

May 28, 2003

CONFIDENTIAL

Board of Regents
College of the Marshall Islands:

Dear Members of the Board of Regents:

In planning and performing our audit of the financial statements of the College of the Marshall Islands (the College) for the year ended September 30, 2002, on which we have issued our report 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, we developed the following recommendations concerning certain matters related to the College's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Purchases/Disbursements

Of fifty-seven non-payroll expenditures of the Restricted Current Fund tested, the following exceptions were noted:

- Two items (check #s 3096 and 24812 for \$6,277 and \$6,891, respectively) pertaining to fiscal years 1998 and 2000, respectively, were recorded in fiscal year 2002. Additionally, a transaction (JV # 315-0001 for \$14,542) pertaining to fiscal year 1998 was recorded as a fiscal year 2002 expense. As these amounts were not considered material to the financial statements, no adjustments were proposed.
- For two items (check #s 2952 and 4916 for \$3,143 and \$4,571, respectively) expenses were misclassified between two federal programs.
- Four items (check #s 4935, 5209, 5410 and 5567 for \$5,500, \$5,500, \$9,310 and \$9,310, respectively) were for contract progress payments. There was no evidence of satisfactory progress certification by the College's management prior to these payments.

We recommend that management ensure that all expenditures are properly authorized and recorded in the proper period and in the proper general ledger account. This matter was discussed in our previous letters dated March 21, 2003, September 30, 2002 and March 24, 2000.

(2) Payroll

Of eighty-eight payroll expenditures of the Unrestricted and Restricted Current Funds tested, the following exceptions were noted:

- The payroll registers for pay periods ended October 20, 2001, November 3, 2001, December 1, 2001, December 29, 2001, January 12, 2002, January 26, 2002, February 9, 2002, February 23, 2002, March 9, 2002, March 23, 2002, April 6, 2002, April 20, 2002, May 4, 2002, May 18, 2002, June 1, 2002, June 29, 2002, July 13, 2002, July 27, 2002, August 10, 2002 and August 24, 2002 did not evidence approval by the Controller prior to recording in the general ledger. In addition, the supplemental payroll registers for pay periods ended October 6, 2001, December 15, 2001, January 12, 2002, June 1, 2002 and June 15, 2002 were not made available.
- For pay period ended January 12, 2002, one employee (employee # CHUTRE) was paid 186 annual leave hours at termination. Per the College's Personnel Manual section 9.3.6, a maximum of 180 hours may be paid to terminating employees.
- For pay period ended December 1, 2001, one employee (employee # ITTJOB) was allowed to work an average of 8.83 hours per week, although his contract specified that he may work no more than 8 hours per week.
- Properly approved timesheets were not made available for pay period ended November 17, 2001 for one employee (employee # CHOSUS), for pay period ended January 12, 2002 for two employees (employee #s CAPALF and CHUTRE), for pay period ended February 23, 2002 for one employee (employee # ALIKEN), for pay period ended June 1, 2002 for one employee (employee # KORKRI), for pay period ended June 29, 2002 for one employee (employee # TUTJOH), and for pay period ended September 7, 2002 for one employee (employee # PELMIC). In addition, hours on the approved timesheets and the actual hours paid did not agree for pay period ended October 20, 2001 for one employee (employee # DAVSEP) and for pay period ended December 1, 2001 for two employees (employee #s CHOSUS and EACROS).
- Authorized allotment deduction forms were not made available for pay period ended October 20, 2001 for one employee (employee # DAVSEP) and for pay period ended May 18, 2002 for one employee (employee # PROANT).
- For pay period ended July 13, 2002, the statutory deduction for one employee (employee # LANPAT) was incorrectly calculated. For the same period, no social security tax was withheld for one employee (employee # JUMHON).
- Authorized Personnel Action Forms were not made available to support the hourly pay rates for pay period ended October 6, 2001 for one employee (employee # BINJIM) and for pay period ended December 15, 2001 for one employee (employee # PATTHO).
- For pay period ended May 4, 2002, one employee (employee # WATWAG) was paid \$4.50 per hour although his Authorized Personnel Action Form indicated a pay rate of \$5.00 per hour.

We recommend that management ensure that the payroll is accurately calculated and paid, that it is supported by an approved payroll register, that authorized personnel action forms are retained to support established hourly rates, and that timesheets and annual leave forms are retained to support all hours paid. Furthermore, we recommend that management ensure that the College's established policies are adhered to relating to the accrual and payment of annual leave hours. This matter was discussed in our previous letters dated March 21, 2003 and September 30, 2002.

(3) Travel Advances

At September 30, 2002, the College recorded travel advances in the Unrestricted Current Fund (A/c # 1131A) totaling \$8,775. We noted that the supporting subsidiary ledger included credit balances totaling \$28,971. An audit adjustment was proposed to properly record the credit balances. Furthermore, \$36,546 of the balance at September 30, 2002 has been outstanding for a period in excess of one year. The College's travel policy requires travelers to liquidate their travel advances within fifteen days of their return. We recommend that management ensure that travel advances are properly recorded and ensure adherence to the College's travel advance policy and follow-up on outstanding travel advances. This matter was discussed in our previous letters dated March 21, 2003 and September 30, 2002.

(4) Other Receivables

At September 30, 2002, the College recorded other receivables (A/c # 1121, totaling \$27,511), which have been outstanding for a period in excess of one year. We recommend that management follow up on collection of these accounts. This matter was discussed in our previous letters dated March 21, 2003 and September 30, 2002.

(5) Employee Receivables

At September 30, 2002, the College recorded receivables due from employees (A/c # 1132A, totaling \$14,155), which included accounts totaling \$7,778 that have been outstanding for a period in excess of one year. We also noted that the supporting subsidiary ledger included credit balances totaling \$38,358. As the credit balances were not considered material to the financial statements, no audit adjustment was proposed. We recommend that management ensure that receivables due from employees are reconciled to a supporting subsidiary ledger on a monthly basis and that management follow up on collection of these accounts.

(6) Republic of the Marshall Islands Private Industry Council (PIC) Receivable

At September 30, 2002, the College recorded a receivable due from PIC (A/c # 1311, totaling \$36,938) that has been outstanding since fiscal year 1997. We recommend that management follow up on collection of this account. This matter was discussed in our previous letters dated March 21, 2003 and September 30, 2002.

(7) Prepaid Items

At September 30, 2002, the College recorded prepaid items in the Unrestricted Current Fund representing advances to suppliers of \$36,726, which date back to 1999 and prior. We recommend that management ensure that prepaid items represent payments to vendors or persons for services that have not been received.

(8) Revenues

During the year ended September 30, 2002, the College recorded revenues for the Endowment Fund totaling \$10,833. We noted that the related funds were deposited into the General Account (A/c # 1002) and were not invested in the stock market. We recommend that management ensure that donations and grants received for the Endowment Fund are invested.

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We have communicated certain matters noted during our audit of the financial statements of the College for the year ended September 30, 2002, which we considered to be reportable conditions, in our report dated May 28, 2003.

This report is intended solely for the information and use of management, the Board of Regents and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

Deloitte & Touche