

COLLEGE OF THE MARSHALL ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2000



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Regents
College of the Marshall Islands:

We have audited the financial statements of the College of the Marshall Islands (the College) as of and for the year ended September 30, 2000, and have issued our report thereon dated September 30, 2002, which was qualified due to our inability to determine the propriety of tuition and fees receivable, the College of Micronesia receivable and prepaid items. Except as discussed in the preceding sentence, we conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 8 through 26) as items 2000-7, 2000-10, 2000-14 and 2000-15. We also noted certain immaterial instances of noncompliance that we have reported to the management of the College, which are described in the accompanying Schedule of Findings and Questioned Costs as items 2000-8, 2000-9, 2000-11, 2000-12, 2000-13 and 2000-16.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the College's internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2000-1 through 2000-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated September 30, 2002.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche

September 30, 2002



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Regents
College of the Marshall Islands:

Compliance

We have audited the compliance of the College of the Marshall Islands (the College) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2000. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 8 through 26). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

As described in items 2000-8 through 2000-16 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding allowable costs/cost principles, cash management, eligibility, equipment and real property management, procurement and suspension and debarment and reporting that are applicable to each of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the College to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2000.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

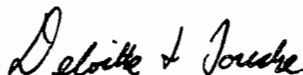
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the College's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2000-8 through 2000-16.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2000-10, 2000-14 and 2000-15 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended September 30, 2000, and have issued our report thereon dated September 30, 2002, which was qualified due to our inability to determine the propriety of tuition and fees receivable, the College of Micronesia receivable and prepaid items. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.



September 30, 2002

COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds Year Ended September 30, 2000

United States Department of Education

- Student Financial Assistance Programs

The College of the Marshall Islands (the College) administers student financial aid (SFA) programs within the Republic of the Marshall Islands. During the year ended September 30, 2000, the College received directly from the U.S. Department of Education funds related to the Pell Grant Program, the Supplemental Educational Opportunity Grant Program (SEOG) and Federal Work-Study Program (FWS). The College's institutional matching share for the SEOG and FWS was waived by the grantor agency for the award year ended June 30, 2000.

- Direct Grants

The College receives other grants directly from the U.S. Department of Education. Projects to which the individual grants relate to are as follows:

- Adult Education - State Grant Program
- TRIO - Student Support Services
- TRIO - Upward Bound
- Bilingual Education - Professional Development

- Grant Passed Through to the College

Effective Teacher Training Project and Formal Coursework: a U.S. Department of Education grant passed through the Republic of the Marshall Islands (RepMar) to the College.

United States Department of the Interior

- Grants Passed Through to the College

The College receives grants passed through RepMar. Projects to which the individual grants relate to are as follows:

- Computer Instructor/Specialist
- Cycotechnology Course Instructor
- Postsecondary Vocational Program
- Midwifery Program

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2000

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Program or Award Amount	Receivable From Grantor October 1, 1999	Cash Receipts FY00	Expenditures FY00	Receivable From Grantor September 30, 2000
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Assistance Programs:						
Federal Supplemental Educational Opportunity Grant	84.007	\$ -	\$ (2,115)	\$ 12,487	\$ 12,487	\$ (2,115)
Federal Work-Study	84.033	62,256	9,300	1,099	41,097	49,298
Federal Pell Grant	84.063	1,257,563	146,848	1,819,450	1,834,042	161,440
Sub-total Student Financial Assistance Programs		1,319,819	154,033	1,833,036	1,887,626	208,623
Adult Education - State Grant Program	84.002	100,000	51,411	92,873	153,389	111,927
TRIO - Student Support Services	84.042	194,502	5,320	201,408	195,877	(211)
TRIO - Upward Bound	84.047	229,764	(77,006)	233,472	208,813	(101,665)
Bilingual Education - Professional Development	84.195	-	(30,751)	164,137	84,452	(110,436)
<u>Pass-Through From RepMar</u>						
Effective Teacher Training Project and Formal Coursework	84.124A	208,729	(65,771)	110,000	110,000	(65,771)
Sub-total U.S. Department of Education		2,052,814	37,236	2,634,926	2,640,157	42,467
<u>U.S. Department of the Interior</u>						
<u>Pass-Through From RepMar</u>						
Computer Instructor/Specialist	15.875	37,946	(19,831)	-	-	(19,831)
Cycotechnology Course Instructor	15.875	63,488	53,149	-	-	53,149
Postsecondary Vocational Program	15.875	92,000	(40,368)	-	53,825	13,457
Midwifery Program	15.875	50,000	(6,402)	-	5,000	(1,402)
Sub-total U.S. Department of the Interior		243,434	(13,452)	-	58,825	45,373
Total Federal Programs		\$ 2,296,248	\$ 23,784	\$ 2,634,926	\$ 2,698,982	\$ 87,840

Reconciliation to the basic financial statements:

Restricted Current Fund:	
Expenditures and other deductions	\$ 2,583,050
Less non-federal grant expenditures	(8,789)
	2,574,261
Mandatory transfers for renewals and replacements	14,721
Unrestricted Current Fund:	
Expenditures and other deductions	110,000
	\$ 2,698,982

See accompanying notes to schedule of expenditures of federal awards.

COLLEGE OF THE MARSHALL ISLANDS

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2000

(1) Scope of Review

The College of the Marshall Islands (the College), a component unit of the Republic of the Marshall Islands (RepMar), was established as an independent institution pursuant to the College of the Marshall Islands Act of 1992 (Public Law 1992-13). The Act established the College as an independent institution governed by a Board of Regents appointed by RepMar's Minister of Education. Previous to the Act, the College was a component of the College of Micronesia (COM).

The accompanying Schedule of Expenditures of Federal Awards relates solely to those grants administered by the College, and does not incorporate any grants that may still be administered by the College of Micronesia central office. The U.S. Department of the Interior has been designated as the College's cognizant agency.

a. Programs Subject to OMB Circular A-133

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Education and U.S. Department of the Interior, which are subject to OMB Circular A-133.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. All program award amounts represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

(3) Indirect Cost Allocation

The College has not entered into an approved indirect cost negotiation agreement covering the year ended September 30, 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2000

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, all of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The College's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Student Financial Assistance Programs:	
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study	84.033
Federal Pell Grant	84.063
TRIO Cluster:	
TRIO - Student Support Services	84.042
TRIO - Upward Bound	84.047

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The College did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2000-1 - 2	Expenditures	10 - 11
2000-3	Tuition and Fees Receivable	13
2000-4	Receivables from the College of Micronesia	14
2000-5	Receivables from Grantor Agencies	15
2000-6	Prepaid Items	16
2000-7	Local Noncompliance	17

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2000-8 - 10	Allowable Costs/Cost Principles	\$ 146,604	18 - 20
2000-11	Eligibility	\$ 24,230	21
2000-12	Procurement and Suspension and Debarment	\$ 29,742	22
2000-13	Cash Management	\$ -	23
2000-14	Eligibility	\$ -	24
2000-15	Equipment and Real Property Management	\$ -	25
2000-16	Reporting	\$ -	26

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Section II - Financial Statement Findings

Expenditures

Finding No. 2000-1

Criteria: Expenditures recorded in the general ledger should represent costs incurred by the College.

Condition: At September 30, 2000, the College recorded unrestricted expenditures in a suspense account amounting to \$243,989. We were informed that the account balance represented missing cash collections not deposited to the College's bank account. We also noted four payments (check #s 17479, 17999, 30651 and 31451, totaling \$22,816, \$22,006, \$17,285 and \$22,000, respectively) made subsequent to September 30, 2000, for which no supporting documentation was made available. We were informed that these checks represented unauthorized disbursements of College funds.

Cause: The cause of the above condition is the lack of follow-up on missing bank deposits and unsupported/unauthorized disbursements due to the untimely performance of bank reconciliations.

Effect: The effect of the above condition is the misappropriation of College funds.

Recommendation: We recommend that the College reconcile bank accounts on a monthly basis to ensure that collections are deposited in a timely manner and that disbursements are properly authorized and recorded.

Prior Year Status: The lack of follow-up on missing bank deposits due to the untimely performance of bank reconciliations was reported as a finding in the Single Audit of the College for fiscal year 1999.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Expenditures

Finding No. 2000-2

Criteria: Expenditures should be supported by authorized documentation and properly recorded in the general ledger.

Condition: Of forty-one non-payroll expenditures of the Unrestricted Current Fund tested, we noted the following exceptions:

- Evidence of management's review and authorization for one item (check # 28181 for \$5,625) was not made available.
- The supporting invoices for six items (check #s 28133, 29003, 29640, 30194, 30465 and 31104 for \$12,500, \$14,277, \$8,973, \$5,874, \$3,088 and \$15,014, respectively) and for two items from the Kwajalein Campus bank account (check #s 1491 and 1696 for \$2,090 and \$2,495, respectively) were not made available. Furthermore, the receiving reports for check #s 29640 and 30194 were not made available. Check # 31104 included an expenditure of \$2,488 that was for a federal program; however, such was recorded as an expense of the Unrestricted Current Fund.
- The trip report for one item (check # 27744, dated 10/28/99) was not made available. In addition, the trip report for one item (check # 29148, dated 2/04/00) was not submitted in a timely manner. The College's travel policy requires that a trip report be submitted within fifteen days of the traveler's return.
- One item (check # 30086 for \$2,550) was for employee housing. We noted that the rent paid by the College for one employee exceeded the maximum \$750 per month allowed for single renters per the College's Personnel Manual Section 9.5.1.3.
- One item (check # 15502 for \$4,902) was for reimbursement of moving costs for a new instructor. The reimbursement exceeded the maximum \$4,000 allowed for a family per the College's Personnel Manual Section 9.5.3.
- One item (check # 28164 for \$26,622) was for books to be resold at the College's bookstore. Such were expensed rather than recorded as inventory.
- Eight items (check #s 27657, 27899, 28152, 28260, 29192, 29193, 29751, and 29919, for \$12,873, \$16,769, \$16,455, \$25,046, \$34,532, \$15,453, \$17,266, and \$20,032, respectively) were for contract progress payments. There was no evidence of satisfactory progress certification by the College's management prior to these payments.
- The total of the supporting invoices provided for one item (check # 27719 for \$10,386) did not agree with the amount of the check.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possibility of unauthorized disbursements and invalid expenditures.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Finding No. 2000-2, Continued

Recommendation: We recommend that management ensure that all expenditures are properly authorized, are supported by appropriate documentation, are recorded in the proper general ledger account, and that all trip reports are submitted within fifteen days of the traveler's return in accordance with the College's travel policy. Furthermore, we recommend that management ensure adherence with the College's employee benefits policy.

Prior Year Status: The lack of management authorization, appropriate documentation, and recording in the proper general ledger account for expenditures; timely submission of trip reports; and adherence with the College's employee benefits policy was reported as a finding in the Single Audit of the College for fiscal year 1999.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Tuition and Fees Receivable

Finding No. 2000-3

Criteria: Student tuition and fees receivable accounts should be supported by a reconciled subsidiary ledger.

Condition: At September 30, 2000, the College recorded student tuition and fees receivable for the Majuro and Kwajalein Campuses of \$1,220,501 and \$46,215, respectively. No reconciled supporting subsidiary ledgers for both campuses were available.

Cause: The cause of the above condition is that the subsidiary ledgers were not maintained by College management.

Effect: The effect of the above condition is the possible misstatement of student tuition and fees receivable balances.

Recommendation: We recommend that the College reconcile student tuition and fees receivable accounts to a supporting subsidiary ledger on a monthly basis.

Prior Year Status: The lack of reconciliation of student tuition and fees receivable accounts to a supporting subsidiary ledger was reported as a finding in the Single Audits of the College for fiscal years 1998 and 1999.

COLLEGE OF THE MARSHALL ISLANDS
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Receivables From the College of Micronesia

Finding No. 2000-4

Criteria: Receivables from the College of Micronesia Land Grant Program should be supported by a reconciled subsidiary ledger.

Condition: At September 30, 2000, the College recorded receivables from the College of Micronesia Land Grant Program of \$95,375. No supporting subsidiary ledger was made available to support the recorded amount.

Cause: The cause of the above condition is that no subsidiary ledger was available.

Effect: The effect of the above condition is the possible misstatement of receivable balances due from the College of Micronesia Land Grant Program.

Recommendation: We recommend that the College reconcile receivable balances due from the College of Micronesia on a monthly basis.

Prior Year Status: The lack of reconciliation of receivable balances due from the College of Micronesia was reported as a finding in the Single Audit of the College for fiscal year 1999.

COLLEGE OF THE MARSHALL ISLANDS
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Receivables from Grantor Agencies

Finding No. 2000-5

Criteria: Receivables from grantor agencies should be supported by a reconciled subsidiary ledger.

Condition: At September 30, 2000, the College recorded receivables from grantor agencies of \$117,124. This is a balance carried forward from prior year. An audit adjustment was proposed to reduce receivables from grantor agencies to \$87,840.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possible misstatement of receivables from grantor agencies.

Recommendation: We recommend that the College reconcile receivables from grantor agencies on a monthly basis.

Prior Year Status: The lack of reconciliation of receivables from grantor agencies was reported as a finding in the Single Audits of the College for fiscal years 1998 and 1999.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Prepaid Items

Finding No. 2000-6

Criteria: Prepaid items should represent payments to vendors or persons for services that will benefit periods beyond year end.

Condition: At September 30, 2000, the College recorded prepaid items in the current unrestricted fund representing advances to suppliers of \$183,590, of which \$154,790 is a balance carried forward from prior year and includes items that had been received in prior years.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the misstatement of prepaid items and expenditures.

Recommendation: We recommend that the College reconcile advances to suppliers to a supporting subsidiary ledger on a monthly basis.

Prior Year Status: The lack of reconciliation of advances to suppliers to a supporting subsidiary ledger was reported as a finding in the Single Audits of the College for fiscal years 1998 and 1999.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Local Noncompliance

Finding No. 2000-7

Criteria: Section 5 of the RepMar Income Tax Act of 1989, as amended, states that the employer shall, once every four weeks or thirteen times per year, pay taxes withheld under Section 4 of the Act.

Condition: At September 30, 2000, the College owed RepMar \$500,388 in income tax withholdings from employee wages, which included estimated penalties and interest in the amount of \$78,529. This amount represents income tax withheld from employee wages for the month of December 1997 and for the period from May 1998 through September 2000.

Cause: The cause of the above condition is because tax payments were not made in accordance with law.

Effect: The effect of the above condition is noncompliance with the Income Tax Act of 1989, as amended.

Recommendation: We recommend that the College comply with the Income Tax Act of 1989, as amended.

Prior Year Status: Noncompliance with the Income Tax Act of 1989, as amended was reported as a finding in the Single Audits of the College for fiscal years 1998 and 1999.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles

Finding No. 2000-8

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / TRIO - Student Support Services / CFDA # 84.042	<u>Criteria:</u> OMB Circular A-21, <i>Cost Principles for Educational Institutions</i> , requires that in order to recover indirect costs, institutions of higher education must prepare and submit cost allocation indirect cost rate proposals (IDCRPs) in accordance with established guidelines.	
U.S. Department of Education / TRIO - Upward Bound / CFDA # 84.047	<u>Condition:</u> During the year ended September 30, 2000, the College allocated \$14,199 and \$12,305, respectively, as indirect costs against the Student Support Services Program and the Upward Bound Program. We could not determine that an IDCRP was executed. Furthermore, these indirect costs were calculated as a percentage of costs directly charged to the respective programs, which effectively resulted in a cost being included as both direct and indirect costs.	\$ 26,504
	<u>Cause:</u> The cause of the above condition is unknown.	
	<u>Effect:</u> The effect of the above condition is noncompliance with OMB Circular A-21 regarding allocable indirect costs.	
	<u>Recommendation:</u> We recommend that the College prepare and submit an IDCRP in accordance with the guidelines provided in OMB Circular A-21. Furthermore, we recommend that the College use facilities and administrative costs not directly charged to federal programs in determining indirect costs.	
	<u>Prior Year Status:</u> Noncompliance with OMB Circular A-21 regarding allocable indirect costs was reported as a finding in the Single Audit of the College for fiscal year 1999.	

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Allowable Costs/Cost Principles

Finding No. 2000-9

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / TRIO - Student Support Services / CFDA # 84.042	<u>Criteria:</u> OMB Circular A-21, <i>Cost Principles for Educational Institution</i> , establishes principles for determining the allowable costs incurred by educational institutions under grants with the Federal Government. Specifically, costs must be necessary and reasonable for proper and efficient performance and administration of the federal awards.	
U.S. Department of Education / TRIO - Upward Bound / CFDA # 84.047	<u>Condition:</u> Of \$178,899 in non-payroll expenditures of the Student Support Services and Upward Bound programs, twenty-eight expenditures, totaling \$51,858, were tested. The following expenditures did not appear to meet the requirements of being necessary and reasonable expenditures that furthered the purposes of the Student Support Services and Upward Bound programs.	
	<ul style="list-style-type: none"> · One expenditure (check # 30383, for \$3,750) was for staff housing of a locally-hired employee. The College paid this employee's housing for ten months at \$750 per month from December 1999 through September 2000. 	7,500
	<ul style="list-style-type: none"> · Three expenditures (check #s 29755, 29900 and 31356, for \$330, \$366 and \$331, respectively) related to per diem paid that did not appear to be for the benefit of the Student Support Services and Upward Bound programs. 	2,600
	<u>Cause:</u> The cause of the above condition is unknown.	
	<u>Effect:</u> The effect of the above condition is the possibility of disallowed costs.	
	<u>Recommendation:</u> We recommend that the College comply with OMB Circular A-21 with respect to costs being necessary and reasonable for proper and efficient performance and administration of federal awards.	

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Allowable Costs/Cost Principles

Finding No. 2000-10

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / Effective Teacher Training Project and Formal Coursework / CFDA # 84.124A	<p><u>Criteria:</u> Section 74-21 of 34 CFR 74, <i>Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations</i>, provides standards for financial management systems to be maintained by recipients of federal awards. These standards include the identification of the source and application of funds for federally sponsored activities.</p> <p><u>Condition:</u> During the year ended September 30, 2000, the College received a pass-through grant from RepMar in the amount of \$110,000. The receipt and disbursement of funds under this federal award were recorded within the College's current unrestricted fund. Based on discussions with management, direct costs allocated against this federal award were not discernable from other costs recorded in the current unrestricted fund.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with financial management systems standards.</p> <p><u>Recommendation:</u> We recommend that the College establish policies and procedures to ensure compliance with financial management systems standards.</p> <p><u>Prior Year Status:</u> Noncompliance with financial management systems standards was reported as a finding in the Single Audit of the College for fiscal year 1999.</p>	110,000

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Eligibility

Finding No. 2000-11

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / Federal Supplemental Educational Opportunity Grant / CFDA # 84.007	<p><u>Criteria:</u> It is the College's responsibility to ensure that financial aid awards are made only to eligible students. Various student eligibility requirements concerning minimum grade point averages, age, citizenship, prior education and similar matters are stipulated in the specific requirements of the Student Financial Assistance (SFA) programs.</p>	
U.S. Department of Education / Federal Work - Study Program / CFDA # 84.033	<p><u>Condition:</u> Of \$1,887,626 in expenditures of the SFA programs, one hundred and thirty-seven disbursements to students for compliance with eligibility requirements, totaling \$162,188, were tested and the following exceptions were noted:</p>	
U.S. Department of Education / Federal Pell Grant Program / CFDA # 84.063	<ul style="list-style-type: none"> • Financial aid documents for one student (Social Security (SS) # 555-35-2913) were not made available to determine the student's eligibility for financial aid. • Financial aid was disbursed to thirteen students (SS #s 215-39-2836, 888-02-0820, 888-03-0556, 888-03-0730, 888-04-0586, 888-04-0775, 888-04-1025, 888-05-1022, 888-05-1644, 888-05-1674, 888-05-1679, 888-05-1870 and 888-05-1953) without evidence of satisfactory academic progress. In addition, evidence of completion of high school or equivalent education level was not made available for nine students (SS #s 888-04-0566, 888-05-0831, 888-05-0892, 888-05-1019, 888-05-1193, 888-05-1294, 888-05-1802, 888-05-1870 and 888-05-1953). • The Student Aid Report (SAR) for one student (SS # 888-05-0990) was not made available to evidence the student's financial needs. 	<p style="text-align: right;">782</p> <p style="text-align: right;">21,886</p> <p style="text-align: right;">1,562</p>
	<p>In addition, we judgmentally selected forty-nine students in order to recalculate their grade point average (GPA) and noted six students (SS #s 219-39-2235, 586-23-0872, 888-03-0734, 888-04-0584, 888-04-1349 and 888-05-0892) with an incorrectly calculated GPA.</p>	
	<p><u>Cause:</u> The cause of the above condition is the lack of procedures to ensure that adequate documentation is retained by the College to support the eligibility of recipients of student financial aid.</p>	
	<p><u>Effect:</u> The effect of the above condition is possible noncompliance with respect to eligibility requirements for students receiving financial aid under the SFA programs.</p>	
	<p><u>Recommendation:</u> We recommend that the College establish procedures to ensure that files for all students receiving financial aid contain adequate documentation to support eligibility under the SFA programs.</p>	
	<p><u>Prior Year Status:</u> Noncompliance with respect to student eligibility under SFA programs was reported as a finding in the Single Audits of the College for fiscal years 1995 through 1999.</p>	

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Procurement and Suspension and Debarment

Finding No. 2000-12

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																				
U.S. Department of Education / TRIO - Student Support Services / CFDA # 84.042	<u>Criteria:</u> Section 74.43 of 34 CFR 74, <i>Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations</i> , states that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Furthermore, Section 74.45 states that some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action.																					
U.S. Department of Education / TRIO - Upward Bound / CFDA # 84.047	<u>Condition:</u> Of \$178,899 in non-payroll expenditures of the Student Support Services and Upward Bound programs, twenty-eight expenditures, totaling \$51,858, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning cost or price analysis:																					
	<table border="1"> <thead> <tr> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr><td style="text-align: center;">27927</td><td style="text-align: right;">\$ 1,093</td></tr> <tr><td style="text-align: center;">29320</td><td style="text-align: right;">\$ 6,708</td></tr> <tr><td style="text-align: center;">30020</td><td style="text-align: right;">\$ 8,277</td></tr> <tr><td style="text-align: center;">30035</td><td style="text-align: right;">\$ 1,276</td></tr> <tr><td style="text-align: center;">30211</td><td style="text-align: right;">\$ 1,050</td></tr> <tr><td style="text-align: center;">30437</td><td style="text-align: right;">\$ 1,555</td></tr> <tr><td style="text-align: center;">30687</td><td style="text-align: right;">\$ 7,500</td></tr> <tr><td style="text-align: center;">30810</td><td style="text-align: right;">\$ 1,063</td></tr> <tr><td style="text-align: center;">30980</td><td style="text-align: right;">\$ 1,220</td></tr> </tbody> </table>	<u>Check #</u>	<u>Amount</u>	27927	\$ 1,093	29320	\$ 6,708	30020	\$ 8,277	30035	\$ 1,276	30211	\$ 1,050	30437	\$ 1,555	30687	\$ 7,500	30810	\$ 1,063	30980	\$ 1,220	29,742
<u>Check #</u>	<u>Amount</u>																					
27927	\$ 1,093																					
29320	\$ 6,708																					
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30437	\$ 1,555																					
30687	\$ 7,500																					
30810	\$ 1,063																					
30980	\$ 1,220																					
	<u>Cause:</u> The cause of the above condition is the lack of established policies and procedures concerning procurement of goods and services.																					
	<u>Effect:</u> The effect of the above condition is noncompliance with procurement standards.																					
	<u>Recommendation:</u> We recommend that the College establish policies and procedures to ensure compliance with procurement standards.																					
	<u>Prior Year Status:</u> Noncompliance with procurement standards was reported as a finding in the Single Audit of the College for fiscal year 1999.																					
Total Questioned Costs		\$ <u>200,576</u>																				

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Cash Management - Federal Supplemental Educational Opportunity Grant, Federal Work-Study Program and Federal Pell Grant Program
CFDA #s 84.007, 84.033 and 84.063

Finding No. 2000-13

Criteria: Section 668.164(e) of 34 CFR 668, *Student Assistance General Provisions*, requires that whenever an institution disburses Title IV program funds by crediting a student's account and the total amount of all funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges assessed by the institution, the institution must pay the resulting credit balance directly to the student or parent as soon as possible, but no later than fourteen days after the later of: (1) the date the balance occurred on the student's account, if the balance occurred after the first day of class of a payment period, or (2) the first day of classes of the payment period if the credit balance occurred on or before the first day of class of that payment period.

Condition: Based on discussions with management and a review of student account records, credit balances were not paid by the College until the end of each semester.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with cash management requirements concerning refunds to students of credit balances.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with cash management requirements concerning refunds to students of credit balances.

Prior Year Status: Noncompliance with cash management requirements concerning refunds to students of credit balances was reported as a finding in the Single Audit of the College for fiscal year 1999.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Eligibility - Federal Supplemental Educational Opportunity Grant, Federal Work-Study Program and Federal Pell Grant Program
CFDA #s 84.007, 84.033 and 84.063

Finding No. 2000-14

Criteria: Section 668.15 of 34 CFR 668, *Student Assistance General Provisions*, requires that an institution must demonstrate financial responsibility in order to begin and to continue to participate in any program authorized by Title IV of the Higher Education Act of 1965 (Title IV, HEA programs). Financial responsibility includes meeting all of the institutions financial obligations.

Condition: At September 30, 2000, the College owed RepMar \$500,388 in income tax withholdings from employee wages, which included estimated penalties and interest in the amount of \$78,529. This amount is represented by income tax withheld from employee wages for the months of December 1997 and May 1998 through September 2000.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with eligibility requirements concerning financial responsibility.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with eligibility requirements concerning financial responsibility.

Prior Year Status: Noncompliance with eligibility requirements concerning financial responsibility was reported as a finding in the Single Audit of the College for fiscal year 1999.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Equipment and Real Property Management - TRIO-Student Support Services and TRIO-Upward Bound
CFDA #s 84.042 and 84.047

Finding No. 2000-15

Criteria: Section 74.34 of 34 CFR 74, *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires grant recipients to maintain property management records and to perform a physical inventory of equipment at least once every two years.

Condition: A physical inventory of equipment has not been taken within the past two years. Furthermore, of eight plant and equipment items tested, four items (a Chevy pick-up truck, a Ford Aerostar van, a Nissan sedan, and a Chevy van) were either no longer in working condition and not in use or sold.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with property management standards.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with property management standards.

Prior Year Status: Noncompliance with property management standards was reported as a finding in the Single Audits of the College for fiscal years 1995 through 1999.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2000

Reporting - TRIO-Student Support Services and TRIO-Upward Bound
CFDA #s 84.042 and 84.047

Finding No. 2000-16

Criteria: Section 74.52 of 34 CFR 74, *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires grant recipients to periodically submit financial and performance reports to the grantor agency.

Condition: The Financial Status Report (SF-269), the Request for Advance or Reimbursement (SF-270) Forms and the annual performance reports for the year ended September 30, 2000 were not made available by the College. Accordingly, we were unable to determine whether the College complied with the reporting requirements as outlined in 34 CFR 74.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with reporting requirements.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with reporting requirements.

Prior Year Status: Noncompliance with reporting requirements was reported as a finding in the Single Audit of the College for fiscal year 1999.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2000

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2000:

Questioned costs as previously reported	\$ 211,402
Questioned costs of fiscal year 2000 Single Audit	<u>200,576</u>
Unresolved questioned costs at September 30, 2000	\$ <u>411,978</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 8 through 26).



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Corrective Action Plans to Findings and Questioned Costs included in the Independent Auditors' Reports on Internal Control and on Compliance for the Year Ended September 30, 2000

Financial Statement Findings Section

Expenditures

Finding No. 2000-1

The College accepts the Auditor's recommendation. CMI will deposit all receipts in the appropriate accounts, and will reconcile all bank accounts in a timely manner.

Finding No. 2000-2

CMI accepts the Auditor's finding and recommendation. The College currently reviews all non-payroll expenditures and requires that all expenditures are properly authorized, supported by appropriate documentation, recorded in the proper fund accounts, and that travel advances are liquidated in a timely manner. Management provides oversight of employee benefits policy to ensure adherence to the College's policies.

Tuition and Fees Receivable

Finding No. 2000-3

The College accepts the Auditor's finding. CMI will reconcile all student tuition and fees receivable accounts to a supporting subsidiary ledger on a semester basis. In addition, the College and its auditors have agreed to this type of reconciliation for fiscal year 2001.

Receivables from the College of Micronesia

Finding No. 2000-4

CMI accepts the Auditor's finding. The College will reconcile receivable balances due from the College of Micronesia on a monthly basis. In addition, the College and its auditors have agreed to this type of reconciliation for fiscal year 2001.

Receivables from Grantor Agencies

Finding No. 2000-5

The College accepts the Auditor's finding. CMI will reconcile receivables from grantor agencies on a monthly basis. In addition, the College and its auditors have agreed to this type of reconciliation for fiscal year 2001.

Financial Statement Findings Section, Continued

Prepaid Items

Finding No. 2000-6

The College accepts the Auditor's finding. CMI reconciles advances to suppliers to a supporting subsidiary ledger on a monthly basis. In addition, the College and its auditors have agreed to this type of reconciliation for fiscal year 2001.

Local Noncompliance

Finding No. 2000-7

The College accepts the Auditor's finding. CMI will comply with the Income Tax Act of 1989, as amended. CMI is adjusting its current budget to meet its current financial obligations.

Federal Award Findings and Questioned Costs Section

Allowable Costs/Cost Principles

Finding No. 2000-8

The College accepts the Auditor's finding. CMI is now coordinating with the U.S. Department of the Interior, Office of the Inspector General for indirect cost rate and cost allocation plan for the College. Indirect cost calculations will be based on the audited financial statements of the College and CMI will bill the grantor agencies for the additional amount in excess of what has been allocated.

Finding No. 2000-9

The College accepts the Auditor's finding. The College will comply with OMB Circular A-21 with respect to costs being necessary and reasonable for proper and efficient performance and administration of federal awards.

Finding No. 2000-10

The College accepts the Auditor's finding. The College has corrected its records by segregating the expenses of Federal programs passed through RepMar through the creation of separate fund accounts in the MIP Windows System.

Eligibility

Finding No. 2000-11

CMI accepts the Auditor's findings in part regarding the requirement for adequate documentation for awarding financial aid. CMI will ensure that students' files will contain adequate documentation to support the granting of financial aid.

Federal Award Findings and Questioned Costs Section, Continued

Procurement and Suspension and Debarment

Finding No. 2000-12

The College accepts the Auditor's finding. CMI will establish policies and procedures to ensure compliance with federal programs procurement standards. Such policies are indicated in the Accounting Manual which the College and its auditors have agreed upon.

Cash Management

Finding No. 2000-13

The College accepts the Auditor's finding. CMI will establish policies and procedures to ensure compliance with cash management requirements concerning refunds to students. The College is currently coordinating this matter with the Case Management System for some exceptions in the processing of refunds.

Eligibility

Finding No. 2000-14

The College accepts the Auditor's finding. CMI will establish policies and procedures to ensure compliance with eligibility requirements concerning financial responsibility. The College is currently adjusting its current budget to meet its current financial obligations.

Equipment and Real Property Management

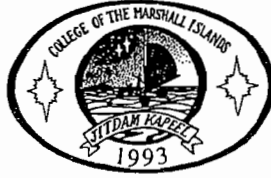
Finding No. 2000-15

The College accepts the Auditor's finding. CMI will establish appropriate internal control procedures to comply with the equipment and real property management standards for all federal programs.

Reporting

Finding No. 2000-16

The College accepts the Auditor's finding. CMI will establish policies and procedures to ensure compliance with reporting requirements.



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Summary of Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 1999:

Financial Statement Findings Section

- Finding No. 99-1 - Not corrected. See corrective action plan to Finding No. 2000-1.
- Finding No. 99-2 - Not corrected. See corrective action plan to Finding No. 2000-2.
- Finding No. 99-3 - Not corrected. See corrective action plan to Finding No. 2000-3.
- Finding No. 99-4 - Not corrected. See corrective action plan to Finding No. 2000-4.
- Finding No. 99-5 - Not corrected. See corrective action plan to Finding No. 2000-5.
- Finding No. 99-6 - Not corrected. See corrective action plan to Finding No. 2000-6.
- Finding No. 99-7 - Not corrected. See corrective action plan to Finding No. 2000-7.

Federal Award Findings and Questioned Costs Section

- Finding No. 99-8 - Not corrected. See corrective action plan to Finding No. 2000-8.
- Finding No. 99-9 - Not corrected. See corrective action plan to Finding No. 2000-10.
- Finding No. 99-10 - Not corrected. See corrective action plan to Finding No. 2000-11.
- Finding No. 99-11 - Not corrected. See corrective action plan to Finding No. 2000-12.
- Finding No. 99-12 - Corrective action has been taken.
- Finding No. 99-13 - Not corrected. See corrective action plan to Finding No. 2000-13.
- Finding No. 99-14 - Not corrected. See corrective action plan to Finding No. 2000-14.
- Finding No. 99-15 - Not corrected. See corrective action plan to Finding No. 2000-15.
- Finding No. 99-16 - Corrective action has been taken.
- Finding No. 99-17 - Not corrected. See corrective action plan to Finding No. 2000-16.
- Finding No. 99-18 - Corrective action has been taken.