

NORTHERN MARIANAS COLLEGE

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2004

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Regents
Northern Marianas College:

We have audited the financial statements of the Northern Marianas College (the College) as of and for the year ended September 30, 2004, and have issued our report thereon dated June 16, 2005, which was qualified due to our inability to determine the propriety of property, plant and equipment, leasehold interests and obligations. Except as discussed in the preceding sentence, we conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the College's internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 11 through 19) as items 2004-1 through 2004-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-1 through 2004-3 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated June 16, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2004-7.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLC

June 16, 2005

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Regents
Northern Marianas College:

Compliance

We have audited the compliance of the Northern Marianas College (the College) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 11 through 19). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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 the College'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. Our audit does not provide a legal determination on the College's compliance with those requirements.

As described in items 2004-4 through 2004-7 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding allowable costs/cost principles, procurement and suspension and debarment, eligibility and equipment and real property management that are applicable to each of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the College to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the College's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-4 through 2004-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all the reportable conditions noted above to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended September 30, 2004, and have issued our report thereon dated June 16, 2005, which was qualified due to our inability to determine the propriety of property, plant and equipment, leasehold interests and obligations. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 8 and 9) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of property, plant and equipment, leasehold interests and obligations been determinable, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLC

June 16, 2005

NORTHERN MARIANAS COLLEGE

Schedule of Awards Selected for Audit in
 Accordance with OMB Circular A-133
 Year Ended September 30, 2004

The following list specifies awards selected for detailed compliance testing in accordance with applicable A-133 requirements.

<u>Original Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Education	84.063	Federal Pell Grant Program	\$ 1,483,630
	84.007	Federal Supplemental Educational Opportunity Grant	55,256
	84.033	Federal Work-Study Program	<u>61,457</u>
		Subtotal Student Financial Aid Programs	<u>1,600,343</u>
U.S. Department of Education	84.002	Adult Education - State Grant Program	<u>405,202</u>
U.S. Department of Education	84.047	Upward Bound	477,196
	84.044	Talent Search	284,562
	84.042	Student Support Services	<u>228,926</u>
		Subtotal TRIO Cluster	<u>990,684</u>
U.S. Department of Education	84.031	Higher Education Institutional Aid	<u>326,897</u>
U.S. Department of Agriculture	10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	<u>507,586</u>
U.S. Department of Agriculture	10.500	Cooperative Extension Services	<u>916,616</u>
		Total program expenditures tested	\$ <u>4,747,328</u>
		Total federal program expenditures	\$ <u>5,411,985</u>
		% of total federal program expenditures tested	<u>88%</u>

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds
Year Ended September 30, 2004

United States Department of Education

- Student Financial Assistance Programs

The Northern Marianas College (the College) administers student financial aid (SFA) programs within the Commonwealth of the Northern Marianas Islands. During the year ended September 30, 2004, the College received directly from the U.S. Department of Education funds related to the Pell Grant Program, the Supplemental Educational Opportunity Grant Program (SEOG) and Federal Work-Study Program (FWS). The College's institutional matching share for the SEOG and FWS was waived by the grantor agency for the award year ended June 30, 2004.

- Direct Grants

The College receives other grants directly from the U.S. Department of Education. Projects to which the individual grants relate to are as follows:

- Adult Education - State Grant Program
- TRIO - Student Support Services
- TRIO - Upward Bound
- TRIO - Talent Search
- Teachers Technology Program
- Vocational Education - Occupational and Employment Information State Grants
- Leveraging Education Assistance Partnership Program
- Higher Education Institutional Aid
- Minority Science and Engineering Improvement

- Indirect Grant

The College also receives one U.S. Department of Education grant in a subrecipient capacity.

United States Department of Agriculture

- Direct Grants

The College receives the Land Grant Program Grants directly from the U.S. Department of Agriculture.

- Indirect Grants

The College also receives various other U.S. Department of Agriculture grants in a subrecipient capacity.

United States Department of Health and Human Services

- Indirect Grants

During fiscal year 2004, the College received one U.S. Department of Health and Human Services grant in a subrecipient capacity.

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds, Continued
Year Ended September 30, 2004

United States Department of Commerce

- Direct Grants

During fiscal year 2004, the College received two grants directly from the U.S. Department of Commerce.

United States Environmental Protection Agency

- Direct Grants

During fiscal year 2004, the College received one grant directly from the U.S. Environmental Protection Agency.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY04</u>
<u>U.S. Department of Education</u>			
<u>Direct Programs</u>			
Student Financial Assistance Programs:			
Federal Supplemental Educational Opportunity Grants	84.007	\$ 55,256	\$ 55,256
Federal Work-Study Program	84.033	64,553	61,457
Federal Pell Grant Program	84.063	<u>1,487,859</u>	<u>1,483,630</u>
Subtotal Student Financial Assistance Program		<u>1,607,668</u>	<u>1,600,343</u>
TRIO Programs:			
Student Support Services	84.042	228,825	228,926
Talent Search	84.044	290,272	284,562
Upward Bound	84.047	<u>473,160</u>	<u>477,196</u>
Subtotal TRIO Programs		<u>992,257</u>	<u>990,684</u>
Adult Education - State Grant Program	84.002	<u>454,720</u>	<u>405,202</u>
Minority Science and Engineering Improvement	84.120	<u>129,017</u>	<u>49,902</u>
Teachers Technology Program	84.342	<u>201,701</u>	<u>174,932</u>
Vocational Education - Occupational and Employment Information State Grants	84.346	<u>103,030</u>	<u>62,332</u>
Higher Education Institutional	84.031	<u>365,000</u>	<u>326,897</u>
Leveraging Educational Assistance Partnership	84.069	<u>408</u>	<u>408</u>
Supplemental Leveraging Educational Assistance Partnership	84.069B	<u>1,348</u>	<u>896</u>
Subtotal Direct Programs		<u>3,855,149</u>	<u>3,611,596</u>
<u>Indirect Program</u>			
Special Education - Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325	<u>-</u>	<u>1,594</u>
Subtotal U.S. Department of Education		<u>3,855,149</u>	<u>3,613,190</u>
<u>U.S. Department of Health and Human Services</u>			
<u>Indirect Program</u>			
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632	<u>125,000</u>	<u>107,779</u>
Subtotal U.S. Department of Health and Human Services		<u>125,000</u>	<u>107,779</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2004

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY04</u>
<u>U.S. Department of Agriculture</u>			
<u>Direct Programs</u>			
Land Grant Programs:			
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	655,538	507,586
Cooperative Extension Services	10.500	918,380	916,616
Integrated Programs	10.303	<u>100,000</u>	<u>58,610</u>
Subtotal Direct Programs		<u>1,673,918</u>	<u>1,482,812</u>
<u>Indirect Programs</u>			
Grants for Agricultural Research, Special Research Grants	10.200	75,700	73,960
State Administration Matching Grants for Food Stamp Program	10.561	76,749	11,517
Rural Business Enterprise Grants	10.769	<u>50,000</u>	<u>5,620</u>
Subtotal Indirect Programs		<u>202,449</u>	<u>91,097</u>
Subtotal U.S. Department of Agriculture		<u>1,876,367</u>	<u>1,573,909</u>
<u>U.S. Department of Commerce</u>			
<u>Direct Program</u>			
Sea Grant Support	11.417	<u>100,000</u>	<u>67,619</u>
Subtotal U.S. Department of Commerce		<u>100,000</u>	<u>67,619</u>
<u>Corporation for National Service</u>			
<u>Direct Program</u>			
Learn and Serve America - Higher Education	94.005	<u>16,350</u>	<u>10,199</u>
Subtotal Corporation for National Service		<u>16,350</u>	<u>10,199</u>
<u>U.S. Environmental Protection Agency</u>			
<u>Direct Program</u>			
Water Quality Cooperative Agreements	66.463	<u>70,000</u>	<u>39,289</u>
Total Federal Programs		<u>\$ 6,042,866</u>	<u>\$ 5,411,985</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

(1) Scope of Review

The Northern Marianas College (the College) was created as an autonomous public agency of the Commonwealth of the Northern Mariana Islands (CNMI) pursuant to Title 3, Division 1, Chapter 3, Article 1 of the Commonwealth Code. The College's existence is to be perpetual and it shall have all the rights and privileges of a corporation. The purpose of the College is to provide secondary educational opportunities to the people of the CNMI. The U.S. Department of the Interior has been designated as the College's cognizant agency.

a. Programs Subject to OMB A-133

The Schedule of Expenditures of Federal Awards presents each Federal program related to the U.S. Department of Education, U.S. Department of Health and Human Services and the U.S. Department of Agriculture which are subject to OMB A-133.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. All program award amounts represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

b. Cost Allocation

The College is currently allocating administrative costs to program awards based upon criteria prescribed in those program awards.

(3) Indirect Cost Allocation

For fiscal year 2004, the College has an approved indirect cost rate of 38% for all grant programs, except for U.S. Department of Education programs, which is 8%.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The College's major programs were:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Student Financial Assistance Programs:	
Federal Pell Grant Program	84.063
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work-Study Program	84.033
TRIO Cluster:	
TRIO - Upward Bound	84.047
TRIO - Student Support Services	84.042
TRIO - Talent Search	84.044
Adult Education - State Grant Program	84.002
Higher Education Institutional Aid	84.031
Land Grant Programs:	
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203
Cooperative Extension Services	10.500

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The College did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2004-1	Fixed Assets	13
2004-2	Receivables	14
2004-3	Inventory	15

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2004-4	Allowable Costs/Cost Principles	\$ 8,272	16
2004-5	Procurement and Suspension and Debarment	\$ 7,320	17
2004-6	Eligibility	\$ -	18
2004-7	Equipment and Real Property Management	\$ -	19

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section II - Financial Statement Findings

Fixed Assets

Finding No. 2004-1

Criteria: The College should maintain property records detailing the description, cost, acquisition date and estimated useful life of its fixed assets. Such records should agree to the balances recorded in the College's financial statements. Additionally, periodic physical inventories of all fixed assets should be performed and accounting records updated accordingly.

Condition: A physical inventory of the College's fixed assets has not been performed within the past two years. Additionally, the College was unable to produce a schedule of fixed assets as of September 30, 2004, and original cost data or alternative valuation data is not available.

Cause: The cause of the above condition is a lack of adequate fixed assets subsidiary records.

Effect: The effect of the above condition is potential misstatement of amounts recorded in the College's financial statements.

Recommendation: We recommend that the College institute procedures to substantially identify and determine the cost of its fixed assets. Once valuation and identity have been established, we recommend that the College reconcile the balance of actual fixed assets on hand to the balance of assets recorded in its financial statements.

Prior Year Status: Lack of support of recorded fixed assets and periodic inventory of fixed assets was reported as a finding in the audits of the College for fiscal years 2001 through 2003.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Receivables

Finding No. 2004-2

Criteria: Receivables should be periodically assessed for validity and collectibility. Additionally, through this process, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: Numerous account balances have been outstanding for several fiscal years with little or no subsequent activity.

Cause: The cause of the above condition is that supporting documents for these long outstanding balances could not be located.

Effect: The effect of the above condition is that the College's receivables are not being collected in a timely manner. Further, the interim financial statements are misstated due to a lack of adequate provision for doubtful receivables.

Recommendation: We recommend that the College implement procedures requiring periodic review of all receivable balances for validity and collectibility. Accounts determined to be uncollectible should be written-off. This process should also address the adequacy of the related allowances for doubtful accounts.

Prior Year Status: Lack of review of receivable balances for validity and collectibility was reported as a finding in the audits of the College for fiscal years 2001 through 2003.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Inventory - Book Store

Finding No. 2004-3

Criteria: Variances between general ledger balances and subsidiary ledgers should be investigated and reconciled in a timely manner. The subsidiary ledger should reflect accurate information such as quantity, cost and items owned by the College.

Condition: Discrepancies between inventory general ledger and subsidiary ledger balances are not being identified and resolved in a timely manner. This condition was resolved through proposed audit adjustments.

Cause: The cause of the above condition is a lack of procedures in place to ensure general ledger balances are reconciled to the subsidiary ledger.

Effect: The effect of the above condition is possible misstatement in inventory balances.

Recommendation: The College should adhere to established policies and procedures requiring monthly reconciliation of all general ledger balances to subsidiary detail.

Prior Year Status: Lack of adherence to established policies and procedures requiring monthly reconciliation of inventory general ledger balances against subsidiary detail and lack of retention of invoices to substantiate inventory costs was reported as a finding in the audit of the College for fiscal year 2003.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles

Finding No. 2004-4

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Education / Adult Education - State Grant Program / CFDA # 84.002 / Federal Award # V002A030055 / Federal Award period 07/01/03 - 09/30/04</p>	<p><u>Criteria:</u> OMB Circular A-21, <i>Cost Principles for Educational Institution</i>, establishes principles for determining the allowable costs incurred by educational institutions under grants with the Federal Government. Specifically, costs must be necessary and reasonable for proper and efficient performance and administration of the federal awards.</p> <p><u>Condition:</u> Of \$405,202 in expenditures of the Adult Education, - State Grant Program, fourteen expenditures were tested, totaling \$41,172. One expenditure (check # 12755 for \$4,272) was for travel that did not occur (non-refundable tickets were acquired but were not used) and one expenditure (check # 12579 for \$4,000) lacked substantiating documents such as an invoice or a payment receipt. Based on our population and sample size, the condition was extrapolated to indicate amounts in excess of \$10,000.</p> <p><u>Cause:</u> The cause of the above condition is a lack of adherence to federal procurement standards.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement standards.</p> <p><u>Recommendation:</u> We recommend that the College adhere to established policies and procedures to ensure compliance with federal procurement standards.</p> <p><u>Prior Year Status:</u> Noncompliance with procurement standards was reported as a finding in the audit of the College for fiscal 2003.</p>	<p>\$ 8,272</p>

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment

Finding No. 2004-5

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / Adult Education - State Grant Program / CFDA # 84.002 / Federal Award # V002A030055 / Federal Award period 07/01/03 - 09/30/04	<p><u>Criteria:</u> The federal government requires compliance with local procurement policy when it is more stringent than the federal requirement. The College's Procurement Regulation 11-c requires programs to first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures.</p> <p><u>Condition:</u> Of \$405,202 in expenditures of the Adult Education - State Grant Program, fourteen expenditures, totaling \$41,172 were tested. Two professional service contracts (Contract #s PS-2746 and 2746A for \$6,120 and \$1,200, respectively) did not evidence that the contracted services were not available internally at the College. Based on our population and sample size, the condition was extrapolated to indicate amounts in excess of \$10,000.</p> <p><u>Cause:</u> The cause of the above condition is a lack of adherence to local procurement policy.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with local procurement policy.</p> <p><u>Recommendation:</u> We recommend that the College adhere to established policies and procedures to ensure compliance with local procurement policy.</p> <p><u>Prior Year Status:</u> Noncompliance with procurement standards was reported as a finding in the audit of the College for fiscal 2003.</p>	7,320
Total Questioned Costs		<hr/> \$ <u>15,592</u>

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Education
Eligibility - TRIO - Talent Search
CFDA # 84.044, Federal Award # P044A020234-03
Federal Award period 09/01/03 - 08/31/04

Finding No. 2004-6

Criteria: It is the College's responsibility to ensure that student awards are made only to eligible students. Various eligibility requirements concerning citizenship, prior education and similar matters are stipulated in the specific requirements of the program's compliance supplement.

Condition: Of three Talent Search student files tested for eligibility, two files (SS #s 586-31-2004 and 586-06-7548) lacked proof of citizenship and one file (SS # 586-31-2004) lacked evidence of educational background (e.g., completion of five years of elementary education, etc.)

Cause: The cause of the above condition is a lack of procedures to ensure that adequate documentation is retained by the College to support eligibility of recipients of Talent Search program.

Effect: The effect of the above condition is possible noncompliance with respect to eligibility requirements. Costs were not questioned as we were unable to determine that eligibility was not proper.

Recommendation: We recommend that the College establish procedures to ensure that files for all students under the program contain adequate documentation to support eligibility requirements.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Equipment and Real Property Management - All Federal Programs

Finding No. 2004-7

Criteria: Section 74.34 of 34 CFR 74, *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires grant recipients to maintain property management records and to perform a physical inventory of equipment at least once every two years.

Condition: Property management records are not maintained. Furthermore, a physical inventory of equipment has not been taken within the past two years.

Cause: The cause of the above condition is a lack of established policies and procedures related to equipment and real property management.

Effect: The effect of the above condition is noncompliance with federal property management standards.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with federal property management standards.

Prior Year Status: Noncompliance with federal property management standards was reported as a finding in the audits of the College for fiscal years 2001 through 2003.

NORTHERN MARIANAS COLLEGE

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2004

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2004:

Questioned costs as previously reported	\$ 1,803,797
Less questioned costs resolved in fiscal year 2004:	
Questioned costs of fiscal year 2000 and prior (a)	(1,072,626)
Questioned costs of fiscal year 2001 Single Audit (b)	(154,355)
Questioned costs of fiscal year 2002 Single Audit (b)	(280,331)
Questioned costs of fiscal year 2003 Single Audit (b)	<u>(161,564)</u>
	134,921
Questioned costs of fiscal year 2004 Single Audit	<u>15,592</u>
Unresolved questioned costs at September 30, 2004	\$ <u><u>150,513</u></u>

- (a) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as the College considers these findings are no longer valid as they were reported to federal agencies in excess of the two year threshold as of September 30, 2004, except for the U.S. Department of Education which specifically communicated to the College their determination and resolution of the questioned costs in the years 2000 and prior in their letter dated March 11, 2005.
- (b) These questioned costs were resolved through Federal agency determination as communicated to the College by the U.S. Department of Agriculture (USDA) in their letter dated April 15, 2005 and the U.S. Department of Education (USDE) in their letters dated May 27, 2005 and March 11, 2005.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 11 through 19).



Northern Marianas College

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Corrective Action Plans to Findings and Questioned Costs included in the Independent Auditors' Reports on Internal Control and on Compliance for the Year Ended September 30, 2004

Financial Statement Findings Section

Fixed Assets

Finding No. 2004-1

The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College in procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed assets module was requested from the College's Planning, Budget and Evaluation Council. Once again funding constraints prevented this body from making the funds available for such purposes in FY2004 and 2005. Should the necessary funding be identified for this purpose, the College expects to resolve this condition in FY2006.

Receivables

Finding No. 2004-2

The College concurs with the finding. The College has accumulated numerous large receivable balances over the years on which there has been little to no subsequent collection activity. The College feels however that it has adequately reserved for these balances. The College has already referred several of these balances to attorneys and collection agencies for further action. The College is of the opinion that there is still potential for recovery on some of these balances and as such is reluctant to write such off. The College however will increase its efforts to collect these balances and periodically review such for the adequacy of related allowances.

Inventory

Finding No. 2004-3

The College concurs with the finding. Proper accounting of the Book Store's inventory has always proved to be a challenge for the College historically. It is noted however that progress has been made in increasing such accountability through annual and periodic physical inventories being conducted. The College is in the process of transitioning the accounting of the Book Store transactions from the now independent accounting system to the central College wide accounting system. This transfer of the accounting functions is expected to be completed in FY2006. This is expected to resolve the accounting issues at the Book Store.

Federal Award Findings and Questioned Costs Section

Allowable Costs/Cost Principles Finding No. 2004-4

The College is reviewing the condition noted and the questioned costs. The College will work with the grantor agency to resolve such on finalization of the audit report.

Procurement and Suspension and Debarment Finding No. 2004-5

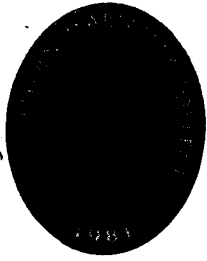
The College is reviewing the condition noted and the questioned costs. The College will work with the grantor agency to resolve such on finalization of the audit report.

Eligibility Finding No. 2004-6

The College is currently reviewing this finding and will resolve this finding through provision of this information to the grantor agency.

Equipment and Real Property Management Finding No. 2004-7

The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College in procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed assets module was requested from the College's Planning, Budget and Evaluation Council. Once again funding constraints prevented this body from make the funds available for such purposes in FY2004 and 2005. Should the necessary funding be identified for this purpose, the College expects to resolve this condition in FY2006.



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Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2003:

Financial Statement Findings

- Finding No. 2003-1 - Not corrected. See corrective action plan to Finding No. 2004-1.
- Finding No. 2003-2 - Not corrected. See corrective action plan to Finding No. 2004-2.
- Finding No. 2003-3 - Corrective action has been taken.
- Finding No. 2003-4 - Corrective action has been taken.
- Finding No. 2003-5 - Not corrected. See corrective action plan to Finding No. 2004-3.
- Finding No. 2003-6 - Corrective action has been taken.
- Finding No. 2003-7 - Corrective action has been taken.
- Finding No. 2003-8 - Corrective action has been taken.

Federal Award Findings and Questioned Costs

- Finding No. 2003-9 - Corrective action has been taken.
- Finding No. 2003-10 - Corrective action has been taken.
- Finding No. 2003-11 - Corrective action has been taken.
- Finding No. 2003-12 - Corrective action has been taken.
- Finding No. 2003-13 - Corrective action has been taken.
- Finding No. 2003-14 - Not corrected. See corrective action plan to Finding No. 2004-4.
- Finding No. 2003-15 - Not corrected. See corrective action plan to Finding No. 2004-5.
- Finding No. 2003-16 - Corrective action has been taken.
- Finding No. 2003-17 - Corrective action has been taken.

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2003, Continued:

Page Two

Federal Award Findings and Questioned Costs, Continued

Finding No. 2003-18 - Corrective action has been taken.

Finding No. 2003-19 - Corrective action has been taken.

Finding No. 2003-20 - Not corrected. See corrective action plan to Finding No. 2004-7.