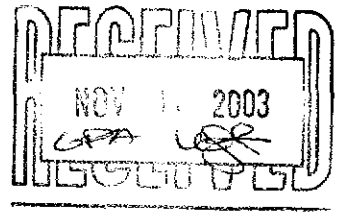


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NORTHERN MARIANAS COLLEGE

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2002

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING 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, 2002, and have issued our report thereon dated August 29, 2003, which was qualified due to our inability to determine the propriety of property, plant and equipment and inventory. 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.

Compliance

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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (pages 10 through 30) as items 2002-8 through 2002-19.

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 as items 2002-1 through 2002-7.

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 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, we consider all of the reportable conditions described above 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 August 29, 2003.

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

August 29, 2003

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, 2002. 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 10 through 30). 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 2002-8 through 2002-19 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding allowable costs/cost principles, period of availability of federal funds, cash management, equipment and real property management, reporting and monitoring subrecipients 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, 2002.

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 2002-8 through 2002-19.

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, 2002, and have issued our report thereon dated August 29, 2003, which was qualified due to our inability to determine the propriety of property, plant and equipment and inventory. 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 7 and 8) 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 fixed assets and inventory 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

August 29, 2003

NORTHERN MARIANAS COLLEGE

Schedule of Awards Selected for Audit in
 Accordance with OMB Circular A-133
 Year Ended September 30, 2002

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 84.007 84.033	Student Financial Aid Programs	\$ 2,343,258
U.S. Department of Education	84.002	Adult Basic Education	365,818
U.S. Department of Education	84.047A 84.044A 84.042A	TRIO Cluster	1,365,574
U.S. Department of Agriculture	10.203	Cooperative State Research Services - Hatch Act	564,659
U.S. Department of Agriculture	10.500	Cooperative Extension Services - Smith-Lever Act	<u>954,652</u>
Total program expenditures tested			\$ <u>5,593,961</u>
Total federal program expenditures			\$ <u>6,517,417</u>
% of total federal program expenditures tested			<u>86%</u>

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds Year Ended September 30, 2002

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, 2002, 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, 2002.

- 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
- Career Resource Network State Grants
- Corporation for National and Community Service
- Leveraging Education Assistance Partnership Program
- Pacific Basin Related Services Assistant Training Project

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 2002, the College received several U.S. Department of Health and Human Services grants in a subrecipient capacity.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2002

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY02</u>
<u>U.S. Department of Education</u>			
<u>Direct Programs</u>			
Student Financial Assistance Programs:			
Federal Supplemental Educational Opportunity Grant	84.007	\$ 36,990	\$ 36,992
Federal Work-Study	84.033	117,223	56,395
Federal Pell Grant	84.063	3,334,214	2,249,871
Subtotal Student Financial Assistance Program		3,488,427	2,343,258
Adult Education - State Grant Program	84.002	848,675	365,818
Leveraging Educational Assistance Partnership Program	84.069	671	671
Student Support Services Program	84.042A	448,970	228,837
Talent Search	84.044A	547,374	260,488
Upward Bound	84.047A	1,537,811	876,249
Teachers Technology Program	84.342A	588,107	262,617
Career Resource Network State Grants	84.346A	93,888	97,780
Pacific Basin Related Services Assistant Training Project	84.325	132,270	58,969
Corporation for National and Community Service	94.005	17,500	17,187
Subtotal U.S. Department of Education		7,703,693	4,511,874
<u>U.S. Department of Health and Human Services</u>			
<u>Indirect Programs</u>			
University Affiliated Programs	93.632	140,000	107,906
MAREPAC Grant Project	93.632	14,000	(14,000)
Pacific Basin University Center on Excellence	93.632	125,000	15,109
Pacific Island SEA Grant Consortium	93.632	28,000	17,828
Subtotal U.S. Department of Health and Human Services		307,000	126,843
<u>U.S. Department of Agriculture</u>			
<u>Direct Programs</u>			
Land Grant Programs:			
Cooperative State Research Services - Hatch Act	10.203	661,209	564,659
Cooperative Extension Services - Smith-Lever Act	10.500	1,489,467	954,652
Penalty Mail	10.500	-	17,403
Sustainable Agriculture	10.500	10,000	416
Nutrition Education	10.500	-	82
Water Quality Initiative	10.500	-	68,716
Food Safety & Quality	10.500	-	7,803
Pesticide Application Training	10.500	-	3,496

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2002

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY02</u>
<u>U.S. Department of Agriculture, Continued</u>			
<u>Direct Programs, Continued</u>			
Balance forwarded		2,160,676	1,617,227
Farm Safety	10.588	-	13,483
Integrated Pest Management	10.588	172,104	124,438
Expanded Food and Nutrition	10.588	54,798	69,248
USDA Rural Business Enterprise Grant	10.769	-	1,373
Subtotal Direct Programs		<u>2,387,578</u>	<u>1,825,769</u>
<u>Indirect Programs</u>			
Management Services	10.200	-	18,241
Waste Management	10.200	-	1,102
Microprop of Banana	10.200	-	66
Creating Tomorrow Citizen	10.200	-	1,790
Staff and Faculty Development	10.200	-	4,861
People Project	10.200	-	380
Capacity Building	10.200	-	22,104
Western SARE Professional Program	10.500	-	4,387
Subtotal Indirect Programs		<u>-</u>	<u>52,931</u>
Subtotal U.S. Department of Agriculture		<u>2,387,578</u>	<u>1,878,700</u>
Total Federal Programs		<u>\$ 10,398,271</u>	<u>\$ 6,517,417</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, 2002

(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

The College has not entered into an approved indirect cost negotiation agreement covering the year ended September 30, 2002.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs
Year Ended September 30, 2002

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	84.063
Federal Supplemental Educational Opportunity Grant	84.007
Federal Work Study	84.033
TRIO Cluster:	
TRIO - Upward Bound	84.047A
TRIO - Student Support Services	84.042A
TRIO - Talent Search	84.044A
Adult Basic Education - State Grant Program	84.002
Land Grant Programs:	
Cooperative State Research Services - Hatch Act	10.203
Cooperative Extension Services - Smith-Lever Act	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, 2002

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2002-1	Fixed Assets	12
2002-2	Receivables	13
2002-3	Journal Vouchers	14
2002-4	Inventory	15
2002-5	Bank Reconciliation	16
2002-6	General and Subsidiary Ledger Reconciliation	17
2002-7	Payroll	18

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2002-8 - 11	Allowable Costs/Cost Principles	\$ 159,265	19 - 22
2002-12	Period of Availability of Federal Funds	\$ 125,465	23
2002-13	Allowable Costs/Cost Principles	\$ 37,470	24
2002-14	Period of Availability of Federal Funds	\$ -	25
2002-15	Reporting	\$ -	26
2002-16	Cash Management	\$ -	27
2002-17	Subrecipient Monitoring	\$ -	28
2002-18	Cash Management	\$ -	29
2002-19	Equipment and Real Property Management	\$ -	30

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Section II - Financial Statement Findings

Fixed Assets

Finding No. 2002-1

Criteria: All fixed assets should be supported original cost data. 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 been performed within the past two years. Although the College was able to produce a schedule of fixed assets as of September 30, 2002, original cost data or alternative valuation data is not available.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is non-adherence to the College's established fixed asset capitalization policy and potential misstatement of amounts recorded in the College's financial statements.

Recommendation: We recommend that the College adhere to established policies and procedures relative to capitalization of fixed assets. Further, we recommend that periodic physical inventories of fixed assets be performed and the general ledger balances be updated.

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

Auditee Response and Corrective Action Plan: See attachment to this report.

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Receivables

Finding No. 2002-2

Criteria: All receivable balances should be reconciled to subsidiary details and periodically assessed for validity and collectibility. Additionally, through this review process, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: A review such as that set forth in the criteria is not being performed. Numerous account balances have been outstanding for several fiscal years with little or no subsequent activity. Material adjustments were proposed in the audit process to increase the allowance for doubtful accounts as a result.

Cause: The cause of the above condition is that reviews contemplated in the criteria are not being performed.

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. This review process should also address the adequacy of 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 audit of the College for fiscal year 2001.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Journal Vouchers

Finding No. 2002-3

Criteria: Proper segregation of duties and an adequate system of internal control requires that journal entries be reviewed for validity and accuracy by someone other than the preparer prior to posting.

Condition: Journal entries are not always reviewed and approved prior to posting to the accounting system.

Cause: The cause of the above condition is the absence of independent review of journal vouchers.

Effect: Lack of review and approval of journal entries could result in errors not being identified in a timely manner and the financial statements being misstated as a result.

Recommendation: The College should establish policies and procedures requiring journal entries to be reviewed and approved for entry by someone other than the preparer and that this review be evidenced by the reviewer's signature.

Prior Year Status: Lack of review and approval of journal entries was reported as a finding in the audit of the College for fiscal year 2001.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Inventory - Book Store

Finding No. 2002-4

Criteria: General ledger balances should be supported by subsidiary ledgers and variances between the two should be investigated and reconciled in a timely manner. A physical verification of inventory should be performed at year end to ensure that quantities on hand agree to amounts reported in the financial statements.

Condition: The College was unable to produce detail of Book Store inventory balances. A physical count of the inventory was not performed as of September 30, 2002.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that discrepancies between general ledger and subsidiary ledger balances are not being identified and resolved in a timely manner. Further, lack of physical inventories may result in a misstatement of the inventory balances.

Recommendation: The College should adhere to established policies and procedures requiring monthly reconciliation of all general ledger balances against subsidiary details. We recommend that a physical count of the Book Store inventory be performed at year end.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Bank Reconciliation - Book Store

Finding No. 2002-5

Criteria: Monthly bank reconciliations should be performed for all cash accounts maintained by the College.

Condition: The College was unable to provide a bank reconciliation for the Book Store checking account for the month of September 2002. A reconciliation was reconstructed from subsequent bank statements for purposes of the audit.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is that discrepancies in general ledger and bank balances may occur and not be identified in a timely manner.

Recommendation: The College should adhere to established policies and procedures requiring monthly reconciliation of all bank accounts.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

General and Subsidiary Ledger Reconciliation - Book Store

Finding No. 2002-6

Criteria: General ledger balances should be supported by subsidiary ledgers and variances should be investigated and reconciled in a timely manner.

Condition: General ledger balances for Book Store accounts receivable and accounts payable did not agree to subsidiary details. No reconciliation of the variances was performed by the College.

Cause: The above condition is attributable to employee turnover.

Effect: The effect of the above condition is that discrepancies between general ledger and subsidiary ledger balances are not being identified and resolved in a timely manner resulting in possible misstatement of the financial statements.

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

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Payroll

Finding No. 2002-7

Criteria: Employee personnel files should contain W-4 forms authorizing withholdings and data should correspond with that contained in the information system. Taxes withheld from employees should correspond to legal withholding rates as outlined in the CNMI tax table. Personnel files should contain complete documentation pertinent to employees' compensation, including housing allowances.

Condition: Of twenty-five personnel files tested, eighteen personnel files (related to check #s 157404, 157703, 158257, 158513, 158793, 158811, 159185, 159214, 159233, 159235, 160243, 160368, 160795, 160994, 161110, 162081, 163098 and 163158) did not contain a W-4 authorizing withholdings or the data did not correspond with that contained in the information systems and/or the Chapter 7 tax withholdings were incorrectly calculated. Further, for one employee (related to check # 160056) no documentation supporting housing allowance paid was on file.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures over payroll file documentation and lack of periodic review of payroll withholding calculations.

Effect: The effect of the above condition is lack of support for withholding should disputes arise.

Recommendation: The College should adhere to established policies and procedures requiring employee personnel files to be current and complete. Further, we recommend that a review process be established to ensure that withholdings are being properly computed.

Prior Year Status: Lack of adherence to established policies and procedures over payroll file documentation was reported as a finding in the audit of the College for fiscal year 2001.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles

Finding No. 2002-8

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / TRIO - Upward Bound / CFDA # 84.047A	<p><u>Criteria:</u> Per the terms of the grant agreement, the College is permitted to charge a maximum of 8% in indirect costs to the TRIO - Upward Bound Program. The College determines the amount charged for indirect costs by applying the allowable percentage to the total expenditures incurred under the program for the program year. Despite the grant agreement percentage, the College is required to perform a calculation of the indirect cost rate and to document such. The College should not charge any grant award in excess of this calculated rate.</p> <p><u>Condition:</u> During the year ended September 30, 2002, the College charged approximately \$92,099 or 13.35% of total program expenditures to indirect costs. As such, the 8% indirect cost rate per the grant agreement was exceeded by approximately 5.35%, which translates into an overcharge of \$36,896 in indirect costs to the program. Additionally, the College has not calculated an indirect cost rate, and thus all indirect costs charged to this grant are questioned.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with allowable indirect costs charges and questioned costs.</p> <p><u>Recommendation:</u> We recommend that the College ensure that only allowable indirect costs be charged to federal programs.</p> <p><u>Prior Year Status:</u> Improper calculation of indirect cost rates was reported as a finding in the audit of the College for fiscal year 2001.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	92,099

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Allowable Costs/Cost Principles

Finding No. 2002-9

<u>Program</u>	<u>Reason for Questioned Costs</u>			<u>Questioned Costs</u>																												
U.S. Department of Education / Adult Basic Education/ CFDA # 84.022	<p><u>Criteria:</u> As provided for by the OMB Compliance Supplement, recipients of the Adult Basic Education - State Grant Program are permitted to charge 8% or the Restricted Indirect Cost Rate (RICR) to grants to recover their indirect costs. Despite the RICR, the College is required to perform a calculation of the indirect cost rate and to document such. The College should not charge any grant in excess of this calculated rate.</p> <p><u>Condition:</u> For the following grants, the College made the following indirect costs drawdowns, which differed from amounts computed at the allowed indirect cost rate. Additionally, the College has not calculated an indirect cost rate, and thus all indirect costs charged to this grant are questioned.</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Amount Charged to the Program</u></th> <th style="text-align: center;"><u>8% Amount</u></th> <th style="text-align: center;"><u>Variance</u></th> </tr> </thead> <tbody> <tr> <td>V002A000055</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">\$ 26,509</td> <td style="text-align: right;">\$ 26,509</td> </tr> <tr> <td>V002A010055</td> <td style="text-align: right;">14,060</td> <td style="text-align: right;">19,501</td> <td style="text-align: right;">5,441</td> </tr> <tr> <td>V002A020055</td> <td style="text-align: right;">-</td> <td style="text-align: right;">1,245</td> <td style="text-align: right;">1,245</td> </tr> <tr> <td>V002A000060</td> <td style="text-align: right;">6,604</td> <td style="text-align: right;">6,076</td> <td style="text-align: right;">(528)</td> </tr> <tr> <td>V002A010060</td> <td style="text-align: right;"><u>4,633</u></td> <td style="text-align: right;"><u>1,365</u></td> <td style="text-align: right;"><u>(3,268)</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 25,297</u></td> <td style="text-align: right;"><u>\$ 54,696</u></td> <td style="text-align: right;"><u>\$ 29,399</u></td> </tr> </tbody> </table>				<u>Amount Charged to the Program</u>	<u>8% Amount</u>	<u>Variance</u>	V002A000055	\$ -	\$ 26,509	\$ 26,509	V002A010055	14,060	19,501	5,441	V002A020055	-	1,245	1,245	V002A000060	6,604	6,076	(528)	V002A010060	<u>4,633</u>	<u>1,365</u>	<u>(3,268)</u>		<u>\$ 25,297</u>	<u>\$ 54,696</u>	<u>\$ 29,399</u>	25,297
	<u>Amount Charged to the Program</u>	<u>8% Amount</u>	<u>Variance</u>																													
V002A000055	\$ -	\$ 26,509	\$ 26,509																													
V002A010055	14,060	19,501	5,441																													
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V002A000060	6,604	6,076	(528)																													
V002A010060	<u>4,633</u>	<u>1,365</u>	<u>(3,268)</u>																													
	<u>\$ 25,297</u>	<u>\$ 54,696</u>	<u>\$ 29,399</u>																													

Cause: The cause of the above condition appears to be inadequate procedures for accurate preparation and reporting of indirect cost charges.

Effect: The effect of the above condition is noncompliance with allowable indirect cost charges and questioned costs.

Recommendation: We recommend that the College ensure that only allowable indirect costs be charged to federal programs.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Allowable Costs/Cost Principles

Finding No. 2002-10

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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U.S. Department of Education / Adult Basic Education/ CFDA # 84.002

Criteria: Amounts reported on the Financial Status Report (SF-269) should be based on actual expenditures as recorded in the general ledger.

Condition: The amount of expenditures reported on the Financial Status Report for the Adult Basic Education program differed from the general ledger as follows:

<u>Grant ID</u>	<u>PER FSR</u>	<u>Per General Ledger</u>	<u>Variance</u>
V002A000055	\$ 34,496	\$ 29,860	\$ 4,636
V002A010055	\$ 286,012	\$ 257,832	\$ 28,180
V002A010060	\$ 11,997	\$ 21,697	\$ (9,700)

Cash drawdown requests were made based on the above.

Cause: The cause of the above condition appears to be inadequate procedures over accurate preparation and reporting of financial information to grantor agencies.

Effect: The effect of the above condition is noncompliance with reporting guidelines for the federal program. This condition was corrected in an amended report.

Recommendation: We recommend that oversight and review responsibilities be clearly defined and established to ensure timely preparation and review of financial records.

Prior Year Status: Improper reporting was reported as a finding in the audit of the College for fiscal year 2002.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Allowable Costs/Cost Principles

Finding No. 2002-11

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>												
U.S. Department of Agriculture / Cooperative State Research and Extension Service - Smith Lever Act / CFDA # 10.500	<p><u>Criteria:</u> The Smith-Lever Act, Sections (b) & (c) grant requires a match by the College of 50% of total program expenditures for fiscal year 2002.</p> <p><u>Condition:</u> The College determines its match share by allocating a percentage of various department costs that benefit the grant programs. The allocation percentage is derived from the ratio of total Land Grant full-time employees to the total number of full-time employees of the College. Our review of the actual payroll register at the beginning of the year indicated that the total number of the College's employees was understated by forty-nine, thus the allocation percentage was overstated by 6.81%. As a result, the actual match share of the College, based on the revised allocation percentage, fell short from its original commitment by \$41,869. The College has not sought specific approval of the allocation method for FY2002 from the grantor agency.</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Amount Committed</u></th> <th style="text-align: center;"><u>Actual Match</u></th> <th style="text-align: center;"><u>Variance</u></th> </tr> </thead> <tbody> <tr> <td>NMC's share (50%)</td> <td style="text-align: right;">\$371,893</td> <td style="text-align: right;">\$330,024</td> <td style="text-align: right;">\$ 41,869</td> </tr> <tr> <td>Federal grantor</td> <td style="text-align: right;">\$743,787</td> <td style="text-align: right;">\$743,787</td> <td style="text-align: right;">\$ -</td> </tr> </tbody> </table> <p>Questioned costs reflect the variance in NMC's match. Additional questioned costs may result based on the grantor's determination of whether the federal amount committed should have been reduced based on NMC's actual match.</p> <p><u>Cause:</u> The cause of the above condition is an improperly computed allocation percentage.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$41,869.</p> <p><u>Recommendation:</u> We recommend that the College review the allocation percentage calculation and ensure that its match share of grant funds is accurate. Further, specific approval of the allocation percentage calculation should be obtained.</p> <p><u>Prior Year Status:</u> An improperly computed allocation percentage was reported as a finding in the audit of the College for fiscal year 2001.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>		<u>Amount Committed</u>	<u>Actual Match</u>	<u>Variance</u>	NMC's share (50%)	\$371,893	\$330,024	\$ 41,869	Federal grantor	\$743,787	\$743,787	\$ -	41,869
	<u>Amount Committed</u>	<u>Actual Match</u>	<u>Variance</u>											
NMC's share (50%)	\$371,893	\$330,024	\$ 41,869											
Federal grantor	\$743,787	\$743,787	\$ -											

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Period of Availability of Federal Funds

Finding No. 2002-12

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Agriculture / Cooperative State Research and Extension Service - Hatch Act / CFDA # 10.500	<p><u>Criteria:</u> Amounts reported on the Financial Status Report (SF-269) should be based on actual expenditures as recorded in the general ledger.</p> <p><u>Condition:</u> The amount of expenditures for the Hatch Act as reported in the College's general ledger exceeded amounts reported in the SF-269 by approximately \$125,465.</p> <p><u>Cause:</u> The cause of the above condition is unknown.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$125,465.</p> <p><u>Recommendation:</u> The College should take steps to document the validity of the carried forward balances and obtain approval of the carry forward from the federal grantor agency.</p> <p><u>Prior Year Status:</u> Lack of adequate documentation from the prior years to ascertain accuracy of funds carried forward was reported as a finding in the audit of the College for fiscal year 2001.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	125,465

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Allowable Costs/Cost Principles

Finding No. 2002-13

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>												
U.S. Department of Agriculture / Cooperative State Research and Extension Service – Hatch Act / CFDA # 10.203	<p><u>Criteria:</u> The Hatch Act grant requires a match by the College of 50% of total grant expenditures for fiscal year 2002.</p> <p><u>Condition:</u> The College determines its match share by allocating a percentage of various department costs that benefit the grant programs. The allocation percentage is derived from the ratio of total Land Grant full-time employees to the total number of full-time employees of the College. Our review of the actual payroll register at the beginning of the year indicated that the total number of the College’s employees was understated by forty-nine, thus the allocation percentage was overstated by 6.81%. As a result, the actual match share of the College, based on the revised allocation percentage, fell short from its original commitment by \$37,470. The College has not sought specific approval of the allocation method for FY2002 from the grantor agency.</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;"><u>Amount Committed</u></th> <th style="text-align: center;"><u>Actual Match</u></th> <th style="text-align: center;"><u>Variance</u></th> </tr> </thead> <tbody> <tr> <td>NMC’s share (50%)</td> <td style="text-align: right;">\$330,604</td> <td style="text-align: right;">\$293,134</td> <td style="text-align: right;">\$ 37,470</td> </tr> <tr> <td>Federal grantor</td> <td style="text-align: right;">\$661,208</td> <td style="text-align: right;">\$661,208</td> <td style="text-align: right;">\$ -</td> </tr> </tbody> </table> <p>Questioned costs reflect the variance in NMC’s match. Additional questioned costs may result based on the grantor’s determination of whether the federal amount committed should have been reduced based on NMC’s actual match.</p> <p><u>Cause:</u> The cause of the above condition is an improperly computed allocation percentage.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$37,470.</p> <p><u>Recommendation:</u> We recommend that the College review the allocation percentage calculation and ensure that its match share of grant funds is accurate. Further, specific approval of the allocation percentage calculation should be obtained.</p> <p><u>Prior Year Status:</u> An improperly computed allocation percentage was reported as a finding in the audit of the College for fiscal year 2001.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>		<u>Amount Committed</u>	<u>Actual Match</u>	<u>Variance</u>	NMC’s share (50%)	\$330,604	\$293,134	\$ 37,470	Federal grantor	\$661,208	\$661,208	\$ -	37,470
	<u>Amount Committed</u>	<u>Actual Match</u>	<u>Variance</u>											
NMC’s share (50%)	\$330,604	\$293,134	\$ 37,470											
Federal grantor	\$661,208	\$661,208	\$ -											
Total Questioned Costs		\$ <u>322,200</u>												

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Period of Availability of Federal Funds - Cooperative Research and Extension Programs - Smith-Lever
CFDA # 10.500

Finding No. 2002-14

Criteria: The College is allowed to carry forward unexpended grant funds for up to 5 years from the year allocated under Smith Lever Act. Amounts reported on the Financial Status Report (SF-269) should be based on actual expenditures as recorded in the general ledger.

Condition: The amount of expenditures for the Smith-Lever Act as reported in the College's general ledger exceeded amounts reported in the SF-269 by approximately \$410,906, which represents expenditures in excess of available grants for the program by approximately \$281,651. The College has determined that there are leftover funds from fiscal years 2000 and prior grants for these programs. There is, however, an uncertainty relative to the accuracy of these carried forward funds as adequate documentation supporting such is not available.

Cause: The cause of the above condition is lack of adequate prior year documentation to ascertain the accuracy of funds carried forward.

Effect: The effect of the above condition is the College may not be able to utilize the aforementioned balances.

Recommendation: The College should take steps to document the validity of the carried forward balances and obtain approval of the carry forward from the federal grantor agency.

Prior Year Status: Lack of adequate documentation from the prior years to ascertain accuracy of funds carried forward was reported as a finding in the audit of the College for fiscal year 2001.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Reporting - Cooperative Research and Extension Programs - Hatch Act
CFDA # 10.203

Finding No. 2002-15

Criteria: OMB Circular A-110 requires recipients to use Form SF-272 to report on federal cash transactions and such reports are due 15 days after the quarter end, unless the grantor agency specifies a different date.

Condition: The following was noted on review of SF-272 forms submitted for the Hatch program:

<u>Quarter</u>	<u>Due Date Per Grantor Letter</u>	<u>Submission Date</u>	
October - December, 2001	March 4, 2002	March 18, 2002	Late
January - March, 2002	June 17, 2002	June 21, 2002	Late
April - June, 2002	September 16, 2002	September 6, 2002	Timely
July - September, 2002	December 16, 2002	December 16, 2002	Timely

The SF-272s indicated a total cash disbursement for all quarters of \$612,970. An analysis of expenditures for the program indicates that cash disbursements amounted to only \$480,169. Such was amended in subsequent quarterly reports.

The SF-272s indicated total cash drawdowns of \$641,346. Total cash drawdowns actually recorded amounted to \$590,339. Such was amended in subsequent quarterly reports.

Cause: The cause of the above condition appears to be a lack of procedures to ensure timely preparation and submission of federal financial reports and inadequate review of such prior to submission.

Effect: The effect of the above condition is noncompliance with federal reporting requirements.

Recommendation: We recommend that procedures be implemented to ensure timely preparation, submission and review of federal financial reports.

Prior Year Status: Lack of procedures in place to ensure timely preparation and submission of federal financial reports was reported as a finding in the audit of the College for fiscal year 2001.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Cash Management - Federal Pell Grant Program
CFDA # 84.063

Finding No. 2002-16

Criteria: Section 668.164(e) of 34 CFR 668, *Student Assistance General Provisions*, requires that whenever an institution disburses Title IV program funds by crediting a student's account and the total amount of all funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges assessed by the institution, the institution must pay the resulting credit balance directly to the student or parent as soon as possible, but no later than fourteen days after: (1) 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 (2) 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.

Condition: Based on a review of forty-seven Pell grant recipient student account records, on all occasions, credit balances were not paid by the College in the required time frame (within the fourteen day grace period).

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with cash management requirements concerning refunds of credit balances.

Recommendation: The College should establish policies and procedures to ensure compliance with cash management requirements concerning refunds of credit balances.

Prior Year Status: Noncompliance with cash management requirements concerning refunds to students of credit balances was reported as a finding in the audit of the College for fiscal year 2001.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Subrecipient Monitoring - TRIO - Upward Bound
CFDA # 84.047A

Finding No. 2002-17

Criteria: OMB Circular A-110 Section 51, *Monitoring and Reporting Program Performance* requires recipients to monitor subawards to ensure subrecipients have met audit requirements as required in Section 26 Non-federal audits, which states "Recipients and subrecipients that are institutions of higher education or other non-profit organizations shall be subject to the audit requirements contained in the Single Audit Act Amendments of 1996 and revised OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*".

Condition: The audit report pertaining to subrecipient's federal program activities was not made available by the College. Accordingly, we were unable to determine whether the College complied with the subrecipient audit requirement as outlined in OMB Circular A-110. The College disbursed approximately \$341,507 to the subrecipient in FY2002.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with subrecipient monitoring requirements.

Prior Year Status: Noncompliance with subrecipient monitoring requirements was reported as a finding in the audit of the College for fiscal year 2001.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Cash Management - TRIO - Upward Bound
CFDA # 84.047A

Finding No. 2002-18

Criteria: Based on OMB Circular A-110, programs may be funded on a reimbursement or cash advance basis. If funds are advanced, the recipient is required to maintain adequate records to evidence minimizing the time elapsed between advance of funds and actual disbursements.

Condition: A review of cash drawdown records for fiscal year 2002 for the TRIO - Upward Bound program revealed that approximately \$189,222 in costs were requested for reimbursement prior to such being incurred. The funds were subsequently disbursed. The College discovered this error and drawdown requests ceased until the amounts advanced were used.

Cause: The cause appears to be inadequacies in record keeping procedures by the College.

Effect: The effect of the above condition is noncompliance with federal cash management requirements.

Recommendation: Reimbursement requests should be based on actual expenditures. Further, we recommend that procedures be implemented to ensure that all federal reports are reviewed for accuracy prior to submission.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2002

Equipment and Real Property Management - All Federal Programs

Finding No. 2002-19

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 unknown.

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 audit of the College for fiscal year 2001.

Auditee Response and Corrective Action Plan: See attachment to this report.

NORTHERN MARIANAS COLLEGE

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2002

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, 2002:

Questioned costs as previously reported	\$ 1,301,597
Questioned costs of fiscal year 2002 Single Audit	<u>322,200</u>
Unresolved questioned costs at September 30, 2002	\$ <u>1,623,797</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 10 through 30).



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, 2002

Financial Statement Findings Section

Finding No. 2002-1

We concur with the finding that a physical inventory of fixed assets be performed and reconciled to the schedule of fixed assets. The Procurement and Property Management Office initiated a physical inventory count of assets at the end of fiscal year 2001 but it was not completed due to the lack of sufficient staff in that office. The schedule of fixed assets is currently prepared using a spreadsheet program, which requires manual compilation, computation, and posting of asset purchases and depreciation to the general ledger. The College is researching the purchase and use of a fixed asset module and a property management module to its fund accounting software system. The two modules would enable NMC to track all assets of the institution, including the computation and posting of depreciation expense to the general ledger and the updating of the assets based on physical inventory counts on a regular basis. The system is expected to be implemented by the end of fiscal year 2004.

Finding No. 2002-2

We concur with the finding. The College plans to review the accounts receivable subsidiary ledger on a regular basis to assess the validity and collectibility of receivables as well as the adequacy of the allowance for doubtful accounts. Reviewing receivables on a monthly basis is not possible at this time due to delays in processing student charges and payments as a result of limitations of the computerized accounts receivable system. However, in November 2003 NMC will be implementing its PowerCampus admissions and registration system, which includes a student billing/cash receipts/accounts receivable module. The PowerCampus software will greatly facilitate timely processing of student charges and payments to enable monthly review of accounts receivable.

Finding No. 2002-3

We concur with the finding and recommendation that journal entries be reviewed and approved. This is a result of the lack of adequate staff in the Finance Office. Presently, each Finance Office staff makes journal entries to the accounting system in his or her respective areas of responsibility on a daily basis (e.g., accounts payable, accounts receivable, payroll, etc.). NMC is currently assessing the staffing levels and responsibilities of Finance Office staff to determine if this responsibility can be assigned to an existing employee. Otherwise, an additional person may need to be hired with this responsibility to that individual.

Finding No. 2002-4

We concur with the finding and recommendation that a physical inventory at the Bookstore be performed and reconciled to the general ledger. A physical inventory was not performed at September 30, 2002 due to the resignation of the Bookstore Manager shortly before the end of the fiscal year. Her resignation resulted in the lack of coordination and supervision for a complete inventory count. A physical inventory count was completed at September 30, 2003 under the supervision of a new Bookstore Manager. Additionally a point-of-sale (POS) software is being set up in the Bookstore to maintain a perpetual inventory system. Inventory counts will be performed on an annual basis and reconciled to the POS system and the general ledger.

Finding No. 2002-5

We concur with the finding and recommendation that monthly bank reconciliations be performed. The September and October 2002 bank reconciliations for a Bookstore bank account was not performed due to the non-receipt of the bank statement for a two-month period. A written request was sent to the bank for copies of the bank statements and several follow-up requests have also been made. Unfortunately, the bank has still not provided NMC with the needed bank statements. The College will continue to follow-up with the bank on the statements.

Finding No. 2002-6

We concur with the finding and recommendation that the accounts receivable and accounts payable subsidiary ledgers should agree to the general ledger. The former accountant in the Bookstore had incorrectly posted customer charges and payments and purchases for some accounts into the computerized accounting system. However, due to the urgency to complete the fiscal year 2002 financial statements and the amount of time required to review and correct the postings, a reconciliation of the subsidiary ledgers to the general ledger was not performed. The accounting for the Bookstore will be transferred to the Finance Office in fiscal year 2004 and subsidiary ledgers will be regularly monitored to ensure that such agree to the general ledger.

Finding No. 2002-7

We concur with the finding. To ensure that all employees are provided with the W-4 forms upon their hiring at the College, the Human Resources Office includes W-4 forms in an information packet provided to new employees. Adjunct faculty are provided the W-4 forms by the instructional departments that they are teaching courses for. W-4 forms are maintained in employees' payroll files in the Finance Office. However, if new employees, part-time and full-time, do not turn in their W-4 forms to the payroll section in the Finance Office, the payroll accountant will use a default set-up of single with zero allowances in order to process a payroll check for such employees each pay period. The payroll accountant has been instructed to not process the payroll for employees who have not submitted a W-4 form.

NMC implemented a new payroll software system in fiscal year 2003. The annual maintenance agreement with the software manufacturer includes the regular update of all tax tables by the company. This will ensure that employee tax deductions are computed using the most current tax rates.

Federal Award Findings and Questioned Costs Section

Finding No. 2002-8

We concur with the finding that NMC did not obtain specific approval from the grantor agency on the rate to be charged for indirect costs to the federal grant. Although NMC has not negotiated and received approval for an indirect cost rate with the grant agency, it charged the maximum allowed, which was 8%. Although NMC is an agency of the CNMI government, the College plans to calculate its own indirect cost rate and to work with the CNMI government on researching the process for negotiating an indirect cost rate directly with the grantor agency in fiscal year 2004.

Finding No. 2002-9

We concur with the finding that NMC did not obtain specific approval from the grantor agency on the rate to be charged for indirect costs to the federal grant. Although NMC has not negotiated and received approval for an indirect cost rate with the grantor agency, it charged the maximum allowed, which was 8%. Although NMC is an agency of the CNMI government, the College plans to calculate its own indirect cost rate and to work with the CNMI government on researching the process for negotiating an indirect cost rate directly with the grantor agency in fiscal year 2004.

Finding No. 2002-10

We concur with the finding that the expenditures reported on the SF-269 were higher than the expenditures per the general ledger report that the audit firm printed at the time of its fieldwork. However, the SF-269 was prepared using a general ledger report printed on the date the report was prepared and the numbers were the same. Further, the variances were adjusted in subsequent SF-269 filings and such adjustments were within the grant period.

Finding No. 2002-11

We disagree with the finding that the allocation percentage used by the College was overstated by 6.81%. NMC computed its allocation percentage based on the number of employees at the institution on the date that it submitted its matching allocation report (at the beginning of the fiscal year). However, the audit firm computed the allocation percentage based on the last date of the fiscal year.

We concur with the finding that NMC did not receive specific approval from the grantor agency on its method for allocating matching funds to the federal grant. However, the College has been using this method for a number of years and the grantor agency has not disapproved this allocation method.

Finding No. 2002-12

We concur with the finding that expenditures per the College's general ledger exceeded that per the SF-269. The College will research the over expenditure and work with the federal grantor agency on resolution of the finding.

Finding No. 2002-13

We disagree with the finding that the allocation percentage used by the College was overstated by 6.81%. NMC computed its allocation percentage based on the number of employees at the institution on the date that it submitted its matching allocation report (at the beginning of the fiscal year). However, the audit firm computed the allocation percentage based on the last date of the fiscal year.

We concur with the finding that NMC did not receive specific approval from the grantor agency on its method for allocating matching funds to the federal grant. However, the College has been using this method for a number of years and the grantor agency has not disapproved this allocation method.

Finding No. 2002-14

We concur with the finding that the carryover amount for the Smith-Lever fund may not be accurate. NMC plans to review the grant award, cash draw downs, and expenditures of the fund from the first year of the grant up to the current year to recompute the carryover amount.

Finding No. 2002-15

We concur with the finding. The College was unable to locate copies of the Forms SF-272 for programs funded under the Hatch Act for the first quarter of fiscal year 2002. The College believes that its former federal accountant, who resigned in December 2001 did not file the required SF-272 for the quarter ended December 31, 2001. Furthermore, the accountant assigned to handle the federal program financial reports was unable to locate many of the financial documents related to federal programs and had to reconstruct much financial information from what little records were found and from other sources. This resulted in delays in the timely filing of the SF-272 reports. Procedures were established in fiscal year 2003 to prepare the SF-272 forms but the late filing of the SF-272s also occurred in fiscal year 2003 due to uncertainties in the reporting and recording of cash draw downs and expenditures in SF-272s filed in prior fiscal years for the Hatch programs.

Finding No. 2002-16

We concur with the finding. The Finance Office normally credits a student's account for the amount of Title IV funds used to cover his or her tuition, fees, and other authorized charges upon receipt of such information from the Financial Aid Office. Student accounts are immediately credited to ensure that their accounts are up to date to avoid any problems they may have with future registration for courses at the College. After students' accounts have been credited, funds were to be drawn down under the Title IV grant. A portion of such funds were to be used to refund students for the amount that their Title IV funds exceeded their tuition, fees, and other authorized charges. However, during fiscal years 2001, the drawdowns were made at a date much later than the date students' accounts were credited. This was attributed to internal delays in processing the draw down requests caused by the lack of sufficient staff handling student accounts receivable and accounts payable. Accordingly, the delay in the draw down of funds resulted in the delay in processing of student refunds. Obviously, the College cannot issue refund checks to students if the funds have not been drawn down. This situation continued into fiscal years 2002 and 2003. The College is working on improving its Title IV drawdown and student refund procedures to ensure that it complies with federal regulations.

Finding No. 2002-17

We concur with the finding. The College will send a letter to the President of American Samoa Community College for a copy of its audit report for the relevant period.

Finding No. 2002-18

We concur with the finding. NMC inadvertently drew down funds related to another U.S Department of Education federal program from the Upward Bound program. However, the individual drawing down the funds was unsure how to correct this error and ceased drawing down funds for the Upward Bound program from the grantor agency until the excess drawdown was fully used. Since this incident occurred, the College learned how to correct such inadvertent drawdowns through the Payment Management System website maintained by the U.S. Department of Education.

Finding No. 2002-19

We concur with the finding. The Procurement and Property Management Office (PPMO) is responsible for maintaining property records and for performing a physical inventory count each year. The property records are maintained in a database but such information is incomplete. Furthermore, the office lacks sufficient staff to adequately perform a complete physical inventory count. The College is currently exploring the purchase of a software program to track its fixed assets and is compatible with the College's current fund accounting software. The software is expected to be purchased and implemented in fiscal year 2004.



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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, 2001:

Financial Statement Findings

- Finding No. 2001-1 - Not corrected. See corrective action plan to Finding No. 2002-1.
- Finding No. 2001-2 - Corrective action has been taken.
- Finding No. 2001-3 - Not corrected. See corrective action plan to Finding No. 2002-2.
- Finding No. 2001-4 - Not corrected. See corrective action plan to Finding No. 2002-3.
- Finding No. 2001-5 - Corrective action has been taken.
- Finding No. 2001-6 - Not corrected. See corrective action plan to Finding No. 2002-7.

Federal Award Findings and Questioned Costs

- Finding No. 2001-7 - Corrective action has been taken.
- Finding No. 2001-8 - Corrective action has been taken.
- Finding No. 2001-9 - Not corrected. See corrective action plan to Finding No. 2002-10.
- Finding No. 2001-10 - Not corrected. See corrective action plan to Finding No. 2002-11.
- Finding No. 2001-11 - Not corrected. See corrective action plan to Finding No. 2002-13.
- Finding No. 2001-12 - Not corrected. See corrective action plan to Finding No. 2002-8.
- Finding No. 2001-13 - Corrective action has been taken.
- Finding No. 2001-14 - Corrective action has been taken.
- Finding No. 2001-15 - Corrective action has been taken.
- Finding No. 2001-16 - Not corrected. See corrective action plan to Finding No. 2002-14.

Federal Award Findings and Questioned Costs, Continued

Finding No. 2001-17 - Not corrected. See corrective action plan to Finding No. 2002-12.

Finding No. 2001-18 - Not corrected. See corrective action plan to Finding No. 2002-15.

Finding No. 2001-19 - Corrective action has been taken.

Finding No. 2001-20 - Corrective action has been taken.

Finding No. 2001-21 - Corrective action has been taken.

Finding No. 2001-22 - Not corrected. See corrective action plan to Finding No. 2002-16.

Finding No. 2001-23 - Not corrected. See corrective action plan to Finding No. 2002-17.

Finding No. 2001-24 - Not corrected. See corrective action plan to Finding No. 2002-19.