

Sonny & Julia

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Sept. 4, 2008

MEMORANDUM

TO : Chairman Masa-Aki Emesiochl
: Vice Chairman Nidal Lorak
: Secretary/Treasurer Andrew Yatilman

FROM : Singeru Singeo _____
Executive Director/Interim Director, AES/CES

SUBJECT : Auditor's position on price comparison, documentation and other issues

This is a follow-up of the discussion we had during the Guam BOR meeting regarding the auditor's demand for price comparisons for "all" purchases made with federal funds. It is important that we continue this discussion now, rather than later, because we have: a) one month to close fy08; b) many purchases will be made this month in connection with the facilities that are currently being constructed.

I am sending a copy of this memo to the President Tellei, President James and President Hess and would like to request their understanding and support so that "price comparisons" can be made in connection with the land-grant funding purchases this month. For the most part, the partner colleges are already doing price comparisons, by whatever different methods of their choosing, so this may be a redundant discussion; and I apologize if I am being redundant.

Upon my return to Pohnpei after the Board meeting, I asked Ric to ask the Auditor why COM-FSM is not required to compare prices for items below \$500, as stated by VP Currie, while the Auditor insists on this requirement on COM. I simply wanted to find out the rationale for what appeared to be two different guidelines, which CRE Vice President Currie brought to our attention in Guam.

In short these are responses that we got, which appear applicable to all the partner colleges, not just COM-FSM:

- COM-FSM receives and processes Pell Grant funds in the millions of dollars but this is not a direct grant to COM-FSM; it is a grant to the eligible students but managed by COM-FSM.
- Audit of COM-FSM's Pell Grant fund is primarily on completeness of the individual student's file: copy of high school diploma or GED, etc. This is the same requirement for all institutions handling Pell Grants.
- COM-FSM does not spend Pell Grant per se in purchasing things. But once the student pays tuition with the Pell Grant awards, it loses its identity as a federal fund. In the form of tuition payment, it becomes just like any other local funds which are not subject to strict federal audit requirement.
- COM-FSM, like other institutions, can set its own rules regarding documentation for non-federal funds. Its \$500 threshold for documentation of purchases, as noted by VP Currie, is an internal policy and applies to non-federal funds.

- However, with respect to any and all federal funds, the requirement for comparing prices applies to “all” purchases. This is an OMB guideline for the auditors’ to follow so the auditor has no choice about it, so they say.

The Auditor’s representative further said that:

- College of Micronesia, on behalf of the three Micronesian governments, receives direct federal grants so it has to be audited according to the OMB audit guidelines.
- As such, the auditor conducts tests and performs analysis of the purchases, including those made by the COM’s partner colleges, to ensure that COM conforms to this requirement.

I would like to note that I have been expressing my disagreement, for a couple of years, about the strict manner by which the Auditor demands documentation of price comparisons for “all” purchases. In my opinion, it does not make sense for small purchases; is a waste of time and paper, given that the federal government is pushing for paperless procedures. But I have been overruled.

I’ve had a couple of meetings with the USDA officials about this matter too. While they agreed with our view that it is burdensome and waste of time to compare prices for “all” purchases, there is nothing that the USDA officials can do to change the Auditor’s position regarding the OMB requirement.

It boils down to either we comply with the Auditor’s application of the OMB guidelines or we don’t comply and find ourselves with what Auditor considers “questionable costs”.

My request, given this dilemma that we are in, is to comply with the auditor’s requirement. Please ensure that with respect to the federal land-grant funds, price comparison/documentation, for “all” purchases before the purchases are made. If there is limited number of vendors on the island, all we need to do is note this fact; and proceed to purchase from the available vendor. (See attached USDA CSREES Accountant Barry Sims’ email about this subject matter which explains USDA’s position on the need for documentation and price comparison.)

The construction and renovation of the research laboratories plus the purchasing of equipment for the labs are a good investment to our work which the federal funds are provided for. It would be unfortunate if the Auditor were to come later declaring some big purchases as “questionable” saying we did not meet the requirements of competitive or comparative pricing.

Needless to say, we need your support and assistance and understanding as you make your purchases in the remaining days of this fiscal year.

After these big construction/renovation projects are done, we will have an opportunity to meet, I hope, with the representative of Deloitte and Touche about this subject matter during the November BOR meeting. So I hope we’ll be able to reach a better understanding on the positions that they have taken in connection with the audit of the land-grant federal funds.

Thank you and let me know if you have any question, comments or recommendations.

Xc: President James
President Tellei