

NORTHERN MARIANAS COLLEGE

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2005

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

Board of Regents  
Northern Marianas College:

We have audited the financial statements of the Northern Marianas College (the College) as of and for the year ended September 30, 2005, and have issued our report thereon dated June 28, 2006, which was qualified due to our inability to determine the propriety of property, plant and equipment, depreciation expense and building, leasehold interests and obligations. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the College's internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 11 through 25) as items 2005-1 through 2005-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider 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 June 28, 2006.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-10.

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

*Deloitte & Touche LLC*

June 28, 2006

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, 2005. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 11 through 25). 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 2005-8 through 2005-13 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding allowable costs/cost principles, cash management, reporting, procurement and suspension and debarment, and equipment and real property management that are applicable to each of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the College to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

### 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 2005-8 through 2005-13.

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, of the reportable condition described above, we consider item 2005-10 to be a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended September 30, 2005, and have issued our report thereon dated June 28, 2006, which was qualified due to our inability to determine the propriety of property, plant and equipment, depreciation expense and buildings, leasehold interests and obligations. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (pages 8 and 9) is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the College. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of property, plant and equipment, leasehold interests and obligations been determinable, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

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

*Deloitte & Touche LLC*

June 28, 2006

NORTHERN MARIANAS COLLEGE

Schedule of Awards Selected for Audit in  
 Accordance with OMB Circular A-133  
 Year Ended September 30, 2005

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

<u>Original Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of Education	84.063	Federal Pell Grant Program	\$ 1,124,327
	84.007	Federal Supplemental Educational Opportunity Grant	28,366
	84.033	Federal Work-Study Program	<u>42,690</u>
		Subtotal Student Financial Aid Programs	<u>1,195,383</u>
U.S. Department of Education	84.002	Adult Education - State Grant Program	<u>364,486</u>
U.S. Department of Education	84.047	Upward Bound	479,001
	84.044	Talent Search	285,943
	84.042	Student Support Services	<u>225,328</u>
		Subtotal TRIO Cluster	<u>990,272</u>
U.S. Department of Education	84.031	Higher Education Institutional Aid	<u>341,402</u>
U.S. Department of Agriculture	10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	<u>523,644</u>
U.S. Department of Agriculture	10.500	Cooperative Extension Services	<u>842,074</u>
		Total program expenditures tested	\$ <u>4,257,261</u>
		Total federal program expenditures	\$ <u>4,896,401</u>
		% of total federal program expenditures tested	<u>87%</u>

## NORTHERN MARIANAS COLLEGE

### Introduction to Federal Awards Funds Year Ended September 30, 2005

#### 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, 2005, 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, 2005.

- Direct Grants

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

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

#### 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 2005, the College received one U.S. Department of Health and Human Services grant in a subrecipient capacity.

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds, Continued  
Year Ended September 30, 2005

United States Department of Commerce

- Direct Grants

During fiscal year 2005, the College received one grant directly from the U.S. Department of Commerce.

United States Environmental Protection Agency

- Direct Grants

During fiscal year 2005, the College received one grant directly from the U.S. Environmental Protection Agency.



NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2005

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY05</u>
<u>U.S. Department of Education</u>			
<u>Direct Programs</u>			
Student Financial Assistance Programs:			
Federal Supplemental Educational Opportunity Grants	84.007	\$ 38,699	\$ 28,366
Federal Work-Study Program	84.033	50,361	42,690
Federal Pell Grant Program	84.063	1,129,614	1,124,327
Subtotal Student Financial Assistance Program		<u>1,218,674</u>	<u>1,195,383</u>
TRIO Programs:			
Student Support Services	84.042	228,825	225,328
Talent Search	84.044	290,272	285,943
Upward Bound	84.047	473,160	479,001
Subtotal TRIO Programs		<u>992,257</u>	<u>990,272</u>
Adult Education_State Grant Program	84.002	435,267	364,486
Minority Science and Engineering Improvement	84.120	187,786	143,826
Teachers Technology Program	84.342	62,453	62,453
Vocational Education - Occupational and Employment Information State Grants	84.346	102,422	133,493
Higher Education_Institutional Aid	84.031	365,000	341,402
Leveraging Educational Assistance Partnership	84.069	395	395
Supplemental Leveraging Educational Assistance Partnership	84.069B	605	605
Subtotal Direct Programs		<u>3,364,859</u>	<u>3,232,315</u>
<u>U.S. Department of Health and Human Services</u>			
<u>Indirect Program</u>			
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632	125,000	113,568
Subtotal U.S. Department of Health and Human Services		<u>125,000</u>	<u>113,568</u>
<u>U.S. Department of Agriculture</u>			
<u>Direct Programs</u>			
Land Grant Programs:			
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	655,542	523,644
Cooperative Extension Services	10.500	885,096	842,074
Integrated Programs	10.303	27,290	27,290
Subtotal Direct Programs		<u>1,567,928</u>	<u>1,393,008</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2005

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Program or Award Amount</u>	<u>Expenditures FY05</u>
<u>U.S. Department of Agriculture, Continued</u>			
<u>Indirect Programs</u>			
Grants for Agricultural Research, Special Research Grants	10.200	63,320	51,624
State Administration Matching Grants for Food Stamp Program	10.561	71,312	64,593
Rural Business Enterprise Grants	10.769	14,027	12,013
Subtotal Indirect Programs		148,659	128,230
Subtotal U.S. Department of Agriculture Corporation for National and Community Service		1,716,587	1,521,238
<u>Direct Program</u>			
Learn and Serve America - Higher Education	94.005	14,088	14,088
Subtotal Corporation for National and Community Service		14,088	14,088
<u>U.S. Environmental Protection Agency</u>			
<u>Direct Program</u>			
Water Quality Cooperative Agreements	66.463	70,000	15,192
Subtotal U.S. Environmental Protection Agency		70,000	15,192
Total Federal Programs		\$ 5,290,534	\$ 4,896,401

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, 2005

#### (1) Scope of Review

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

##### a. Programs Subject to OMB A-133

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

#### (2) Summary of Significant Accounting Policies

##### a. Basis of Accounting

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

##### b. Cost Allocation

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

#### (3) Indirect Cost Allocation

For fiscal year 2005, the College has an approved indirect cost rate of 38% for all grant programs, except for U.S. Department of Education programs, which is 8%.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to our inability to determine the propriety of property, plant and equipment, depreciation expense and building, leasehold interests and obligations.
2. Reportable conditions in internal control over financial reporting were identified, all of which are considered to be material weaknesses.
3. One instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, one of which is considered to be a material weakness.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The College's major programs were:

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

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

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

**Section II - Financial Statement Findings**

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2005-1	Fixed Assets	13
2005-2	Receivables	14
2005-3	Investments	15
2005-4	Accrued Leave	16
2005-5	Net Assets	17
2005-6	Expenses	18
2005-7	Information System	19

**Section III - Federal Award Findings and Questioned Costs**

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2005-8 - 9	Cash Management	\$ -	20 - 21
2005-10	Equipment and Real Property Management	\$ -	22
2005-11	Procurement and Suspension and Debarment	\$ -	23
2005-12 - 13	Reporting	\$ -	24 - 25

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

**Section II - Financial Statement Findings**

Fixed Assets

Finding No. 2005-1

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

Condition: A physical inventory of the College's fixed assets has not been performed within the past two years. Additionally, the College was unable to produce a schedule of fixed assets as of September 30, 2005, and original cost data or alternative valuation data is not available.

Cause: The cause of the above condition is non-adherence to the College's established fixed assets capitalization policy and a lack of adequate fixed assets subsidiary records.

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

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

Prior Year Status: Lack of support of recorded fixed assets and periodic inventory of fixed assets was reported as a finding in the audits of the College for fiscal years 2001 through 2004.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Receivables

Finding No. 2005-2

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

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

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

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

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

Prior Year Status: Lack of review of receivable balances for validity and collectibility was reported as a finding in the audits of the College for fiscal years 2001 through 2004.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Investments

Finding No. 2005-3

Criteria: Investments should be recorded at fair value and investment activities should be accounted for in the general ledger.

Condition: The College did not record investment activities in the general ledger totalling \$402,899. Additionally, the December 2004 investment statement was not made available.

Cause: The cause of the above condition is lack of adequate personnel to perform record keeping and inadequate file maintenance.

Effect: The effect of the above condition is possible misstatement of investment balances. An audit adjustment was proposed to correct this condition.

Recommendation: We recommend that the College record investment activities in the general ledger and properly file investment documents.



NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Accrued Leave

Finding No. 2005-4

Criteria: The accrued leave subsidiary schedule should be reconciled to the general ledger in a timely manner.

Condition: The accrued leave subsidiary schedule was not reconciled to the general ledger balance resulting in an overstatement of accrued annual leave of \$203,033.

Cause: The cause of the above condition is adjustments to accrued leave are only made at calendar year end.

Effect: The effect of the above condition is the misstatement of the accrued annual leave liability. An audit adjustment was proposed to correct this condition.

Recommendation: We recommend that the College's accrued annual leave schedule be reconciled to the general ledger in a timely manner.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Net Assets

Finding No. 2005-5

Criteria: Beginning net asset accounts should be reconciled to reflect adjusted balances of the prior year.

Condition: Beginning balances of net asset accounts did not reconcile to audited balances of the prior year by \$393,727.

Cause: The cause of the above condition is that prior year audit adjustments were not recorded.

Effect: The effect of the above condition is the misstatement of net asset accounts. An audit adjustment was proposed to correct this condition.

Recommendation: We recommend that net asset accounts be reconciled to reflect audited balances.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Expenses

Finding No. 2005-6

Criteria: Expenses should be recorded in the period incurred.

Condition: The College recorded CNMI contributions net of a 1% fee withheld to fund the Office of the Public Auditor (OPA). Additionally, a utility subsidy received from the CNMI Government amounting to \$534,735 was not recorded in the general ledger. As these costs represent operating costs, they should be recorded in the College's financial statements.

Cause: The cause of the above condition is untimely reconciliation and recording of transactions and appropriations received from the CNMI government.

Effect: The effect of the above condition is the misstatement of revenues and expenses. Audit adjustments were proposed to correct these conditions.

Recommendation: We recommend that the College record the 1% fee withheld to fund OPA and record the utility subsidy received from CNMI Government.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Information System

Finding No. 2005-7

Criteria: An established information system is recommended for all large organizations.

Condition: Our review of the College's information system noted the following:

- Network management system software is unsupported.
- Domain security structure is not in place.
- A Disaster Recovery Plan or written security manual is not cataloged.
- A data dictionary is not cataloged.
- An offsite storage for back-up files is not in place.

Cause: The cause of the above condition is the lack of policies and procedures regarding the College's information system.

Effect: The effect of the above condition is the potential inability of the College's information system department to recover from a disaster and resume operations in a reasonable time frame, which could result in loss of critical data, revenue and lead to customer service and public relations concerns.

Recommendation: We recommend that the College find alternate network management system software; establish a domain security structure; review the need to document in writing its disaster recovery plan, security manual and data dictionary; and maintain an offsite storage for daily back-up files.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

**Section III - Federal Award Findings and Questioned Costs**

U.S. Department of Education

Cash Management - Adult Education - State Grant Program, TRIO Programs and Higher Education Institutional Aid

CFDA #s 84.002, 84.042, 84.044, 84.047 and 84.031, Federal Award #s V002A040055, P047A030695-04 and P031A020233-04

Federal Award Period 10/01/04 - 09/30/05

Finding No. 2005-8

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making the disbursements."

Condition: For nine of forty-four samples tested, disbursement checks were released and cleared from five to fifty-eight days after cash was received from the grantor agency, as follows:

<u>Fund Code</u>	<u>Check #</u>	<u>Drawdown Amount</u>	<u>Cash Receipts Date</u>	<u>Check Clearance Date</u>	<u>Days Elapsed</u>
EA304	16125	\$ 5,190	12/02/04	12/27/04	22
ETR05	17493	\$ 8,400	04/06/05	06/06/05	58
EA204	17991	\$ 5,188	05/11/05	05/19/05	5
EA204	17633	\$ 2,964	04/07/05	04/28/05	18
EA204	17633	\$ 2,627	04/07/05	04/28/05	18
ETS05	19044	\$ 22,575	09/06/05	09/12/05	6
ETS05	17994	\$ 1,864	05/11/05	05/20/05	9
ESI05	16760	\$ 21,664	01/24/05	02/07/05	11
ESI05	18340	\$ 7,692	06/10/05	07/01/05	18

Cause: The cause of the above condition is that the College appears to have overestimated its check clearing pattern and is drawing the cash prior to the actual check clearance at the bank. However, we did not find any evidence of checks being held by the College.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the grantor agency is less than \$10,000.

Recommendation: We recommend that the College should update its check clearing study and should draw down from the federal government in accordance with that study.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

U.S. Department of Agriculture  
Cash Management - Cooperative Extension Services, Payments to Agricultural Experiment Stations  
Under the Hatch Act  
CFDA #10.500 and 10.203, Federal Award #s 411000570002 and 41100057005 and 311000609505  
Federal Award Periods 10/01/01 - 09/30/02 and 10/01/04 - 09/30/05

Finding No. 2005-9

**Criteria:** *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (the Common Rule) states: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making the disbursements."*

**Condition:** For five of fifty samples tested, disbursement checks were released and cleared from five to forty nine days after cash was received from the grantor agency, as follows:

<u>Fund Code</u>	<u>Check #</u>	<u>Expense Tested</u>	<u>Check Clearance Date</u>	<u>Drawdown Date</u>	<u>Days Lapsed</u>
AB105	18920	\$ 4,000	08/09/05	08/04/05	5
AD504	19083	\$ 2,000	09/21/05	09/09/05	12
AB105	18832	\$ 1,000	09/08/05	07/21/05	49
AR105	19300	\$ 2,734	10/11/05	09/30/05	11
AR104	18748	\$ 398	08/03/05	07/18/05	16

**Cause:** The cause of the above condition is that the College appears to have overestimated its check clearing pattern and is drawing the cash prior to the actual check clearance at the bank. However, we did not find any evidence of checks being held by the College.

**Effect:** The effect of the above condition is noncompliance with federal cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the grantor agency is less than \$10,000.

**Recommendation:** We recommend that the College should update its check clearing study and should draw down from the federal government in accordance with that study.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Equipment and Real Property Management - All Federal Programs

Finding No. 2005-10

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

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

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

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

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

Prior Year Status: Noncompliance with federal property management standards was reported as a finding in the audits of the College for fiscal years 2001 through 2004.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Procurement and Suspension and Debarment - All Federal Programs

Finding No. 2005-11

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Condition: Price or rate comparisons are not being documented for airfares.

Cause: The cause of the above condition is the lack of an established policy with regards to procurement of airfare.

Effect: The effect of the above condition is non-compliance with federal procurement regulations.

Recommendation: We recommend that quotes be obtained for airfare or that travel agents be procured through a request for proposal (RFP).



NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

U.S. Department of Agriculture

Reporting - Cooperative Extension Services

CFDA #10.500, Federal Award #s 411000570004, 415100570004, 415310570004, 41540057000, 411000570005, 151500570005 and 415310570005

Federal Award Periods 10/01/03 - 09/30/04 and 10/01/04 - 09/30/05

Finding No. 2005-12

Criteria: The College is required to submit SF 269 and SF 272, financial reports that should be supported by applicable accounting records and presented in accordance with program requirements.

Condition: The College did not submit the SF 269 form during the fiscal year, and thus we were unable to determine if the report is in agreement with financial records of the College.

Cause: The cause of non-submittal of form SF 269 is due to lack of qualified personnel.

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

Recommendation: We recommend that reports be submitted when due and be supported by applicable accounting records.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

U.S. Department of Education  
Reporting - Adult Education - State Grant Program  
CFDA # 84.002, Federal Award # V002A040055  
Federal Award Period 10/01/04 - 09/30/05

Finding No. 2005-13

Criteria: The ABE program allows the College to report its financial operations annually. Per OMB A-110 and CFR 34, Part 80, sec80.40, the initial report for 15 months and the final report for 27 months (funds are available for obligation for 27 months) after initiation of the program are due 90 days after year end.

Condition: The SF-269 (Financial Status Report) for the year ended September 30, 2005 was not submitted as of the report deadline of December 31, 2005, and thus we were unable to determine if the report is in agreement with financial records of the College.

Cause: The cause of the above condition is lack of management oversight and review.

Effect: The effect of the above condition is noncompliance with terms and conditions of the grant.

Recommendation: We recommend that control policies and procedures be implemented to ensure that federal financial reporting requirements are complied with.

NORTHERN MARIANAS COLLEGE

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2005

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, 2005:

Questioned costs as previously reported	\$ 150,513
Less questioned costs resolved in fiscal year 2005:	
Questioned costs of fiscal year 2003 Single Audit (a)	8,836
Questioned costs of fiscal year 2004 Single Audit (a)	<u>4,272</u>
	137,405
Questioned costs of fiscal year 2005 Single Audit	<u>-</u>
Unresolved questioned costs at September 30, 2005	\$ <u>137,405</u>

(a) These questioned costs were resolved through reimbursement to the grantor agency.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 25).



# 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, 2005

## **Financial Statement Findings Section**

### Fixed Assets

#### Finding No. 2005-1

The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College in procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed asset module was requested from the College's Planning, Budget and Evaluation Council. Once again funding constraints prevented this body from making funds available for such purposes in FY2004 and 2005. Although funding was set aside for this purpose in FY2006, such was cut in an effort to address a budget shortfall in FY2006. Should the necessary funding be identified for this purpose in the FY2007 budget, the College expects to resolve this condition in FY2007.

### Receivables

#### Finding No. 2005-2

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

### Investments

#### Finding No. 2005-3

The College concurs with the finding. The College due to the various challenges in personnel funding was forced to freeze various positions resulting in additional duties being assumed by existing personnel. Unfortunately as the existing accounting staff are already overwhelmed with day to day operations and as such recording of various adjustments to the financial statements were not effected during the course of the financial year and rather deferred to adjustment through the annual audit process. This will continue to be a challenge until such time that staffing levels are increased to meet the needs and demands of the office. In fact staffing levels were further reduced in the Finance office in FY2006 which is bound to have further negative repercussions on the operations of this office. This issue will be brought to the attention of the College's President and the Board of Regents and we will work collaboratively to address such.

Accrued Leave  
Finding No. 2005-4

The College concurs with the finding. The College due to the various challenges in personnel funding was forced to freeze various positions resulting in additional duties being assumed by existing personnel. Unfortunately as the existing accounting staff are already overwhelmed with day to day operations and as such recording of various adjustments to the financial statements were not effected during the course of the financial year and rather deferred to adjustment through the annual audit process. This will continue to be a challenge until such time that staffing levels are increased to meet the needs and demands of the office. In fact staffing levels were further reduced in the Finance office in FY2006 which is bound to have further negative repercussions on the operations of this office. This issue will be brought to the attention of the College's President and the Board of Regents and we will work collaboratively to address such. The College also has made a concerted effort to reduce its annual leave liability by ensuring that such obligations, where allowable by policy, were paid down as much as possible. In fact, beginning in FY2004, the College started budgeting for such payouts and has substantially reduced such obligations. As a matter of practice and for tracking purposes, such payouts are recorded as expenses and adjusted against the accruals at financial year end.

Net Assets  
Finding No. 2005-5

The College concurs with the finding. The College due to the various challenges in personnel funding was forced to freeze various positions resulting in additional duties being assumed by existing personnel. Unfortunately as the existing accounting staff are already overwhelmed with day to day operations and as such recording of various adjustments to the financial statements were not effected during the course of the financial year and rather deferred to adjustment through the annual audit process. This will continue to be a challenge until such time that staffing levels are increased to meet the needs and demands of the office. In fact staffing levels were further reduced in the Finance office in FY2006 which is bound to have further negative repercussions on the operations of this office. This issue will be brought to the attention of the College's President and the Board of Regents and we will work collaboratively to address such.

Expenses  
Finding No. 2005-6

The College concurs with the finding. The College due to the various challenges in personnel funding was forced to freeze various positions resulting in additional duties being assumed by existing personnel. Unfortunately as the existing accounting staff are already overwhelmed with day to day operations and as such recording of various adjustments to the financial statements were not effected during the course of the financial year and rather deferred to adjustment through the annual audit process. This will continue to be a challenge until such time that staffing levels are increased to meet the needs and demands of the office. In fact staffing levels were further reduced in the Finance office in FY2006 which is bound to have further negative repercussions on the operations of this office. This issue will be brought to the attention of the College's President and the Board of Regents and we will work collaboratively to address such.

Information System  
Finding No. 2005-7

The College concurs with this finding. The need for us to address the noted deficiencies in our information systems area has been a point of discussion at both the Administration and the Board level. Once again freezing of various positions in this area has contributed to the finding and we will continue to work to address the finding.

## **Federal Award Findings and Questioned Costs Section**

### Cash Management Finding No. 2005-8

The College strongly disagrees with this finding. The College ensures that all cash drawdowns are disbursed in accordance with the federal cash management guidelines. The College has no control over when the vendors clear their checks through the banks. A cut-off test of the checks on hand will clearly evidence that checks are disbursed to the vendors in a timely manner. The cashier, upon receipt of the check from accounts payable, promptly calls the vendors for pick up. If the vendor does not pick such up and does not bank the check in a timely manner the College cannot be held responsible. Further, certain off island vendors, as a natural consequence of our remote location, will not be able to bank their checks until received through the postal system. Again, the College has no control over such timing.

### Finding No. 2005-9

The College strongly disagrees with this finding. The College ensures that all cash drawdowns are disbursed in accordance with the federal cash management guidelines. The College has no control over when the vendors clear their checks through the banks. A cut-off test of the checks on hand will clearly evidence that checks are disbursed to the vendors in a timely manner. The cashier, upon receipt of the check from accounts payable, promptly calls the vendors for pick up. If the vendor does not pick such up and does not bank the check in a timely manner the College cannot be held responsible. Further, certain off island vendors, as a natural consequence of our remote location, will not be able to bank their checks until received through the postal system. Again, the College has no control over such timing.

### Equipment and Real Property Management - All Federal Programs Finding No. 2005-10

The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College in procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed asset module was requested from the College's Planning, Budget and Evaluation Council. Once again funding constraints prevented this body from making funds available for such purposes in FY2004 and 2005. Although funding was set aside for this purpose in FY2006, such was cut in an effort to address a budget shortfall in FY2006. Should the necessary funding be identified for this purpose in the FY2007 budget, the College expects to resolve this condition in FY2007.

### Procurement and Suspension and Debarment - All Federal Programs Finding No. 2005-11

The College strongly disagrees with this finding. There is limited pool of travel agents available on the island and the carriers which service the island, especially to the mainland where the bulk of the College travel is made, are limited to two. The College makes every efforts to ensure that all travel is distributed among the available travel agencies and every effort is made to ensure that the College receives the lowest "fully refundable" fare available to the destination. The College is at a loss as to what other efforts it needs to make to meet the auditor's concern.

Reporting

Finding No. 2005-12

The College concurs with the finding. The College due to the various challenges in personnel funding was forced to freeze various positions resulting in additional duties being assumed by existing personnel. Unfortunately the existing accounting staff are already overwhelmed with day to day operations. The College federal accountant retired in December 2005 and federal reports due as of that date (which covered the financial year ended September 30, 2005) were delayed as such position remained vacant until May 2006. In spite of our best efforts to cover this void, due to already inadequate staffing levels in the office and lack of experience of existing staff on federal financial reporting requirements, various federal financial reports were delayed. This will continue to be a challenge until such time that staffing levels are increased to meet the needs and demands of the office. In fact staffing levels were further reduced in the Finance office in FY2006 which is bound to have further negative repercussions on the operations of this office. This issue will be brought to the attention of the College's President and the Board of Regents and we will work collaboratively to address such.

Finding No. 2005-13

The College concurs with the finding. The College due to the various challenges in personnel funding was forced to freeze various positions resulting in additional duties being assumed by existing personnel. Unfortunately the existing accounting staff are already overwhelmed with day to day operations. The College federal accountant retired in December 2005 and federal reports due as of that date (which covered the financial year ended September 30, 2005) were delayed as such position remained vacant until May 2006. In spite of our best efforts to cover this void, due to already inadequate staffing levels in the office and lack of experience of existing staff on federal financial reporting requirements, various federal financial reports were delayed. This will continue to be a challenge until such time that staffing levels are increased to meet the needs and demands of the office. In fact staffing levels were further reduced in the Finance office in FY2006 which is bound to have further negative repercussions on the operations of this office. This issue will be brought to the attention of the College's President and the Board of Regents and we will work collaboratively to address such.



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## Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2004:

### **Financial Statement Findings**

Finding No. 2004-1 - Not corrected. See corrective action plan to Finding No. 2005-1.

Finding No. 2004-2 - Not corrected. See corrective action plan to Finding No. 2005-2.

Finding No. 2004-3 - Corrective action has been taken.

### **Federal Award Findings and Questioned Costs**

Finding No. 2004-4 - Corrective action has been taken.

Finding No. 2004-5 - Corrective action has been taken.

Finding No. 2004-6 - Corrective action has been taken.

Finding No. 2004-7 - Not corrected. See corrective action plan to Finding No. 2005-10.