

*Management Letter*

**College of Micronesia-FSM**  
(A Component Unit of the Federated States of  
Micronesia National Government)

*Year Ended September 30, 2025*



**Shape the future  
with confidence**



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with confidence

June 30, 2026

Management and the Board of Regents  
College of Micronesia- FSM

In planning and performing our audit of the financial statements of the College of Micronesia (the College) as of and for the year ended September 30, 2025, 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 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 and other matters:

### **Bank Reconciliations**

#### **Observation:**

As of September 30, 2025, bank reconciliations reflected unreconciled variances against the trial balance. The variances appear to be due to timing differences and/or minor reconciling items that were not promptly identified and resolved during the reconciliation process and extended financial statement close process.

#### **Recommendation:**

We recommend that management enhance the bank reconciliation process by ensuring that:

- All reconciliations are prepared and reviewed on a timely basis, and
- Material reconciling items, which exceed the set monetary threshold by management, are clearly documented and promptly investigated.

### **Grants and Contracts Receivables**

#### **Observation:**

The balances of grant and contract receivables in the subsidiary ledger did not agree with the amounts recorded in the trial balance by approximately \$181,000. The identified variances primarily relate to the accrual of expenditures incurred for reimbursement but not yet billed to the grantors. Management subsequently provided the revised subsidiary ledgers reflecting these accrued receivables.

#### **Recommendation:**

We recommend that management implement a formal monthly reconciliation process between the grant and contract receivables subsidiary ledger and the trial balance. This process may include:

- Timely recording of accruals for expenditures to be billed,
- Review and approval of reconciliation differences, and
- Prompt investigation and resolution of any variances identified.

### **Long-Outstanding Accrued Liabilities**

#### **Observation:**

Certain accrued liabilities had been carried on the books for an extended period, including balances that existed prior to fiscal year 2024. During the year, management derecognized approximately \$163,000 of these long-outstanding accrued liabilities. Furthermore, approximately \$131,000 of liabilities represent long-outstanding checks not encashed by employees, service providers or suppliers.

#### **Recommendation:**

We recommend that management implement a formal review process for accrued liabilities on at least an annual basis. This process may include:

- Assessing the validity and support for all outstanding accrued balances,
- Timely follow-up with payees to confirm the status of uncashed checks,
- Establishing a policy for the treatment of long-outstanding checks in accordance with applicable regulations and organizational policies,
- Identifying and timely derecognizing liabilities that are no longer valid or required, and
- Documenting management's review and approval of adjustments made.

**Debit Balance of a Liability Account**

Observation:

The “Due to Federal Grant – Pell Grant Refunds” account, which is intended to represent a liability for amounts owed to students or the federal government due to over-awards, withdrawals, or eligibility adjustments, reflected a debit balance. During the year, management reclassified the whole amount of \$198,275 to other receivables.

Recommendation:

The occurrence of a debit balance in a liability account suggests that transactions may not have been consistently recorded in accordance with the intended accounting treatment. This may be attributable to misclassification of amounts recoverable from students or insufficient periodic review of account balances.

We recommend that management strengthen controls over the accounting and review of Pell Grant-related accounts by:

- Establishing clear guidelines for distinguishing between liabilities owed to the federal program and receivables due from students,
- Performing periodic reconciliations and reviews of the account to ensure that balances are appropriately classified, and
- Investigating and resolving unusual balances, such as debit amounts in liability accounts, in a timely manner.

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This communication is intended solely for the information and use of management, those charged with governance, others within the organization and the Office of the National Public Auditor and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

*Ernst + Young LLP*

June 30, 2026