

COLLEGE OF MICRONESIA-FSM
**(A COMPONENT UNIT OF THE
FEDERATED STATES OF MICRONESIA
NATIONAL GOVERNMENT)**

**INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2019

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Regents
College of Micronesia-FSM:

We have audited, 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, the financial statements of College of Micronesia-FSM (the College), a component unit of the FSM National Government, which comprise the statement of net position as of September 30, 2019, and the related statements of revenues, expenses and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001 that we consider to be significant deficiencies.

Compliance and Other Matters

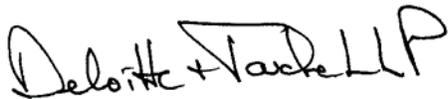
As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001.

The College's Response to Findings

The College's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, stylized font.

November 20, 2020

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Board of Regents
College of Micronesia-FSM:

Report on Compliance for Each Major Federal Program

We have audited College of Micronesia-FSM's (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2019. The College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

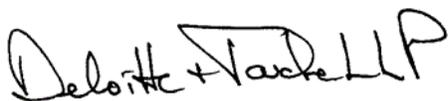
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the College as of and for the year ended September 30, 2019, and have issued our report thereon dated November 20, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



November 20, 2020

**COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Direct:			
Resident Instruction Grants for Insular Area Activities	10.308		\$ <u>87,461</u>
Total U.S. Department of Agriculture			\$ <u>87,461</u>
U.S. DEPARTMENT OF THE INTERIOR:			
Direct:			
Economic, Social, and Political Development of the Territories:			
EDA	15.875		\$ 6,333
Pass-Through FSM National Government:			
Economic, Social, and Political Development of the Territories:			
Compact of Free Association II	15.875	D16AF0012-00010	1,000,000
Compact of Free Association II (SEG)	15.875	D15AF0049-00020	689,948
US Embassy	15.875	None identified	<u>35,621</u>
Total U.S. Department of the Interior			\$ <u>1,731,902</u>
U.S. NATIONAL SCIENCE FOUNDATION			
Pass-Through University of Hawaii:			
Research and Development Cluster:			
Education and Human Resources	47.076	Z935539	\$ <u>92,494</u>
Subtotal Research and Development Cluster			<u>92,494</u>
Total U.S. Department of National Science Foundation			\$ <u>92,494</u>
U.S. DEPARTMENT OF EDUCATION:			
Direct:			
TRIO Cluster:			
TRIO-Talent Search	84.044		\$ 311,852
TRIO-Upward Bound	84.047		<u>559,369</u>
Subtotal TRIO Cluster			871,221
Student Financial Assistance Cluster:			
Federal Pell Grant Program	84.063		<u>10,504,967</u>
Subtotal Student Financial Assistance Cluster			<u>10,504,967</u>
Total U.S. Department of Education			\$ <u>11,376,188</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Direct Program:			
Grants to States to Support Oral Health Workforce	93.236		\$ 255,690
Pass-Through University of Guam:			
Area Health Education Centers	93.107	U77HP26848-05-03	<u>54,527</u>
Total U.S. Department of Health and Human Services			\$ <u>310,217</u>
U.S. Agency for International Development:			
Pass-Through Philippine Mission:			
USAID Foreign Assistance for Programs Overseas	98.001	AID-OFDA-G-17-00053	\$ 30,290
Total U.S. Agency for International Development			\$ <u>30,290</u>
Total Federal Awards Expended			\$ <u>13,628,552</u>
Reconciliation to financial statements:			
Total expenses per financial statements	\$ 21,087,852		
Less Depreciation	(1,010,112)		
Less Non-federal awards included in operating expenses	(6,449,188)		
Total federal awards expenditures	<u>\$ 13,628,552</u>		

See notes to Schedule of Expenditures of Federal Awards.

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

(1) Scope of Audit

College of Micronesia-FSM is a component unit of the FSM National Government established by Public Law 7-79 on September 25, 1992. Only the activities of College of Micronesia-FSM are included within the scope of the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of College of Micronesia-FSM under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College of Micronesia-FSM, it is not intended to and does not present the net position, changes in net position or cash flows of the College of Micronesia-FSM.

(3) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, consistent with the manner in which the College maintains its accounting records. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. All expenses and capital outlays are reported as expenditures when incurred. Pass-through entity identifying numbers are presented where available. The College of Micronesia-FSM does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

**COLLEGE OF MICRONESIA-FSM
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- 2. Material weakness(es) identified? No
- 3. Significant deficiency(ies) identified? Yes
- 4. Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- 5. Material weakness(es) identified? No
- 6. Significant deficiency(ies) identified? None reported
- 7. Type of auditors' report issued on compliance for major federal programs: Unmodified
- 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No
- 9. Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.063	Student Financial Assistance Cluster:
93.236	Federal Pell Grant Program
	Grants to States to Support Oral Health Workforce Activities

- 10. Dollar threshold used to distinguish between Type A and Type B Programs: \$750,000
- 11. Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement Findings

<u>Reference Number</u>	<u>Finding</u>
2019-001	Account Reconciliation

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

**COLLEGE OF MICRONESIA-FSM
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-001
Area: Account Reconciliation

Criteria: Effective internal control necessitates timely performance of account reconciliation.

Condition: The following were noted:

1. An overstatement in employee retirement loan payable of \$64,269 was identified. An adjustment was proposed; however, at September 30, 2019 a \$27,013 remains to be processed and reconciled;
2. Interfund balances were not timely reconciled;
3. A prepayment of \$407,038 has been outstanding for over a year comprised of undelivered textbook purchases and office supplies;
4. Twelve post-closing journal entries were recorded during the audit process; and
5. Financial statements subsequent to September 30, 2019 included unreconciled balances.

Cause: The cause of the above condition is a lack of adequate internal control policies and procedures requiring general ledger balances be timely reconciled.

Effect: The effect of the above condition is the misstatement of general ledger account balances.

Recommendation: We recommend timely performance and independent review of account reconciliation.

Views of Auditee and Planned Corrective Actions:

The College describes its corrective actions in the Corrective Action Plan.



COLLEGE OF MICRONESIA –FSM

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COLLEGE OF MICRONESIA-FSM (A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Summary Schedule of Audit Findings
Year Ended September 30, 2019

Findings and Questioned Costs – Financial Statements

Finding 2019-001 - Account Reconciliation

Corrective Action Plan:

Effective Fiscal Year 2021, the college will strengthen its financial reporting by implementing the following:

- 1) Realignment of job responsibility in order to address timely reconciliation and review of accounts.
- 2) Preparation and monitoring of monthly schedules
- 3) Review and improve policies and procedures related to internal control.



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COLLEGE OF MICRONESIA-FSM (A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2019

Findings and Questioned Costs – Financial Statements

Finding Number	Description of Finding	Status as of September 30, 2019
2016-002	Prepayment	Cleaning of old prepayment accounts is still on-going and expected to be finished by the end of FY2020.