

EXECUTIVE SUMMARY

NMC Single Audit Report as of September 30, 2004

Single Audit Summary No. 05-002, December 29, 2005

Summary

The Northern Marianas College (NMC) contracted with Deloitte, an independent auditing firm, to conduct a financial audit of the NMC for the year ended September 30, 2004. The audit was conducted in accordance with auditing standards generally accepted in the United States and with applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. This summary presents the Office of the Public Auditor's (OPA) review of Deloitte's *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133* of the NMC for the year ended September 30, 2004. This summary is provided solely for informational purposes. As the audit was conducted by Deloitte, no audit opinion on the related data is expressed nor inferred by OPA.

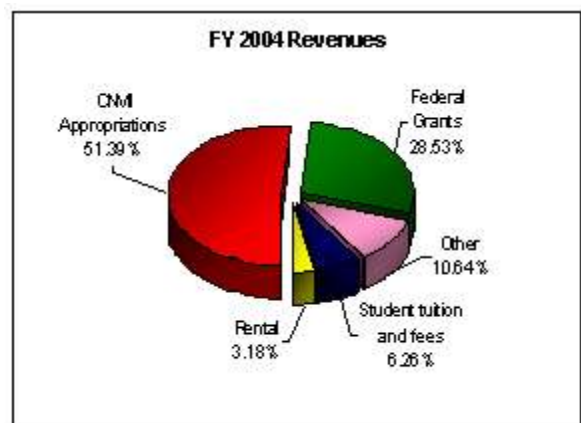
The Opinion, Financial Statements, and Notes to the Financial Statements are the three primary components, which taken together, give an informed reader an overview of the financial condition of the audited entity. For FY 2004, NMC received 3 audit qualifications on its financials. Most notable of these qualifications was the lack of a fixed asset inventory.

Fiscal Year 2004 Performance

NMC continues to receive CNMI appropriations because it has not been able to generate sufficient revenue to cover operational expenses. CNMI appropriations have grown since FY 2000 from \$6.8 million to almost \$9.3 million in FY 2004. The largest growth occurred in FY 2001 where appropriations increased by nearly \$2 million or 29.02%. Since FY 2001, appropriations have been fairly constant, with an increase occurring again in FY 2004. In FY 2004, 51.39% of total revenue came from appropriations. These funds are used to pay for salaries and wages, and related employee benefits which are a part of operating expenses. However, NMC records such funds as non-operating revenues since they are not generated by NMC, but are instead appropriated to NMC by the Legislature.

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
CNMI Appropriations	\$6,806,551	\$8,782,016	\$8,650,439	\$8,550,606	\$9,290,540
Total Revenue	\$14,260,598	\$16,849,354	\$16,818,031	\$17,926,916	\$18,077,706
% of CNMI Appropriations of Total Revenue	47.73%	52.12%	51.44%	47.70%	51.39%
% Growth CNMI Appropriations from Previous Fiscal Years	1.07%	29.02%	-1.50%	-1.15%	8.65%

Federal grants, student tuition and fees, and restricted private gifts, grants and donations decreased by 17.34%, 16.83%, and 22.94%, respectively, in FY 2004 affecting total revenues collected. Student enrollment decreased in FY 2004 resulting in the reduced collection of \$1.13 million in student tuition and fees compared to \$1.36 million in FY 2003. NMC attributes this decreased enrollment to its reimbursement status on Pell grants and the economic state of the CNMI. In addition, federal grantor agencies have cut back on grant awards in FY 2004 due to cuts in their respective budgets, thus affecting the total grants awarded to NMC.



A significant amount of depreciation expense, estimated at \$600,000, was not recorded by NMC in its financials. Consequently, revenues are generally overstated and operating expenses understated. In FY 2003, NMC purchased the La Fiesta Shopping Center for \$7.5 million with the intent to convert the facility to a campus. This campus was to be used as the launching site of its Pacific Gateway Project (a plan to attract international students to NMC mainly from Asian countries). A portion of the purchase price, \$3.5 million, was paid through a grant from the Office of the Governor. The remaining balance was to be paid in annual installments of \$200,000. However, NMC did not anticipate the operational costs of the facility or the costs to convert it to a campus, and found itself in a position where it couldn't meet such expenses even with the rental income it received in FY 2004 (\$575,102). As a result, NMC worked out an agreement with the Office of the Governor whereby NMC would turn over the La Fiesta Shopping Center, including its incurred expenses, to the Office of the Governor. The official transfer took place on January 7, 2005. Because of this agreement, NMC opted not to include the property on its books as of September 30, 2004. However, it did include the rental income of \$575,102 from the property in its *Statement of Revenues, Expenses and Changes in Net Assets* as of September 30, 2004.

At the end of fiscal years 2003 and 2004, NMC had an ending book balance of cash and cash equivalents of \$513,458 and \$1.05 million, respectively. These amounts were deposited at an FDIC insured bank. However, only \$200,000 per fiscal year are FDIC insured. NMC does not require collateralization of its bank deposits resulting in \$213,458 and \$849,330 potentially at risk as of September 30, 2003 and 2004, respectively.

Questioned costs for FY 2004 amounted to \$150,513. NMC did not provide a liability provision for this amount since it is awaiting the ultimate disposition of such questioned costs by the grantor agency(s). Furthermore, total questioned costs as of September 30, 2004 amounted to almost \$1.67 million. This is a decrease from the level of questioned costs as of September 30, 2003 at \$1.8 million. Even while NMC was able to resolve a portion of the questioned costs, it is important to note that if such costs are not resolved and remain disallowed by the grantor agency(s), NMC must pay back such amounts to the grantor agency(s). This is cause for alarm considering NMC's dependence on CNMI appropriations to make up for operating expenses it cannot cover due to insufficient revenues collected. In addition, the amount and consistency of questioned costs may ultimately affect NMC's ability to obtain future federal grants.

Audit Findings

Audit findings are reportable items considered material by the auditors. Findings document situations where established policy, procedures or standards have not been followed. Such deviations may lead to losses for the CNMI or misstatements in its financial reports. Findings, if they remain uncorrected, can ultimately lead to qualifications in the Opinion of the auditors. For FY 2004, there were 7 findings, an improvement from 20 findings in the FY 2003 audit. Of the 7 findings, two related to questioned costs relating to Federal Grants.



A copy of this report is available at the Office of the Public Auditor

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