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June 12, 2013

Dr. Joseph M. Daisy  
President  
College of Micronesia-FSM  
P.O. Box 159  
Kolonias, Pohnpei 96941

Dear Dr. Daisy:

In planning and performing our audit of the financial statements of the College of Micronesia-FSM as of and for the year ended September 30, 2012 (on which we have issued our report dated June 12, 2013), 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, we considered the College of Micronesia-FSM's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College of Micronesia-FSM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College of Micronesia-FSM's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the College of Micronesia-FSM's internal control over financial reporting and other matters as of September 30, 2012 that we wish to bring to your attention.

We have separately reported in a letter dated June 12, 2013 addressed to the College of Micronesia-FSM's management, certain deficiencies involving the College of Micronesia-FSM's information technology environment.

We have also issued a separate report to the Board of Regents, also dated June 12, 2013, on our consideration of the College of Micronesia-FSM's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

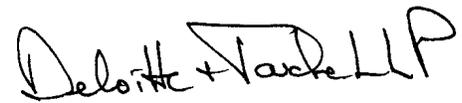
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the College of Micronesia-FSM for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font. The word "Deloitte" is on the left, followed by a plus sign, and "Tatchell LLP" is on the right. The letters are connected and fluid.

## SECTION I – DEFICIENCIES

We identified the following deficiencies involving the College of Micronesia-FSM's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

### 1. Procurement – Price Comparison Analysis

Comment: Price comparison analysis (PCA) worksheets are in file to support vendor selection. However, the related price quotations and/or contact information of vendors contacted for items wherein PCA noted “no stock available” or for vendors that did not provide quotations was not evident. This process could be subject to manipulation as three positive quotes are not received.

Recommendation: We recommend the College of Micronesia-FSM confirm the adequacy of this practice with the Office of the Attorney General.

## SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

### 1. Inventory

Comment: Tests of five inventory items noted the following:

- For one item, unit cost was incorrectly calculated due to erroneous input of quantity to allocated freight and taxes.
- For one item, unit cost was incorrect due to human error during manual consolidation of bookstore inventory for all campuses.
- For one item, there are no current year purchases but the item could not be traced to prior year listing.
- For one item, the requested latest vendor invoices could not be provided.

The above errors resulted in an overstatement of \$5,955 in inventory. This matter was corrected through an entity proposed adjustment.

Recommendation: We recommend that the College of Micronesia-FSM strengthen procedures over inventory costing and improve the bookstore inventory system.

### 2. Expenditures

Comment: Tests of thirty-nine expenses noted the following:

1. For one travel expense (reference no. api12-1248), the related travel authorization (TA), boarding passes and documentation of completion of travel or any equivalent documentation could not be located.
2. For one item (reference no. api12-0161), the purchase order was processed after the invoice and receiving report dates. It appears that no approval of fund certification occurred prior to the incurrence of the expenditure.

## APPENDIX I, CONTINUED

3. For one item (reference no. api12-0996), the purchase order date was later than the invoice date. There appears to be a lack of prior approval and fund certification. The receiving report or equivalent documentation evidencing receipt or completion of services was not provided. Further, there is no PCA or price quotes or documentation evidencing competitive procurement.

Recommendation: We recommend that the College of Micronesia-FSM strengthen procedures over approval, procurement, receipt and recording of expenditures.

### 3. Payroll

Comment: Three personnel action forms were processed and approved after the effective dates as follows:

Employee Number	PAF Effective Date	PAF Approval Date	No. of Days Lapsed
911879	08/04/11	04/11/12	251
069724	01/04/12	04/20/12	107
911763	09/26/11	12/20/11	85

Recommendation: We recommend the College of Micronesia-FSM take reasonable steps to determine that PAFs are timely processed and completed.

### 4. Eligibility Checklist

Comment: One student file did not contain a completed eligibility summary checklist from the eligibility worker and/such was not reviewed by the Program director.

Recommendation: We recommend that the College of Micronesia-FSM verify the eligibility checklist and that such are reviewed by the Program director.

### 5. Local Noncompliance

Comment: The College's procurement policies require that formal bidding be utilized for purchases of construction projects of at least \$20,000. However, for one construction project (reference no. api12-0796) with a contract amount of \$23,900, procurement utilized informal bidding as documented in the Price Comparison Analysis (PCA). The PCA indicated four firms were invited to submit proposals but only two responded. Copies of the two proposals received could not be provided. Further, names and contact information of the two non-responding vendors was not in file.

Recommendation: We recommend that the College adhere to compliance with local procurement policies and strengthen procedures to determine that procurement documentation is completely and properly filed.

**SECTION III – DEFINITIONS**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The definition of a deficiency and a significant deficiency are as follows:

A *deficiency* in internal control over financial reporting 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary College of Micronesia-FSM or competence to perform the control effectively.

## **MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

### **Management's Responsibility**

The College of Micronesia-FSM's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.