault and was not deposited timely. When cash was finally banked, the collection for that day was short by \$3,453.

Effect: The effect of this condition is a potential overstatement of miscellaneous expenses.

Recommendation: We recommend the timely deposit of cash collections.

Finding No. 2006-07 – Kosrae Savings Account

Criteria: Daily cash collections at State campuses should be banked on the same or following day.

Condition: Cash received at the Kosrae Campus from 07/06/06 to 09/20/06 in the amount of \$13,507 was not deposited until the end of October 2006.

Cause: Kosrae staff failed to follow COM-FSM policy.

Effect: Noncompliance with policy results from this condition.

Recommendation: Management should ensure that daily collections are promptly banked.

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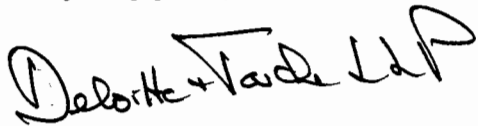
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This report is intended solely for the information and use of Board of Regents and management of the College, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font. The "D" is large and loops around the "eloitte". The "+" sign is small and positioned between "eloitte" and "Touche". The "Touche" is written in a similar cursive style, and "LLP" is written in a slightly more upright, but still cursive, font at the end.