

COLLEGE OF THE MARSHALL ISLANDS

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001



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, 2001, and have issued our report thereon dated March 21, 2003, which was qualified due to our inability to determine the propriety of tuition and fees receivable, prepaid items and due to grantor agencies. 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 2001-6, 2001-10, 2001-12 and 2001-13. 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 2001-7 through 2001-9, 2001-11 and 2001-14 through 2001-16.

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 2001-1 through 2001-5.

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 March 21, 2003.

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*

March 21, 2003



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, 2001. 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 2001-7 through 2001-16 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, reporting, and special tests and provisions 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, 2001.

## 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 2001-7 through 2001-16.

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 2001-10, 2001-12 and 2001-13 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, 2001, and have issued our report thereon dated March 21, 2003, which was qualified due to our inability to determine the propriety of tuition and fees receivable, prepaid items and due to grantor agencies. 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of due to grantor agencies been determinable, 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.

*Deloitte & Touche*

March 21, 2003

## COLLEGE OF THE MARSHALL ISLANDS

### Introduction to Federal Awards Funds Year Ended September 30, 2001

#### 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, 2001, 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, 2001.

- 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

- Direct Grant

The College receives the Technical Assistance Grant directly from the U.S. 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, 2001

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Program or Award Amount	Receivable From Grantor October 1, 2000 (As Restated, see note 4)	Cash Receipts FY01	Expenditures FY01	Receivable From Grantor September 30, 2001
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Assistance Programs:						
Federal Supplemental Educational Opportunity Grant	84.007	\$ -	\$ (2,115)	\$ 45,961	\$ 37,136	\$ (10,940)
Federal Work-Study	84.033	62,256	49,298	86,401	56,304	19,201
Federal Pell Grant	84.063	1,257,563	(245,913)	2,002,485	2,115,169	(133,229)
Sub-total Student Financial Assistance Programs		1,319,819	(198,730)	2,134,847	2,208,609	(124,968)
Adult Education - State Grant Program	84.002	81,000	111,927	103,516	118,624	127,035
TRIO - Student Support Services	84.042	206,328	(211)	255,367	157,317	(98,261)
TRIO - Upward Bound	84.047	338,647	(101,665)	407,737	257,247	(252,155)
Bilingual Education - Professional Development	84.195	111,195	(110,436)	121,980	91,288	(141,128)
<u>Pass-Through From RepMar</u>						
Effective Teacher Training Project and Formal Coursework	84.124A	208,729	(65,771)	9,182	9,182	(65,771)
Sub-total U.S. Department of Education		2,265,718	(364,886)	3,032,629	2,842,267	(555,248)
<u>U.S. Department of the Interior</u>						
<u>Direct Program</u>						
Technical Assistance Grant	15.875	56,000	-	-	20,000	20,000
<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	13,457	-	89,455	102,912
Midwifery Program	15.875	50,000	(1,402)	-	3,750	2,348
Sub-total U.S. Department of the Interior		299,434	45,373	-	113,205	158,578
Total Federal Programs		\$ 2,565,152	\$ (319,513)	\$ 3,032,629	\$ 2,955,472	\$ (396,670)

Reconciliation to the basic financial statements:

Restricted Current Fund:	
Expenditures and other deductions	\$ 3,044,681
Less non-federal grant expenditures	(215,318)
	2,829,363
Mandatory transfers for renewals and replacements	126,109
	<u>\$ 2,955,472</u>

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, 2001

#### (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, 2001.

#### (4) Restatement

Subsequent to the issuance of the College's 2000 financial statements, the College's management determined that current fund receivables from grantor agencies were misstated as of September 30, 2000. Accordingly, receivable from grantor agencies as of October 1, 2000, together with due to/from other funds, have been restated from the amounts previously reported.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2001

**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>
2001-1 - 2	Expenditures	10 - 12
2001-3	Tuition and Fees Receivable	13
2001-4	Prepaid Items	14
2001-5	Payable to Grantor Agencies	15
2001-6	Local Noncompliance	16

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2001-7	Allowable Costs/Cost Principles	\$ 8,050	17
2001-8	Eligibility	\$ 6,189	18
2001-9	Procurement and Suspension and Debarment	\$ 31,424	19
2001-10 - 11	Cash Management	\$ -	20 - 21
2001-12	Eligibility	\$ -	22
2001-13	Equipment and Real Property Management	\$ -	23
2001-14 - 15	Reporting	\$ -	24 - 25
2001-16	Special Tests and Provisions	\$ -	26

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

**Section II - Financial Statement Findings**

Expenditures

Finding No. 2001-1

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

Condition: At September 30, 2001, the College recorded unrestricted expenditures in a suspense account amounting to \$271,946. We were informed that the account balance represented missing cash collections not deposited to the College's bank account and unsupported and/or unrecorded disbursements.

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 Audits of the College for fiscal years 1999 and 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Expenditures

Finding No. 2001-2

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

Condition: Of twenty-seven 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 # 33206 for \$7,226) was not made available.
- The supporting invoices for three items (check #s 2340, 17461 and 32223 for \$5,084, \$20,796 and \$11,576, respectively) were not made available.
- Trip reports for four items (check #s 32016, 32809, 33142 and 33877, dated 03/02/01, 05/11/01, 07/03/01 and 09/15/01) were not made available.
- One item (check # 28513 for \$18,346) for books for resale at the College's bookstore, was expensed rather than recorded as inventory. Furthermore, the receiving report for this item was not made available.
- One item (check # 17142 for \$15,000) was a transfer of funds to the Kwajalein Campus bank account. No evidence was made available to indicate that the funds were deposited in the Kwajalein Campus bank account.
- Two items (check #s 31903 and 32809 for \$17,807 and \$9,921, respectively) included expenditures amounting to \$320 and \$2,896, respectively, that pertained to federal programs; however, such were recorded as expenses of the Unrestricted Current Fund. Furthermore, check # 31903 included \$9,307 pertaining to fiscal year 2000. As the amount was not considered material to the financial statements, no adjustment was proposed. Check # 31903 also included \$15,361 for books for resale at the College's bookstore. Such was expensed rather than recorded as inventory.
- Seven items (check #s 31694, 32052, 32215, 32640 and 33052 each for \$4,650 and check #s 31397 and 33358 for \$4,500 and \$5,000, respectively) were for employee housing. Supporting lease agreements were not made available. Additionally, no employee receivable was recorded for one month's rent paid by the College for one employee in excess of the maximum \$750 per month allowed per the College's Personnel Manual Section 9.5.3.

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, 2001

Finding No. 2001-2, 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 Audits of the College for fiscal years 1999 and 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Tuition and Fees Receivable

Finding No. 2001-3

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

Condition: At September 30, 2001, the College recorded student tuition and fees receivable for the Majuro and Kwajalein Campuses aggregating \$1,663,890. A supporting subsidiary ledger was made available, however, it included certain accounts labeled "Various Student Accounts" aggregating approximately \$250,000 for which no further detail was made available.

Cause: The cause of the above condition is that detailed 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 through 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Prepaid Items

Finding No. 2001-4

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

Condition: At September 30, 2001, the College recorded prepaid items in the current unrestricted fund representing advances to suppliers of \$174,417, of which \$154,790 is a balance carried forward from prior years and includes items that had been received in prior years.

Cause: The cause of the above condition is the lack of reconciliation of prepaid items accounts.

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 through 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Payable to Grantor Agencies

Finding No. 2001-5

Criteria: Payables to grantor agencies should be supported by a reconciled subsidiary ledger.

Condition: At September 30, 2001, the College recorded receivables from grantor agencies of \$23,784. This is a balance carried forward from prior year. An audit adjustment was proposed to remove this receivable from grantor agencies and record a payable to grantor agencies of \$396,670.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the possible misstatement of payable to grantor agencies.

Recommendation: We recommend that the College reconcile payable to grantor agencies on a monthly basis.

Prior Year Status: The lack of reconciliation of balances due to or from grantor agencies was reported as a finding in the Single Audits of the College for fiscal years 1998 through 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Local Noncompliance

Finding No. 2001-6

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, 2001, the College owed RepMar \$541,585 in income tax withholdings from employee wages, which included estimated penalties and interest in the amount of \$74,113. This amount represents income tax withheld from employee wages for the months of September 1999 through September 2001.

Cause: The cause of the above condition is due to tax payments not made in accordance with the 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 through 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

Allowable Costs/Cost Principles

Finding No. 2001-7

<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	<p><u>Condition:</u> Of \$196,484 in non-payroll expenditures of the Student Support Services and Upward Bound programs, thirty expenditures, totaling \$60,983, 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.</p> <ul style="list-style-type: none"> <li>• Four expenditures (check #s 32016, 32874, 33046 and 33461, for \$872, \$1,184, \$1,520 and \$4,474, respectively) related to airfare and per diems paid that did not appear to be for the benefit of the Student Support Services and Upward Bound programs.</li> </ul>	8,050
	<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.	
	<u>Prior Year Status:</u> Noncompliance with OMB Circular A-21 regarding allowable costs requirements was reported as a finding in the Single Audit of the College for fiscal year 2000.	

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Eligibility

Finding No. 2001-8

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 \$2,208,609 in expenditures of the SFA programs, one hundred and forty disbursements to students for compliance with eligibility requirements, totaling \$261,603, 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"> <li>• Financial aid was disbursed to seven students (SS #s 888-05-1007, 888-06-0930, 888-06-1254, 888-06-2044, 888-06-2160, 888-06-2229 and 888-06-2299) without evidence of satisfactory academic progress. In addition, financial aid was disbursed to one student (SS # 888-06-2226) despite unsatisfactory academic progress for two consecutive semesters.</li> </ul>	6,189
	<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 2000.</p>	

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Procurement and Suspension and Debarment

Finding No. 2001-9

<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	<p><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.</p> <p><u>Condition:</u> Of \$196,484 in non-payroll expenditures of the Student Support Services and Upward Bound programs, thirty expenditures, totaling \$60,983, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning cost or price analysis:</p> <table border="1" style="margin-left: 40px;"> <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>28668</td><td>\$ 3,255</td></tr> <tr><td>28705</td><td>\$ 5,135</td></tr> <tr><td>28749</td><td>\$ 1,825</td></tr> <tr><td>31682</td><td>\$ 1,289</td></tr> <tr><td>32152</td><td>\$ 1,048</td></tr> <tr><td>32302</td><td>\$ 1,108</td></tr> <tr><td>32352</td><td>\$ 3,870</td></tr> <tr><td>32814</td><td>\$ 891</td></tr> <tr><td>33011</td><td>\$ 2,803</td></tr> <tr><td>33248</td><td>\$ 7,200</td></tr> <tr><td>33274</td><td>\$ 1,500</td></tr> <tr><td>33347</td><td>\$ 1,500</td></tr> </tbody> </table>	<u>Check #</u>	<u>Amount</u>	28668	\$ 3,255	28705	\$ 5,135	28749	\$ 1,825	31682	\$ 1,289	32152	\$ 1,048	32302	\$ 1,108	32352	\$ 3,870	32814	\$ 891	33011	\$ 2,803	33248	\$ 7,200	33274	\$ 1,500	33347	\$ 1,500	31,424
<u>Check #</u>	<u>Amount</u>																											
28668	\$ 3,255																											
28705	\$ 5,135																											
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32814	\$ 891																											
33011	\$ 2,803																											
33248	\$ 7,200																											
33274	\$ 1,500																											
33347	\$ 1,500																											
	<p><u>Cause:</u> The cause of the above condition is the lack of established policies and procedures concerning procurement of goods and services.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement standards.</p> <p><u>Recommendation:</u> We recommend that the College establish policies and procedures to ensure compliance with procurement standards.</p> <p><u>Prior Year Status:</u> Noncompliance with procurement standards was reported as a finding in the Single Audits of the College for fiscal years 1999 and 2000.</p>																											
Total Questioned Costs		\$ <u>45,663</u>																										

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

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

Finding No. 2001-10

Criteria: Section 74.22 of 34 CFR 74, *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires that program costs funded on a reimbursement basis must be incurred before reimbursement is requested from the Federal Government.

Condition: During the year ended September 30, 2001, no supporting documents were made available to determine whether the College paid program costs before reimbursement requests were made.

Cause: The cause of the above condition is unknown.

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

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

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

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. 2001-11

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 to the student 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 Audits of the College for fiscal years 1999 and 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

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. 2001-12

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 institution's financial obligations.

Condition: At September 30, 2001, the College owed RepMar \$541,585 in income tax withholdings from employee wages, which included estimated penalties and interest in the amount of \$74,113. This amount represents income tax withheld from employee wages for the months of September 1999 through September 2001.

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

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 Audits of the College for fiscal years 1999 and 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Equipment and Real Property Management - TRIO-Student Support Services and TRIO-Upward Bound

CFDA #s 84.042 and 84.047

Finding No. 2001-13

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 eleven plant and equipment items tested, one item (a Gestetner copier) was no longer in working condition and not in use, and the supporting invoice for one item (double-sided shelves) was not made available.

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 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

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

Finding No. 2001-14

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) and the Request for Advance or Reimbursement (SF-270) Forms for the year ended September 30, 2001 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 Audits of the College for fiscal years 1999 and 2000.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Reporting - Federal Supplemental Educational Opportunity Grant and Federal Work-Study Program  
CFDA #s 84.007 and 84.033

Finding No. 2001-15

Criteria: Section 673.3 of 34 CFR 673, *General Provisions for the Federal Perkins Loan Program, Federal Work-Study Program and Federal Supplemental Educational Opportunity Grant Program*, requires the annual submission of the Fiscal Operations Report and Application to Participate (FISAP) Form. FISAPs are required to be submitted by October 1 following the end of the award year (June 30).

Condition: The FISAP for the College, which includes the Fiscal Operations Report for the award year ended June 30, 2001, and the Application to Participate for the 2001-2002 award year was due on October 1, 2001. The College was not able to provide a signed copy of the FISAP report along with proof of its timely submission.

Cause: The cause of the above condition is unknown.

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

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

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2001

Special Tests and Provisions - 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. 2001-16

Criteria: Section 668.22 of 34 CFR 668, *Student Assistance General Provisions*, requires that an institution must have a fair and equitable refund policy under which the institution shall make refunds of unearned tuition, fees, room and board and other charges to a student who received Title IV grant assistance.

Condition: The College did not require students who withdrew before earning 60% of the payment period or period of enrollment to return the unearned portion of funds.

Of \$2,208,609 in expenditures of the SFA programs, one hundred and forty disbursements to students, totaling \$261,603, were tested and the following exceptions were noted:

<u>Social Security #</u>	<u>Pell Grant Award</u>	<u>Date of Withdrawal</u>	<u>Amount to be Returned by College</u>	<u>Amount to be Returned by Student</u>
888-06-1217	\$ 825	06/21/2001	\$ 537	\$ 112
888-06-2079	\$ 825	06/26/2001	\$ 463	\$ 97

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with special tests and provisions concerning refunds.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with special tests and provisions concerning refunds.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2001

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, 2001:

Questioned costs as previously reported	\$ 411,978
Questioned costs of fiscal year 2001 Single Audit	<u>45,663</u>
Unresolved questioned costs at September 30, 2001	\$ <u>457,641</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, 2001

**Financial Statement Findings Section**

Expenditures

Finding No. 2001-1

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. 2001-2

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. 2001-3

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 2002.

Prepaid Items

Finding No. 2001-4

CMI accepts the Auditor's finding. The College will reconcile advances to suppliers to a supporting subsidiary ledger on a monthly basis.

Payable to Grantor Agencies

Finding No. 2001-5

The College accepts the Auditor's finding. CMI will reconcile payables to grantor agencies on a monthly basis. In addition, the College and its auditors have agreed to this type of reconciliation for fiscal year 2002.

Local Noncompliance

Finding No. 2001-6

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. 2001-7

The College accepts the Auditor's finding. CMI is now coordinating with the U.S. Department of the Interior, Office of 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.

Eligibility

Finding No. 2001-8

CMI accepts the Auditor's findings 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.

Procurement and Suspension and Debarment

Finding No. 2001-9

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. 2001-10

The College accepts the Auditor's finding. CMI will establish policies and procedures to ensure compliance with cash management by providing supporting documents before reimbursement requests are made.

Finding No. 2001-11

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.

## **Federal Award Findings and Questioned Costs Section, Continued**

### Eligibility

#### Finding No. 2001-12

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. 2001-13

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. 2001-14

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

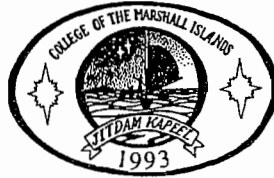
#### Finding No. 2001-15

The College accepts the Auditor's finding. CMI will establish policies and procedures to ensure compliance with reporting requirements including providing a signed copy of the FISAP report along with proof of its timely submission.

### Special Tests and Provisions

#### Finding No. 2001-16

The College accepts the Auditor's finding. The College will establish policies and procedures to ensure compliance with special tests and provisions concerning refunds.



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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, 2000:

**Financial Statement Findings Section**

- Finding No. 2000-1 - Not corrected. See corrective action plan to Finding No. 2001-1.
- Finding No. 2000-2 - Not corrected. See corrective action plan to Finding No. 2001-2.
- Finding No. 2000-3 - Not corrected. See corrective action plan to Finding No. 2001-3.
- Finding No. 2000-4 - Corrective action has been taken.
- Finding No. 2000-5 - Not corrected. See corrective action plan to Finding No. 2001-5.
- Finding No. 2000-6 - Not corrected. See corrective action plan to Finding No. 2001-4.
- Finding No. 2000-7 - Not corrected. See corrective action plan to Finding No. 2001-6.

**Federal Award Findings and Questioned Costs Section**

- Finding No. 2000-8 - Corrective action has been taken.
- Finding No. 2000-9 - Not corrected. See corrective action plan to Finding No. 2001-7.
- Finding No. 2000-10 - Corrective action has been taken.
- Finding No. 2000-11 - Not corrected. See corrective action plan to Finding No. 2001-8.
- Finding No. 2000-12 - Not corrected. See corrective action plan to Finding No. 2001-9.
- Finding No. 2000-13 - Not corrected. See corrective action plan to Finding No. 2001-11.
- Finding No. 2000-14 - Not corrected. See corrective action plan to Finding No. 2001-12.
- Finding No. 2000-15 - Not corrected. See corrective action plan to Finding No. 2001-13.
- Finding No. 2000-16 - Not corrected. See corrective action plan to Finding No. 2001-14.