

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, 2013

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 the 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 the College of Micronesia-FSM, which comprise the statement of net position as of September 30, 2013, 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 20, 2014.

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.

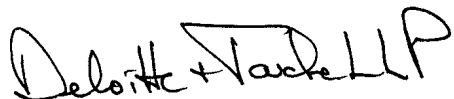
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 20, 2014

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, 2013. 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, 2013.

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 items 2013-001 and 2013-002. Our opinion on each major federal program is not modified with respect to these matters.

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.

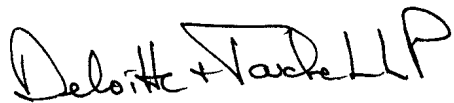
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material 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 items 2013-001 and 2013-002 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, 2013, and have issued our report thereon dated June 20, 2014, 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 + Tatchell LLP". The signature is written in a cursive, stylized font.

June 20, 2014

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

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2013

<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	\$ 172,423
Water quality	10.Unknown	18,608
USDA-OASDFR	10.Unknown	<u>1,127</u>
Total U.S. Department of Agriculture		<u>192,158</u>
<u>U.S. Department of the Interior:</u>		
Pass-Through FSM National Government:		
Economic, Social and Political Development of the Territories: 15.875		
Compact of Free Association II, Amended		3,100,000
Compact of Free Association II, Amended (SEG)		642,844
Public Infrastructure Sector Grant		220,000
Operation and Maintenance Technical Assistance		87,144
Infrastructure Maintenance Fund		<u>32,242</u>
Total U.S. Department of the Interior		<u>4,082,230</u>
<u>U.S. Department of Education:</u>		
Direct Programs:		
TRIO Cluster:		
TRIO-Talent Search	84.044	266,906
TRIO-Upward Bound	84.047	<u>491,284</u>
Subtotal TRIO Cluster		758,190
Federal Pell Grant Program	84.063	11,779,422
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	<u>221,930</u>
Total U.S. Department of Education		<u>12,759,542</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	93.107	<u>168,904</u>
Total U.S. Department of Health and Human Services		<u>168,904</u>
Total Federal Awards		\$ <u>17,202,834</u>
Reconciliation to financial statements:		
Total federal awards expenditure		\$ 17,202,834
Depreciation		931,807
Non-federal awards		<u>3,489,710</u>
Total expenses per financial statements		\$ <u>21,624,351</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, 2013

(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
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

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? | No |

Federal Awards

Internal control over major programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major 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 programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program</u>
	TRIO Cluster:
84.044	TRIO-Talent Search
84.047	TRIO-Upward Bound
84.063	Federal Pell Grant Program
93.107	Area Health Education Centers Point of Service Maintenance and Enhancement Awards

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$516,085 |
| 11. Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

No matters were reported.

**COLLEGE OF MICRONESIA-FSM
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Section III – Federal Award Findings and Questioned Costs

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Finding</u>	<u>Questioned Cost</u>
2013-001	84.063	Eligibility	\$ -
2013-002	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, 2013

Finding No.: 2013-001
Federal Agency: U.S. Department of Education
CFDA Program: 84.063 Federal Pell Grant Program
Grant Number: 01034300
Area: Eligibility
Questioned Costs: \$0

Criteria: To be considered for student financial aid, College of Micronesia-FSM (COM-FSM) requires that students submit the following documents: 1) Financial Aid Application; 2) Free Application for Federal Student Assistance (FAFSA); 3) Household Verification; 4) Proof of Citizenship (Birth Certificate); 5) Proof of Income; and 6) High School Diploma or GED certificate.

Condition: For two (or 3%) of 75 Pell students tested totaling \$184,744, the Birth Certificate (BC) or Passport name or date of birth (D.O.B.) differed from the name or D.O.B. noted on school records and/or on the FAFSA.

ID #	Term	Inconsistency Noted
6602101	Fall 2012	FAFSA name differs from BC name
3956482	Spring 2013	FAFSA D.O.B. does not agree to BC D.O.B.

Cause: The cause of the above condition is a lack of checklist or other controls to monitor case files for completeness and accuracy and a failure to obtain an affidavit or equivalent documentation to address inconsistencies for the above mentioned students.

On 5/8/2014, the College was able to provide a notarized affidavit of change (dated: 5/7/2014) for ID 3956482 to resolve inconsistency noted. Since the affidavit was prepared after-the-fact, finding is still reportable.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs result from this matter as student identification was verified at registration.

Recommendation: We recommend that COM-FSM strengthen internal control policies and procedures to verify files for accuracy and completeness. Specifically, the College can use eligibility checklist and require affidavit from students with name and D.O.B. discrepancies.

Auditee Response and Corrective Action: The College agrees with the condition of the finding but disagrees with the cause of the finding that the College lacks control to monitor case files for completeness and accuracy. The cited condition is an isolated case for not noticing the discrepancies on the spelling of the name (double letters to one letter) and the day of birth. The two cited conditions are discrepancies between FAFSA and Birth Certificate and not completeness of documents. The Financial Aid Offices (FAO) at state and national campuses are experienced and capable to ensure that documents are complete and accurate. However, due diligence in reviewing entries in the FAFSA versus supporting documents particularly the birth certificate will be strictly observed.

**COLLEGE OF MICRONESIA-FSM
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-002
 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 your 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 5 Pell students tested totaling \$ 13,182, the College did not disburse a total of \$1,670 in student refunds within 14-day timeframe to two students (or 40%), as follows:

<u>ID #</u>	<u>Description</u>	<u>Disbursement Date</u>	<u>Refund Date</u>	<u>Refund Amount</u>	<u>Days elapsed from disbursement date</u>
6769515	#13-050 YAP	02/15/2013	03/11/2013	\$ 937	17
7343544	#13-014 YAP	11/09/2012	12/10/2012	\$ 733	22

Cause: The cause of the above condition is delay in communication between the College's Financial Aid Office (FAO) and State campus which involved the length of time that mail moves through the FSM system.

Effect: COM-FSM is in noncompliance with applicable special tests and provisions requirements 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 recommend that the College timely coordinate between FAO, State campuses and the Business Office when communicating concerning student refunds. We further recommend that the College improve document submission by sending electronic copies in advance prior to transmission through the FSM postal services.

**COLLEGE OF MICRONESIA-FSM
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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.:	2013-002, 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 finding occurred in Yap campus located more than 1,000 miles away from National campus where refunds are processed. The existing process on the transmittal of documents to state campuses attributed in the noted delay. The College amended the process by assigning Business Office to directly handle the transmittal of documents to state campuses to ensure compliance with the 14 – day rule.

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

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2013

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

Finding No. 2012 – 1, Fixed Assets – Corrective action was taken.

Findings and questioned costs – Major Federal Award Programs Audit

Finding No. 2012 – 2, TRIO Cluster – Corrective action was taken.

Finding No. 2012 – 3, Federal Pell Grant Program – Not Corrected. Refer to Finding No. 2013-001.

Finding No. 2012 – 4, Federal Pell Grant Program – Not Corrected. Refer to Finding No. 2013-002.