



NORTHERN MARIANAS COLLEGE

REPORT ON THE AUDIT OF FINANCIAL
STATEMENTS IN ACCORDANCE
WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2001

NORTHERN MARIANAS COLLEGE

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2001

INDEPENDENT AUDITORS' REPORT

Board of Regents
Northern Marianas College:

We have audited the accompanying balance sheet of the Northern Marianas College (the College) as of September 30, 2001. We were also engaged to audit 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 management of the College. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, 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. 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 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. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the results of operations of the College's book store which, in our opinion, should be included to conform with accounting principles generally accepted in the United States of America.

Because of inadequacies in the accounting records and internal control, we were unable to determine that fixed assets and fund balance of the Plant Fund were fairly stated as of September 30, 2001.

Because of inadequacies in the College's accounting records and internal control, we were unable to gather sufficient evidential matter to determine the propriety of the beginning balances for fiscal year 2001.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to express, and we do not express, an opinion on the statements of changes in fund balance (deficit) and current funds revenues, expenditures, and other changes for the year ended September 30, 2001.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had: 1) the propriety of fixed assets and fund balance of the Plant Fund been determinable; 2) the omission of the operations of the College's book store; and 3) the propriety of revenues and expenditures been determinable, as discussed in the third through fifth paragraphs above, the balance sheet referred to in the first paragraph presents fairly, in all material respects, the financial position of the College as of September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

The combining balance sheet and 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 College, are presented for purposes of additional analysis and are not a required part of the financial statements of the College. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this additional information.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2003, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche

July 18, 2003

NORTHERN MARIANAS COLLEGE

Balance Sheet
September 30, 2001

ASSETS

Current funds:	
Unrestricted:	
Cash and cash equivalents	\$ 95,079
Receivables:	
Tuition and fees	2,746,658
Employees and officers	5,166
Other	220,948
Total receivables	2,972,772
Less: allowance for doubtful accounts	(1,440,801)
	<u>1,531,971</u>
Due from other funds	373,059
Total unrestricted	<u>2,000,109</u>
Restricted:	
Cash and cash equivalents	22,737
Account receivable	1,151,367
Due from other funds	258,038
Total restricted	<u>1,432,142</u>
Total current funds	<u>\$ 3,432,251</u>
Endowment fund:	
Cash	\$ 87,225
Investments (note 4)	2,762,973
Total endowment fund	<u>\$ 2,850,198</u>
Plant fund:	
Investment in plant (note 5):	
Land	\$ 5,579,900
Buildings and improvements	6,185,190
Computers	1,116,652
Furniture and equipment	889,292
Vehicles	241,748
Less accumulated depreciation	(3,824,322)
Total plant fund	<u>\$ 10,188,460</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Balance Sheet, Continued
September 30, 2001

LIABILITIES AND FUND BALANCES (DEFICIT)

Current funds:	
Unrestricted:	
Bank overdraft	\$ 74,177
Accounts payable	368,167
Accrued liabilities	1,228,371
Deferred revenue	991,507
Due to other funds	279,053
Due to CNMI	213,025
Deficit	<u>(1,154,191)</u>
Total unrestricted	<u>2,000,109</u>
Restricted:	
Bank overdraft	281,516
Accounts payable	233,890
Accrued liabilities	68,144
Due to other funds	346,874
Due to CNMI	41,607
Fund balance	<u>460,111</u>
Total restricted	<u>1,432,142</u>
Total current funds	<u>\$ 3,432,251</u>
Endowment fund:	
Fund balance:	
Restricted - nonexpendable	<u>\$ 2,850,198</u>
Total endowment fund	<u>\$ 2,850,198</u>
Plant fund:	
Investment in plant:	
Net investment in plant	<u>\$ 10,188,460</u>
Total plant fund	<u>\$ 10,188,460</u>
Commitments and contingencies (notes 7 and 8)	

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statement of Changes in Fund Balances (Deficit)
Year Ended September 30, 2001

	Current Funds		Endowment Fund	Plant Fund Investment in Plant
	Unrestricted	Restricted		
Revenues and other additions:				
Unrestricted current fund revenues	\$ 9,562,021	\$ 1,184,727	\$ -	\$ -
U.S. Federal grants - restricted	-	5,723,576	-	-
Private gifts, grants and donations - restricted	-	93,446	-	-
Investment income - restricted	-	-	105,076	-
Other	32,339	526,047	-	-
Total revenues and other additions	<u>9,594,360</u>	<u>7,527,796</u>	<u>105,076</u>	<u>-</u>
Expenditures and other deductions:				
Educational and general expenditures	10,978,642	7,499,568	-	-
Depreciation of plant and equipment	-	-	-	496,211
Investment management fees	-	-	22,144	-
Net decrease in the fair value of investments - restricted	-	-	576,549	-
Total expenditures and other deductions	<u>10,978,642</u>	<u>7,499,568</u>	<u>598,693</u>	<u>496,211</u>
Transfers among funds - additions (deductions):				
Mandatory:				
Renewals and replacements	(246,602)	(226,899)	-	473,501
Total transfers	<u>(246,602)</u>	<u>(226,899)</u>	<u>-</u>	<u>473,501</u>
Net decrease for the year	(1,630,884)	(198,671)	(493,617)	(22,710)
Fund balances at beginning of year	<u>476,693</u>	<u>658,782</u>	<u>3,343,815</u>	<u>10,211,170</u>
Fund balances (deficit) at end of year	<u>\$ (1,154,191)</u>	<u>\$ 460,111</u>	<u>\$ 2,850,198</u>	<u>\$10,188,460</u>

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended September 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Revenues:			
CNMI contributions (note 6)	\$ 7,597,289	\$ 1,184,727	\$ 8,782,016
U.S. Federal grants	-	5,922,247	5,922,247
Tuition and fees	1,964,732	1,469	1,966,201
Private gifts, grants and donations	-	93,446	93,446
Other	32,339	524,578	556,917
	<u>9,594,360</u>	<u>7,726,467</u>	<u>17,320,827</u>
Total current revenues			
Expenditures and mandatory transfers:			
Educational and general:			
Instructional	7,956,649	3,733,306	11,689,955
Administration	2,740,158	1,760,476	4,500,634
Student	-	1,522,518	1,522,518
Operations and maintenance	181,905	141,249	323,154
Student services	99,930	342,019	441,949
	<u>10,978,642</u>	<u>7,499,568</u>	<u>18,478,210</u>
Educational and general expenditures			
Mandatory transfers for:			
Renewals and replacements	246,602	226,899	473,501
	<u>11,225,244</u>	<u>7,726,467</u>	<u>18,951,711</u>
Total expenditures and mandatory transfers, net			
Other transfers and additions (deductions):			
Excess of restricted expenditures over restricted receipts	-	198,671	198,671
	<u>-\$ (1,630,884)</u>	<u>\$ (198,671)</u>	<u>\$ (1,829,555)</u>
Net decrease in fund balances			

See accompanying notes to financial statements.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements September 30, 2001

(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.

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 College undergoes periodic re-evaluations and approval of its accreditation. The College was re-evaluated and approved most recently in 2001.

(2) Summary of Significant Accounting Policies

The accounting policies of the College conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental colleges and universities. Governmental Accounting Standards Board (GASB) Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*, provides that governmental colleges and universities use one of two models: (1) the AICPA College Guide model or (2) the Governmental model. The College has elected to adopt the AICPA College Guide model - the accounting and financial reporting guidance recognized by the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, as amended by AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities*, and as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements. The significant accounting policies used by 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 expenditures.

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.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the 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.

An endowment fund established by the governing board accounts for gifts requiring in perpetuity that the principal be invested and the income only be utilized, but only after the principal has grown to sufficiently generate enough income to support institutional operations.

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.

Cash and Cash Equivalents

For the purpose of the balance sheet, cash and cash equivalents is defined as cash on hand and cash held in demand accounts as well as short-term investments with a maturity date within ninety days of the date acquired. As of September 30, 2001, cash and cash equivalents was \$117,816 and the corresponding bank balances were \$165,318, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2001, bank deposits in the amount of \$169,346 were FDIC insured. The College does not require collateralization of its cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized.

Investments

Investments are carried at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

Interfund Receivables/Payables

During the course of operations, the College records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the balance sheet.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Investment in Plant

Property and equipment are recorded at cost in instances where cost is determinable or estimated cost where cost is not determinable. Depreciation on plant assets is provided using the straight-line basis over the estimated useful lives of the respective 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.

Compensated Absences

Employees of the College are allowed to accrue a maximum of four hundred and sixteen hours of annual leave. All accrual of annual leave in excess of four hundred and sixteen hours is transferred to sick leave at the end of the calendar year (note 8). The College recognizes cost for accrued annual leave at the time such leave is earned. As of September 30, 2001, the College recorded accrued annual leave in the amount of \$814,920, which is included within the balance sheet as accrued liabilities.

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). Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Retirement Plan

The College contributes to the Northern Mariana Islands Retirement Fund (the Fund), a cost-sharing multiple employer defined benefit pension plan 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. CNMI Public Law 6-17, the Northern Mariana Retirement Fund Act of 1988 assigns the authority to establish and amend benefit provisions to the Fund's Board of Trustees. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

Plan members are required to contribute 6.5% and 9.0% of their annual covered salary for Class I and Class II members, respectively, and the College is required to contribute at an actuarially determined rate. The current rate is 26.4% of annual covered payroll. The contribution requirements of plan members and the College are established and may be amended by the Fund's Board of Trustees. The College's contributions to the Fund for the year ended September 30, 2001 were \$1,990,976, equal to the required contributions.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2001

(2) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements in conformity with GAAP 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 expenditures during the reporting period. Actual results could differ from those estimates.

(3) Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed with respect to workers' compensation, general liability, and the use of motor vehicles. Settled claims have not exceeded this commercial coverage in any of the past three years. For other risks of loss to which it is exposed, the College has elected not to purchase commercial insurance. Instead, College management believes it is more economical to manage its risks internally. The College will report all of its risk management activities, if and when such occurs, in the unrestricted current fund. Claims expenditures and liabilities will be reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Losses, if reported, include an estimate of claims that have been incurred but not reported. No losses as a result of these risks have occurred or have been reported within the accompanying financial statements.

(4) Investments

GASB Statement No. 3 requires government entities to categorize investments to give an indication of the level of credit risk assumed by the entity at year end. The three categories are described below:

- Category 1 Insured or registered, or securities held by the College or its agent in the College's name;
- Category 2 Uninsured and unregistered, with securities held by the broker's or dealer's trust department or agent in the College's name; or
- Category 3 Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or agent but not in the College's name.

Investments of the College as of September 30, 2001, are Category 2 investments held in U.S. Treasury obligations, U.S. government and corporate bonds and common stock.

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2001

(5) Plant and Equipment

Summarized below is the College's investment in plant and equipment and changes for the year ended September 30, 2001:

	Estimated Useful Lives	Balance at October 1, 2000	Additions	Deletions	Balance at September 30, 2001
Land	-	\$ 5,579,900	\$ -	\$ -	\$ 5,579,900
Building and improvements	5 - 30 years	6,166,068	19,122	-	6,185,190
Furniture and equipment	3 - 5 years	639,516	249,776	-	889,292
Vehicles	5 years	211,653	30,095	-	241,748
Computers	3 - 5 years	<u>942,144</u>	<u>174,508</u>	<u>-</u>	<u>1,116,652</u>
		13,539,281	473,501	-	14,012,782
Less accumulated depreciation		<u>(3,328,111)</u>	<u>(496,211)</u>	<u>-</u>	<u>(3,824,322)</u>
Net investment in plant		\$ <u>10,211,170</u>	\$ <u>(22,710)</u>	\$ <u>-</u>	\$ <u>10,188,460</u>

(6) CNMI Contributions

To ensure that the College receives its full accreditation by the Western Association of Schools and Colleges, and meet the educational and the vocational needs of the community, the College receives annual appropriations from the CNMI Government. During the year ended September 30, 2001, the College received approximately \$8,782,016 in cash and in expenses paid for by the CNMI Government.

(7) Commitments

On October 1, 2001, the College executed a lease agreement for the rental of several housing units which house the College's School of Education. The lease commenced on October 1, 2001 for a period of two years with the option to renew for additional two year terms. The terms of the lease calls for rent to be paid in equal monthly installments of \$7,650.

Future minimum lease payments under the lease, are as follows:

Year ending September 30,	
2002	\$ 91,800
2003	<u>91,800</u>
	\$ <u>183,600</u>

NORTHERN MARIANAS COLLEGE

Notes to Financial Statements
September 30, 2001

(8) Contingencies

The College participates in a number of U.S. Department of Education assisted grant programs and other various federally assisted grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$1,301,597 relating to fiscal year 2001 and prior years have been set forth in the College's Single Audit Report for the year ended September 30, 2001. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Sick Leave

It is the policy of the College to record expenditures for sick leave when the leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury. The estimated accumulated sick leave at September 30, 2001, is \$1,705,987.

NORTHERN MARIANAS COLLEGE

Combining Balance Sheet
Current Restricted Funds
September 30, 2001

<u>ASSETS</u>	<u>Federal Grants Fund</u>	<u>Vocational Education</u>	<u>Special Funds</u>	<u>Total</u>
Restricted:				
Cash and cash equivalents	\$ 500	\$ 8,967	\$ 13,270	\$ 22,737
Accounts receivable	1,081,724	9,876	59,767	1,151,367
Due from other funds	<u>209,617</u>	<u>2,908</u>	<u>45,513</u>	<u>258,038</u>
Total restricted assets	<u>\$ 1,291,841</u>	<u>\$ 21,751</u>	<u>\$ 118,550</u>	<u>\$ 1,432,142</u>
 <u>LIABILITIES AND FUND BALANCES (DEFICIT)</u>				
Restricted:				
Bank overdraft	\$ 241,449	\$ -	\$ 40,067	\$ 281,516
Accounts payable	165,373	3,428	65,089	233,890
Accrued liabilities	36,236	25,891	6,017	68,144
Due to other funds	133,504	51,778	161,592	346,874
Due to CNMI	-	41,607	-	41,607
Fund balance	<u>715,279</u>	<u>(100,953)</u>	<u>(154,215)</u>	<u>460,111</u>
Total restricted liabilities and fund balances (deficit)	<u>\$ 1,291,841</u>	<u>\$ 21,751</u>	<u>\$ 118,550</u>	<u>\$ 1,432,142</u>

See Accompanying Independent Auditors' Report.

NORTHERN MARIANAS COLLEGE

Combining Statement of Current Restricted Funds Revenues,
Expenditures and Other Changes
Year Ended September 30, 2001

	<u>Federal Grants Fund</u>	<u>Vocational Education</u>	<u>Special Funds</u>	<u>Total</u>
Revenues:				
U.S. Federal grants	\$ 5,787,415	\$ -	\$ 134,832	\$ 5,922,247
CNMI contributions	-	1,138,157	46,570	1,184,727
Private gifts, grants and donations	-	-	93,446	93,446
Tuition and fees	-	-	1,469	1,469
Other	-	110	524,468	524,578
Total current revenues	<u>5,787,415</u>	<u>1,138,267</u>	<u>800,785</u>	<u>7,726,467</u>
Expenditures and mandatory transfers:				
Educational and general:				
Instructional	2,235,058	1,231,393	266,855	3,733,306
Administration	806,679	5,770	948,027	1,760,476
Student	1,522,518	-	-	1,522,518
Student services	325,466	-	16,553	342,019
Operations and maintenance	64,464	1,780	75,005	141,249
Educational and general expenditures	<u>4,954,185</u>	<u>1,238,943</u>	<u>1,306,440</u>	<u>7,499,568</u>
Mandatory transfers for:				
Renewals and replacements	<u>143,127</u>	<u>2,794</u>	<u>80,978</u>	<u>226,899</u>
Total expenditures and mandatory transfers, net	<u>5,097,312</u>	<u>1,241,737</u>	<u>1,387,418</u>	<u>7,726,467</u>
Other transfers and additions (deductions):				
Excess of restricted expenditures over (under) restricted receipts	<u>(491,432)</u>	<u>103,470</u>	<u>586,633</u>	<u>198,671</u>
Net increase (decrease) in fund balance	<u>\$ 1,181,535</u>	<u>\$ (206,940)</u>	<u>\$ (1,173,266)</u>	<u>\$ (198,671)</u>

See Accompanying Independent Auditors' Report.

NORTHERN MARIANAS COLLEGE

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2001

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 balance sheet of the Northern Marianas College (the College) as of and for the year ended September 30, 2001. We were also engaged to audit the related statements of changes in fund balances (deficit) and current funds revenues, expenditures, and other changes for the year then ended. We have issued our report thereon dated July 18, 2003, which was modified due to our inability to determine the propriety of fixed assets and fund balance of the Plant Fund, the propriety of revenues and expenditures, and the omission of the operations of the College's book store. 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 35) as items 2001-7 through 2001-24.

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 2001-1 through 2001-6.

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 July 18, 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

July 18, 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, 2001. 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 35). 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 2001-7 through 2001-24 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding allowable costs/cost principles, cash management, eligibility, equipment and real property management, procurement and suspension and debarment, reporting, monitoring subrecipients and special tests and provisions 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, 2001.

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 2001-7 through 2001-24.

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 balance sheet of the Northern Marianas College (the College) as of and for the year ended September 30, 2001. We were also engaged to audit the related statements of changes in fund balances (deficit) and current funds revenues, expenditures, and other changes for the year then ended. We have issued our report thereon dated July 18, 2003, which was modified due to our inability to determine the propriety of fixed assets and fund balance of the Plant Fund, the propriety of revenues and expenditures, and the omission of the operations of the College's book store. 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 due to grantor agencies 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

July 18, 2003

NORTHERN MARIANAS COLLEGE

Schedule of Awards Selected for Audit in
 Accordance with OMB Circular A-133
 Year Ended September 30, 2001

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	\$ 1,604,411
U.S. Department of Education	84.002	Adult Basic Education	336,231
U.S. Department of Education	84.047A 84.044A 84.042A	TRIO Cluster	987,847
U.S. Department of Agriculture	10.203	Cooperative State Research Services - Hatch Act	531,767
U.S. Department of Agriculture	10.500	Cooperative Extension Services - Smith-Lever Act	<u>1,203,752</u>
Total program expenditures tested			\$ <u>4,664,008</u>
Total federal program expenditures			\$ <u>5,232,144</u>
% of total federal program expenditures tested			<u>89%</u>

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds
Year Ended September 30, 2001

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, 2001, 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, 2001.

- 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

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 2001, the College received several U.S. Department of Health and Human Services grants in a subrecipient capacity.

United States Department of Commerce

- Direct Grants

The College received the National Oceanic Atmospheric Administration grant in a direct capacity.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2001

Federal Grantor/ Program Title	CFDA Number	Federal Program or Award Amount	Expenditures FY01
<u>U.S. Department of Education</u>			
<u>Direct Programs</u>			
Student Financial Assistance Programs:			
Federal Supplemental Educational Opportunity Grant	84.007	\$ 102,291	\$ 52,909
Federal Work-Study	84.033	29,005	28,984
Federal Pell Grant	84.063	1,918,783	1,522,518
Subtotal Student Financial Assistance Programs		2,050,079	1,604,411
Adult Education - State Grant Program	84.002	805,662	336,231
Student Support Services Program	84.042A	219,362	4,418
Talent Search	84.044A	499,660	235,623
Upward Bound	84.047A	1,481,369	747,806
Teachers Technology Program	84.342A	335,896	62,891
Career Resource Network State Grants	84.346A	187,776	76,898
Subtotal U.S. Department of Education		5,579,804	3,068,278
<u>U.S. Department of Health and Human Services</u>			
<u>Indirect Programs</u>			
University Affiliated Programs	93.632	185,000	75,638
Subtotal U.S. Department of Health and Human Services		185,000	75,638
<u>U.S. Department of Agriculture</u>			
<u>Direct Programs</u>			
Land Grant Programs:			
Cooperative State Research Services - Hatch Act	10.203	661,426	531,767
Cooperative Extension Services - Smith-Lever Act	10.500	1,056,478	1,203,752
Penalty Mail	10.500	92,373	6,975
Sustainable Agriculture	10.500	10,000	6,099
Farm Safety	10.588	33,770	6,121
Integrated Pest Management	10.588	172,104	107,636
Expanded Food and Nutrition	10.588	54,798	61,848
Water Quality Initiative	10.500	129,533	56,095
Neem Extract Management Program	10.500	7,125	7,125
CNMI Pesticides with Respect to FQPA	10.500	14,200	2,700
USDA Rural Business Enterprise Grant	10.500	50,000	9,712
Nutrition Education	10.500	-	2,940
EPA Pesticide Application Training	10.500	-	21,208
Pesticide Impact Assessment	10.205	-	3,657
Subtotal Direct Programs		2,281,807	2,027,635

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2001

Federal Grantor/ Program Title	CFDA Number	Federal Program or Award Amount	Expenditures FY01
<u>U.S. Department of Agriculture, Continued</u>			
<u>Indirect Programs</u>			
Management Services	10.200	-	24,351
Waste Management	10.200	-	2,116
Microprop of Banana	10.200	-	8,180
MIS Coordination	10.200	-	3,206
Island Foods	10.200	-	9
CIPS	10.200	-	1,000
Paravet	10.200	-	1,939
Capacity Building	10.200	-	17,121
Western SARE Professional Program	10.500	-	1,196
Subtotal Indirect Programs		-	59,118
Subtotal U.S. Department of Agriculture		<u>2,281,807</u>	<u>2,086,753</u>
<u>U.S. Department of Commerce</u>			
<u>Direct Program</u>			
NOAA	11.417	40,068	1,475
Subtotal U.S. Department of Commerce		40,068	1,475
Total Federal Programs		<u>\$ 8,086,679</u>	<u>\$ 5,232,144</u>
Reconciliation to the basic financial statements:			
Restricted Federal Grants Fund:			
Expenditures and mandatory transfers			\$ 5,097,312
Add: Indirect federal grants expenditures recorded in Special Funds			<u>134,832</u>
			<u>\$ 5,232,144</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, 2001

(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, U.S. Department of Agriculture and the U.S. Department of Commerce 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, 2001.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs
Year Ended September 30, 2001

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, 2001

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2001-1	Fixed Assets . .	12
2001-2	External Financial Reporting	13
2001-3	Receivables	14
2001-4	Journal Vouchers	15
2001-5	Cash Receipts	16
2001-6	Payroll	17

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2001-7	Procurement and Suspension and Debarment	\$ 55,264	18
2001-8	Allowable Costs/Cost Principles	\$ 17,124	19
2001-9	Reporting	\$ -	20
2001-10 - 13	Allowable Costs/Cost Principles	\$ 137,231	21 - 24
2001-14	Procurement	\$ 19,352	25
2001-15	Matching Costs Allocation	\$ -	26
2001-16	Funds Availability	\$ -	27
2001-17 - 20	Reporting	\$ -	28 - 31
2001-21	Eligibility	\$ -	32
2001-22	Cash Management	\$ -	33
2001-23	Subrecipient Monitoring	\$ -	34
2001-24	Equipment and Real Property Management	\$ -	35

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Section II - Financial Statement Findings

Fixed Assets

Finding No. 2001-1

Criteria: All fixed assets should be supported by 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 not been performed within the past two years. Although the College was able to produce a schedule of fixed assets as of September 30, 2001, 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 Plant Fund.

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

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

External Financial Reporting

Finding No. 2001-2

Criteria: Operations of all units and funds should be included in the College's financial statements to conform with accounting principles generally accepted in the United States of America.

Condition: The financial statements of the College do not include the Book Store operations.

Cause: The cause of the above condition is that financial statements for the Book Store were not prepared.

Effect: The effect of the above condition is that the College's financial statements do not conform with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that the College ensure that the Book Store operations are included in the financial statements.

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, 2001

Receivables

Finding No. 2001-3

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.

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, 2001

Journal Vouchers

Finding No. 2001-4

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 an 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 such a review be evidenced by the reviewer's signature.

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, 2001

Cash Receipts

Finding No. 2001-5

Criteria: Review of daily collection reports by designated finance employees should be evidenced by the reviewer's signature.

Condition: The reviewer's signature was missing on three of the twenty-five daily collection reports tested (related to cash receipt #s 35702, 37311 and 39727).

Cause: The cause of the above condition is the lack of adherence to established policies and procedures requiring the reviewer's signature on the daily collection report.

Effect: The effect of the above condition is that discrepancies between amounts collected and deposited within the bank could go undetected.

Recommendation: The College should adhere to established policies and procedures requiring independent review of daily collection reports.

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, 2001

Payroll

Finding No. 2001-6

Criteria: Employee personnel files should contain W-4 forms authorizing withholdings and the W-4 data should correspond with the information systems.

Condition: Of twenty-five employee personnel files tested, three personnel files (related to check #s 151695, 153654 and 154621) did not have a W-4 authorizing withholdings and/or the data did not correspond with the data in the information systems.

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

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

Recommendation: We recommend that the College adhere to established policies and procedures requiring employee personnel files to be up to date and complete.

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, 2001

Section III - Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment

Finding No. 2001-7

Program	Reason for Questioned Costs	Questioned Costs										
U.S. Department of Education / TRIO - Upward Bound / CFDA # 84.047A	<p><u>Criteria:</u> Section 74.43 of 34 CFR 74, <i>Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations</i>, states that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Furthermore, Section 74.45 states that some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action.</p> <p><u>Condition:</u> Of \$344,841 in non-payroll expenditures of the Upward Bound program, expenditures totaling \$131,472 were tested. The following expenditures did not appear to follow appropriate procurement guidelines concerning cost or price analysis:</p> <table border="1" data-bbox="716 898 997 1056"> <thead> <tr> <th>Check #</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>13451</td> <td>\$ 970</td> </tr> <tr> <td>12135</td> <td>\$ 24,992</td> </tr> <tr> <td>13225</td> <td>\$ 25,502</td> </tr> <tr> <td>12997</td> <td>\$ 3,800</td> </tr> </tbody> </table>	Check #	Amount	13451	\$ 970	12135	\$ 24,992	13225	\$ 25,502	12997	\$ 3,800	\$ 55,264
Check #	Amount											
13451	\$ 970											
12135	\$ 24,992											
13225	\$ 25,502											
12997	\$ 3,800											

Cause: The cause of the above condition is unknown.

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

Recommendation: We recommend that the College comply with federal small purchase standards.

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, 2001

Allowable Costs/Cost Principles

Finding No. 2001-8

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / TRIO - Upward Bound / CFDA # 84.047A	<p><u>Criteria:</u> OMB Circular A-21, <i>Cost Principles for Educational Institutions</i>, requires institutions of higher education to charge to federal grants costs that are allowable under those established guidelines.</p> <p><u>Condition:</u> During the year ended September 30, 2001, the College charged two lump sum payments for a retiring employee for accrued vacation leave and a bonus (related to pay period 17 and 18) totaling \$17,124 to the grant, despite periodic retirement fund contributions by the College for the employee. This situation caused the grant to be charged for the accrual and the disbursement.</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 OMB Circular A-21 regarding allowable costs.</p> <p><u>Recommendation:</u> We recommend that the College ensure that only allowable costs be charged to federal grants.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	17,124

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Reporting

Finding No. 2001-9

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>								
U.S. Department of Education / Adult Basic Education / CFDA # 84.002	<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 reported on the Financial Status Report for the Adult Basic Education program differed from the general ledger as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Grant ID</u></th> <th style="text-align: center;"><u>Per FSR</u></th> <th style="text-align: center;"><u>Per General Ledger</u></th> <th style="text-align: center;"><u>Variance</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">V002A000055</td> <td style="text-align: center;">\$ 313,512</td> <td style="text-align: center;">\$ 301,375</td> <td style="text-align: center;">\$ 12,137</td> </tr> </tbody> </table> <p>Cash drawdown requests were made based on the above.</p> <p><u>Cause:</u> The cause of the above condition appears to be inadequate procedures over accurate preparation and reporting of financial records to grantor agencies.</p> <p><u>Effect:</u> The effect of the above condition is an initial variance with the SF-269. This condition was corrected in an amended report.</p> <p><u>Recommendation:</u> We recommend that oversight and review responsibilities be clearly defined and established to ensure timely preparation and review of financial records.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	<u>Grant ID</u>	<u>Per FSR</u>	<u>Per General Ledger</u>	<u>Variance</u>	V002A000055	\$ 313,512	\$ 301,375	\$ 12,137	
<u>Grant ID</u>	<u>Per FSR</u>	<u>Per General Ledger</u>	<u>Variance</u>							
V002A000055	\$ 313,512	\$ 301,375	\$ 12,137							

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Allowable Costs/Cost Principles

Finding No. 2001-10

<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 45% of total program expenditures.</p> <p><u>Condition:</u> The College determines its matching 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 6.43%. As a result, the actual match share of the College, based on the revised allocation percentage, fell short from its original commitment by \$49,611. The College has not sought specific approval of the allocation method for FY2001 from the grantor agency.</p>	

	<u>Amount Committed</u>	<u>Actual Match</u>	<u>Variance</u>	
NMC's share (45%)	\$ 334,704	\$ 285,093	\$ 49,611	49,611
Federal grantor	\$ 854,287	\$ 854,287	\$ -	

Questioned costs presented here only 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.

Cause: The cause of the above condition is an improperly computed allocation percentage.

Effect: The effect of the above condition is questioned costs.

Recommendation: 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 from the grantor agency on an annual basis.

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, 2001

Allowable Costs/Cost Principles

Finding No. 2001-11

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>															
U.S. Department of Agriculture / Cooperative State Research and Extension Service – Hatch Act / CFDA # 10.203	<p><u>Criteria:</u> The Hatch Act grant requires a match by the College of 45% of total grant expenditures for fiscal year 2001.</p> <p><u>Condition:</u> The College determines its matching 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 6.43%. As a result, the actual match share of the College, based on the revised allocation percentage, fell short from its original commitment by \$44,838. The College has not sought specific approval of the allocation method for FY2001 from the grantor agency.</p> <table border="1" 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> <th></th> </tr> </thead> <tbody> <tr> <td>NMC's share (45%)</td> <td style="text-align: right;">\$ 297,657</td> <td style="text-align: right;">\$ 252,819</td> <td style="text-align: right;">\$ 44,838</td> <td style="text-align: right;">44,838</td> </tr> <tr> <td>Federal grantor</td> <td style="text-align: right;">\$ 660,368</td> <td style="text-align: right;">\$ 660,368</td> <td style="text-align: right;">\$ -</td> <td></td> </tr> </tbody> </table> <p>Questioned costs presented here only 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.</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 from the grantor agency on an annual basis.</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 (45%)	\$ 297,657	\$ 252,819	\$ 44,838	44,838	Federal grantor	\$ 660,368	\$ 660,368	\$ -		
	<u>Amount Committed</u>	<u>Actual Match</u>	<u>Variance</u>														
NMC's share (45%)	\$ 297,657	\$ 252,819	\$ 44,838	44,838													
Federal grantor	\$ 660,368	\$ 660,368	\$ -														

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Allowable Costs/Cost Principles

Finding No. 2001-12

Program	Reason for Questioned Costs	Questioned Costs
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 its own calculation of an indirect cost rate and 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, 2001, the College charged approximately \$25,382 in indirect costs. The College has not calculated its own 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 programs.</p> <p><u>Recommendation:</u> We recommend that the College ensure that only allowable indirect costs be charged to federal programs.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	25,382

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Allowable Costs/Cost Principles

Finding No. 2001-13

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Education / Adult Basic Education / CFDA # 84.002	<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 Adult Basic Education 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 its own calculation of an indirect cost rate and 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, 2001, the College charged approximately \$17,400 in indirect costs. The College has not calculated its own 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>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	17,400

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Procurement

Finding No. 2001-14

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Agriculture / Cooperative State Research and Extension Services - Smith-Lever Act / CFDA # 10.500	<p><u>Criteria:</u> Section 74.43 of 34 CFR 74, <i>Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations</i>, states that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Furthermore, Section 74.45 states that some form of cost or price analysis must be made and documented in the procurement files in connection with every procurement action.</p> <p><u>Condition:</u> Of \$319,303 in non-payroll expenditures of the Cooperative Research and Extension Services - Smith-Lever Act, forty-five disbursements totaling \$163,732 were tested. Two disbursements (check # 12767 for \$7,525 and check # 12785 for \$11,827) did not appear to follow appropriate procurement guidelines concerning cost or price analysis.</p> <p><u>Cause:</u> The cause of the above condition is the lack of established policies and procedures concerning procurement of goods and services as they relate to federal small purchase procurement standards.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with federal small purchase procurement standards.</p> <p><u>Recommendation:</u> The College should establish policies and procedures to ensure compliance with federal small purchase procurement standards.</p> <p><u>Auditee Response and Corrective Action Plan:</u> See attachment to this report.</p>	19,352
Total Questioned Costs		\$ <u>228,971</u>

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Matching Costs Allocation - Cooperative State Research and Extension Services - Smith-Lever and Hatch Acts
CFDA #s 10.500 and 10.203

Finding No. 2001-15

Criteria: Specific approval of cost allocation methods should be sought from the grantor agency.

Condition: The College currently allocates its matching costs for the Smith-Lever and Hatch based on the ratio of CREES employees to the employees at the College as a whole. Although the grantor agency has not disapproved this method, the College was unable to produce documentation evidencing approval of the method by the grantor agency.

Cause: The cause of the above condition is unknown.

Effect: Should the grantor agency determine that the current allocation method is not acceptable, material questioned costs would result.

Recommendation: The College should obtain specific approval of its cost allocation plan from the grantor agency and document such on file.

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, 2001

Funds Availability - Cooperative Research and Extension Programs - Smith-Lever Act
CFDA # 10.500

Finding No. 2001-16

Criteria: The Smith-Lever Act allows carry forward of unexpended grant funds for up to five years from the year allocated.

Condition: The College has determined that there are carryover funds from fiscal years 2000 and prior grants. There is, however, an uncertainty relative to the accuracy of these carried forward funds. As of September 30, 2001, the College had \$744,782 of these funds.

Cause: The cause of the above condition is lack of adequate prior year documentation to ascertain the accuracy of this balance.

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

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

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, 2001

Reporting - Cooperative Research and Extension Programs - Smith-Lever Act & Hatch Act
CFDA #s 10.500 and 10.203

Finding No. 2001-17

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

Condition: The expenditures reported on the SF-269 differed from the general ledger as follows:

	<u>Smith-Lever</u>	<u>Hatch</u>
Per SF-269	\$ 1,457,934	\$ 340,170
Per general ledger	<u>1,476,331</u>	<u>579,537</u>
Variance	\$ <u>(18,397)</u>	\$ <u>(239,367)</u>

Cause: The cause of the above condition appears to be untimely preparation and review of financial records. Subsequent review of the financial records appears to have resulted in adjustments to the fund accounts resulting in variances in the federal financial reports.

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

Recommendation: We recommend that oversight and review responsibilities be clearly defined and established to ensure timely preparation and review of financial records. Additionally amended reports should be submitted to the grantor agency to correct the discrepancies noted above.

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, 2001

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

Finding No. 2001-18

Criteria: Form SF-272 is used to report on federal cash transactions, when required by the grantor agency. The grantor has determined that SF-272 must be submitted on a quarterly basis by the College.

Condition: Forms SF-272 could not be located for fiscal year 2001.

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

Effect: The College is not in noncompliance with reporting requirements.

Recommendation: We recommend that the College implement sound record keeping and maintenance procedures.

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, 2001

Reporting - Cooperative State Research and Extension Services - Smith-Lever and Hatch Acts
CFDA #s 10.500 and 10.203

Finding No. 2001-19

Criteria: Per the OMB Compliance Supplement, a Financial Status Report (SF-269) has to be filed by December 1.

Condition: The draft Financial Status Report for the Smith-Lever grant was dated December 26, 2002, over a year after its due date. The initial SF-269 for Hatch was dated June 26, 2002, six months after due date. A final SF-269 could not be located for fiscal year 2001, for either program.

Cause: The cause of the above condition appears to be a lack of procedures in place at that time, which would have ensured timely preparation and submission of federal financial reports.

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

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

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, 2001

Reporting - Cooperative State Research and Extension Services - Smith-Lever and Hatch Acts
CFDA #s 10.500 and 10.203

Finding No. 2001-20

Criteria: Expenditures reported on federal financial reports should be based on actual expenditures.

Condition: The following transactions were recorded as expenditures in fiscal years 2001 and 2000 but were subsequently cancelled in fiscal year 2002.

PO-102039	09/30/2002	Construction of CREES Kagman Facility-Phase V	Solid Builders	\$ 4,506.71
PO-102072	09/30/2002	Construction of Aquaculture Facility Project-Phase IV	Custom Construction, Inc.	7,121.94
PO-012073	09/30/2002	Construction of Aquaculture Facility Project-Phase I	Custom Construction, Inc.	6,823.53
PO-102074	09/30/2002	Construction of Aquaculture Facility Project-Phase VI	Custom Construction, Inc.	4,097.91
PO-102090	09/30/2002	Construction of Aquaculture Facility Project-Phase II	Custom Construction, Inc.	5,253.42
PO-102163	09/30/2002	Construction of Aquaculture Facility Project-Phase III	Custom Construction, Inc.	8,204.82
45941	02/12/2002	Payment of Invoice #74974083-Check #70-1919/711	Gateway Companies, Inc.	3,867.00
PO-102036	09/30/2002	Water tank (2000 gallon) with tank base construction	Solid Builders	4,000.00
TA-4/14/00	11/29/2001	T/A-New York	David B. Roberto	<u>3,895.04</u>
			Total	\$ <u>47,770.37</u>

Cause: The cause of the above condition appears to be a lack of adequate review of financial records to ensure proper recording and treatment of transactions within the financial system and federal financial reports.

Effect: The effect of the above condition is over-reporting of expenditures on federal financial reports. As these items were subsequently adjusted and corrected and drawdown requests amended, no questioned costs are raised.

Recommendation: We recommend that responsibilities for regular reviews of financial records be delineated and implemented.

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

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2001

Eligibility - Federal Pell Grant Program
CFDA # 84.063

Finding No. 2001-21

Criteria: It is the College's responsibility to ensure that financial aid awards are made only to eligible students. Various student eligibility requirements concerning minimum grade point averages, age, citizenship, prior education and similar matters are stipulated in the specific requirements of the Student Financial Assistance (SFA) programs.

Condition: Of \$1,015,103 in expenditures of the SFA programs, one hundred and ten disbursements to students for compliance with eligibility requirements, totaling \$138,275, were tested and the following exceptions were noted:

- Financial aid was disbursed to four students (SS #s 586-90-5104, 586-96-1564, 586-10-5296, and 586-72-2885), without proof of citizenship. In addition, evidence of completion of high school or equivalent education level was not made available for one student (SS # 586-96-1564).

Cause: The cause of the above condition is the lack of procedures to ensure that adequate documentation is retained by the College to support the eligibility of recipients of student financial aid.

Effect: The effect of the above condition is possible noncompliance with respect to eligibility requirements for students receiving financial aid.

Recommendation: We recommend that the College establish procedures to ensure that files for all students receiving financial aid contain adequate documentation to support eligibility requirement.

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, 2001

Cash Management - Federal Pell Grant Program
CFDA # 84.063

Finding No. 2001-22

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 a sample of one hundred and ten 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.

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, 2001

Subrecipient Monitoring - TRIO - Upward Bound
CFDA # 84.047A

Finding No. 2001-23

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 College performs annual site visits at the subrecipient and requires that all requests for reimbursement be accompanied by supporting invoices and other similar documentation. However, an audit report pertaining to the subrecipient's federal program activities was not made available by the College. Accordingly, we were unable to determine whether the College complied with the audit requirements to subrecipient monitoring as outlined in OMB Circular A-110. The College disbursed approximately \$267,772 to the subrecipient in FY2001.

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.

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, 2001

Equipment and Real Property Management - All Federal Programs

Finding No. 2001-24

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.

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, 2001

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, 2001:

Questioned costs as previously reported	\$ 2,178,406
Less: Costs relating to fiscal years 1996 and prior (A)	(1,105,780)
Questioned costs of fiscal year 2001 Single Audit	<u>228,971</u>
Unresolved questioned costs at September 30, 2001	\$ <u>1,301,597</u>

(A) Such costs are considered resolved as the two-year time frame for the related grantor agencies to effect resolution or disallowance of such has expired.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 10 through 35).



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, 2001

Financial Statement Findings Section

Fixed Assets

Finding No. 2001-1

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 Plant Fund based on physical inventory counts on a regular basis. The system is expected to be implemented by the end of fiscal year 2004.

External Financial Reporting

Finding No. 2001-2

We concur with the finding. Although the Bookstore is a department within the College, it maintains a financial accounting system that is separate from the one maintained in the College's Finance Office. Financial statements for the Bookstore's operations for fiscal year 2001 were prepared, however, the Bookstore was unable to locate some of the accounting records for fiscal year 2001 due to recent changes in management and staff at the Bookstore, making it difficult to audit its financial statements. Accordingly, the College elected to exclude the Bookstore's financial operations from the overall financial statements of the institution.

Receivables

Finding No. 2001-3

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 the processing of student charges and payments to enable the monthly review of accounts receivable.

Financial Statement Findings Section, Continued

Journal Vouchers Finding No. 2001-4

We concur with the finding and recommendation that journal entries be reviewed and approved. This resulted from 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. The College expects to take action on this finding soon.

Cash Receipts Finding No. 2001-5

We concur with the finding. The reviewer inadvertently did not initial the daily cash collection reports but did initial the deposits slips to signify her review. NMC will ensure that the reviewer sign all collection reports as evidence of his or her review.

Payroll Finding No. 2001-6

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 turning 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.

Federal Award Findings and Questioned Costs Section

Procurement and Suspension and Debarment Finding No. 2001-7

We concur with the finding that NMC did not follow federal procurement guidelines in procuring the items. However, NMC followed its procurement regulations for sole source purchases at the time the items were acquired. The College is currently in the process of revising its procurement regulations and the procedures for sole sourcing of purchases are expected to be revised and strengthened.

On October 7, 2003, the NMC President and Director of Financial and Administrative Services recently met with officials from the U.S. Department of Education to discuss this issue. Upon submission of the final audit report to the grant agency, further discussions will be held and appropriate action will be taken to resolve these items.

Federal Award Findings and Questioned Costs Section, Continued

Allowable Costs/Cost Principles Finding No. 2001-8

We concur with the finding that NMC charged the lump-sum retirement related payments to the federal grant. The College was unaware that this type of expenditure was not allowed under the terms of the grant and acknowledges that it may be liable to the grant agency for the amount that was questioned.

On October 7, 2003, the NMC President and Director of Financial and Administrative Services recently met with officials from the U.S. Department of Education to discuss this issue. Upon submission of the final audit report to the grant agency, further discussions will be held and appropriate action will be taken to resolve these items, including the possible repayment in the amount of the questioned cost.

Reporting Finding No. 2001-9

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 and the numbers were the same. NMC reran the financial statements and general ledger reports for the ABE programs and noted that the amount reported as expenditures on the SF-269 included encumbrances for fiscal year 2001. Therefore, NMC inadvertently included encumbrances in the SF-269 report for fiscal year 2001. The encumbrances were subsequently liquidated and recorded as expenditures in the following fiscal year. The ABE grant is for a 27-month period and the \$12,137 was shown as expended in fiscal year 2002. The College will ensure that actual cash expenditures (not including encumbrances) are reported in the SF-269 in the future.

Allowable Costs/Cost Principles Finding No. 2001-10

We disagree with the finding that the allocation percentage used by the College was overstated by 6.43%. 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.

On October 7, 2003, the NMC President and Director of Financial and Administrative Services recently met with officials from the U.S. Department of Agriculture to discuss this issue. Upon submission of the final audit report, further discussions will be conducted with the federal agency and appropriate action will be taken to resolve this item.

Federal Award Findings and Questioned Costs Section, Continued

Allowable Costs/Cost Principles, Continued Finding No. 2001-11

We disagree with the finding that the allocation percentage used by the College was overstated by 6.43%. 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 grant 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 grant agency has not disapproved this allocation method.

On October 7, 2003, the NMC President and Director of Financial and Administrative Services recently met with officials from the U.S. Department of Agriculture to discuss this issue. Upon submission of the final audit report, further discussions will be conducted with the federal agency and appropriate action will be taken to resolve this item.

Finding No. 2001-12

We concur with the finding that NMC did not obtain specific approval from the grant 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 grant agency in fiscal year 2004.

Finding No. 2001-13

We concur with the finding that NMC did not obtain specific approval from the grant 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 grant agency in fiscal year 2004.

Procurement Finding No. 2001-14

We concur with the finding that NMC did not follow federal procurement guidelines in procuring these items. However, NMC followed its procurement regulations for sole source purchases at the time the item was purchased. The College is currently in the process of revising its procurement regulations and the procedures for sole sourcing of purchases are expected to be revised and strengthened.

Further, the item purchased via check # 12767 was insurance for the federal program's vehicles. The insurance was purchased from a company that maintains the highest credit rating, B++, of all insurance companies in the CNMI. NMC prefers to purchase insurance from a company that is financially capable of paying out claims if needed.

Federal Award Findings and Questioned Costs Section, Continued

Procurement

Finding No. 2001-14, Continued

On October 7, 2003, the NMC President and Director of Financial and Administrative Services recently met with officials from the U.S. Department of Agriculture to discuss this issue. Upon submission of the final audit report, further discussions will be conducted with the federal agency and appropriate action will be taken to resolve this item.

Matching Costs Allocation

Finding No. 2001-15

We concur with the finding that NMC did not receive specific approval from the grant 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 grant agency has not disapproved this allocation method.

Funds Availability

Finding No. 2001-16

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 drawdowns, and expenditures of the fund from the first year of the grant up to the current year to recomputed the carryover amount.

Reporting

Finding No. 2001-17

We concur with the finding that the expenditures per the general ledger report exceed the amounts reported on the SF-269. NMC plans to review the grant award, cash drawdowns, and expenditures of the funds from the first year of the grant up to the current year to ensure that expenditures are reported in the appropriate period. The SF-269s will be amended as needed.

Finding No. 2001-18

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 fiscal year 2001. The College believes that the forms were filed but that its former federal accountant, who was responsible for their preparation, did not retain copies of the documents. If the SF-272s were not filed, the College would have been unable to draw down funds during the fiscal year. NMC had contacted the U.S. Department of Agriculture for copies of the SF-272s but has not received the information to date. NMC will follow up with the grant agency on its request. The College's new federal accountant currently maintains copies of all reports, including the SF-272, filed with the grant agency in the Finance Office.

Finding No. 2001-19

We concur with the finding. The former federal programs accountant at the College did not complete the initial Financial Status Report (SF-269) for both Smith-Lever and Hatch Act grants for fiscal year 2001. Therefore, the new federal programs accountant who assumed the federal accounting and financial reporting responsibilities prepared the initial SF-269 for both grants. The College is still reviewing the detailed general ledger reports for the two grants for fiscal year 2001 and will prepare the final SF-269 upon completion of the review.

Federal Award Findings and Questioned Costs Section, Continued

Reporting, Continued Finding No. 2001-20

We concur with the finding. The Finance Office released the checks to the requesting department for distribution to the appropriate suppliers. Unfortunately, the requesting department informed the Finance Office of the cancelled projects/purchases at a date that was subsequent to the fiscal year end that the expenses were charged to. The Finance Office appropriately cancelled the checks but did not adjust the expenditures in the appropriate fiscal year. The Finance Office staff has been instructed to void similar transactions in the fiscal year that the expenditure was charged to. Additionally, the new federal programs accountant is closely monitoring all transactions related to federal grants and will ensure that voided transactions are recorded in the appropriate fiscal year.

Eligibility Finding No. 2001-21

We concur with the finding. The College's financial aid office will be tasked with the responsibility of locating the missing documents for submission to the federal grantor agency for resolution of the finding.

Cash Management Finding No. 2001-22

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.

Subrecipient Monitoring Finding No. 2001-23

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.

Equipment and Real Property Management Finding No. 2001-24

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.