



NORTHERN MARIANAS COLLEGE
REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133
YEAR ENDED SEPTEMBER 30, 1995

NORTHERN MARIANAS COLLEGE

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 1995

INDEPENDENT AUDITORS' REPORT

Board of Regents
Northern Marianas College:

We were engaged to audit the accompanying balance sheet of the Northern Marianas College (NMC), a component unit of the Commonwealth of the Northern Mariana Islands, as of September 30, 1995, and the related statements of changes in fund balances (deficit) and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the College's management.

Because of inadequacies in the NMC's accounting records and internal control structure, we were unable to form an opinion regarding accounts receivable, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, due to other funds, revenues and expenditures as of and for the year ended September 30, 1995. Furthermore, in our judgment, the above balances affect the results of operations for the year ended September 30, 1995.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

As discussed in Note 4 to the financial statements, the NMC has not complied with certain federal award requirements. The ultimate outcome of this noncompliance cannot presently be determined. Accordingly, no provision for the potential loss or disallowance of federal awards has been made in the financial statements.

In accordance with Government Auditing Standards, we have also issued a report dated August 1, 1998 on our consideration of the NMC's internal control structure and a report dated August 1, 1998 on its compliance with laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Northern Marianas College taken as a whole. The accompanying combining balance sheet, combining statement of current unrestricted funds revenues, expenditures and other changes, presented on pages 11 and 12, and the combining balance sheet, combining statement of current restricted funds revenues, expenditures and other changes, presented on pages 13 and 14, which are also the responsibility of the management of the NMC, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the NMC. The information in those combining statements has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burger & Comer, P.C.

August 1, 1998

NORTHERN MARIANAS COLLEGE

Balance Sheet

September 30, 1995

ASSETS

Current funds:

Unrestricted:

Cash	\$ 183,607
Accounts receivable, net of allowance for doubtful accounts of \$370,000	641,793
Other assets	104,302
Due from other funds	<u>85,032</u>

Total unrestricted 1,014,734

Restricted:

Cash	303,488
Accounts receivable	199,728
Other assets	142,169
Due from other funds	<u>230,525</u>

Total restricted 875,910

Total current funds \$ 1,890,644

Plant fund:

Investment in plant (note 3):

Land	\$ 5,579,900
Building and improvements	5,490,882
Equipment	132,654
Computer equipment	89,632
Less accumulated depreciation	(957,020)

Total investment in plant 10,336,048

Total plant fund \$ 10,336,048

LIABILITIES AND FUND BALANCE
(DEFICIT)

Current funds:

Unrestricted:

Accounts payable	1,057,923
Accrued liabilities	245,243
Deferred tuition	614,575
Due to other funds	186,702
Fund balance (deficit)	<u>(1,089,709)</u>

Total unrestricted 1,014,734

Restricted:

Accounts payable	387,447
Accrued liabilities	113,816
Other liabilities	3
Due to other funds	86,018
Due to grantor	153,344
Fund balance	<u>135,282</u>

Total restricted 875,910

Total current funds \$ 1,890,644

Plant fund:

Investment in plant:

Net investment in plant	\$ <u>10,336,048</u>
Total investment in plant	<u>10,336,048</u>

Total plant fund \$ 10,336,048

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statement of Current Funds Revenues,
Expenditures and Other Changes
Year Ended September 30, 1995

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
Educational and general:			
Governmental appropriations	\$ 7,102,262	-	7,102,262
Government grants and contracts	-	4,945,430	4,945,430
Private grants and contracts	-	130,103	130,103
Student tuition and fees	1,932,647	-	1,932,647
Other sources	<u>88,907</u>	<u>-</u>	<u>88,907</u>
Total revenues	<u>9,123,816</u>	<u>5,075,533</u>	<u>14,199,349</u>
Expenditures and mandatory transfers:			
Educational and general:			
Personnel	6,111,654	3,394,942	9,506,596
Institutional and department research	2,224,062	1,639,239	3,863,301
Student aid	<u>860,839</u>	<u>-</u>	<u>860,839</u>
	9,196,555	5,034,181	14,230,736
Transfers for:			
Renewals and replacements	<u>132,668</u>	<u>89,618</u>	<u>222,286</u>
Total expenditures and transfers	<u>9,329,223</u>	<u>5,123,799</u>	<u>14,453,022</u>
Net increase (decrease) in fund balance	\$ <u>(205,407)</u>	<u>(48,266)</u>	<u>(253,673)</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statement of Changes in Fund Balances (Deficit)
Year Ended September 30, 1995

	<u>Current Funds</u>		<u>Plant Fund</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Investment in Plant</u>
Revenues and other additions:			
Educational and general revenues	\$ 9,123,816	-	-
Federal grants and contracts	<u>-</u>	<u>5,075,533</u>	<u>-</u>
Total revenues and other additions	<u>9,123,816</u>	<u>5,075,533</u>	<u>-</u>
Expenditures and other deductions:			
Depreciation of plant and equipment	-	-	226,740
Educational and general expenditures	<u>9,196,555</u>	<u>5,034,181</u>	<u>-</u>
Total expenditures and other deductions	<u>9,196,555</u>	<u>5,034,181</u>	<u>226,740</u>
Transfers among funds - additions (deductions)			
Non-mandatory:			
Renewals and replacements	<u>(132,668)</u>	<u>(89,618)</u>	<u>222,286</u>
Net increase (decrease)	(205,407)	(48,266)	(4,454)
Fund balance (deficit) at beginning of year, as previously reported	(765,895)	200,986	5,271,358
Adjustment to correct beginning balance	<u>(118,407)</u>	<u>(17,438)</u>	<u>5,069,144</u>
Fund balance at beginning of year, as restated	<u>(884,302)</u>	<u>183,548</u>	<u>10,340,502</u>
Fund balance (deficit) at end of year	\$ <u>(1,089,709)</u>	<u>135,282</u>	<u>10,336,048</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 1995

(1) Organization

The Northern Marianas College (the College), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was formally established as a nonprofit public corporation by CNMI Public Law 3-43 on January 19, 1983 to serve as the state agency for higher education and adult education programs. Autonomy was later granted by CNMI Public Law 4-34 (Post Secondary Education Act of 1984) effective October 1, 1985.

The College is governed by a seven member Board of Regents appointed by the Governor of the CNMI with the advice and consent of the Senate. Executive powers are vested in the College President who is appointed by the Board on a three-year term basis.

The College has been granted initial accreditation by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, at its meeting on June 11, 1985. The latest reevaluation and approval was in 1996.

(2) Summary of Significant Accounting Policies

The accounting policies of the College conform to generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting policies of the College are as follows:

Accrual Basis

The accompanying financial statements of the College have been prepared on the accrual basis. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements, continued
September 30, 1995

(2) Summary of Significant Accounting Policies, Continued

Accrual Basis, Continued

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement, and (3) transfers of a non-mandatory nature for all other cases.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, accounts of the College are maintained in accordance with the principles of "fund accounting". This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing Board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing Board retains full control to use in achieving any of its institutional purposes.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements, continued
September 30, 1995

(2) Summary of Significant Accounting Policies, Continued

Cash

For purposes of the balance sheet, the College considers cash to be cash on hand and in bank accounts. All of the College's cash is with a federally insured bank, \$100,000 of which is subject to coverage by federal insurance with the remaining balance exceeding insurable limits. The College does not require collateralization of its bank accounts and, therefore, amounts in excess of insurable limits are uncollateralized.

Investment in Plant

All buildings and equipment transferred to the College were recorded at management's estimate of fair market value at that date. Subsequent additions have been recorded at cost and/or realizable value, as estimated and provided by the College. Depreciation on plant assets is recorded on a straight line basis over the estimated useful lives of the assets. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment, or (2) transfers to the plant fund.

Real property and certain buildings were contributed to the College by the CNMI Government; however, no appraisal has been performed to compute the fair market value of these assets. Therefore, such costs have neither been recorded as in-kind contributions or expenditures.

Revenue Recognition

Tuition and fees are recorded as deferred revenue as of the applicable enrollment date and are recognized totally within the fiscal year in which the semester is predominantly conducted. Other grants and revenues are recorded as income at the point the revenues are earned and measurable.

Functional Allocation of Expenditures

The costs of providing the various programs and other activities have been summarized on the functional basis in the statements of changes in fund balances (deficit) and current funds revenues, expenditures and other changes. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements, continued
September 30, 1995

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan

The College contributes to the Northern Mariana Islands Retirement Fund (the Fund), a defined benefit, cost-sharing multi-employer pension plan established and administered by the CNMI.

The Fund provides retirement, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities and public corporations. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Generally, benefits vest after three years of credited service. Members who retire at or after age 60, or with 25 years of vesting service, are entitled to retirement benefits. CNMI Public Law 6-17, the Northern Marianas Retirement Fund Act of 1988, is the authority under which benefit provisions are established.

The College's total payroll for fiscal year 1995 was \$6,794,367, which was covered in total by the Fund's pension plan. As a result of the Fund's most recent actuarial valuation report, it has been determined that for the year ended September 30, 1995, funding requirements for employers are 23% of covered payroll and funding requirements for employees are 6.5% and 9.0% for Class I and Class II members, respectively, of covered payroll. The cost to the College for retirement contributions was approximately \$1,334,000 for the year ended September 30, 1995.

The Fund utilizes the actuarial cost method termed "entry age normal cost" with actuarial assumptions used to compute the pension benefit obligation as follows: (a) a rate of return of 7.5% per year on the investment of present and future assets, (b) a 5% increase in employee salaries compounded annually until retirement, (c) expenses at 1.1% of total payroll, and (d) retirement age of the earlier of age 62 and 3 years of vesting service (not including 5 additional years granted after 20 years of service) for Class I or age 60 and 25 years of service for Class II members (including 5 additional years granted after 20 years of service).

The pension benefit obligation, which is the actuarial present value of credited pension benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employment service to date. The measure is intended to assist users to evaluate the Fund's funding status on a going-concern basis, and in evaluating progress made in accumulating adequate assets to pay benefits when due.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements, continued
September 30, 1995

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

The Fund's October 1, 1995 actuarial valuation determined the unfunded pension benefit obligation as follows:

	<u>Class I</u>	<u>Class II</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 541,849	246,978,831	247,520,680
Current employees:			
Accumulated employee contributions	11,819,813	25,195,529	37,015,342
Employer - financed vested	18,367,198	73,824,924	92,192,122
Employer - financed nonvested	<u>11,238,700</u>	<u>59,604,194</u>	<u>70,842,894</u>
Total pension benefit obligation	41,967,560	405,603,478	447,571,038
Net assets available for benefits, at market value	<u>34,635,956</u>	<u>124,701,096</u>	<u>159,337,052</u>
Unfunded benefit obligation	\$ <u>7,331,604</u>	<u>280,902,382</u>	<u>288,233,986</u>

The actuarial valuation did not provide a breakdown of the actuarial present value of vested and non-vested accumulated plan benefits by sponsor or net assets available for benefits by sponsor.

Ten-year historical trend information designed to provide information about the Fund's progress in accumulating adequate assets to meet payment of benefits when due is included within the Fund's audited financial statements.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements, continued
September 30, 1995

(3) Plant and Equipment

Summarized below is the College's investment in plant and equipment and changes for the year ended September 30, 1995:

	Balance at September <u>30, 1994</u>	<u>Additions</u>	<u>Adjustments</u>	Balance at September <u>30, 1995</u>
Land	\$ -	-	5,579,900	5,579,900
Buildings	5,271,358		219,524	5,490,882
Equipment	-	132,654	-	132,654
Computers	-	89,632	-	89,632
Accumulated depreciation	<u>-</u>	<u>(226,740)</u>	<u>(730,280)</u>	<u>(957,020)</u>
Total	\$ <u>5,271,358</u>	<u>(4,454)</u>	<u>5,069,144</u>	<u>10,336,048</u>

(4) Commitment and Contingency

Commitment

The College reserves fund balance, for internal purposes, for assets not expected to be available for operations in the ensuing year. At September 30, 1995, no reserves for encumbrances were needed.

Contingency

The College participated in federally assisted grants from the U.S. Departments of Education, Health and Human Services, Commerce, Labor, Agriculture and of the Interior in fiscal year 1995. Federally assisted grants can be subject to financial and compliance audits to ascertain if federal laws and guidelines have been followed. Expenditures of \$36,981 were questioned in the fiscal year 1995 audit, and \$999,018 of expenditures were questioned in prior year audits. If these costs are ultimately denied, the unrestricted current fund could be charged for necessary reimbursement to the grantor agencies.

(5) Adjustment of Fund Balance

The financial statements for the year ended September 30, 1994 contained certain figures which have subsequently been determined to be incorrect. Adjustments have been made in the accompanying financial statements to correct these balances by adjusting the beginning fund balances.

NORTHERN MARIANAS COLLEGE

Combining Balance Sheet
Current Unrestricted Funds
September 30, 1995

<u>ASSETS</u>	<u>Operating Fund</u>	<u>CNMI Grants</u>	<u>Total</u>
Unrestricted:			
Cash	\$ 183,607	-	183,607
Accounts receivable, net	641,793	-	641,793
Other assets	102,644	1,658	104,302
Due from other funds	<u>85,032</u>	<u>-</u>	<u>85,032</u>
 Total unrestricted assets	 \$ <u>1,013,076</u>	 <u>1,658</u>	 <u>1,014,734</u>
 <u>LIABILITIES AND FUND BALANCE (DEFICIT)</u>			
Unrestricted:			
Accounts payable	1,053,683	4,240	1,057,923
Accrued liabilities	243,626	1,617	245,243
Deferred tuition	614,575	-	614,575
Due to other funds	180,889	5,813	186,702
Fund balance (deficit)	<u>(1,079,697)</u>	<u>(10,012)</u>	<u>(1,089,709)</u>
 Total unrestricted liabilities and fund balance (deficit)	 \$ <u>1,013,076</u>	 <u>1,658</u>	 <u>1,014,734</u>

See accompanying independent auditors' report.

NORTHERN MARIANAS COLLEGE

Combining Statement of Current Unrestricted Funds Revenues,
Expenditures and Other Changes
Year Ended September 30, 1995

	<u>Operating Fund</u>	<u>CNMI Grants</u>	<u>Total</u>
Revenues:			
Educational and general:			
Governmental appropriations	\$ 6,311,560	790,702	7,102,262
Student tuition and fees	1,932,647	-	1,932,647
Other sources	<u>85,171</u>	<u>3,736</u>	<u>88,907</u>
Total revenues	<u>8,329,378</u>	<u>794,438</u>	<u>9,123,816</u>
Expenditures and mandatory transfers:			
Educational and general:			
Personnel	6,111,654	-	6,111,654
Student aid	-	860,839	860,839
Institutional and dept. research	<u>2,211,963</u>	<u>12,099</u>	<u>2,224,062</u>
	8,323,617	872,938	9,196,555
Mandatory transfers for:			
Renewals and replacements	<u>132,668</u>	<u>-</u>	<u>132,668</u>
Total expenditures and mandatory transfers	<u>8,456,285</u>	<u>872,938</u>	<u>9,329,223</u>
Net increase (decrease) in fund balance	\$ <u>(126,907)</u>	<u>(78,500)</u>	<u>(205,407)</u>

See accompanying independent auditors' report.

NORTHERN MARIANAS COLLEGE

Combining Balance Sheet
Current Restricted Funds
September 30, 1995

<u>ASSETS</u>	<u>Federal Grants</u>	<u>Vocational Education</u>	<u>Special Funds</u>	<u>Total</u>
Restricted:				
Cash	\$ 96,610	166,687	40,191	303,488
Accounts receivable, net	165,056	-	34,672	199,728
Other assets	127,499	14,670	-	142,169
Due from other funds	<u>187,687</u>	<u>42,838</u>	<u>-</u>	<u>230,525</u>
 Total unrestricted assets	 \$ <u>576,852</u>	 <u>224,195</u>	 <u>74,863</u>	 <u>875,910</u>

LIABILITIES AND FUND BALANCE (DEFICIT)

Restricted:				
Accounts payable	296,831	46,559	44,057	387,447
Accrued liabilities	63,119	42,838	7,859	113,816
Other liabilities		-	3	3
Deferred tuition	71,792	7,427	6,799	86,018
Due to grant agency	153,344	-	-	153,344
Fund balance (deficit)	<u>(8,234)</u>	<u>127,371</u>	<u>16,145</u>	<u>135,282</u>
 Total restricted liabilities and fund balance (deficit)	 \$ <u>576,852</u>	 <u>224,195</u>	 <u>74,863</u>	 <u>875,910</u>

See accompanying independent auditors' report.

NORTHERN MARIANAS COLLEGE

Combining Statement of Current Restricted Funds Revenues,
Expenditures and Other Changes

Year Ended September 30, 1995

	<u>Federal Grants Fund</u>	<u>Vocational Education</u>	<u>Special Funds</u>	<u>Total</u>
Revenues:				
Educational and general:				
Government grants and contracts	\$ 3,538,872	1,406,558	-	4,945,430
Other sources	<u>4,540</u>	<u>2,176</u>	<u>123,387</u>	<u>130,103</u>
 Total revenues	 <u>3,543,412</u>	 <u>1,408,734</u>	 <u>123,387</u>	 <u>5,075,533</u>
Expenditures and transfers				
Educational and general:				
Personnel	2,138,757	1,209,170	47,015	3,394,942
Institutional and dept. research	1,486,424	92,591	60,224	1,639,239
 Transfers for:				
Renewals and replacements	<u>74,408</u>	<u>15,210</u>	<u>-</u>	<u>89,618</u>
 Total expenditures and transfers	 <u>3,699,589</u>	 <u>1,316,971</u>	 <u>107,239</u>	 <u>5,123,799</u>
 Net increase (decrease) in fund balance	 \$ <u>(156,177)</u>	 ^{25,607} <u>91,763</u>	 <u>16,148</u>	 <u>(48,266)</u>

See accompanying independent auditors' report.

NORTHERN MARIANAS COLLEGE
INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF FEDERAL AWARDS
AND ON COMPLIANCE
YEAR ENDED SEPTEMBER 30, 1995

INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF FEDERAL AWARDS

Board of Regents
Northern Marianas College:

We were engaged to audit the financial statements of the Northern Marianas College (NMC) as of and for the year ended September 30, 1995. Our report dated August 1, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that accounts receivable, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, due to other funds, revenues and expenditures were fairly stated. These financial statements are the responsibility of the College's management.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Northern Marianas College taken as a whole. The accompanying Schedule of Federal Awards (pages 11 and 12) for the year ended September 30, 1995, which is also the responsibility of the management of the NMC, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the information in that schedule.

Burger & Comer, P.C.

August 1, 1998

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS

Board of Regents
Northern Marianas College:

We were engaged to audit the financial statements of the Northern Marianas College (NMC) as of and for the year ended September 30, 1995. Our report dated August 1, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that accounts receivable, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, due to other funds, revenues and expenditures were fairly stated.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the NMC is the responsibility of the management of NMC. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the NMC's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violation of prohibitions, contained in laws, regulations, contracts, or grants that caused us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests disclosed a material instance of noncompliance, detailed in the accompanying Schedule of Findings and Questioned Costs (page 14 through 16) in Finding 1 that is required to be reported herein under Government Auditing Standards, the ultimate resolution of which cannot presently be determined. Accordingly, no provision for any liability that may result upon resolution has been made to the federal financial assistance programs to which they relate.

We considered this material instance of noncompliance in forming our opinion on whether NMC's 1995 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated August 1, 1998, on those financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, NMC complied, in all material respects, with the provisions referred to in the third paragraph of this report; and, with respect to items not tested, nothing came to our attention that caused us to believe that NMC had not complied, in all material respects, with those provisions.

We noted matters involving compliance with laws and regulations related to federal awards which we reported to the management of the NMC in our reports dated August 1, 1998 on compliance related to federal award programs.

This report is intended for the information of the management of the NMC, the Board of Regents and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Bryce & Conner, P.C.

August 1, 1998

BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL AWARD PROGRAMS

Board of Regents
Northern Marianas College:

We were engaged to audit the financial statements of the Northern Marianas College (NMC) as of and for the year ended September 30, 1995. Our report dated August 1, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that accounts receivable, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, due to other funds, revenues and expenditures were fairly stated.

We have also audited the NMC's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal programs, which are identified in the accompanying Schedule of Federal Awards (pages 11 and 12), for the year ended September 30, 1995. The management of the NMC is responsible for the NMC's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the NMC's compliance with those requirements.

The results of our audit procedures disclosed a material instance of noncompliance with the requirements referred to above, which is described in the accompanying Schedule of Findings and Questioned Costs in Finding 1. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except as described in the preceding paragraph, the NMC complied, in all material respects, with the requirements applicable to governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal award programs for the year ended September 30, 1995.

This report is intended for the information of the management of the NMC, the Board of Regents and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Burger & Comer, P.C.

August 1, 1998

BURGER & COMER, P. C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
GENERAL REQUIREMENTS APPLICABLE TO FEDERAL AWARDS

Board of Regents
Northern Marianas College:

We were engaged to audit the financial statements of the Northern Marianas College (NMC) as of and for the year ended September 30, 1995. Our report dated August 1, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that accounts receivable, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, due to other funds, revenues and expenditures were fairly stated. We have audited the College's compliance applicable to requirements of major federal award programs and have issued our report thereon dated August 1, 1998.

We have applied procedures to test the College's compliance with the following requirements applicable to its federal award programs, which are identified in the accompanying Schedule of Federal Awards (pages 11 and 12) for the year ended September 30, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the College's compliance with the requirements listed in the following paragraph. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of failure to follow the general requirements that caused us to conclude that the misstatements resulting from those failures are material to financial statements. As described in the accompanying Schedule of Findings and Questioned Costs (pages 14 through 16) in finding 1, the results of our tests of compliance disclosed a material instance of noncompliance. Except as described above, the results of our procedures to determine compliance indicate that, with respect to items tested, the NMC complied, in all material respects, with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the College has not complied, in all material respects, with those requirements. However, the results of our procedures also disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Findings and Questioned Costs in finding 2.

This report is intended for the information of the management of the College, the Board of Regents and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Burger & Comer, P.C.
August 1, 1998

BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SPECIFIC
REQUIREMENTS APPLICABLE TO NONMAJOR FEDERAL AWARD PROGRAM
TRANSACTIONS**

Board of Regents
Northern Marianas College:

We were engaged to audit the financial statements of the Northern Marianas College (NMC) as of and for the year ended September 30, 1995. Our report dated August 1, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that accounts receivable, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, due to other funds, revenues and expenditures were fairly stated. We have audited the NMC's compliance applicable to requirements of major federal award programs and applied procedures to test compliance with general requirements applicable to federal award programs and have issued our reports thereon dated August 1, 1998.

In connection with our audit of the financial statements of NMC and with our consideration of the NMC's internal control structure used to administer federal programs, as required by Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions", we selected certain transactions applicable to certain nonmajor federal programs for the year ended September 30, 1995.

As required by OMB Circular A-133, we performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; and monitoring subrecipients that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the NMC's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of our procedures disclosed a material instance of noncompliance, as described in the accompanying Schedule of Findings and Questioned Costs (Page 14 through 16) in Finding 1, with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the NMC had not complied, in all material respects, with those requirements.

This report is intended for the information of the management of the NMC, the Board of Regents and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Burger & Comer, P.C.

August 1, 1998

BURGER & COMER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE USED IN ADMINISTERING FEDERAL AWARDS**

Board of Regents
Northern Marianas College:

We were engaged to audit the financial statements of the Northern Marianas College (NMC) as of and for the year ended September 30, 1995. Our report dated August 1, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to our inability to determine that accounts receivable, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, due to other funds, revenues and expenditures were fairly stated. We have audited the College's compliance with the requirements applicable to major federal programs and have issued our report thereon dated August 1, 1998.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the College complied with laws and regulations, noncompliance with which would be material to a major federal program.

In planning and performing our audits for the year ended September 30, 1995, we considered the College's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the College's financial statements and on its compliance with requirements applicable to major federal programs and to report on the internal control structure in accordance with OMB Circular A-133. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal programs. We have addressed policies and procedures relevant to our audit of the financial statements in a separate report dated August 1, 1998.

The management of the College is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal awards programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal programs in the following categories:

Accounting Controls

- Revenue/receipts
- Purchases/disbursements
- Payroll
- External financial reporting
- Cash
- Property and equipment

Controls Used in Administering Federal Programs

General Requirements

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

Specific Requirements

- Types of services allowed or unallowed
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Cost allocation
- Monitoring subrecipients

Claims for Advances and Reimbursements

Amounts Claimed or Used for Matching

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended September 30, 1995, the College expended 80% of its total federal awards under the five major federal award programs listed on page 10.

We performed tests of controls, as required by OMB Circular A-133, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific

requirements; general requirements; and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the College's major programs, which are identified in the accompanying Schedule of Federal Awards (pages 11 and 12). Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal awards would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal awards program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

We also noted other matters involving the internal control structure and its operation based on our engagement to audit the financial statements that we have reported to the management in a separate letter dated August 1, 1998.

This report is intended for the information of the management of the College, the Board of Regents and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Burg & Comer, P.C.

August 1, 1998

NORTHERN MARIANAS COLLEGE

Schedule of Awards Selected for Auditing in
Accordance with OMB Circular A-133

Year Ended September 30, 1995

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>Expenditures Description</u>	<u>1995</u>
<u>Major programs</u>			
U.S. Department of Education	84.031A	Title III-Strengthening Institutions Program	\$ 326,267
U.S. Department of Education	84.063	Pell Grant	464,241
U.S. Department of Agriculture	10.205	Land Grant Programs	1,826,990
U.S. Department of Education	84.002	Adult Basic Education	183,783
U.S. Department of Education	84.047A	Upward Bound	244,715
<u>Non major programs</u>			
U.S. Department of Education	84.004A	Talent Search	88,883
U.S. Department of Commerce	11.550	Public Telecommunications	<u>31,797</u>
Total program expenditures tested			\$ <u>3,166,676</u>
Total federal program expenditures			\$ <u>3,815,676</u>
% of total program expenditures tested			<u>83%</u>

NORTHERN MARIANAS COLLEGE
Schedule of Federal Awards
Year Ended September 30, 1995

Federal Grantor/ Program Title	CFDA Number	Federal Program or Award Amount	Receivable from Grantor (Deferred Revenue) at October 1, 1994	Cash Receipts FY 95	Expenditures FY 95	Receivable from Grantor (Deferred Revenue) at September 30, 1995
<u>U.S. Department of Education</u>						
<u>Direct Programs</u>						
Student Financial Aid Programs:						
Supplemental Educational Opportunity Grant	84.007	18,384	4,087	17,464	8,732	(4,645)
College Work Study	84.033	12,366	32,029	16,572	25,357	40,814
Pell Grant	84.063	505,355	(1,527)	416,602	464,241	46,112
Subtotal Student Financial Aid Programs		536,105	34,589	450,638	498,330	82,281
Adult Basic Education	84.002	154,546	4,034	266,976	183,783	(79,159)
AEIEL	84.072	-	(18,299)	-	-	(18,299)
Bilingual Family English Literacy Program	84.003	250,000	25,944	-	10,423	36,367
Cooperative Education Program	84.055A	-	(22,172)	-	-	(22,172)
Title III - Strengthening Institution Program	84.031A	246,234	22,369	368,012	326,267	(19,376)
Special Services for Dis- advantaged Students	84.042A	183,904	31,974	162,671	152,487	21,790
Congressional Teachers Scholarship Programs	84.069	-	1,453	-	-	1,453
State Student Incentive Grant	84.069	885	339	885	443	(103)
Minority Institutions						
Science Improvement Program	84.120B	-	(1,431)	-	-	(1,431)
Drug Prevention Program	84.183A	110,051	(3,222)	73,351	67,160	(9,413)
Upward Bound	84.047A	616,200	(87,332)	289,187	244,715	(131,804)
Education Opportunity Center	84.040	-	(2,353)	-	-	(2,353)
Educational Personnel Training	84.003R	-	19,864	-	-	19,864
Aging	84.049	-	290	-	-	290
SPRE Program	84.267A	30,000	-	13,576	13,776	200
National Endowment for the Humanities	45.129	-	17,562	-	3,961	21,523
Secondary Ed. (FIPSE)	84.116B	85,370	-	37,775	65,447	27,672
University Affiliated Program	93.632	60,000	-	88,103	63,301	(24,802)
Talent Search	84.044A	70,226	(161)	57,618	88,883	31,104
Subtotal U.S. Department of Education		2,343,521	23,448	1,808,792	1,718,976	(66,368)
<u>U.S. Department of Health and Human Services</u>						
<u>Direct Programs</u>						
Development Disability Council	13.600	-	(6,711)	-	-	(6,711)
Administration for Native Americans	13.612	135,000	(81,369)	182,414	145,767	(118,016)
SOICC	13.667	76,000	24,068	34,315	56,449	46,202
AOA - Education Training	13.668	-	(14,369)	-	-	(14,369)
Subtotal U.S. Department of Health and Human Services		211,000	(78,381)	216,729	202,216	(92,894)

NORTHERN MARIANAS COLLEGE
Schedule of Federal Awards
Year Ended September 30, 1995

Federal Grantor/ Program Title	CFDA Number	Federal Program or Award Amount	Receivable from Grantor (Deferred Revenue) at October 1, 1994	Cash Receipts FY 95	Expenditures FY 95	Receivable from Grantor (Deferred Revenue) at September 30, 1995
<u>U.S. Department of Commerce</u>						
<u>Direct Programs</u>						
EDA Renovation	11.300	250,000	-	7,572	3,189	(4,383)
Public Telecommunications Facilities program	11.550	150,000	-	4,677	31,797	27,120
Student Intern program	10.854	-	-	12,445	28,612	16,167
Business Incubator	11.300	12,000	(1,388)	-	-	(1,388)
Subtotal U.S. Department of Commerce		412,000	(1,388)	24,694	63,598	37,516
<u>U.S. Department of Labor</u>						
<u>Direct Programs</u>						
Job Training Partnership Act	17.246	-	(9,521)	-	-	(9,521)
Subtotal U.S. Department of Labor		-	(9,521)	-	-	(9,521)
<u>U.S. Department of Agriculture</u>						
<u>Direct Programs</u>						
Land Grant Programs:						
Cooperative State Research Services	10.205	696,708	30,856	411,824	425,135	44,167
Cooperative Extension Services	10.205	572,505	(182,965)	679,673	676,166	(186,472)
Expanded Food and Nutrition Program	10.558	63,180	32,869	6,935	56,866	82,800
Penalty Mail	10.205	-	(9,872)	-	-	(9,872)
Resident Instructions	10.205	-	(174,074)	18,417	-	(192,491)
Agricultural Development in American Pacific	10.205	-	53,446	33,587	15,679	35,538
Research Appropriation	10.205	-	5,396	-	-	5,396
Plant Disease Program	10.205	-	(1,680)	-	-	(1,680)
4H Program	10.205	-	71,667	-	-	71,667
Home Economics	10.205	-	68,877	-	-	68,877
Matching	10.205	-	-	653,144	653,144	-
Subtotal U.S. Department of Agriculture		1,332,393	(105,480)	1,803,580	1,826,990	(82,070)
<u>U.S. Department of the Interior</u>						
<u>Direct Programs</u>						
Short Wave Radio Project	15.875	-	(12,727)	-	-	(12,727)
OSHA	17.502	-	-	-	3,896	3,896
Land Use Survey Library Project	15.875	-	68,824	-	-	68,824
Subtotal U.S. Department of the Interior		-	56,097	-	3,896	59,993
		4,298,914	(115,225)	3,853,795	3,815,676	(153,344)

NORTHERN MARIANAS COLLEGE

Notes to Schedule of Federal Awards
Year Ended September 30, 1995

(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 Federal Awards presents each Federal program related to the U.S. Department of Education, U.S. Department of Health and Human Services, U.S. Department of Commerce, U.S. Department of the Interior, U.S. Department of Labor and the U.S. Department of Agriculture which are subject to OMB A-133.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of preparation of the accompanying Schedule of Federal Awards, certain accounting procedures were followed, which help illustrate the program award amount and expenditures of the individual programs. 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.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs Year ended September 30, 1995

Finding No. 1

<u>Program</u>	<u>CFDA#</u>	<u>Description</u>	<u>Questioned Cost</u>
Title III- Strengthening Institutions	84.031A	<u>Criteria</u> Disbursements charged to Federal grant programs must be supported by proper documentation.	
Land Grant Research	10.205	<u>Condition</u> No supporting documents were provided for the following:	
Student Support Services	84.042A	<u>Title III – Strengthening Institutions Program</u>	
		<u>Date</u> <u>Account #</u> <u>Reference No.</u> <u>Amount</u>	
		09/04/95 6420 PO# 94-42068	3,303.95
		09/29/95 6355 PO# 95-50809	<u>2,699.00</u>
Upward Bound	84.047A		<u>6,002.95</u>
		<u>Land Grant Research</u>	
Adult Basic Education	84.002	<u>Date</u> <u>Account #</u> <u>Reference No.</u> <u>Amount</u>	
		11/17/95 6350 PO# 95-50058	544.00
		11/17/95 6252 PO# 95-50016	337.50
		08/31/95 6350 PO# 95-50754	<u>184.58</u>
			<u>1,066.08</u>
		<u>Student Support Services</u>	
		<u>Date</u> <u>Account #</u> <u>Reference No.</u> <u>Amount</u>	
		04/18/95 6355 PO# 95-50236	264.87
		08/15/95 6355 PO# 95-50625	207.48
		09/01/95 6355 PO# 95-50856	<u>418.15</u>
			<u>890.50</u>
		<u>Upward Bound</u>	
		<u>Date</u> <u>Account #</u> <u>Reference No.</u> <u>Amount</u>	
		03/09/95 6390 PO# 95-50535	<u>1,011.75</u>
			<u>1,011.75</u>

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs
Year ended September 30, 1995

Finding No. 1, continued

<u>Program</u>	<u>CFDA#</u>	<u>Description</u>	<u>Questioned Cost</u>
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Adult Basic Education

<u>Date</u>	<u>Account #</u>	<u>Reference No.</u>	<u>Amount</u>
08/24/95	6185	Cont# 95-225	<u>28,010.00</u>
			<u>28,010.00</u>

Cause

The documents were misfiled.

Effect

These disbursements cannot be supported and should not be reimbursed by a Federal grantor agency.

\$ 36,981

Recommendation

We recommend that every effort be made to file supporting documentation so that documents are not misplaced or misfiled.

Auditee Response and Corrective Action Plan

Auditee concurs with the finding. In order to expedite the release of the audit which is well overdue, the College concurs with the finding. However, since the auditor is still working on the 1997 single audit we will submit the missing documents to the auditor when located and ask that he inform the cognizant agency when the information is sufficient to eliminate the questioned cost.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, continued Year ended September 30, 1995

Finding No. 2

Federal Financial Reports

U.S. Department of Agriculture

Land Grant Extension

(CFDA# 10.205)

Criteria: Section L (2) of the Land Grant Extension Financial Operation Handbook states that recipients of U.S. Department of Agriculture funding are required to file an Annual Financial Report. The Smith Lever Act provides that form CSREES 15 A must be submitted no later than April 1 after each fiscal year end.

Condition: The College did not submit the annual financial report for fiscal year 1996 on time.

<u>Due date</u>	<u>Date submitted</u>	<u>Number of days late</u>
April 1, 1996	June 20, 1996	80

Effect: The effect of the above condition is a lack of compliance with the terms and conditions of the grant.

Recommendation:

We recommend that College personnel file Federal Financial Reports in a timely manner and that copies of these reports be maintained for audit purposes.

Auditee Response and Corrective Action Plan:

The College concurs with the finding. The College has hired new personnel and trained existing personnel so that these late filings will not recur.

NORTHERN MARIANAS COLLEGE
INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROLS

YEAR ENDED SEPTEMBER 30, 1995

INDEPENDENT AUDITORS' REPORT ON THE INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS

Board of Regents
Northern Marianas College:

We were engaged to audit the financial statements of the Northern Marianas College (NMC) as of and for the year ended September 30, 1995. Our report dated August 1, 1998, stated that the scope of our work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements due to inability to determine that accounts receivable, due from other funds, due from CNMI, other assets, investment in plant, accounts payable, due to other funds, revenues and expenditures were fairly stated.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of NMC is responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning the audit of the financial statements of the College for the year ended September 30, 1995, generally accepted auditing standards and Government Auditing Standards require that auditors obtain an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine the auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters, which are presented in the accompanying Schedule of Internal Control Findings (pages 3 through 10) in Findings 1 through 8, involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the NMC's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we consider Findings 1 and 5 involving the internal control structure and its operation, to be material weaknesses as defined above. These conditions were considered in determining that the system of financial accounting and reporting in operation for the College for the year ended September 30, 1995, was inadequate.

Because of the limitation on the scope of our audit discussed in the first paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements.

We also noted matters involving the internal control structure and its operation used to administer federal award programs which we reported to the management of the College in a report dated August 1, 1998.

This report is intended for the information of the management of the NMC, the Board of Regents and the cognizant audit and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Bryce & Comer, P.C.

August 1, 1998

Northern Marianas College

Schedule of Internal Control Findings
Year ended September 30, 1995

Finding No. 1

Criteria

Disbursements should be supported by various documents, including a purchase order, a check voucher or check request form, a cancelled check, and a vendor invoice.

Condition

For four of the thirty six disbursements tested, there were no vendor invoices to support three disbursements, and one invoice of a group was missing for one other disbursement.

Cause

The invoices were apparently misfiled.

Effect

We could not determine whether these disbursements were entirely valid.

Recommendation

We recommend that all supporting documents be attached to the check voucher and filed in a manner that ensures no documents will be lost or misfiled.

Auditee Response and Corrective Action Plan

Auditee concurs with finding. The Finance office staff has been instructed in record keeping requirements and the need for proper filing procedures. In addition, access to the office's files by outside persons has been discontinued. It is anticipated that these steps will cut down on the number of missing documents, a problem for many years.

Northern Marianas College

Schedule of Internal Control Findings, continued
Year ended September 30, 1995

Finding No. 2

Criteria

Disbursements for advertising should be supported by various documents, including a copy of the ad, a check voucher or check request form, a cancelled check, and a vendor invoice.

Condition

One of the thirty six disbursements tested was for advertising. No copy of the ad was attached to the check voucher.

Cause

The copy of the ad was apparently misplaced.

Effect

We could not gain assurance that the NMC received the service for which it paid.

Recommendation

We recommend that all supporting documents be attached to the check voucher and filed in a manner that ensures no documents will be lost or misplaced.

Auditee Response and Corrective Action Plan

Auditee concurs with findings. The instruction of staff will include the inclusion of necessary documentation to be attached to the payment voucher.

Northern Marianas College

Schedule of Internal Control Findings, continued
Year ended September 30, 1995

Finding No. 3

Criteria

NMC's system of internal control requires that the controller sign all check request forms.

Condition

In one of thirty six disbursements tested, there was no controller's signature on the check request form (Check 1076).

Cause

This was an oversight by the controller.

Effect

The lack of documentation of the performance of a control procedure gives no assurance that the control was actually performed and that the disbursement was properly approved.

Recommendation

We recommend that NMC staff comply with their established policies.

Auditee Response and Corrective Action Plan

Auditee concurs with finding. The College continues to exhort responsible individuals to follow the procurement procedure, however there still are occasions as indicated in the finding. In most of these cases time is a factor. The approval after the fact does show review of the purchase. The College will continue its effort to instruct the staff in procedures and to enforce the policies of the College on an ongoing basis.

Northern Marianas College

Schedule of Internal Control Findings, continued
Year ended September 30, 1995

Finding No. 4

Criteria

NMC's procurement system includes the use of purchase orders. NMC's system requires that the expenditure authority sign purchase orders before they are released to vendors.

Condition

In one of thirty six disbursements tested, the purchase order was not signed by the expenditure authority.

Cause

NMC staff failed to follow procurement procedures.

Effect

We cannot determine whether NMC obtained the best price for the goods or whether the purchase was properly authorized.

Recommendation

We recommend that NMC staff comply with their established policies.

Auditee Response and Corrective Action Plan

Auditee concurs with the finding. The College will continue to insist on compliance with procedures and staff will again be reminded about proper procurement procedures. The missing signature is an error; however, there are additional reviews of the purchase order which insure that the purchase is appropriate.

Northern Marianas College

Schedule of Internal Control Findings, continued
Year ended September 30, 1995

Finding No. 5

Criteria

NMC's system of internal controls over payroll requires that the chief accountant/controller initial the check to indicate that the check is accurate.

Condition

In nine of twenty six payroll checks tested, there were no initials on the check to indicate that the control was performed. In two cases, the check could not be located.

Cause

NMC staff failed to follow their internal control system's requirements.

Effect

We can not determine whether the internal control system is effective regarding the accuracy of payroll checks.

Recommendation

We recommend that NMC staff comply with their established policies.

Auditee Response and Corrective Action Plan

Auditee concurs with the finding. The condition is caused by omission of procedures; the continued emphasis on following procedure by the new Comptroller should reduce occurrences of this nature in the future.

Northern Marianas College

Schedule of Internal Control Findings, continued
Year ended September 30, 1995

Finding No. 6

Criteria

Payroll checks should be prepared based on supporting timesheets or time cards. The pay rate should agree to the employee's authorized rate as indicated on their personnel action form.

Condition

For pay period 19, one employee (De Leon, G.) was paid for 35 hours at \$ 3.50 per hour. The time sheet indicated 40 hours, and the personnel action form indicated that the pay rate was \$ 4.25 per hour.

Cause

The cause of this condition is an error on NMC's part.

Effect

This employee was underpaid.

Recommendation

We recommend that NMC staff verify the hours worked and the rate of pay for each employee for each pay period.

Auditee Response and Corrective Action Plan

Auditee concurs with the finding. None needed, this is a clerical error of omission. Better review of the payroll preparation should correct the problem.

Northern Marianas College

Schedule of Internal Control Findings, continued
Year ended September 30, 1995

Finding No. 7

Criteria

NMC's system of internal controls over payroll requires that the employer and employee sign each time sheet.

Condition

In one of twenty six items tested, the time sheet could not be located. In four of twenty six items tested, there was no employer signature on the time sheet.

Cause

NMC staff failed to follow their internal control system's requirements.

Effect

We can not determine whether the internal control system is effective regarding the accuracy of payroll checks.

Recommendation

We recommend that NMC staff comply with their established policies.

Auditee Response and Corrective Action Plan

Auditee concurs with the finding. The College will continue to pursue enforcement of the payroll policies to insure proper signatures on payroll time sheets.

Northern Marianas College

Schedule of Internal Control Findings, continued
Year ended September 30, 1995

Finding No. 8

Criteria

Payroll checks should be prepared based on supporting timesheets or time cards.

Condition

In one of twenty six items tested, the employee was paid for 80 hours. There were no supporting documents to justify this payment.

Cause

NMC staff failed to follow their internal control system's requirements.

Effect

We can not determine whether the internal control system is effective regarding the accuracy of payroll checks.

Recommendation

We recommend that NMC staff comply with their established policies.

Auditee Response and Corrective Action Plan

Auditee concurs with the finding. The College will continue to enforce existing policies that require time sheets.