

COLLEGE OF THE MARSHALL ISLANDS

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2002



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, 2002, and have issued our report thereon dated May 28, 2003, which was qualified due to our inability to determine the propriety of tuition and fees receivable, the College of Micronesia receivable 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 24) as items 2002-1, 2002-5, 2002-6, 2002-7, 2002-10, 2002-12 and 2002-13. 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 2002-8, 2002-9, 2002-11, 2002-14 and 2002-15.

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 2002-1 through 2002-5.

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 May 28, 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*

May 28, 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, 2002. 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 24). 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 2002-1, 2002-5 and 2002-8 through 2002-15 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, 2002.

## 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 2002-1, 2002-5 and 2002-8 through 2002-15.

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 2002-1, 2002-5, 2002-10, 2002-12 and 2002-13 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, 2002, and have issued our report thereon dated May 28, 2003, which was qualified due to our inability to determine the propriety of tuition and fees receivable, the College of Micronesia receivable 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*

May 28, 2003

## COLLEGE OF THE MARSHALL ISLANDS

Introduction to Federal Awards Funds  
Year Ended September 30, 2002

### 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, 2002, 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, 2002.

- 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
- English Language Acquisition: National Professional Development Program

- 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 Agriculture

- The College receives the Community Facilities Grant directly from the U.S. Department of Agriculture.

### United States Department of the Interior

- Direct Grant

The College receives the following grants directly from the U.S. Department of the Interior:

- Coral Reef Initiative Grant
- Operations and Maintenance Improvement Program
- Technical Assistance Grant

- 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, 2002

Federal Grantor/ Pass-Through Grantor's Program Title	Federal CFDA Number	Program or Award Amount	Receivable From Grantor October 1, 2001	Cash Receipts FY02	Expenditures FY02	Receivable From Grantor September 30, 2002
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Assistance Programs:						
Federal Supplemental Educational						
Opportunity Grant	84.007	\$ 30,000	\$ (10,940)	\$ 14,509	\$ 24,000	\$ (1,449)
Federal Work-Study	84.033	82,427	19,201	50,039	79,062	48,224
Federal Pell Grant	84.063	2,329,494	(133,229)	2,542,908	2,557,986	(118,151)
Sub-total Student Financial Assistance Programs		2,441,921	(124,968)	2,607,456	2,661,048	(71,376)
Adult Education - State Grant Program	84.002	72,900	127,035	50,384	113,293	189,944
TRIO - Student Support Services	84.042	258,735	(98,261)	187,911	123,355	(162,817)
TRIO - Upward Bound	84.047	342,309	(252,155)	248,114	277,135	(223,134)
Bilingual Education - Professional Development	84.195	112,117	(141,128)	76,064	97,106	(120,086)
English Language Acquisition: National Professional Development Program	84.195N	182,523	-	-	6,697	6,697
<u>Pass-Through From RepMar</u>						
Effective Teacher Training Project and Formal Coursework	84.124A	208,729	(65,771)	44,788	53,751	(56,808)
Sub-total U.S. Department of Education		3,619,234	(555,248)	3,214,717	3,332,385	(437,580)
<u>U.S. Department of Agriculture</u>						
<u>Direct Program</u>						
Community Facilities Grant	10.766	75,000	-	-	86,326	86,326
Sub-total U.S. Department of Agriculture		75,000	-	-	86,326	86,326
<u>U.S. Department of the Interior</u>						
<u>Direct Program</u>						
Coral Reef Initiative Grant	15.875	20,000	-	20,000	20,000	-
Operations and Maintenance Improvement Program	15.875	6,000	-	-	659	659
Technical Assistance Grant	15.875	56,000	20,000	50,000	30,000	-
<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	102,912	-	-	102,912
Midwifery Program	15.875	50,000	2,348	-	-	2,348
Sub-total U.S. Department of the Interior		325,434	158,578	70,000	50,659	139,237
Total Federal Programs		\$ 4,019,668	\$ (396,670)	\$ 3,284,717	\$ 3,469,370	\$ (212,017)
Reconciliation to the basic financial statements:						
Restricted Current Fund:						
Expenditures and other deductions					\$ 3,618,484	
Less non-federal grant expenditures					(418,797)	
					3,199,687	
Mandatory transfers for renewals and replacements					269,683	
					\$ 3,469,370	

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, 2002

#### (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, U.S. Department of Agriculture 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, 2002.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2002

**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>
2002-1 - 2	Expenditures	10 - 11
2002-3	Tuition and Fees Receivable	12
2002-4	Receivables from the College of Micronesia	13
2002-5	Payable to Grantor Agencies	14
2002-6 - 7	Local Noncompliance	15 - 16

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2002-1	Expenditures	\$ -	10
2002-5	Payable to Grantor Agencies	\$ -	14
2002-8	Eligibility	\$ 19,566	17
2002-9	Procurement and Suspension and Debarment	\$ 12,411	18
2002-10 - 11	Cash Management	\$ -	19 - 20
2002-12	Eligibility	\$ -	21
2002-13	Equipment and Real Property Management	\$ -	22
2002-14	Reporting	\$ -	23
2002-15	Special Tests and Provisions	\$ -	24

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

**Section II - Financial Statement Findings**

Expenditures

Finding No. 2002-1

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

Condition: At September 30, 2002, the College recorded unrestricted expenditures in a suspense account amounting to \$336,594. 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. Our testing could not determine if the undeposited receipts included federal 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 Audits of the College for fiscal years 1999 through 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Expenditures

Finding No. 2002-2

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

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

- One item (check # 2672 for \$3,040) was a contract progress payment. There was no evidence of satisfactory progress certification by the College's management prior to this payment.
- The supporting invoices for four items (check #s 2078, 2762, 3202 and 34481 for \$25,934, \$5,273, \$1,851 and \$3,086, respectively) were not made available.
- For one item (check # 34446, dated 11/06/01), one trip report (TA # 02-0028T) was not made available and the other trip report (TA # 02-0024T) was not filed 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 # 4971 for \$8,200) pertaining to fiscal years 2001 was recorded in fiscal year 2002. As this amount was not considered material to the financial statements, no adjustment was proposed.

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.

Recommendation: We recommend that management ensure that all expenditures are properly authorized, are supported by appropriate documentation, are recorded in the proper period and 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.

Prior Year Status: The lack of management authorization, appropriate documentation, and recording in the proper period and proper general ledger account for expenditures; and timely submission of trip reports was reported as a finding in the Single Audits of the College for fiscal years 1999 through 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Tuition and Fees Receivable

Finding No. 2002-3

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

Condition: At September 30, 2002, the College recorded student tuition and fees receivable for the Majuro and Kwajalein Campuses aggregating \$1,595,445. 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 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Receivables From the College of Micronesia

Finding No. 2002-4

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

Condition: At September 30, 2002, the College recorded receivables from the College of Micronesia Land Grant Program of \$135,919. No supporting subsidiary ledger was made available to support the recorded amount.

Cause: The cause of the above condition is unknown.

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.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Payable to Grantor Agencies

Finding No. 2002-5

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

Condition: At September 30, 2002, the College recorded receivables from grantor agencies of \$87,840. This is a balance carried forward from prior year. An audit adjustment was proposed to remove this receivable from grantor agencies through a direct charge on the current unrestricted funds and additionally, the audit proposed an adjustment to record a payable to grantor agencies of \$212,017 as the College did not properly record federal receipts during the fiscal year.

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 and a qualification of the audit report.

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 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Local Noncompliance

Finding No. 2002-6

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, 2002, the College owed RepMar \$814,203 in income tax withholdings from employee wages, which included estimated penalties and interest in the amount of \$136,976. This amount represents income tax withheld from employee wages for the months of September 1999 through September 2002.

Cause: The cause of the above condition is because tax payments were 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 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Local Noncompliance

Finding No. 2002-7

Criteria: Sections 131 and 215 of the RepMar Social Security Act of 1990 and the Social Security Health Fund Act of 1991, respectively, state that no later than the tenth day after the end of each quarter, every employer shall submit to the Social Security Administrator a report of the wages and salaries paid, and the contributions due, under Sections 129 and 130, and 213 and 214, respectively, and pay into the Fund the contributions due.

Condition: At September 30, 2002, the College owed the Marshall Islands Social Security Administration \$493,538 in employer and employee contributions for the quarters ended March 31, 2001, June 30, 2001, September 30, 2001, June 30, 2002 and September 30, 2002.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

Recommendation: We recommend that management comply with the Social Security Act of 1990 and the Social Security Health Fund Act of 1991.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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

Eligibility

Finding No. 2002-8

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 \$2,661,048 in expenditures of the SFA programs, one hundred and forty-one disbursements to students for compliance with eligibility requirements, totaling \$208,595, 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 documents for one student (Social Security (SS) # 888-07-1278) were not made available to determine the student's eligibility for financial aid.</li> <li>• Financial aid was disbursed to three students (SS #s 432-93-3694, 888-05-1160 and 888-07-1835) without evidence of satisfactory academic progress. In addition, evidence of completion of high school or equivalent education level was not made available for eight students (SS #s 576-73-5227, 647-42-9386, 888-05-1160, 888-06-0664, 888-06-0871, 888-07-0693, 888-07-0717 and 888-07-2311).</li> <li>• Financial aid was disbursed to two students (SS #s 576-87-8099 and 888-08-1073) whose eligibility was based on incorrectly calculated GPAs.</li> </ul>	<p>\$ 1,500</p> <p>14,066</p> <p>4,000</p>
	<p>In addition, the employment contract for one Federal Work-Study Program student (SS # 888-05-0792) was not made available.</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 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 2001.</p>	

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

Procurement and Suspension and Debarment

Finding No. 2002-9

<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> 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 \$191,908 in non-payroll expenditures of the Student Support Services and Upward Bound programs, thirty-six expenditures, totaling \$60,825, were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning cost or price analysis as no documentation was available to support sole sourcing:													
	<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;">3302</td> <td style="text-align: right;">\$ 1,828</td> </tr> <tr> <td style="text-align: center;">4816</td> <td style="text-align: right;">\$ 3,744</td> </tr> <tr> <td style="text-align: center;">4857</td> <td style="text-align: right;">\$ 4,379</td> </tr> <tr> <td style="text-align: center;">4924</td> <td style="text-align: right;">\$ 1,200</td> </tr> <tr> <td style="text-align: center;">5243</td> <td style="text-align: right;">\$ 1,260</td> </tr> </tbody> </table>	<u>Check #</u>	<u>Amount</u>	3302	\$ 1,828	4816	\$ 3,744	4857	\$ 4,379	4924	\$ 1,200	5243	\$ 1,260	12,411
<u>Check #</u>	<u>Amount</u>													
3302	\$ 1,828													
4816	\$ 3,744													
4857	\$ 4,379													
4924	\$ 1,200													
5243	\$ 1,260													
	<u>Cause:</u> The cause of the above condition is the lack of established policies and procedures concerning procurement of goods and services. Although the purchasing officer is supposed to review purchase orders to determine whether the vendor selected is appropriate or reasonable (including sole sourcing), this review is not documented.													
	<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 federal procurement standards.													
	<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 through 2001.	\$ <u>31,977</u>												
Total Questioned Costs														

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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

Finding No. 2002-10

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, 2002, 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 standards.

Prior Year Status: Noncompliance with cash management requirements was reported as a finding in the Single Audits of the College for fiscal years 1999 through 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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. 2002-11

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 through 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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. 2002-12

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, 2002, the College owed RepMar \$814,203 in income tax withholdings from employee wages, which included estimated penalties and interest in the amount of \$136,976. This amount represents income tax withheld from employee wages for the months of September 1999 through September 2002. Furthermore, the College owed the Marshall Islands Social Security Administration \$493,538 in employer and employee contributions for the quarters ended March 31, 2001, June 30, 2001, September 30, 2001, June 30, 2002 and September 30, 2002.

Cause: The cause of the above condition is because tax payments were 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 through 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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

CFDA #s 84.042 and 84.047

Finding No. 2002-13

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 seven plant and equipment items tested, the supporting invoice for one item (60-seater school bus) 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 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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

Finding No. 2002-14

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, 2002, and the Application to Participate for the 2002-2003 award year was due on October 1, 2002. The College was not able to provide proof of the FISAP's timely submission.

Cause: The cause of the above condition is the College submitted the FISAP on-line but did not retain evidence of its submission.

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.

Prior Year Status: Noncompliance with reporting requirements was reported as a finding in the Single Audit of the College for fiscal year 2001.

COLLEGE OF THE MARSHALL ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2002

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. 2002-15

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 \$2,661,048 in expenditures of the SFA programs, one hundred and forty-one disbursements to students, totaling \$208,595, 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 School</u>	<u>Amount to be Returned by Student</u>
429-84-1668	\$ 2,000	10/22/2002	\$ 686	\$ 117
576-55-4022	\$ 938	01/29/2002	\$ 557	\$ 117
576-75-1444	\$ 938	02/19/2002	\$ 429	\$ 60
888-06-1148	\$ 1,875	02/13/2002	\$ 912	\$ 36
888-07-1403	\$ 938	09/17/2001	\$ 792	\$ -
888-08-1166	\$ 2,000	10/25/2002	\$ 697	\$ 73

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.

Prior Year Status: Noncompliance with special tests and provisions concerning refunds was reported as a finding in the Single Audit of the College for fiscal year 2001.

COLLEGE OF THE MARSHALL ISLANDS

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2002

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, 2002:

Questioned costs as previously reported	\$ 457,641
Questioned costs of fiscal year 2002 Single Audit	<u>31,977</u>
Unresolved questioned costs at September 30, 2002	\$ <u>489,618</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 24).



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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, 2002

**Financial Statement Findings Section**

Expenditures

Finding No. 2002-1

The College accepts the Auditor's recommendation. CMI will reconcile the bank accounts on a monthly basis to ensure that collections are deposited in a timely manner and that disbursements are properly authorized and recorded.

Finding No. 2002-2

The College accepts the Auditor's recommendation. CMI management will ensure that all expenditures are properly authorized, are supported by appropriate documentation, and recorded in the proper period.

Tuition and Fees Receivable

Finding No. 2002-3

The College accepts the Auditor's recommendation. CMI will reconcile student tuition and fees accounts to a supporting subsidiary ledger on a monthly basis.

Receivables From the College of Micronesia

Finding No. 2002-4

The College accepts the Auditor's recommendation. CMI will reconcile receivable balances due from the College of Micronesia on a monthly basis.

Payable to Grantor Agencies

Finding No. 2002-5

The College accepts the Auditor's recommendation. CMI will reconcile payable to the grantor agencies on a monthly basis.

## **Financial Statement Findings Section, Continued**

### Local Noncompliance

#### Finding No. 2002-6

The College accepts the Auditor's recommendation. CMI will comply with the Income Tax Act of 1989 as amended. The Republic of the Marshall Islands Government guaranteed a loan from a commercial lending institution by CMI to pay all its debts including unpaid taxes.

#### Finding No. 2002-7

The College accepts the Auditor's recommendation. CMI will comply with the Social Security Act of 1990 and the Social Security Act of 1991. The Republic of the Marshall Islands Government guaranteed a loan from a commercial lending institution by CMI to pay all its debts including unpaid taxes.

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

### Eligibility

#### Finding No. 2002-8

CMI accepts the Auditor's recommendations. CMI will establish policies and procedures to ensure that files for all students receiving financial aid contain adequate documentation to support eligibility under the SFA programs.

### Procurement and Suspension and Debarment

#### Finding No. 2002-9

The College disagrees to the Auditor's finding. The College has established a policy that procurement of goods and services less than \$10,000 should be at the discretion and approval by the Procurement Officer, Comptroller and President of the College and require only one vendor. Purchases more than \$10,000 needs at least two to three vendor quotations and subject for price analysis, however, because of the limited supplier on the Islands, some exceptions are being considered.

### Cash Management

#### Finding No. 2002-10

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

#### Finding No. 2002-11

The College accepts the Auditor's recommendation. CMI will establish policies and procedures to ensure compliance with cash management requirements concerning refunds of the students credit balances.

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

### Eligibility

#### Finding No. 2002-12

The College accepts the Auditor's recommendation. CMI will establish policies and procedures to ensure compliance with eligibility requirements concerning financial responsibility. The Republic of the Marshall Islands Government guaranteed a loan from a commercial lending institution by CMI to pay all its debts including unpaid taxes and the Ministry of Finance agreed to increase the subsidy to support the operation of the College and the payment of loan.

### Equipment and Real Property Management

#### Finding No. 2002-13

The College accepts the Auditor's recommendation. CMI will establish policies and procedures to ensure compliance with the property management standards.

### Reporting

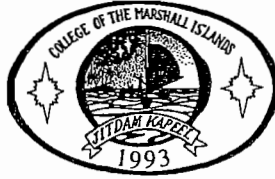
#### Finding No. 2002-14

The College disagrees to the Auditor's finding. The College has no record submission of Fiscal Operations Report and Application to Participate or FISAP (ED Form 646-1) because it was submitted electronically. This annual report should be submitted by October 1 following the end of the award year in order to receive the funding for the next fiscal year. As of SY 2001-2002, the College received its funding as proof that the report was accepted before October 1.

### Special Tests and Provisions

#### Finding No. 2002-15

The College accepts the Auditor's recommendation. CMI will establish policies and procedures to ensure compliance with special tests and provisions concerning return of Title IV funds.



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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, 2001:

**Financial Statement Findings Section**

- Finding No. 2001-1 - Not corrected. See corrective action plan to Finding No. 2002-1.
- Finding No. 2001-2 - Not corrected. See corrective action plan to Finding No. 2002-2.
- Finding No. 2001-3 - Not corrected. See corrective action plan to Finding No. 2002-3.
- Finding No. 2001-4 - Corrective action has been taken.
- Finding No. 2001-5 - Not corrected. See corrective action plan to Finding No. 2002-5.
- Finding No. 2001-6 - Not corrected. See corrective action plan to Finding No. 2002-6.

**Federal Award Findings and Questioned Costs Section**

- Finding No. 2001-7 - Corrective action has been taken.
- Finding No. 2001-8 - Not corrected. See corrective action plan to Finding No. 2002-8.
- Finding No. 2001-9 - Not corrected. See corrective action plan to Finding No. 2002-9.
- Finding No. 2001-10 - Not corrected. See corrective action plan to Finding No. 2002-10.
- Finding No. 2001-11 - Not corrected. See corrective action plan to Finding No. 2002-11.
- Finding No. 2001-12 - Not corrected. See corrective action plan to Finding No. 2002-12.
- Finding No. 2001-13 - Not corrected. See corrective action plan to Finding No. 2002-13.
- Finding No. 2001-14 - Corrective action has been taken.
- Finding No. 2001-15 - Not corrected. See corrective action plan to Finding No. 2002-14.
- Finding No. 2001-16 - Not corrected. See corrective action plan to Finding No. 2002-15.