

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, 2016

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, 2016, 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 28, 2017.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002 to be a significant deficiency.

Compliance and Other Matters

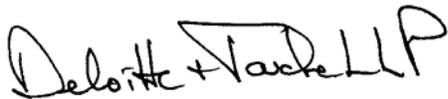
As part of obtaining reasonable assurance about whether College of Micronesia-FSM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 2016-001.

College of Micronesia-FSM's Response to Findings

College of Micronesia-FSM's response to the findings identified in our audit are described in the accompanying corrective action plan. College of Micronesia-FSM'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 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.



June 28, 2017

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 compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 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 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 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 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 programs. 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 its major federal programs for the year ended September 30, 2016.

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 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 College of Micronesia-FSM's internal control over compliance.

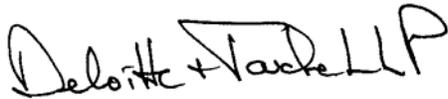
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 College of Micronesia-FSM as of and for the year ended September 30, 2016, and have issued our report thereon dated June 28, 2017, 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.

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

June 28, 2017

COLLEGE OF MICRONESIA-FSM
(A COMPONENT UNIT OF THE FSM NATIONAL GOVERNMENT)
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

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		153,979
Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10.443		<u>27,794</u>
Total U.S. Department of Agriculture			\$ <u><u>181,773</u></u>
U.S. DEPARTMENT OF THE INTERIOR:			
Direct:			
Economic, Social, and Political Development of the Territories: Technical Assistance Program	15.875		82,895
Pass-Through FSM National Government:			
Economic, Social, and Political Development of the Territories: Compact of Free Association II	15.875	D16AF00012-00010, D15AF00049-00020	<u>1,734,347</u>
Total U.S. Department of the Interior			\$ <u><u>1,817,242</u></u>
U.S. NATIONAL SCIENCE FOUNDATION			
Pass-Through University of Hawaii:			
Education and Human Resources	47.076	Z935539	<u>30,520</u>
Total U.S. Department of National Science Foundation			\$ <u><u>30,520</u></u>
U.S. DEPARTMENT OF EDUCATION:			
Direct:			
TRIO Cluster:			
TRIO-Talent Search	84.044		293,906
TRIO-Upward Bound	84.047		<u>516,789</u>
Subtotal TRIO Cluster			810,695
Federal Pell Grant Program	84.063		11,186,376
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		<u>352,406</u>
Total U.S. Department of Education			\$ <u><u>12,349,477</u></u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-Through University of Guam:			
Area Health Education Centers	93.107	U77HP26848-03-00, BC160037	122,222
Pass-Through FSM National Government:			
Family Planning Services	93.217	none identified	<u>70,912</u>
Total U.S. Department of Health and Human Services			\$ <u><u>193,134</u></u>
U.S. Agency for International Development:			
Direct:			
PACAM CREAM Project	98.Unknown		114,316
Total U.S. Agency for International Development			\$ <u><u>114,316</u></u>
Total Federal Awards Expended			
			\$ <u><u>14,686,462</u></u>
Reconciliation to financial statements:			
Total expenses per financial statements	\$ 20,959,189		
Less Depreciation	(841,199)		
Less Non-federal awards	<u>(5,431,528)</u>		
Total federal awards expenditures	\$ <u><u>14,686,462</u></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, 2016

(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 includes the federal grant activity of College of Micronesia-FSM under programs of the federal government for the year ended September 30, 2016. 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. College of Micronesia-FSM does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance.

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

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

- | | | |
|----|---|-----|
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified? | Yes |
| 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? | 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(s)</u>	<u>Name of Federal Program</u>
84.063	Federal Pell Grant Program
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs

- | | | |
|-----|--|-----------|
| 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

Reference

Number Finding

- 2016-001 Foundation's Audited Financial Statements
2016-002 Prepayments

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-001
Area: Foundation's Audited Financial Statements

Criteria: GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, establishes additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This guidance is applicable to financial reporting primary governments and other stand-alone governments, and to government component units that consistently apply government accounting principles generally accepted in the United States of America (GAAP).

Condition: Although the College did not provide an additional contribution to the Foundation during fiscal year 2016, the College has an ongoing relationship with one legally separate, tax-exempt organization incorporated within the United States of America. For financial reporting purposes, this organization appears to meet the criteria established by GASB Statement No. 39 for inclusion on the College's financial statements as a component unit. The College entered into a Memorandum of Understanding (MOU) with this organization, dated November 23, 2015, which further supports its inclusion as a component unit of the College and requires the organization to provide audited financial statements to the College. At September 30, 2016 and 2015, this organization did not provide the College with audited financial statements for inclusion as a component unit. The College included the financial statements of the organization based on financial information in the Form 990 submission provided.

Cause: The cause of the above condition is a lack of compliance with the MOU requiring the provision to the College of audited financial statements for the abovementioned organization.

Effect: The effect of the above condition is nonconformity with GASB Statement No. 39 and a risk that available financial information may not reflect the organization's financial position.

Recommendation: We recommend that the College comply with the financial reporting entity requirements of GASB Statement No. 39 and require compliance with the MOU requirements regarding the provision of audited financial statements by the abovementioned organization. We further recommend that the College take reasonable steps to resolve this matter with the organization.

Views of Auditee and Planned Corrective Actions:

See the Corrective Action Plan.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-002
Area: Prepayments

Criteria: An effective system of internal controls include policies and procedures related to periodic monitoring of receipts of goods and services purchased.

Condition: Tests of prepayments noted the following:

- For 4 of 5 items tested, the goods and services related to the prepayment were received before September 30, 2016.
- For 1 item, due to its age, the supporting receiving report, invoice, and related payment could not be located to substantiate the prepayment.
- Under fund 201 (restricted), for 23 out of 27 prepayments, \$74,767 related to FY15. Receiving reports could not be located.
- Prepayments of \$601,688 which covered purchase orders dated from FY2012 through FY2016 were subsequently adjusted; however, receiving report or equivalent documentation of receipt of items or services, could not be provided.

These were corrected through subsequent adjusting journal entries.

Cause: The cause of the above condition is lack of centralized purchasing and monitoring of receipts of goods and services purchased.

Effect: The effect of the above condition is a potential misstatement of prepayments and related expenditures and the risk that goods and services paid in advance may not be received.

Recommendation: The College should perform timely analysis of prepayments and regularly coordinate with requesting departments to determine the timely receipt of items purchased.

Views of Auditee and Planned Corrective Actions:

See the Corrective Action Plan.

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

Corrective Action Plan
Year Ended September 30, 2016

Finding 2016-001 Foundation's Audited Financial Statement

Corrective Action Plan:

COM-FSM will meet with the Board of Directors of the Friends of COM-FSM and request changes be made to the timeline for their audit to better align with the college's audit timeline, to ensure that their audit will be completed and submitted to the college before the completion of the college's audit.

Finding 2016-002 Prepayment

Corrective Action Plan:

Effective Fiscal Year 2017, the college implemented the centralized procurement and receiving of purchases. This new system will address the problem of late submission of receiving report that causes the significant increase in prepayment balance as of September 30, 2016. As for the old balances, BO will strictly impose submission of Receiving Report for fixed assets purchases and put on hold the processing of new prepaid purchases for offices that need to submit receiving report.

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

Summary Schedule of Prior Audit Findings
Year Ended September 30, 2016

Findings and Questioned Costs – Financial Statements

Finding Number	Area	Questioned Costs Reported	Status as of September 30, 2016
2014-001	Procurement	-	In order to address the audit finding 2014.001, we strengthened our internal control by reviewing our procurement policy. Effective May 03, 2017, the BOR approved a revised procurement policy. Although we practice this policy effective October 1, 2017, we are still planning to conduct college-wide policy orientation.