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June 20, 2014

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

Dear Dr. Daisy:

In planning and performing our audit of financial statements of College of Micronesia-FSM as of and for the year ended September 30, 2013 (on which we have issued our report dated June 20, 2014), 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 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 College of Micronesia-FSM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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 College of Micronesia-FSM's internal control over financial reporting and other matters as of September 30, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated June 20, 2014, on our consideration of 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 College of Micronesia-FSM for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

## SECTION I –DEFICIENCIES

We identified the following deficiencies involving College of Micronesia-FSM's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Prepayments

   Comment: Five of six prepayments tested totaling $407,185 had been received as of September 30, 2013. This was corrected through a proposed audit adjustment. Details as follows:

| PO Number | Division | Amount |
|---|---|---|
| po13-0129 | 411 | $ 40,741 |
| po13-1629 | 411 | 76,698 |
| po13-2772 | 411 | 147,054 |
| po13-0232 | 411 | 24,998 |
| po13-2766 | 411 | 84,770 |
| | | $ 374,261 |

   Recommendation: We recommend that the College strengthen control procedures over prepayments including requiring departments to timely submit receiving reports to the Business office within a set timeline.

2. Procurement – Price Comparison Analysis

   Comment: Price comparison analysis (PCA) worksheets are in file to support vendor selections. However, price quotations or documentation of efforts to contact at least three potential vendors was not evident. COM-FSM Fiscal Policies state: "the price quotations and the PCA shall be attached to the PO when the items for purchase are not ordinary office supplies or food items." Further, it appears that the process could be subject to manipulation as three positive quotes are not received.

   Recommendation: We recommend College of Micronesia-FSM implement verification procedures of information in the PCA including requiring the requesting department to submit price quotations and/or documentation evidencing at least three vendors were contacted.

## 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 Reserve

   Comment: The College has not established procedures to periodically assess the adequacy of the inventory allowance.

   Recommendation: We recommend that the College establish procedures to regularly perform an analysis of the inventory allowance, including coordination with Academic Programs, Accounting and Bookstore in determining textbooks that are obsolete.

2. Inventory

   Comment: Test of seven inventory items noted the following:

   - For two items, the unit cost was incorrectly calculated due to failure to include the cost of recent purchases;
   - For one item, the unit cost was incorrect due to an error during manual consolidation; and
   - For one item, documentation to support additional shipping cost could not be provided.

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

3. Fixed Assets

   Comment: Tests of fixed assets noted the following:

   - For one (system asset no. 05243) of thirteen items tested, the asset was located but no tag number was assigned;
   - Two (asset tag nos. 06627 and 30-00021) of thirteen could not be sighted; and
   - For seventeen of twenty-eight disposals, thought the item was included in the inventory count marked for disposal, no signed Asset Survey/Disposal Form (ASDF) was in file.

   Recommendation: We recommend that the College continue to implement fixed asset procedures established in fiscal year 2013 including assigning asset tags and completion of ASDF's.

4. Stale Checks

   Comment: Stale checks payable recorded in the unrestricted fund as of September 30, 2013 included long outstanding checks dated as early as FY2008. Details by fiscal year are as follows:

| | |
|---|---|
| FY2008 | $ 14,743 |
| FY2009 | 26,419 |
| FY2010 | 23,609 |
| FY2011 | 49,213 |
| FY2012 | 26,117 |
| | $ 140,101 |

## SECTION II – OTHER MATTERS, CONTINUED

4 Stale Checks, Continued

Recommendation: The College adjusts stale checks older than five years to other income at fiscal year end. Instead of automatically adjusting all stale checks aged older than five years, we recommend that the College regularly perform an analysis of stale checks and make timely adjustment.

5. Expenditures

Comment: Tests of operating expenses noted the following:

- For four items (PO13-1531, PO12-2726, PO13-2834 and PO13-0151) , the purchase order date was later than the invoice date; thus, there appears to be lack of prior approval and fund certification; and
- For one purchase (PO13-0585), the total purchase order exceeded $10,000 but a signature documenting approval by the President was not evident.

Recommendation: We recommend that the College strengthen procedures over approval of expenditures prior to incurrence including determining that required purchase order signatories are obtained.

6. Travel Liquidation

Comment: We noted that the liquidation of one travel (reference no. TA05-0243) occurred beyond 10-working days upon the completion or cancellation of the trip for which the TA was issued.

Recommendation: We recommend that the College adhere to established travel policies/procedures.

7. Eligibility Determination Checklist

Comment: No control is in place to verify if eligibility documents are submitted and during the period of eligibility determination. Eligibility checklists were no longer utilized in SY12-13.

Recommendation: We recommend that the College implement controls to make sure all required documents are submitted to FAO during period of eligibility determination.

## 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

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.