

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

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

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**YEAR ENDED SEPTEMBER 30, 2014**

**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, which comprise the statement of net position as of September 30, 2014, 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 June 18, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered College of Micronesia-FSM'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 College of Micronesia-FSM's internal control. Accordingly, we do not express an opinion on the effectiveness of College of Micronesia-FSM'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

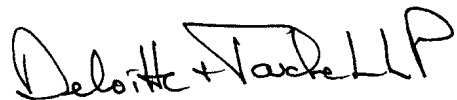
As part of obtaining reasonable assurance about whether College of Micronesia-FSM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 2014-001.

## **The College of Micronesia – FSM's Responses to Findings**

The College of Micronesia – FSM's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The College of Micronesia – FSM's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 result 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 + Touche LLP". The signature is written in a cursive, stylized font.

June 18, 2015

## **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 OMB CIRCULAR A-133**

The Board of Regents  
College of Micronesia-FSM:

### **Report on Compliance for Each Major Federal Program**

We have audited College of Micronesia-FSM's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of College of Micronesia-FSM's major federal programs for the year ended September 30, 2014. College of Micronesia-FSM'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of College of Micronesia-FSM'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 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 College of Micronesia-FSM'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 College of Micronesia-FSM's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, College of Micronesia-FSM 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, 2014.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002. Our opinion on each major federal program is not modified with respect to this matter.

College of Micronesia-FSM's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. College of Micronesia-FSM's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## **Report on Internal Control Over Compliance**

Management of College of Micronesia-FSM 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 College of Micronesia-FSM'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 OMB Circular A-133, 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 College of Micronesia-FSM'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 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.

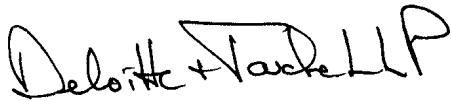
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 that we consider to be significant deficiencies.

College of Micronesia-FSM's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. College of Micronesia-FSM's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by OMB A-133

We have audited the financial statements of College of Micronesia-FSM as of and for the year ended September 30, 2014, and have issued our report thereon dated June 18, 2015, 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 OMB Circular A-133 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.

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

June 18, 2015

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

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2014

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>		
Pass-Through FSM National Government:		
Resident Instruction Grants for Insular Area Activities	10.308	\$ <u>125,448</u>
Total U.S. Department of Agriculture		<u>125,448</u>
<u>U.S. Department of the Interior:</u>		
Pass-Through FSM National Government:		
Economic, Social and Political Development of the Territories:		
Compact of Free Association II, Amended		2,400,000
Compact of Free Association II, Amended (SEG)	15.875	639,550
Infrastructure Maintenance Fund		<u>9,990</u>
Total U.S. Department of the Interior		<u>3,049,540</u>
<u>U.S. Department of Education:</u>		
Direct Programs:		
TRIO Cluster:		
TRIO-Talent Search	84.044	238,547
TRIO-Upward Bound	84.047	<u>468,179</u>
Subtotal TRIO Cluster		706,726
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	<u>10,532,124</u>
Subtotal Student Financial Assistance Cluster		10,532,124
Gaining Early Awareness and Readiness for Undergraduate Programs		
Undergraduate Programs	84.334	<u>238,931</u>
Total U.S. Department of Education		<u>11,477,781</u>
<u>U.S. Department of Health and Human Services:</u>		
Pass-Through University of Guam:		
Area Health Education Centers Point of Service Maintenance and Enhancement Awards		
Maintenance and Enhancement Awards	93.107	143,969
Pass-Through FSM National Government:		
Family Planning-Services		
Operation and Maintenance Technical Assistance - Peer Counseling	93.217	<u>78,234</u>
Total U.S. Department of Health and Human Services		<u>222,203</u>
Total Federal Awards		<u>\$ 14,874,972</u>
Reconciliation to financial statements:		
Total federal awards expenditures		\$ 14,874,972
Depreciation		866,792
Non-federal awards		<u>4,802,592</u>
Total expenses per financial statements		<u>\$ 20,544,356</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**COLLEGE OF MICRONESIA-FSM  
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Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2014

(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 OMB Circular A-133 audit (the "Single Audit").

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of the Interior
- U.S. Department of Education
- U.S. Department of Health and Human Services

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of College of Micronesia-FSM and is presented on the accrual basis of accounting, consistent with the manner in which College of Micronesia-FSM maintains its accounting records. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. All expenses and capital outlays are reported as expenditures.

College of Micronesia-FSM recognizes contributions from the federal government when qualifying expenditures are incurred, and expenditures are recognized on the accrual basis of accounting.



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

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2014

**Section I - Summary of Auditors' Results**

*Financial Statements*

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                      | Unmodified    |
| Internal control over financial reporting:               |               |
| 2. Material weakness(es) identified?                     | No            |
| 3. Significant deficiency(ies) identified?               | None reported |
| 4. Noncompliance material to financial statements noted? | Yes           |

*Federal Awards*

Internal control over major federal programs:

- |   |            |
|---|------------|
| 5. Material weakness(es) identified?  | No         |
| 6. Significant deficiency(ies) identified?  | Yes        |
| 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 section 510(a) of OMB Circular A-133? | Yes        |
| 9. Identification of major federal programs:  |            |

<u>CFDA Number</u>	<u>Name of Federal Program</u>
15.875	Economic, Social, and Political Development of the Territories TRIO Cluster:
84.044	TRIO-Talent Search
84.047	TRIO-Upward Bound
84.063	Federal Pell Grant Program

- |  |           |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$446,249 |
| 11. Auditee qualified as low-risk auditee?                                   | Yes       |

**Section II – Financial Statement Findings**

<u>Finding Number</u>	<u>Finding</u>
2014-001	Local Procurement

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

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

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

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
2014-002	84.063	Special Tests and Provisions	\$ -

**COLLEGE OF MICRONESIA-FSM  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-001  
Area: Local Procurement

Criteria: Procurement transactions shall provide for full and open competition that is best suited to the circumstances.

Condition: Tests of locally funded transactions noted the following:

1. Special service contract no. CT14-0452 with a service term from May 1, 2014 to June 10, 2014 was approved after the service period (i.e., June 13, 2014). Such appears to represent noncompliance with the College's fiscal policy requiring an approved contract, PO or equivalent obligating document prior to purchase or incurrence.
2. One contract included four amendments that did not appear to demonstrate an adequate procurement process. Details follow:

Contract No.	Memo	Approval Date	Contract Term	Contract Amount
			04/01/12 - 06/30/12	
CT12-0591	Original Contract	03/26/12	06/01/12 - 01/31/13	\$ 21,000
CT12-0911	Amendment I	08/06/12	08/01/12 - 05/01/13	44,500
CT13-0589	Amendment II	05/13/13	05/15/13 - 10/31/13	28,350
CT14-0268	Amendment III	01/22/14	01/21/14 - 08/31/14	36,900
CT14-0282	Amendment IV	08/28/14	08/01/14 - 06/30/15	<u>48,875</u>
				<u>\$ 179,625</u>

The original contract was supported by a justification memo indicating an accreditation crisis and the impending deadline as the basis of selection. The College selected the vendor due to experience and waived canvassing other service providers; however, no additional memo or justification was available to support the waiver to canvass for the additional services covered in the four amendments. The direct contracting procurement method in the College's fiscal policy requires identification of a supplier and a request for quotation; however, no quotation was evident. The total service contract cost as of September 30, 2014 appeared to be \$179,625. Construction projects costing \$20,000 or more and purchases of personal properties costing \$50,000 or more require formal bidding requirements; however, thresholds for service contracts are not explicitly stipulated in the policy.

3. For PO14-0561, the selected vendor was the highest bidder. Based on the endorsement from IT and Communications Committee, the vendor met all requirements and had a fair price. No additional analysis was documented as to minimum requirements needed that would support the selection process.

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

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-001, Continued  
Area: Local Procurement

Cause: The cause of the above condition is lack of enforcement of established procurement policies and regulations.

Effect: The effect of the above condition is potential noncompliance with competitive procurement.

Recommendation: We recommend that the College strengthen internal control procedures to maximize full and open competition.

Auditee Response and Corrective Action Plan:

2014-001 #1: Due to the urgency of the new requirements from US NCH to take effect, changes to the Student Information System were needed to be done immediately. The contractor who performed the services was also the developer of the system and has an intimate knowledge of the unique capabilities of the software. The College acted upon the immediate course of action that needed to be done at that time.

2014-001 #2: The service contract amendments were necessary to ensure that the College's accreditation status was not jeopardized. Since the contractor started performing the services of the initial phases of the needed accreditation related tasks, it was necessary and practical for them to continue with the other phases.

2014-001 #3: The selected vendor was the highest bidder and the selection of the vendor was done based on the screening and selection process performed by the Information Communication and Technology Committee. The Committee is tasked in selecting the best vendor for computer purchases in terms of quality, service and costs.

The College recognizes the importance of following established procurement policies and procedures and strengthening internal control systems. As part of the College's continuous quality improvements process, it has been identified that a designated procurement and property management function be established and centralized. An announcement to fill out the Director of Procurement & Property Management was advertised on June 3, 2015. The Procurement & Property Management Office will implement strategies to make the purchasing and property management activities more efficient and effective and will foster accountability across the institution.

The College is also in the process of reviewing its policies and procedures including purchasing policies.

Contact Person:

Rosolle B. Togonon, Comptroller

Proposed Completion Date:

September 2015 with ongoing review, improvement and implementation throughout FY 2016.

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

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-002  
 Federal Agency: U.S. Department of Education  
 CFDA Program: 84.063 Federal Pell Grant Program  
 Grant Number: 01034300  
 Area: Special Tests and Provisions  
 Questioned Costs: \$0

**Criteria:** Pursuant to applicable Federal Student Aid (FSA) Handbook, an FSA credit balance occurs whenever a school credits FSA program funds to a student's account and the total amount of those FSA funds exceeds the student's allowable charges. If FSA disbursements to the student's account at the school create an FSA credit balance, the school must pay the credit balance directly to the student or parent as soon as possible, but no later than 14 days after:

- 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
- 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.

Further, the Handbook states that a school may not require a student to take any actions to obtain his or her credit balance. It is the sole responsibility of the school to pay, or make available, any FSA credit balance within the 14-day regulatory time.

**Condition:** Of 34 Pell students tested totaling \$18,496, the College did not disburse a total of \$691 in student refunds within the 14-day timeframe to one student, as follows:

<u>ID #</u>	<u>Description</u>	<u>Disbursement Date</u>	<u>Date of Refund</u>	<u>Refund Amount</u>	<u>Days elapsed from disbursement date</u>
1661108	PELL TRANSFER#14-006 CHK	10/9/2013	11/27/2013	\$691	36

The selected refund above was included in one batch totaling \$170,793 in student awards with \$32,090 student refunds which appear to have not been disbursed within the 14-day period.

**Cause:** The cause of the above condition is a lack of monitoring and untimely processing of Approved Pell Listings that the College's Financial Aid Office (FAO) forwards to the Business Office.

**Effect:** The effect of the above condition is noncompliance with the special tests and provisions requirement of disbursing refunds within a 14-day time frame. The above finding does not result in questioned cost as the student refunds, although delayed, were paid to the student.

**Recommendation:** We repeat the prior year recommendation that the College maintain timely coordination between FAO, State campuses and the Business office when communicating student awards and refunds. Additionally, we recommend that, on a weekly basis, the College implement controls to better monitor when refunds are due to students by running a batch query of student accounts to determine if there are any unpaid refunds.

**COLLEGE OF MICRONESIA-FSM  
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Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2014

Finding No.: 2014-002, Continued  
Federal Agency: U.S. Department of Education  
CFDA Program: 84.063 Federal Pell Grant Program  
Grant Number: 01034300  
Area: Special Tests and Provisions  
Questioned Costs: \$0

Auditee Response and Corrective Action Plan: The College has improved the processing of Pell refunds in FY2015 by filling out an Accounts Receivable Accountant position at the Business office on March 2015. The position's responsibilities include monitoring, coordinating and preparing refund request for student refunds.

Contact Person:

Rosolle B. Togonon, Comptroller

Proposed Completion Date:

March 2015.

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

Summary Schedule of Prior Audit Findings  
Year Ended September 30, 2014

**Findings relating to the financial statements, which are required to be reported in accordance with GAGAS:**

None noted.

**Findings and questioned costs – Major Federal Award Programs Audit**

Finding Number	CFDA Number	Questioned Costs Reported	Status as of September 30, 2014
2012-03	84.063	-	Not corrected or resolved. Currently in communication with the grantor agency.
2012-04	84.063	-	Not corrected or resolved. Currently in communication with the grantor agency.
2013-01	84.063	-	Resolved. Refer to U.S. Department of Education determination letter.
2013-02	84.063	-	Resolved. Refer to U.S. Department of Education determination letter.