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June 28, 2019

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, 2018 (on which we have issued our report dated June 28, 2019), 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated June 28, 2019, 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, a material weakness and a significant deficiency are 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.

Deloitte.

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 the College's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention:

1. Cash

   Comment: The following cash-related matters were noted:

   - Bank reconciliations included $42,005 of stale-dated outstanding checks and invalid bank reconciling items of $87,444.
   - State campuses performed year-end cash counts of imprest funds. However, actual balances were not adjusted in the general ledger.

   Recommendation: The College should strengthen procedures over preparation and review of bank reconciliations. Reconciling items should be timely adjusted and unreconciled variances should be resolved.

2. Tuition Receivables

   Comment: At September 30, 2018, approximately 51% of tuition receivables have been provided with an allowance. The College recognized bad debt expense of $538,620 on tuition receivables during the current year.

   Recommendation: The College should timely assess long outstanding receivables and determine appropriate resolution.

3. Inventory

   Comment: Obsolete bookstore items were provided with an allowance of $59,229. Further assessment indicated that additional $46,898 should have been provided with allowance. Since the amount is not considered material to the financial statements, no audit adjustment was proposed.

   Recommendation: We recommend that management improve evaluation processes and determine appropriate action on obsolete items.

4. Fixed Assets

   Comment: The following fixed assets matters were noted:

   - Asset ID #3415 lacked tag numbers.
   - Tag numbers of asset ID #6097 and #6098 were not documented in the fixed asset register.
   - An asset of $14,562, purchased and received in 2017, was recorded late as a capital asset addition in 2018.

   Recommendation: The College should ensure that details marked on the physical assets agree with the fixed asset register. The fixed asset register should be timely updated.

SECTION I –DEFICIENCIES, CONTINUED

5. Travel Advances

Comment: Travel advances have a net balance of $88,453 at September 30, 2018. Of that total, $81,500 has been outstanding for over a year.

Recommendation: We recommend that travel advances be timely liquidated.

6. Procurement

Comment: The following procurement transactions lack adequate competitive procurement process documentation:

Reference Number	Amount
PO18-04197	$ 9,840
CT17-0532	88,830

Recommendation: We recommend that the College comply with its procurement policy.

7. Journal Entries

Comment: Net position beginning balance resulted in a variance of $34,711 in comparison with prior year audited balance. An adjustment was recorded during the audit process.

Recommendation: We recommend management ensure completeness of general ledger balances.

8. Unreconciled Interfund Balances

Comment: Interfund balances contained an unreconciled debit amount of $410,246 as of September 30, 2018. A post-closing adjustment of $440,715 was recorded during the audit process that resulted in a remaining unreconciled interfund payable of $30,469. As the unreconciled variance is not material to the financial statements, no related adjustment was proposed.

Recommendation: The College should timely analyze interfund accounts.

9. Prepayments

Comment: As of September 30, 2018, prepayments of $245,989 have been outstanding for over a year. Subsidiary ledgers include outstanding amounts dating back to 2016.

Recommendation: The College should monitor and timely reconcile prepayments.

10. Liabilities

Comment: The following outstanding liability matters were noted:

- An unearned revenue balance of $99,134 has not moved since the prior year and has marginally increased over the past 5 years. The account has not been regularly monitored for accuracy.
- An outstanding liability of $72,061 included as a component of other liabilities as of September 30, 2018 has not moved since the prior year. A potential misstatement of such amount was raised and included as uncorrected misstatement.

Recommendation: We recommend periodic monitoring of the liabilities and timely reversals of deferred income to appropriate revenue accounts.

SECTION II – OTHER MATTER

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. Investments

   Comment: The College's Investment Reserve Fund allows strategic asset allocation for fixed income from lower limit of 40% to higher limit of 60% of the total investment balance. At September 30, 2018, the fixed income investments reported 64% of the total investment balance.

   Recommendation: We recommend that management perform timely review of investments in conformity with approved investment policy statements.

SECTION III – DEFINITION

The definitions of a deficiency, a material weakness 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 authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.