

NORTHERN MARIANAS COLLEGE
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2007

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2007, and have issued our report thereon dated June 28, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and one other matter that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 12 through 52) to be significant deficiencies in internal control over financial reporting as items 2007-1 through 2007-4.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-2 and 2007-3 to be material weaknesses.

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 grant agreements, 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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the College in a separate letter dated June 28, 2008.

The College's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the College's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Regents, federal awarding agencies, 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, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 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, 2007. 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 12 through 52). 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 2007-5 through 2007-21 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, matching, level of effort, earmarking, procurement and suspension and debarment, and reporting 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 the requirements applicable to that program.

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, 2007.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A *control deficiency* in the College's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2007-5 through 2007-21 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected in the College's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the College's internal control that might be significant deficiencies or material weaknesses. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2007-16 and 2007-17 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the College as of and for the year ended September 30, 2007, and have issued our report thereon dated June 28, 2008. Our audit was performed for the purpose of forming our opinion on the College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 9 and 10) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 College's management provided minutes of Board of Regents' meetings subsequent to September 24, 2007, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The College's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the College's responses and, accordingly, we express no opinion on it.

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, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Awards Selected for Audit in
 Accordance with OMB Circular A-133
 Year Ended September 30, 2007

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 Agriculture | 10.203 | Payments to Agricultural Experiment Stations Under the Hatch Act | \$ <u>626,533</u> |
| U.S. Department of Agriculture | 10.500 | Cooperative Extension Services | <u>746,750</u> |
| U.S. Department of Interior | 15.875 | Economic, Social, and Political Development of the Territories - Compact Impact | <u>350,000</u> |
| U.S. Department of Education | 84.002 | Adult Education - State Grant Program | <u>337,450</u> |
| U.S. Department of Education | 84.031 | Higher Education Institutional Aid | <u>314,672</u> |
| U.S. Department of Education | 84.047 | Upward Bound | 476,376 |
| | 84.044 | Talent Search | 245,138 |
| | 84.042 | Student Support Services | <u>221,807</u> |
| | | Subtotal TRIO Cluster | <u>943,321</u> |
| U.S. Department of Education | 84.315 | Capacity Building for Traditionally Underserved Populations | <u>180,689</u> |
| | | Total program expenditures tested | \$ <u>3,499,415</u> |
| | | Total federal program expenditures | \$ <u>5,806,987</u> |
| | | % of total federal program expenditures tested | <u>60%</u> |

NORTHERN MARIANAS COLLEGE

Introduction to Federal Awards Funds
Year Ended September 30, 2007

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, 2007, 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, 2007.

- Direct Grants

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

- Adult Education - State Grant Program
- TRIO - Student Support Services
- TRIO - Upward Bound
- TRIO - Talent Search
- Vocational Education - Occupational and Employment Information State Grants
- Higher Education Institutional Aid
- Minority Science and Engineering Improvement
- Capacity Building for Traditionally Underserved Populations

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 the Interior

- Indirect Grants

During fiscal year 2007, the College received one grant in a subrecipient capacity.

United States Department of Health and Human Services

- Indirect Grants

During fiscal year 2007, the College received three 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, 2007

United States Department of Commerce

- Direct Grants

During fiscal year 2007, the College received three grants directly from the U.S. Department of Commerce.

United States Environmental Protection Agency

- Direct Grants

During fiscal year 2007, 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, 2007

| <u>Federal Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Federal Program or Award Amount</u> | <u>Expenditures FY07</u> |
|--|------------------------|--|------------------------------|
| <u>U.S. Department of Education</u> | | | |
| <u>Direct Programs</u> | | | |
| Student Financial Assistance Programs: | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | \$ 33,351 | \$ 32,103 |
| Federal Work-Study Program | 84.033 | 22,771 | 25,221 |
| Federal Pell Grant Program | 84.063 | 1,359,314 | 1,359,314 |
| Academic Competitive Grant | 84.375 | 30,100 | 30,100 |
| Subtotal Student Financial Assistance Program | | <u>1,445,536</u> | <u>1,446,738</u> |
| TRIO Programs: | | | |
| Student Support Services | 84.042 | 235,689 | 221,807 |
| Talent Search | 84.044 | 290,272 | 245,138 |
| Upward Bound | 84.047 | 473,160 | 476,376 |
| Subtotal TRIO Programs | | <u>999,121</u> | <u>943,321</u> |
| Adult Education Program | 84.002 | 327,350 | 337,450 |
| Minority Science and Engineering Improvement Capacity Building for Traditionally Underserved Populations | 84.120 | 71,942 | 48,084 |
| Vocational Education - Occupational and Employment Information State Grants | 84.315 | 185,000 | 180,689 |
| Higher Education Institutional Aid | 84.346 | 20,000 | 25,602 |
| 84.031 | 287,215 | 314,672 | |
| Subtotal U.S. Department of Education | | <u>3,336,164</u> | <u>3,296,556</u> |
| <u>U.S. Department of Agriculture</u> | | | |
| <u>Direct Programs</u> | | | |
| Payments to Agricultural Experiment Stations Under the Hatch Act | 10.203 | 1,176,423 | 626,533 |
| Cooperative Extension Services | 10.500 | 970,244 | 746,750 |
| Subtotal Direct Programs | | <u>2,146,667</u> | <u>1,373,283</u> |
| <u>Indirect Programs</u> | | | |
| Grants for Agricultural Research, Special Research Grants | 10.200 | 60,227 | 33,142 |
| State Administration Matching Grants for Food Stamp Program | 10.561 | 100,445 | 23,071 |
| Healthy Living in the Pacific | 10.206 | 14,027 | 140 |
| Resident Instruction Program | 10.308 | 63,220 | 35,293 |
| Anthropods Survey & Mapping | 10.025 | 15,000 | 7,928 |
| Sustainable Forage & Livestock System | 10.200 | 10,000 | 8,333 |

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2007

| <u>Federal Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Federal Program or Award Amount</u> | <u>Expenditures FY07</u> |
|--|------------------------|--|------------------------------|
| <u>U.S. Department of Agriculture, Continued</u> | | | |
| <u>Indirect Programs, Continued</u> | | | |
| Marketing & Value Added Workshop | Unknown | 3,000 | 2,379 |
| Papaya Mealybug | 10.025 | 28,270 | 1,449 |
| Innovative Farm Practices | Unknown | 73,387 | 16,926 |
| New Guinea Sugarcane Weevil | 10.025 | 26,058 | 3,783 |
| Region IX Water Quality Coordination | 10.303 | 24,953 | 6,692 |
| Western Region SARE Prof. Program | Unknown | 16,000 | 5,336 |
| Subtotal Indirect Programs | | <u>434,587</u> | <u>144,472</u> |
| Subtotal U.S. Department of Agriculture | | <u>2,581,254</u> | <u>1,517,755</u> |
| <u>U.S. Department of Interior</u> | | | |
| <u>Indirect Program</u> | | | |
| Economic, Social and Political Development of the Territories - Compact Impact | 15.875 | 350,000 | 350,000 |
| Subtotal U.S. Department of Interior | | <u>350,000</u> | <u>350,000</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 | 165,000 | 137,152 |
| Association of Native Americans | 93.612 | 300,000 | 169,638 |
| Area Health Education Center | 93.107 | 330,079 | 273,314 |
| Subtotal U.S. Department of Health and Human Services | | <u>795,079</u> | <u>580,104</u> |
| <u>U.S. Department of Commerce</u> | | | |
| <u>Direct Program</u> | | | |
| Learn and Serve America - Higher Education | 94.005 | 20,000 | 20,556 |
| MAREPAC Grant Project | 11.481 | 112,500 | 10,966 |
| NOAA Traditional Fishing Practice | 11.452 | 90,500 | 17,053 |
| Subtotal U.S. Department of Commerce | | <u>223,000</u> | <u>48,575</u> |
| <u>U.S. Environmental Protection Agency</u> | | | |
| <u>Direct Program</u> | | | |
| Water Quality Cooperative Agreements | 66.463 | 70,000 | 13,997 |
| Subtotal U.S. Environmental Protection Agency | | <u>70,000</u> | <u>13,997</u> |
| Total Federal Programs | | <u>\$ 7,355,497</u> | <u>\$ 5,806,987</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, 2007

(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 Agriculture, U.S. Department of Health and Human Services, U.S. Department of Commerce, U.S. Department of the Interior, and U.S. Environmental and Protection Agency 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 2007, the College has an approved indirect cost rate of 35% 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, 2007

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditors' report on the basic financial statements expressed an unqualified opinion.
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements, two of which are considered to be material weaknesses.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Significant deficiencies in internal control were disclosed by the audit of the major federal award programs, two of which were considered to be material weaknesses.
5. The auditors' report on compliance for the major federal award programs for the College expresses a qualified opinion.
6. There were audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major program were:

| <u>Name of Federal Program or Cluster</u> | <u>CFDA Number</u> |
|---|--------------------|
| Payments to Agricultural Experiment Stations Under the Hatch Act | 10.203 |
| Cooperative Extension Services | 10.500 |
| Economic, Social and Political Development of the Territories - Compact Impact | 15.875 |
| Adult Education - State Grant Program | 84.002 |
| Higher Education Institutional Aid | 84.031 |
| TRIO Cluster: | |
| TRIO - Upward Bound | 84.047 |
| TRIO - Student Support Services | 84.042 |
| TRIO - Talent Search | 84.044 |
| Capacity Building for Traditionally Underserved Populations | 84.315 |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The College was determined not to be a low-risk auditee.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

| <u>Reference Number</u> | <u>Findings</u> | <u>Refer Page #</u> |
|-------------------------|-----------------|---------------------|
| 2007-1 | Expenditures | 14 - 15 |
| 2007-2 | Receivables | 16 - 17 |
| 2007-3 | Investments | 18 |
| 2007-4 | Inventory | 19 |

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

| <u>Reference Number</u> | <u>Findings</u> | <u>Questioned Costs</u> | <u>Refer Page #</u> |
|-------------------------|--|-------------------------|---------------------|
| 2007-5 | Allowable Costs/Cost Principles | \$ 17,793 | 20 - 21 |
| 2007-6 | Allowance Costs/Cost Principles | \$ 12,454 | 22 - 23 |
| 2007-7 | Allowable Costs/Cost Principles | \$ 3,525 | 24 - 25 |
| 2007-8 | Allowable Costs/Cost Principles | \$ 12,563 | 26 |
| 2007-9 | Allowable Costs/Cost Principles | \$ 14,019 | 27 - 28 |
| 2007-10 | Eligibility | \$ 201 | 29 |
| 2007-11 | Procurement and Suspension and Debarment | \$ 15,681 | 30 - 32 |
| 2007-12 | Procurement and Suspension and Debarment | \$ 9,662 | 33 - 35 |
| 2007-13 | Procurement and Suspension and Debarment | \$ 20,184 | 36 - 37 |
| 2007-14 | Procurement and Suspension and Debarment | \$ 4,600 | 38 - 39 |
| 2007-15 | Procurement and Suspension and Debarment | \$ 6,776 | 40 - 41 |
| 2007-16 | Matching, Level of Effort, Earmarking | \$ 52,703 | 42 - 43 |
| 2007-17 | Allowable Costs/Cost Principles | \$ - | 44 - 45 |
| 2007-18 | Cash Management | \$ - | 46 - 47 |
| 2007-19 | Cash Management | \$ - | 48 - 49 |
| 2007-20 | Equipment and Real Property Management | \$ - | 50 - 51 |
| 2007-21 | Reporting | \$ - | 52 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Expenditures

Finding No. 2007-1

Criteria: An effective system of internal control includes policies and procedures to ensure that expenses are recorded in the appropriate period. Further, expenditures should be authorized, supported and approved prior to incurrence.

Condition: Our examination of expenditures indicated the following:

- Nine expenditures totaling \$94,448 were not recorded in the period incurred. These are as follows:

| <u>Document Number</u> | <u>General Ledger Amount</u> | <u>Amount Recorded In Incorrect Period</u> |
|------------------------|------------------------------|--|
| CR-113297 | \$ 49,559 | \$ 49,559 |
| PS-2956jul07 | 25,000 | 25,000 |
| PO-110663 | 6,845 | 738 |
| PO-110733 | 6,547 | 6,547 |
| 32156 | 4,600 | 4,600 |
| CR-113018 | 3,949 | 1,974 |
| 100233549 | 2,768 | 2,768 |
| 1015 | 2,748 | 976 |
| 34151488001 | <u>2,286</u> | <u>2,286</u> |
| | \$ <u>104,302</u> | \$ <u>94,448</u> |

- Pertinent documents such as contracts or invoice, to support incurrence of expenditure for seven items (Document Nos. AJE-7, 1074, PS-060010-1, MLSS-047-07, PS-2956ju107, CR-111872 and 27105) were not provided for examination.

Cause: The cause of the above condition is the lack of appropriate cut-off procedures and controls over expenditures.

Effect: The effect of the above condition is the misstatement of expenditures and liabilities and possible unauthorized expenditures.

Recommendation: We recommend that the College implement appropriate policies and procedures to ensure recording of expenditures in the appropriate period. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-1, Continued

Auditee Response and Corrective Action Plan:

We partially agree with this finding. Generally items are recorded as expenses when paid and at times such items are not received or services rendered are not completed until after the end of the financial year. We agree that reclassification adjustments were not made to reflect items which were either received subsequent to the end of the financial year or where goods were not rendered until the next financial period. The College will review inter-period transactions and make appropriate reclassifications at the end of each fiscal period.

Name of Contact Person:

Ms. Solita Barnes, Chief Accountant

Corrective Action:

All reclassification of expenses will be completed as of the end of the financial year to ensure that items are recorded in the current financial period.

Proposed Completion Date:

September 30, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Receivables

Finding No. 2007-2

Criteria: Receivables should be 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: Our examination of the College's receivables indicated the following:

- Various receivables have been outstanding since 1999 to 2006 amounting to approximately \$2,100,000.
- The aging schedule indicated various credit balances which made it difficult to assess current and past due accounts.
- An analysis of the allowance for doubtful accounts was not performed during the fiscal year 2007. An audit adjustment was proposed as a result of our analysis.

Cause: The cause of the above condition is the lack of procedures in place to monitor and analyze receivables.

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

Recommendation: We recommend that the College implement procedures requiring periodic review of all receivables for validity and collectibility. Accounts determined to be uncollectible should be written-off. This process should also address the adequacy of the related allowance 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 2006.

Auditee Response and Corrective Action Plan:

We disagree with this finding. The College conducted an extensive exercise to review and write off balances outstanding since 1999 which were deemed uncollectible. Approximately \$1.6 million dollars in undocumented or unsupported balances were removed from the financial statements as a result. The proposed level of allowance for FY2007 appears to be excessive based on the College's experience. However, due to time constraints, the College has agreed to accept the auditors' report and finding and intends to conduct a thorough review of its allowance of doubtful account and make appropriate adjustments in FY2008.

Name of Contact Person:

Ms. Solita Barnes, Chief Accountant

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-2, Continued

Corrective Action:

Detailed analysis of the adequacy of the allowance for doubtful accounts and all receivable balances.

Proposed Completion Date:

September 30, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Investments

Finding No. 2007-3

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 totaling \$511,650.

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

Effect: The effect of the above condition is the 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.

Auditee Response and Corrective Action Plan:

We agree with this finding. The College will make appropriate adjustments to the investment balances periodically to record any appreciation or depreciation in such. This was not done as of September 30, 2007 but the financial statements now correctly reflect the investment balances as of at date.

Name of Contact Person:

Ms. Marylou Ada, Interim Chief Financial and Administrative Officer

Corrective Action:

Periodic adjustments for investment performance.

Proposed Completion Date:

September 30, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Inventory

Finding No. 2007-4

Criteria: Physical inventory procedures should be established and variances between the general ledger and the subsidiary ledger should be investigated and reconciled in a timely manner. The subsidiary ledger should reflect accurate information as to quantity and cost. Further, costs in the subsidiary ledger should be based on underlying invoices.

Condition: Our tests of inventory noted the following:

- Inventories included negative balances amounting to \$7,810.
- Variances were noted in quantities between year-end inventory test counts and the final inventory valuation report for two items.
- Two saleable items and one used item had zero average unit cost in the final inventory valuation report. Further, one inventory item has an erroneous unit cost resulting in overstatement of inventory of approximately \$198,000. This condition was corrected through a proposed audit adjustment.
- The supporting vendor invoices for two items could not be located. Further, unit costs in the final inventory valuation report differed from underlying invoices for five items.

Cause: The cause of the above condition is weak internal controls over inventories.

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

Recommendation: We recommend that the College establish adequate internal control procedures over inventory. We further recommend that the College ensure that inventories are properly valued and reconciled with physical counts in a timely basis.

Prior Year Status: Lack of internal controls over inventories was reported as a finding in the audit of the College for fiscal year 2006.

Auditee Response and Corrective Action Plan:

We agree with this finding. Although, measurable progress has been made in the addressing the issue with inventory at the Bookstore, the issues noted in the finding continue to exist. It is noted however, again that in prior years the auditors' opinion has been qualified relative to inventory balances and as such the condition has improved significantly. We expect full resolution of all issues in FY2008.

Name of Contact Person:

Ms. Bernie Sablan, Bookstore Manager

Corrective Action:

Detailed and accurate accounting of Bookstore inventory and physical counts at year-end will be conducted and training will be provided to staff conducting the annual inventory counts.

Proposed Completion Date:

September 30, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-5

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|--|---|-------------------------|
| U.S. Department of Agriculture / Payments to Agricultural Experiment Stations Under the Hatch Act / CFDA # 10.203 / Federal Award #s 2007-3110006095 and # 2006-3110006095 / Federal Award Periods 10/01/06 - 09/30/07 and 10/01/05 - 09/30/06 | <u>Criteria:</u> Expenditures should be authorized, supported and approved prior to incurrence. | |
| | <u>Condition:</u> Of \$441,629 nonpayroll expenditures, thirty-two items, totaling \$211,959 were tested. The following were noted during our testing: | |
| | • For one disbursement (Document No. SC00462688) amounting to \$1,391, there was no evidence of receipt for one item amounting to \$170. | 65 |
| | • For one disbursement (Document No. PO-109666) amounting to \$1,085, the supporting purchase order date was later than the invoice date. Further, there was no evidence of receipt of items. | 1,085 |
| | • For one travel expense (Document No. A-102579) amounting to \$2,803, boarding passes, trip report, supporting receipts and other travel related documents could not be provided. | 2,803 |
| | • For one disbursement (Document No. PO-110305) amounting to \$4,314, items purchased have not been received to date. | 4,314 |
| | • For two disbursements (Document Nos. PO-110288 and PO-110512) totaling \$5,236, the supporting invoice could not be located and there was no evidence of actual date of receipt of services or items purchased. | 5,236 |
| | • For two telephone expenses (Document Nos. 287-0552jul07 and 287-0552jun07) totaling \$3,319, log sheets to monitor names of persons or companies and dates when long distance cell phone calls are made were not available. Thus, there is no evidence that these long distance calls are reasonable and necessary for the program. | 3,319 |
| • For three employees, actual hours worked in the timesheet did not substantiate the salaries charged to the program by \$971. | <u>971</u> | |
| | <u>17,793</u> | |

Cause: The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures and failure to submit all supporting documents for filing.

Effect: The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$17,793.

Recommendation: We recommend that the College strengthen procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and payment. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-5, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. Although some of the items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency to resolve this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Ms. Solita Barnes, Chief Accountant and Mr. Ross Manglona, CREES Director</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-6

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|--|---|-------------------------|
| U.S. Department of Agriculture / Payments to Cooperative Extension Service Under the Smith Lever Act / CFDA # 10.500 / Federal Award #s 2007-41100-05700, # 2007-41530-05700 and # 2007-41510-05700 / Federal Award Period 10/01/06 - 09/30/07 | <u>Criteria:</u> Expenditures should be authorized, supported and approved prior to incurrence. | |
| | <u>Condition:</u> Of \$380,249 nonpayroll expenditures, thirty-five items, totaling \$52,557 were tested. The following were noted during our testing: | |
| | <ul style="list-style-type: none"> • For one disbursement (Document No. 1081), the supporting invoice was dated earlier than the purchase order, thus, it appears that approval was not obtained prior to incurrence of expenditure. | 3,500 |
| | <ul style="list-style-type: none"> • For one travel expense (Document No. A-101724) amounting to \$2,570, the supporting invoice for airfare could not be provided. Further, the related affidavit of lost documents was dated earlier than the travel period. There was also no evidence of approval on the trip report by the division head. | 2,570 |
| | <ul style="list-style-type: none"> • For one disbursement (Document No. CR-111931) totaling \$2,000, a supporting purchase order and contract were not made available and there was no evidence of the actual date of receipt of services or items purchased. | 2,000 |
| | <ul style="list-style-type: none"> • For one disbursement (Document No. PO-110512) totaling \$1,915, a supporting invoice was not made available and there was no evidence of the actual date of receipt of services or items purchased. | 1,915 |
| | <ul style="list-style-type: none"> • For five employees, actual hours worked per the timesheet did not substantiate the salaries charged to the program by \$1,889. | 1,889 |
| | <ul style="list-style-type: none"> • For one employee, the salary in the personnel action form did not agree with the salary rate per the payroll system resulting in overpayment of \$580. | 580 |
| | <u>Cause:</u> The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures and failure to submit all supporting documents for filing. | <u>12,454</u> |
| | <u>Effect:</u> The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$12,454. | |
| | <u>Recommendation:</u> We recommend that the College strengthen procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and payment. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed. | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-6, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. Although some of the items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency to resolve this finding. Further the College does not agree with the auditors conclusions on some of the items noted in the finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Ms. Solita Barnes, Chief Accountant and Mr. Ross Manglona, CREES Director</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-7

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|---|---|--|
| U.S. Department of Education / Adult Basic Education / CFDA # 84.002 / Federal Award #s V002A050055 and V002A060059 / Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07 | <p>Criteria: Expenditures should be authorized, supported and approved prior to incurrence.</p> <p>Condition: Of \$256,143 nonpayroll expenditures, twenty-six items, totaling \$120,268 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> • For one disbursement (Document no. CR-111621) amounting to \$1,050, there was no evidence of approval prior to incurrence of expenditures. • For two disbursements (Document no. CR-112992 and 3018-00014-0000) totaling \$2,475, the supporting purchase order or a service contract was not provided for examination. | 1,050 2,475 <u>3,525</u> |

Cause: The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures and failure to submit all supporting documents for filing.

Effect: The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$3,525. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.

Recommendation: We recommend that the College strengthen procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and payment. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.

Auditee Response and Corrective Action Plan:

We disagree with this finding. Although some of the items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency to resolve this finding. Further the College does not agree with the auditors' conclusion on some of the issues raised in this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented. We will work with the auditors or the grantor agency to resolve these.

Name of Contact Person:

Ms. Solita Barnes, Chief Accountant and Ms. Lorraine Cabrera, ABE Director

Corrective Action:

See above.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-7, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|---|-------------------------|
| | Proposed Completion Date: September 30, 2008. Auditors' Response: We are ready to work with the College and reaudit documentation as it becomes available. | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-8

| Program | Reason for Questioned Costs | Questioned Costs |
|--|--|----------------------|
| <p>U.S. Department of Education / Adult Education / CFDA # 84.002 / Federal Award #s V002A050055 and V002A060059 / Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07</p> | <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 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.</p> <p><u>Condition:</u> Of \$337,450 in program expenditures of the Adult Education Program, \$36,629 was charged as indirect cost. Allowable indirect costs that should have been charged amounted to \$24,066. Thus, an overcharge of indirect cost by \$12,563 occurred.</p> <p><u>Cause:</u> The cause of the above condition is the lack of adequate procedures to ensure that all specific grant terms and conditions are adhered to.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with grant terms and conditions and a possible questioned cost of \$12,563.</p> <p><u>Recommendation:</u> We recommend that the College implement appropriate policies and procedures to ensure recording of expenditures in the appropriate period.</p> | <p><u>12,563</u></p> |
| | <p><u>Auditee Response and Corrective Action Plan:</u></p> | |
| | <p>We disagree with this finding. The College does not charge over 8% for indirect costs for grants that have a restricted rate of indirect cost recovery. If such a charge was made it probably relates to the continuation of the grant expenditures where indirect costs were not previously recovered. As we do not have access to the auditors' details, we cannot determine the cause of such. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented and will meet with the auditor to resolve this issue or reverse any charges that exceed the 8% limit or work directly with the grantor agency to effect resolution of the same.</p> | |
| | <p>Name of Contact Person:</p> | |
| | <p>Ms. Solita Barnes, Chief Accountant and Ms. Lorraine Cabrera, ABE Director</p> | |
| | <p>Corrective Action:</p> | |
| | <p>See above.</p> | |
| | <p>Proposed Completion Date:</p> | |
| | <p>September 30, 2008.</p> | |
| | <p><u>Auditors' Response:</u></p> | |
| | <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-9

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|----------------------------|-------------------------------------|----------------------------|-------------------------------------|---------------------|-------|-----------|----------|---------|-------|-------|-----------|----------|---------|-------|-------|-------|----------|--------|-------|-------|-----------|----------|---------|-------|------------------|------------------------|----------------------------|-------------------------------------|---------------------|-------|-----------|----------|----------|-------|-------|-------|----------|-----|-------|-------|-----------|----------|--------------|-------|--|--|--|-------|--|--|--|--|----------------|--|--|--|--|-------------------------------|--|--|--|--|-----------------|--|---|
| U.S. Department of Education / Higher Education Institutional Aid / CFDA # 84.031 / Federal Award # P031A020233-06 / Federal Award Period 10/01/06 - 09/30/07 | <p>Criteria: Expenditures should be authorized, supported and approved prior to incurrence.</p> <p>Condition: Of \$240,997 payroll expenditures, twenty-one items, totaling \$205,958 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> For four disbursements totaling \$10,048, the supporting purchase order or a service voucher were not provided for examination. <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Fund Code</u></th> <th style="text-align: center;"><u>Document Number</u></th> <th style="text-align: center;"><u>General Ledger Date</u></th> <th style="text-align: center;"><u>General Ledger Amount Tested</u></th> <th style="text-align: center;"><u>Check Number</u></th> </tr> </thead> <tbody> <tr> <td>ESI07</td> <td>CR-112220</td> <td>04/23/07</td> <td style="text-align: right;">\$3,990</td> <td>25062</td> </tr> <tr> <td>ESI07</td> <td>CR-111965</td> <td>02/28/07</td> <td style="text-align: right;">\$3,233</td> <td>24451</td> </tr> <tr> <td>ESI07</td> <td>N0512</td> <td>12/18/06</td> <td style="text-align: right;">\$ 900</td> <td>23858</td> </tr> <tr> <td>ESI07</td> <td>cr-112797</td> <td>09/24/07</td> <td style="text-align: right;">\$1,925</td> <td>26578</td> </tr> </tbody> </table> <ul style="list-style-type: none"> For four disbursements totaling \$8,616, the supporting receiving report or any equivalent document evidencing actual receipt of the item purchased could not be provided. <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Fund Code</u></th> <th style="text-align: center;"><u>Document Number</u></th> <th style="text-align: center;"><u>General Ledger Date</u></th> <th style="text-align: center;"><u>General Ledger Amount Tested</u></th> <th style="text-align: center;"><u>Check Number</u></th> </tr> </thead> <tbody> <tr> <td>ESI07</td> <td>PO-110088</td> <td>06/07/07</td> <td style="text-align: right;">\$ 3,971</td> <td>25613</td> </tr> <tr> <td>ESI07</td> <td>N0512</td> <td>12/18/06</td> <td style="text-align: right;">900</td> <td>23858</td> </tr> <tr> <td>ESI07</td> <td>cr-112797</td> <td>09/24/07</td> <td style="text-align: right;"><u>1,925</u></td> <td>26578</td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">6,796</td> <td></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>(2,825)</u></td> <td></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">Questioned Costs this finding</td> <td></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>3,971</u></td> <td></td> </tr> </tbody> </table> <ul style="list-style-type: none"> For one disbursement (Document no. CR-112220) amounting to \$3,990, the supporting invoice could not be located. No questioned cost will be raised as this item was already questioned above. | <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | ESI07 | CR-112220 | 04/23/07 | \$3,990 | 25062 | ESI07 | CR-111965 | 02/28/07 | \$3,233 | 24451 | ESI07 | N0512 | 12/18/06 | \$ 900 | 23858 | ESI07 | cr-112797 | 09/24/07 | \$1,925 | 26578 | <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | ESI07 | PO-110088 | 06/07/07 | \$ 3,971 | 25613 | ESI07 | N0512 | 12/18/06 | 900 | 23858 | ESI07 | cr-112797 | 09/24/07 | <u>1,925</u> | 26578 | | | | 6,796 | | | | | <u>(2,825)</u> | | | | | Questioned Costs this finding | | | | | \$ <u>3,971</u> | | <p>10,048</p> <p style="margin-top: 100px;"><u>3,971</u></p> <p style="margin-top: 10px;"><u>14,019</u></p> |
| <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | CR-112220 | 04/23/07 | \$3,990 | 25062 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | CR-111965 | 02/28/07 | \$3,233 | 24451 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | N0512 | 12/18/06 | \$ 900 | 23858 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | cr-112797 | 09/24/07 | \$1,925 | 26578 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | PO-110088 | 06/07/07 | \$ 3,971 | 25613 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | N0512 | 12/18/06 | 900 | 23858 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | cr-112797 | 09/24/07 | <u>1,925</u> | 26578 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | 6,796 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | <u>(2,825)</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | Questioned Costs this finding | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | \$ <u>3,971</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Cause: The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures and failure to submit all supporting documents for filing.

Effect: The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$14,019.

Recommendation: We recommend that the College strengthen procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and payment. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-9, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. Although some of items noted were not provided to the auditors or were to their satisfaction before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency to resolve this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Mr. Duane Sablan, Acting Procurement Officer and Mr. Adrian Atalig, Director of Information Technology.</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Eligibility

Finding No. 2007-10

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|---|--|-------------------------|
| U.S. Department of Education / TRIO - Student Support Services / CFDA #84.042 / Federal Award # P042A051370-06 / Federal Award Period 09/01/2006 - 08/31/2007 | <p><u>Criteria:</u> It is the College's responsibility to ensure that student awards are made only to eligible participants. Various eligibility requirements concerning citizenship, prior education and similar matters are stipulated in the specific requirements of the program's compliance supplement.</p> <p><u>Condition:</u> Of two Student Support Services student files tested for eligibility, one file (Fall-07 Student No. 21) was missing and one file (Spring-07 Student No. 84) lacked evidence of income verification.</p> <p><u>Cause:</u> The cause of the above condition is the lack of procedures to ensure that adequate documentation is retained by the College to support eligibility of recipients of Student Support Services program.</p> <p><u>Effect:</u> The effect of the above condition is possible noncompliance with respect to eligibility requirements. This matter is reportable as the projected questioned costs exceed the threshold.</p> <p><u>Recommendation:</u> We recommend that the College establish procedures to ensure that files for all students under the program contain adequate documentation to support eligibility requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We agree with this finding. Due to a transition in Directors during financial year 2007 and a relocation of certain offices, files were misplaced or may not have contained the information noted by the auditors. We will conduct a detailed review of all student files and provide the missing documentation to the auditors or the grantor agency to address this finding.</p> <p>Name of Contact Person:</p> <p>Ms. Janice Tenorio, Director of Student Support Services.</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> | <p><u>201</u></p> |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-11

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|------------------|
| <p>U.S. Department of Agriculture / Payments to Agricultural Experiment Stations Under the Hatch Act / CFDA # 10.203 / Federal Award #s 2007-3110006095 and 2006-3110006095 / Federal Award Periods 10/01/06 - 09/30/07 and 10/01/05 - 09/30/06</p> | <p><u>Criteria:</u> 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. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only two price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the third quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000), and the Contractor. <p><u>Condition:</u> Of \$441,629 nonpayroll expenditures, thirty-two items totaling \$211,959 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> • For three disbursements for contract services totaling \$4,103, evidence that the contracted services were not available internally at the College could not be provided. | <p>4,103</p> |

| Fund Code | Document Number | General Ledger Date | General Ledger Amount Tested | Check Number |
|-----------|-----------------|---------------------|------------------------------|--------------|
| AR106 | PS-2909feb07a | 02/27/07 | \$1,125 | 24392 |
| AR107 | PS-2975 | 09/28/07 | \$2,217 | 27103 |
| AR106 | PS-2907jul07 | 07/16/07 | \$ 761 | 25982 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-11, Continued

| Program | Reason for Questioned Costs | | | | | Questioned Costs |
|---------|---|------------------------|----------------------------|--|---------------------|------------------|
| | <ul style="list-style-type: none"> For six airfare expenses totaling \$15,472, price quotations were not obtained from available travel agents or vendors. | | | | | 10,425 |
| | <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | |
| | AR107 | A-102579 | 09/28/07 | \$ 2,803 | 26798 | |
| | AR507 | A-102515 | 07/05/07 | 2,637 | 25883 | |
| | AR107 | A-102800 | 09/18/07 | 2,244 | 26537 | |
| | AR107 | W-102011 | 09/24/07 | 2,676 | 26598 | |
| | AR107 | TA 102014 | 09/24/07 | 2,676 | 26598 | |
| | AR407 | A-102594 | 07/05/07 | 2,436 | 25883 | |
| | | | | 15,472 | | |
| | | | | Less amount already questioned at Finding No. 2007-5 | (5,047) | |
| | | | | Questioned Costs this finding | \$ 10,425 | |
| | <ul style="list-style-type: none"> For one purchase, (Document No. 2095) amounting to \$1,153, there was no evidence of competitive procurement. | | | | | 1,153 |
| | <ul style="list-style-type: none"> For two independent services contracts (Document No. PS-2909 and PS-2975) totaling \$3,342, the supporting contract was not signed by all authorized signatories prior to commencement of the contract period. Questioned cost for this condition is already included above. | | | | | - |
| | <ul style="list-style-type: none"> For one independent services contract (Document No. PS-2975) amounting to \$2,217, there was no evidence that the public notice was adequately advertised. Further, there was no documentation of the vendor selection process. Questioned cost for this condition is already included above. | | | | | - |
| | <ul style="list-style-type: none"> For one independent service contract (Document No. PS-2907) amounting to \$761, the supporting scoring sheets and related proposals of other applicants could not be provided. Thus, we could not verify if the selected vendor was indeed the most responsive. Questioned cost for this condition is already included above. | | | | | - |
| | <ul style="list-style-type: none"> For one purchase amounting to \$1,085 (Document No. PO-109666), there was only one price quotation on file. No questioned cost is raised under this criteria as questioned cost is already included in Finding No. 2007-5. | | | | | - |
| | | | | | | 15,681 |

Cause: The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$15,681.

Recommendation: We recommend that the College strengthen internal controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-11, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|---|-------------------------|
| | <p><u>Prior Year Status:</u> Noncompliance with local procurement policies was reported as a finding in the Single Audit of the College for fiscal year 2006.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. The College procures all professional services for federal programs, especially the CREES program, via a competitive procurement process where all employees of the institution are also allowed to apply to perform the services. The auditor raises the issue of services being available internally not recognizing that services for CREES are for research or extension activities which are unique and special in nature. As we were unable to satisfy the auditors before their deadline for issuance of the audit report by June 30, 2008, the College has located the documents and will provide such to the auditors or the grantor agency for resolution of the finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Mr. Duane Sablan, Acting Procurement Officer, Ms. Solita Barnes, Chief Accountant and Mr. Ross Manglona, CREES Director</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-12

| Program | Reason for Questioned Costs | Questioned Costs |
|---|--|------------------|
| <p>U.S. Department of Agriculture / Payments to Cooperative Extension Service Under the Smith Lever Act / CFDA # 10.500 / Federal Award #s 2007-41100-05700, 2007-41530-05700 and 2007-41510-05700 / Federal Award Period 10/01/06 - 09/30/07</p> | <p>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. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once in every week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000), and Contractor. <p>Condition: Of \$380,249 nonpayroll expenditures, thirty-five items, totaling \$52,557 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> • For ten disbursements for contract services totaling \$9,105, evidence that the contracted services were not available internally at the College could not be provided. | <p>9,105</p> |

| Fund Code | Document Number | General Ledger Date | General Ledger Amount Tested | Check Number |
|-----------|-----------------|---------------------|------------------------------|--------------|
| AB106 | FR011 | 03/13/07 | \$ 1,417 | 24621 |
| AB105 | PS-2922may07 | 05/17/07 | \$ 979 | 25442 |
| AB106 | PS-2896jul07 | 07/31/07 | \$ 848 | 26121 |
| AB105 | 145 | 12/15/06 | \$ 500 | 23844 |
| AB106 | PS-2894-oct06a | 11/28/06 | \$ 1,417 | 23548 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-12, Continued

| Program | Reason for Questioned Costs | | | | | Questioned Costs |
|---------|-----------------------------|---|---------------------|------------------------------|--------------|------------------|
| | Fund Code | Document Number | General Ledger Date | General Ledger Amount Tested | Check Number | |
| | AB106 | PS-2893-3/15 | 03/21/07 | \$ 958 | 24639 | |
| | AB706 | PS-2900jan07a | 02/07/07 | \$ 1,375 | 24165 | |
| | AB907 | PS-2947aug07 | 09/04/07 | \$ 350 | 26413 | |
| | AB106 | PS-2902 | 12/04/06 | \$ 500 | 23634 | |
| | AB106 | PS-2907jun07 | 06/19/07 | \$ 761 | 25752 | |
| | | <ul style="list-style-type: none"> For one disbursement (Document no. 800470636) amounting to \$557, the procurement document supporting the basis for vendor selection were not made available. | | | | 557 |
| | | <ul style="list-style-type: none"> For two independent services contracts (Document No. FR011 and PS-2900) totaling \$2,792, there was no evidence that the public notice were adequately advertised. Further, there was no documentation of the vendor selection process. Questioned cost for this condition is already included above. | | | | - |
| | | <ul style="list-style-type: none"> For five independent services contracts (Document No. FR011, PS-2922, PS-2896, PS-2894 and PS-2900) totaling \$6,035, the supporting contract was not signed by all authorized signatories prior to commencement of the contract period. Questioned cost for this condition is already included above. | | | | - |
| | | <ul style="list-style-type: none"> For one independent services contract (Document No. 145) amounting to \$500, there was no evidence that the public notice was adequately advertised. Questioned cost for this condition is already included above. | | | | - |
| | | <ul style="list-style-type: none"> For two independent service contracts (Document No. PS-2947 and PS-2907) totaling \$1,111, the supporting scoring sheets and related proposals of other applicants could not be provided. Thus, we could not verify if the selected vendor was indeed the most responsive. Questioned cost for this condition is already included above. | | | | - |
| | | <ul style="list-style-type: none"> For one purchase obtained under sole source (Document no. 1081) amounting to \$3,500, justifications documented did not appear to meet the established criteria set. Further, there was no evidence that other available sources were considered prior to using sole source procurement. No questioned cost is raised under this criteria as questioned cost is already included in Finding No. 2007-6. | | | | - |
| | | | | | | <u>9,662</u> |

Cause: The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$9,662. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-12, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|---|------------------|
| | <p>Recommendation: We recommend that the College strengthen internal controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>We partially agree with this finding. The College procures goods and services based on what it determines as being the best value and benefit for the program. The auditors' conclusions relative to certain justifications is very subjective. We agree, however, that additional documentation is required to meet the auditors' determination that travel procurement via competitive means in not well documented and have implement additional procedures to satisfy the auditors' requirements. Although, certain items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Mr. Duane Sablan, Acting Procurement Officer, Ms. Solita Barnes, Chief Accountant and Mr. Ross Manglona, CREES Director</p> <p>Corrective Action:</p> <p>Corrective Action: See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-13

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|------------------|
| U.S. Department of Education / TRIO - Student Support Services / Talent Search, and Upward Bound Programs / CFDA #s 84.042, 84.044, and 84.047 / Federal Award #s P042A051370-07, P044A060919-07, P047A030695-06 and P047A071200 / Federal Award Periods 09/01/2006 - 08/31/2007 and 09/01/07 - 8/31/2008 | <p><u>Criteria:</u> 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. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once in every week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000) and Contractor. | |
| | <p><u>Condition:</u> Of total nonpayroll program expenditures of \$338,989 under the TRIO Programs, twenty-seven items amounting to \$89,927 were tested. Instances of noncompliance noted are as follows:</p> | |
| | <ul style="list-style-type: none"> • Price quotes for the procurement of airfare for three items (Doc. Nos. A-102769, A-102802 and a-102761) totaling to \$8,536 were not provided for examination. | 8,536 |
| | <ul style="list-style-type: none"> • Justification of the procurement made for two items (Doc. Nos. A-102700 and A-102783) totaling 5,816 appear insufficient. | 5,816 |
| | <ul style="list-style-type: none"> • Procurement rationale for one item (Doc. No. 800472835) amounting to \$236 was not provided for examination. | 236 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|---|---|
| | <ul style="list-style-type: none"> Procurement quotes obtained provided for one item (Doc. No. PO-110385) amounting to \$5,596 indicated a name brand preference. Although a justification for the brand name preference was provided, such did not appear to meet the criteria set forth above. | <p style="text-align: right;"><u>5,596</u></p> |
| | | <p style="text-align: right;"><u>20,184</u></p> |

Cause: The cause of the above condition is noncompliance with established federal procurement regulations.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$20,184.

Recommendation: We recommend that the College comply with federal procurement regulations.

Prior Year Status: Noncompliance with established federal procurement regulations was reported as a finding in the audit of the College for fiscal year 2006.

Auditee Response and Corrective Action Plan:

We partially agree with this finding. The College procures goods and services based on what it determines as being the best value and benefit for the program. The auditors' conclusions relative to certain justifications is very subjective. We agree however that additional documentation is required to meet the auditors' determination that travel procurement via competitive means is not well documented and have implemented additional procedures to satisfy the auditors' requirements. Although, certain items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.

Name of Contact Person:

TRIO Program Directors, Mr. Duane Sablan, Acting Procurement Officer, Ms. and Solita Barnes, Chief Accountant.

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-14

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|------------------|
| U.S. Department of Education / Adult Education / CFDA # 84.002 / Federal Award #s V002A050055 and V002A060059 / Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07 | <p><u>Criteria:</u> 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. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once in every week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000) and Contractor. | |
| | <p><u>Condition:</u> Of \$256,143 nonpayroll expenditures, twenty-six items, totaling \$120,268 were tested. The following were noted during our testing:</p> | |
| | <ul style="list-style-type: none"> • For one purchase (Document no. PO-110065) amounting to \$4,600, the solicitation indicated restrictions on competition by specifying a brand name. Justification for name brand preference does not suffice above criteria. | 4,600 |
| | <ul style="list-style-type: none"> • For one purchase (Document no. CR-111621) amounting to \$1,050, the supporting contract was not signed by the College's president, fund certifier, Chief Financial and Administrative Office and legal counsel. No questioned cost will be raised as this was already included in Finding No. 2007-8. | - |
| | | 4,600 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-14, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Cause:</u> The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$4,600. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.</p> <p><u>Recommendation:</u> We recommend that the College strengthen internal controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We partially agree with this finding. The College procures goods and services based on what it determines as being the best value and benefit for the program. The auditors' conclusions relative to certain justifications is very subjective. Although certain items noted were not provided or were not to the satisfaction of the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Ms. Lorraine Cabrera, ABE Director and Ms. and Solita Barnes, Chief Accountant.</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-15

| Program | Reason for Questioned Costs | Questioned Costs |
|--|--|---|
| U.S. Department of Education / Capacity Building for Traditionally Underserved Populations / CFDA # 84.315 / Federal Award # H315C050012-06 / Federal Award Period 10/01/06 - 09/30/07 | <p><u>Criteria:</u> 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. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once in every week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000) and Contractor. <p><u>Condition:</u> Of total nonpayroll program expenditures of \$90,333 under the Capacity Building for Traditionally Underserved Populations program, twenty-six items amounting to \$45,639 were tested. Instances of noncompliance noted are as follows:</p> <ul style="list-style-type: none"> • Price quotes for the procurement of airfare for one item (Document No. A-102792) amounting to \$2,523 was not provided for examination. • Justification of the procurement made for two items (Document Nos. 1166 and A-102790) totaling \$4,253 appear insufficient. | <p style="text-align: right;">2,523</p> <p style="text-align: right;"><u>4,253</u></p> <p style="text-align: right;"><u>6,776</u></p> |
| <p><u>Cause:</u> The cause of the above condition is noncompliance with established federal procurement regulations.</p> | | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-15, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$6,776. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.</p> <p><u>Recommendation:</u> We recommend that the College comply with federal procurement regulations.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We partially agree with this finding. The College procures goods and services based on what it determines as being the best value and benefit for the program. The auditors' conclusions relative to certain justifications is very subjective. We agree however that additional documentation is required to meet the auditors' determination that travel procurement via competitive means is not well documented and have implement additional procedures to satisfy the auditors' requirements. Although certain items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Solita Barnes, Chief Accountant.</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Matching, Level of Effort, Earmarking

Finding No. 2007-16

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|---|--|--|
| U.S. Department of Education / Adult Education / CFDA # 84.002 / Federal Award # V002A050055 / Federal Award Period 07/01/05 - 09/30/06 | <p><u>Criteria:</u> The Adult Education and Family Literacy Act (the Act) requires the following, among others:</p> <ul style="list-style-type: none"> • An eligible agency may receive funds for any fiscal year if the Secretary finds that the fiscal effort per student or the aggregate expenditures of such eligible agency for adult education and literacy activities, in the second preceding fiscal year, was not less than 90 percent of the fiscal effort per student or the aggregate expenditures of the eligible agency for adult education and literacy activities, in the third preceding fiscal year. • Grants and contracts for eligible providers shall not be less than 82.5 percent of the eligible agency's grant funds. Such earmarking requirement is for each yearly grant award and must be met within the period of its availability (generally 27 months). <p><u>Condition:</u> Our test of the requirements above for the Adult Education program indicated the following:</p> <ul style="list-style-type: none"> • The College's fiscal effort per student or the aggregate expenditures for adult education and literacy activities in fiscal year 2007 was less than 90% of the fiscal effort per student or the aggregate expenditures of the eligible agency for adult education and literacy activities in 2006. • The College's grants and contracts for eligible providers in fiscal year 2006 required an earmarking of funds of \$238,372. Funds earmarked by the College for fiscal year 2006 totaled \$185,669, thus, a deficient earmark of \$52,703. | <p><u>52,703</u></p> <p>Total Questioned Costs \$ <u>170,161</u></p> |

Cause: The cause of the above condition is lack of monitoring controls in place to ensure compliance with the above criteria.

Effect: The effect of the above condition is noncompliance with the criteria and a possible questioned cost of \$52,703. No questioned cost was raised for the level of effort requirement as funds expended for these activities were local funds.

Recommendation: We recommend that control policies and procedures be implemented to ensure compliance with the criteria.

Auditee Response and Corrective Action Plan:

We cannot agree or disagree with this finding as adequate information cannot be gathered within reasonable time to determine if the auditors' conclusions are correct. Although, certain items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-16, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|---|-------------------------|
| | Name of Contact Person: Ms. Lorraine Cabrera, ABE Director | |
| | Corrective Action: See above. | |
| | Proposed Completion Date: September 30, 2008. | |
| | <u>Auditors' Response:</u> We are ready to work with the College and reaudit documentation as it becomes available. | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Education

Allowable Costs/Cost Principles - TRIO - Upward Bound, Adult Education, and Capacity Building for Traditionally Underserved Populations

CFDA #84.047, Federal Award # P047A030695-06

CFDA # 84.002, Federal Award #s V002A050055 and V002A060059

CFDA # 84.315, Federal Award # H315C050012-06

Federal Award Period 09/01/2006 - 08/31/2007

Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07

Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-17

Criteria: The grant terms and conditions require that when issuing statements, press releases, requests for proposals, bid solicitations, and other documents describing projects or programs funded in whole or in part with Federal money, all grantees receiving federal funds, shall clearly state the (1) dollar amount of federal funds for the project, (2) the percentage of the total cost of the project that will be financed by federal funds, and (3) the percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.

Condition: Our examination of the requirement above indicated the following:

- Of total nonpayroll expenditures of \$338,989 under the TRIO Programs, twenty-seven items amounting to \$89,927 were tested. Request for proposals issued for one purchase (Doc. No. PO-110261) did not satisfy the requirements set forth above.
- Of total nonpayroll expenditures of \$256,143 under the Adult Education Program, twenty-six items amounting to \$120,268 were tested. For three expenditures totaling \$6,475, advertising content did not indicate the dollar amount of federal funds for the project and the percentage of the total cost of the project that will be financed with federal funds or non-governmental sources.
- Of total nonpayroll expenditures of \$90,333 under the Capacity Building for Traditionally Underserved Populations program, twenty-six items amounting to \$45,639 were tested. Request for proposals issued for two purchases (Doc. Nos. 1166 and 19135) did not satisfy the requirements set forth above.

Cause: The cause of the above condition is lack of awareness of such provisions.

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

Recommendation: We recommend that the College comply with applicable terms and conditions.

Auditee Response and Corrective Action Plan:

The College federal program personnel were obviously not aware of this requirement. The College will ensure that this requirement is met for all future procurement of services or goods utilizing federal funds. We will work with the federal grantor agencies to bring resolution to this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-17, Continued

Name of Contact Person:

Mr. Duane Sablan, Acting Procurement Officer and All Federal Program Directors

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

Auditors' Response:

We are ready to work with the College and reaudit documentation as it becomes available.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture

Cash Management - Payments to Agricultural Experiment Stations under the Hatch Act

CFDA # 10.203, Federal Award #s 2007-3110006095 and 2006-3110006095

Federal Award Periods 10/01/06 - 09/30/07 and 10/01/05 - 09/30/06

Finding No. 2007-18

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 seventeen of forty-four transactions tested, the time elapsed between the receipt of federal funds and the clearance of disbursed checks exceeded three days for the following transactions:

| <u>Document Number</u> | <u>Check Number</u> | <u>Amount Tested</u> | <u>Clearance Date</u> | <u>Reimbursement Date</u> | <u>Days Lapsed After 3 Business Days</u> |
|------------------------|---------------------|----------------------|-----------------------|---------------------------|--|
| PO-110720 | 27111 | \$38,897 | 11/15/07 | 10/05/07 | 38 |
| PO-110720 | 27111 | \$95,100 | 11/15/07 | 10/05/07 | 38 |
| A-102515 | 25883 | \$ 2,637 | 07/19/07 | 04/26/07 | 81 |
| W-102011 | 26598 | \$ 2,676 | 11/01/07 | 04/26/07 | 186 |
| TA-102642 | 26303 | \$ 4,200 | 09/05/07 | 04/26/07 | 129 |
| TA 102014 | 26598 | \$ 2,676 | 11/01/07 | 10/05/07 | 24 |
| A-102594 | 25883 | \$ 2,436 | 07/19/07 | 04/26/07 | 81 |
| TA-102594 | 25851 | \$ 3,050 | 07/09/07 | 04/26/07 | 71 |
| PO-110305 | 26036 | \$ 4,314 | 08/27/07 | 04/26/07 | 120 |
| PO-110288 | 25767 | \$ 3,321 | 07/12/07 | 04/26/07 | 74 |
| PO-110335 | 26008 | \$ 1,814 | 08/09/07 | 04/26/07 | 102 |
| PS-2975 | 27103 | \$ 2,217 | 12/26/07 | 10/05/07 | 79 |
| 655 | 27140 | \$ 1,727 | 11/20/07 | 10/05/07 | 43 |
| 287-0552jun07 | 26419 | \$ 1,255 | 09/14/07 | 04/26/07 | 138 |
| PO-110512 | 26242 | \$ 1,915 | 09/05/07 | 04/26/07 | 129 |
| 2095 | 26310 | \$ 1,153 | 09/04/07 | 04/26/07 | 128 |
| CR-113218 | 27104 | \$ 3,240 | 11/26/07 | 10/05/07 | 49 |

Cause: The cause of the above condition is that the College appears to have overestimated its check clearing pattern and is drawing cash prior to actual check clearance.

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. Interest earned on advances is \$1,042 and an interest liability of \$942 exists.

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

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-18, Continued

Prior Year Status: Lack of regular and timely update of the check clearing study and drawdown was reported as a finding in the audits of the College for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

The College strongly disagrees with this finding. As a result of a similar finding in FY2006, the College amended its drawdown procedures to delay drawdown of federal funds for up to a week after the processing/incurrence of the related expenses and/or payment for services. Again when a vendor decides to cash a check is really beyond the control of the institution and this issue is particularly difficult for the College as it is so far removed from the mainland. As a good number of our vendors are from off-island it is practically impossible for NMC to determine accurately the time it would take for a vendor to receive and process a payment. It appears that the College has taken reasonable measures to address this concern by delaying drawdown of federal funds but the issue continues. The College will work with the federal grantor agencies to obtain resolution of this issue and also to resolve the issue of the estimated interest earned such funds and act as directed by the grantor agencies.

Name of Contact Person:

Ms. Marylou Ada, Interim Chief Financial and Administrative Officer

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Education
Cash Management - Higher Education Institutional Aid and Adult Education
CFDA # 84.031, Federal Award # P031A020233-06
CFDA # 84.002, Federal Award #sV002A050055 and V002A060059
Federal Award Period 10/01/06 - 09/30/07
Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07

Finding No. 2007-19

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: Our examination of the requirement above indicated the following:

- For eight of twenty-five transactions tested under the Higher Education Institutional Aid Program, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days for the following transactions:

| <u>Document Number</u> | <u>Check Number</u> | <u>Amount Tested</u> | <u>Clearing Date</u> | <u>Reimbursement Date</u> | <u>Days Lapsed After Three Business Days</u> |
|------------------------|---------------------|----------------------|----------------------|---------------------------|--|
| C-070001 | 23873 | \$45,975 | 01/05/07 | 12/29/06 | 2 |
| C-070001 | 23873 | \$27,163 | 01/05/07 | 12/29/06 | 2 |
| PO-110733 | 26905 | \$ 6,547 | 11/20/07 | 10/02/07 | 32 |
| PO-110137 | 26201 | \$ 8,394 | 09/10/07 | 08/22/07 | 10 |
| PO-110138 | 26359 | \$ 6,282 | 11/13/07 | 08/31/07 | 49 |
| PS-2935final | 25806 | \$ 3,283 | 09/10/07 | 07/20/07 | 33 |
| Cr-112797 | 26578 | \$ 1,925 | 11/19/07 | 10/02/07 | 31 |
| PP#22/2006 | V017395 | \$ 1,352 | 10/27/06 | 10/17/06 | 5 |

- For five of thirty-six transactions tested under the Adult Education Program, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days for the following transactions:

| <u>Document Number</u> | <u>Check No.</u> | <u>Amount Tested</u> | <u>Clearing Date</u> | <u>Reimbursement Date</u> | <u>Days Lapsed After Three Business Days</u> |
|------------------------|------------------|----------------------|----------------------|---------------------------|--|
| PP#12/07 | 9461 | \$ 600 | 06/29/07 | 06/13/07 | 9 |
| PP#17/07 | 9871 | \$ 1,200 | 08/29/07 | 08/22/07 | 2 |
| CR-113297 | 28438 | \$ 49,559 | 03/31/08 | 01/11/08 | 59 |
| CR-111621 | 24042 | \$ 1,050 | 03/07/07 | 02/22/07 | 6 |
| CR-112992 | 26605 | \$ 1,250 | 10/09/07 | 10/02/07 | 2 |

Cause: The cause of the above condition is that the College appears to have overestimated its check clearing pattern and is drawing cash prior to actual check clearance.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-19, Continued

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. Interest earned on advances is \$356 and an interest liability of \$156 exists.

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

Prior Year Status: Lack of regular and timely update of the check clearing study and drawdown was reported as a finding in the audits of the College for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

The College strongly disagrees with this finding. As a result of a similar finding in FY2006, the College amended its drawdown procedures to delay drawdown of federal funds for up to a week after the processing/incurred of the related expenses and/or payment for services. Again when a vendor decides to cash a check is really beyond the control of the institution and this issue is particularly difficult for the College as it is so far removed from the mainland. As a good number of our vendors are from off-island it is practically impossible for NMC to determine accurately the time it would take for a vendor to receive and process a payment. It appears that the College has taken reasonable measures to address this concern by delaying drawdown of federal funds but the issue continues. The College will work with the federal grantor agencies to obtain resolution of this issue and also to resolve the issue of the estimated interest earned such funds and act as directed by the grantor agencies.

Name of Contact Person:

Ms. Marylou Ada, Interim Chief Financial and Administrative Officer

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Equipment and Real Property Management - All Major Programs

Finding No. 2007-20

Criteria: Title 34 Part 74.34 of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states the following requirements, among others:

- a. Equipment records shall be maintained accurately and shall include a description of the property, manufacturer's serial number or other identification number, the source of property including the award number, whether the title vests in the recipient of the Federal Government, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;

In addition, the College's Property Management and Accountability Manual requires that an annual physical inventory of fixed assets be taken.

Condition: The following were noted during our examination of College's compliance with the above requirements:

- The College's property records lack information as to source of the property, whether title vests to the recipient or the Federal government, information from which one can calculate the percentage of Federal participation in the cost of the property, and condition of the property.
- Physical inventory was not performed annually as required by the College's Property Management and Accountability Manual.

Cause: The cause of the above condition is lack of information as required by the federal regulations and lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment.

Effect: The effect of the above condition is that the College is not in compliance with federal property standards and the Property Management and Accountability Manual.

Recommendation: We recommend that the College ensure compliance with applicable federal property rules and regulations and the Property Management and Accountability Manual.

Prior Year Status: Lack of policies and procedures to ensure compliance with federal property management standards was reported as a finding in the audit of the College for fiscal year 2005 and 2006.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-20, Continued

Auditee Response and Corrective Action Plan:

The College partially agrees with this finding. A comprehensive inventory of fixed assets was completed in FY2006 as part of the College's efforts to address the long standing issue relative to the accounting and inventory of all College assets and revaluation of the carrying balances of its real properties. As a result material adjustments were made to the financial statements and the related audit findings and report qualifications were removed. Conducting an annual inventory of fixed assets is both unreasonable and impractical considering the limited human and financial resources at the institution. The College will make adjustments to its local property management manual to have such coincide with the federal requirement of physical inventory of capital assets to be conducted every two years. The College has also invested in the fixed assets module for tracking and accounting for its fixed assets on its accounting system. This should provide for greater accountability of all capital assets of the institution. The College will discuss this issue with affected grantor agency and effectuate the necessary policy changes.

Name of Contact Person:

Ms. Marylou Ada, Interim Chief Financial and Administrative Officer

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Education

Reporting - Adult Education

CFDA # 84.002, Federal Award #s V002A050055 and V002A060059

Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07

Finding No. 2007-21

Criteria: CFR 34, Part 80, sec80.40, requires that 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: Expenses reported in the initial SF-269 report were overstated by \$49,559.

Cause: The cause of the above condition is due to an adjustment in expenditures not effected in the SF-269.

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

Recommendation: We recommend that control policies and procedures be implemented to ensure compliance with the criteria.

Prior Year Status: Lack of control policies and procedures to ensure that federal financial reporting requirements are complied with what was reported as a finding in the audit of the College for fiscal year 2006 and 2005.

Auditee Response and Corrective Action Plan:

We partially agree with this finding. This overstatement of the amounts reported on the SF-269 resulted from a reclassification of an expenditure item which was done as part of the audit process. The SF-269 was correctly stated based on the expenditures when the federal accountant prepared it. The College will file an adjusted SF-269 to reflect this adjustment of expenditures for the period. Such will be filed with the grantor agency with an explanation for the revised filing.

Name of Contact Person:

Ms. Kathy Palacios, Federal Programs Accountant and Ms. Solita Barnes, Chief Accountant.

Corrective Action:

See above.

Proposed Completion Date:

July 31, 2008.

NORTHERN MARIANAS COLLEGE

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2007

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, 2007:

| | |
|--|-------------------|
| Questioned costs as previously reported | \$ 68,909 |
| Less questioned costs resolved in fiscal year 2007 | <u>(20,920)</u> |
| | 47,989 |
| Questioned costs of fiscal year 2007 Single Audit | <u>170,161</u> |
| Unresolved questioned costs at September 30, 2007 | \$ <u>218,150</u> |

- (a) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as the College considers these findings are no longer valid as they were reported to federal agencies in excess of the two year threshold as of September 30, 2007.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 12 through 52).



Northern Marianas College

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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, 2007:

Financial Statement Findings

- Finding No. 2006-1 - Not corrected. See corrective action plan to Finding No. 2007-2.
- Finding No. 2006-2 - Corrective action has been taken.
- Finding No. 2006-3 - Not corrected. See corrective action plan to Finding No. 2007-4.
- Finding No. 2006-4 - Corrective action has been taken.
- Finding No. 2006-5 - Corrective action has been taken.
- Finding No. 2006-6 - Corrective action has been taken.
- Finding No. 2006-7 - Corrective action has been taken.

Federal Award Findings and Questioned Costs

- Finding No. 2006-8 - Not corrected. See corrective action plan to Finding No. 2007-13 and 2007-14.
- Finding No. 2006-9 - Not corrected. See corrective action plan to Finding No. 2007-11.
- Finding No. 2006-10 - Not corrected. See corrective action plan to Finding No. 2007-19.
- Finding No. 2006-11 - Not corrected. See corrective action plan to Finding No. 2007-20.
- Finding No. 2006-12 - Corrective action has been taken.
- Finding No. 2006-13 - Not corrected. See corrective action plan to Finding No. 2007-21.
- Finding No. 2006-14 - Corrective action has been taken.