

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, 2010

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, 2010, and have issued our report thereon dated June 29, 2011. 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 instances 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 29, 2011.

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 29, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Northern Marianas College's (the College) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended September 30, 2010. 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 9 through 23). 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 of the College's compliance with those requirements.

As described in items 2010-1 through 2010-8 in the accompanying Schedule of Findings and Questioned Costs, the College did not comply with requirements regarding equipment and real property management that are applicable to its Payments to Agricultural Experiment Stations Under the Hatch Act major program (CFDA # 10.203); allowable costs/cost principles and equipment and real property management that are applicable to its Cooperative Extension Service major program (CFDA # 10.500); procurement and suspension and debarment that are applicable to its Economic, Social and Political Development of the Territories: Accreditation Reaffirmation Plan major program (CFDA # 15.875); procurement and suspension and debarment that are applicable to its TRIO Cluster major program (CFDA #s 84.042, 84.044 and 84.047); allowable costs/cost principles that are applicable to its College Access Challenge Grant Program major program (CFDA # 84.378); and subrecipient monitoring that are applicable to its State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act major program (CFDA # 84.394). Compliance with such requirements is necessary, in our opinion, for the College to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2010-8 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 through 2010-4 and 2010-5 through 2010-7 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the College as of and for the year ended September 30, 2010, and have issued our report thereon dated June 29, 2011. 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 6 and 7) 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, 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 the responses.

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 29, 2011

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

| Federal Grantor/Program Title | CFDA Number | Expenditures |
|--|----------------|------------------|
| <u>U.S. Department of Education</u> | | |
| <u>Direct Programs</u> | | |
| Student Financial Assistance Programs: | | |
| Federal Supplemental Education Opportunity Grants | 84.007 | \$ 11,098 |
| Federal Work-Study Program | 84.033 | 45,207 |
| Federal Pell Grant Program | 84.063 | <u>2,624,705</u> |
| Subtotal Student Financial Assistance Programs | | <u>2,681,010</u> |
| TRIO Programs: | | |
| Student Support Services | 84.042 | 232,648 |
| Talent Search | 84.044 | 305,457 |
| Upward Bound | 84.047 | <u>494,030</u> |
| Subtotal TRIO Programs | | <u>1,032,135</u> |
| Adult Education - Basic Grants to States | 84.002 | <u>249,008</u> |
| Capacity Building for Traditionally Underserved Populations | 84.315 | <u>91,992</u> |
| College Access Challenge Grant Program | 84.378 | <u>306,931</u> |
| State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | <u>851,545</u> |
| Subtotal U.S. Department of Education | | <u>5,212,621</u> |
| <u>U.S. Department of Agriculture</u> | | |
| <u>Direct Programs</u> | | |
| Payments to Agricultural Experiment Stations Under the Hatch Act | 10.203 | 562,121 |
| Cooperative Extension Service | 10.500 | <u>1,049,618</u> |
| Subtotal Direct Programs | | <u>1,611,739</u> |
| <u>Indirect Programs</u> | | |
| Grants for Agricultural Research, Special Research Grants: | | |
| Agricultural Development in the American Pacific | 10.200 | 32,541 |
| Livestock Genetic Improvement | 10.200 | 14,832 |
| Non Communicable Disease Prevention & Control Plan | 10.200 | 26,354 |
| Sustainable Agriculture Research and Education | 10.215 | 10,405 |
| Integrated Programs | 10.303 | 2,500 |
| Resident Instruction Grants for Insular Area Activities | 10.308 | 82,085 |
| Technology Transfer of Alternative Plant | 10.500 | 22,411 |
| Implementation of Western Sustainable Agricultural Research and Education Program Professional Development Plan | 10.500 | 19,831 |
| Developing and Strengthening a New Marine and Environmental Sciences and Mariculture Demonstration Center on the Island of Saipan | 10.Unknown | 4,493 |
| Improvement for Papaya Cultivars | 10.Unknown | 3,449 |
| Islands of Opportunity Alliance | 10.Unknown | <u>4,500</u> |
| Subtotal Indirect Programs | | <u>223,401</u> |
| Subtotal U.S. Department of Agriculture | | <u>1,835,140</u> |

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS COLLEGE

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2010

| Federal Grantor/Program Title | CFDA Number | Expenditures |
|---|----------------|---------------------|
| <u>U.S. Department of the Interior</u> | | |
| <u>Indirect Programs</u> | | |
| Economic, Social and Political Development of the Territories - Accreditation Reaffirmation Plan | 15.875 | <u>225,000</u> |
| Subtotal U.S. Department of the Interior | | <u>225,000</u> |
| <u>U.S. Department of Health and Human Services</u> | | |
| <u>Indirect Programs</u> | | |
| Area Health Education Centers Point of Service Maintenance and Enhancement Awards | 93.107 | 89,092 |
| Native American Programs | 93.612 | 271,795 |
| University Centers for Excellence in Developmental Disabilities Education, Research, and Service | 93.632 | <u>183,796</u> |
| Subtotal U.S. Department of Health and Human Services | | <u>544,683</u> |
| <u>U.S. Department of Commerce</u> | | |
| <u>Direct Programs</u> | | |
| Unallied Industry Projects | 11.452 | <u>18,640</u> |
| Subtotal U.S. Department of Commerce | | <u>18,640</u> |
| <u>U.S. Department of Transportation</u> | | |
| <u>Indirect Programs</u> | | |
| Biobased Transportation Research | 20.761 | <u>5,610</u> |
| Subtotal U.S. Department of Transportation | | <u>5,610</u> |
| <u>National Science Foundation</u> | | |
| <u>Indirect Programs</u> | | |
| Education and Human Resources | 47.076 | <u>7,086</u> |
| Subtotal National Science Foundation | | <u>7,086</u> |
| Total Federal Programs | | <u>\$ 7,848,780</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, 2010

(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, the U.S. Department of Agriculture, the U.S. Department of Health and Human Services, the U.S. Department of Commerce, the U.S. Department of the Interior, the U.S. Department of Transportation and the National Science Foundation 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 2010, 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, 2010

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- | | | |
|----|--|-------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | No |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | No |
| 4. | Noncompliance material to the financial statements noted? | No |

Federal Awards

Internal control over major programs:

- | | | |
|----|--|-----------|
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. | The College's major programs were as follows: | |

CFDA

Number

Federal Program

- | | | |
|--------|--|-----------|
| 10.203 | Payments to Agricultural Experiment Stations Under the Hatch Act | |
| 10.500 | Cooperative Extension Service | |
| 15.875 | Economic, Social, and Political Development of the Territories: Accreditation Reaffirmation Plan | |
| | TRIO Cluster: | |
| 84.042 | TRIO - Student Support Services | |
| 84.044 | TRIO - Talent Search | |
| 84.047 | TRIO - Upward Bound | |
| 84.378 | College Access Challenge Grant Program | |
| 84.394 | State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 |
| 11. | The College qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

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

No findings reported.

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

| <u>Reference Number</u> | <u>CFDA Number</u> | <u>Findings</u> | <u>Questioned Costs</u> | <u>Refer Page #</u> |
|-------------------------|----------------------|--|-------------------------|---------------------|
| 2010-1 | 10.203 | Equipment and Real Property Management | \$ - | 11 - 12 |
| 2010-2 | 10.500 | Allowable Costs/Cost Principles | \$ 3,683 | 13 - 14 |
| 2010-3 | 10.500 | Equipment and Real Property Management | \$ - | 15 - 16 |
| 2010-4 | 15.875 | Procurement and Suspension and Debarment | \$ - | 17 |
| 2010-5 | 84.042/84.044/84.047 | Procurement and Suspension and Debarment | \$ 13,199 | 18 |
| 2010-6 - 7 | 84.378 | Allowable Costs/Cost Principles | \$ 18,927 | 19 - 21 |
| 2010-8 | 84.394 | Subrecipient Monitoring | \$ - | 22 - 23 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

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

Finding No.: 2010-1
Federal Agency: U.S Department of Agriculture
CFDA Program: 10.203 Payments to Agricultural Experiment Stations Under the Hatch Act
Federal Award Nos.: 2010-3110006095 and 2009-3110006095
Federal Award Periods: 10/01/09-09/30/10 and 10/01/08-09/30/09
Area: Equipment and Real Property Management
Questioned Cost: \$-0-

Criteria: In accordance with applicable equipment management requirements, procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirement:

- Equipment records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, 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.

Condition: The program's property records lack information as to acquisition cost, acquisition date, source of the property, whether title vests to the recipient or the Federal government, information from which percentage of Federal participation in the cost of the property can be calculated and condition of the property. Further, missing or inadequate information regarding tag numbers, description and other reference numbers was noted.

We were not able to assess the overall cumulative monetary value of the deficiencies noted above. However, total capital outlays for fiscal years 2010, 2009 and 2008 were \$30,136, \$95,377 and \$210,047, respectively.

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

Effect: The effect of the above condition is lack of compliance with equipment and real property management compliance requirements.

Recommendation: We recommend that the program take necessary actions to comply with applicable federal property management standards.

Prior Year Status: Lack of policies and procedures to comply with federal property management standards was reported as a finding in the Single Audits of the College for the fiscal years 2005 through 2009.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-1, Continued
Federal Agency: U.S Department of Agriculture
CFDA Program: 10.203 Payments to Agricultural Experiment Stations Under the Hatch Act
Federal Award Nos.: 2010-3110006095 and 2009-3110006095
Federal Award Periods: 10/01/09-09/30/10 and 10/01/08-09/30/09
Area: Equipment and Real Property Management
Questioned Cost: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Mr. Ross Manglona, CREES Director/Expenditure Authority and Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. The program conducts an annual inventory with the assistance of the Procurement and Property Management Office (PPMO). The annual inventory records were transmitted to the auditor. We agree that the inventory records lack information required by federal regulations. PPMO's inventory of the program's equipment that contains all the required information was transmitted to the program for reconciliation. PPMO will continue working with the program to ensure that all required information is contained in the inventory records. The program has been informed that it is responsible for maintaining and updating the records to ensure compliance with applicable federal property management standards.

Proposed Completion Date: September 30, 2011

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-2
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.500 Cooperative Extension Service
 Federal Award Nos.: 2010-41100-05700, 2010-41510-05700, 2010-48024-05700 and 2008-41520-04315
 Federal Award Period: 10/01/08 - 09/30/09
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$3,683

Criteria: Expenses should be authorized, supported, approved prior to incurrence and recorded in the proper period.

Condition: Of \$469,003 of nonpayroll expenses, twenty-eight items totaling \$83,242 were tested and of \$555,051 of payroll expenses, thirty items totaling \$25,123 were tested, and the following was noted:

1. Airfare for one cancelled trip was charged to the program:

| <u>Document No.</u> | <u>General Ledger Date</u> | <u>Amount</u> |
|---------------------|----------------------------|---------------|
| TA-104818 | 07/21/10 | \$ 2,693 |

2. For one employee, timesheet hours did not substantiate program charges:

| <u>Payroll Period No.</u> | <u>Payment Reference No.</u> | <u>Payment Date</u> | <u>Gross Pay</u> | <u>% charged per General Ledger</u> | <u>% Worked per Timesheet</u> | <u>Questioned Cost</u> |
|---------------------------|------------------------------|---------------------|------------------|-------------------------------------|-------------------------------|------------------------|
| PP#20/10 | v033507 | 09/24/10 | \$ 990 | 100% | 0% | \$ 990 |

Cause: The cause of the above condition is weak control procedures over program costs.

Effect: The effect of the above condition is the use of federal funds for unauthorized and unsupported expenses and questioned costs of \$3,683. This matter is reportable as projected questioned costs exceed \$10,000.

Recommendation: We recommend that the College strengthen control procedures over program costs.

Prior Year Status: Lack of controls over program costs was reported as a finding in the Single Audits of the College for fiscal years 2007 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Mr. Ross Manglona, CREES Director/Expenditure Authority and Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-2, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.500 Cooperative Extension Service
Federal Award Nos.: 2010-41100-05700, 2010-41510-05700, 2010-48024-05700 and 2008-41520-04315
Federal Award Period: 10/01/08 - 09/30/09
Area: Allowable Costs/Cost Principles
Questioned Costs: \$3,683

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The College partially agrees with this finding.

Condition 1: The College concurs with the auditor and has submitted a proposed adjustment to move the expense to the general operations fund. The grantor agency will be credited for the questioned amount. The program will monitor the close out of travel more closely.

Condition 2: The College concurs with the auditor. The program and payroll department will ensure that documents supporting program expenses are properly maintained and filed. The College will strengthen control procedures over program costs.

Proposed Completion Date: September 30, 2011

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-3
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.500 Cooperative Extension Service
Federal Award Nos.: 2010-41100-05700, 2010-41510-05700, 2010-48024-05700 and 2008-41520-04315
Federal Award Period: 10/01/08 - 09/30/09
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment management requirements, procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, at a minimum, meet the following requirement:

- Equipment records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, 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.

Condition: The program's property records lack information as to acquisition cost, acquisition date, source of the property, whether title vests to the recipient or the Federal government, information from which percentage of Federal participation in the cost of the property can be calculated and condition of the property. Further, missing or inadequate information regarding tag numbers, description and other reference numbers was noted.

We were not able to assess the overall cumulative monetary value of the deficiencies noted above. However, total capital outlays for fiscal years 2010, 2009 and 2008 were \$11,919, \$12,065 and \$10,707, respectively.

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

Effect: The effect of the above condition is lack of compliance with equipment and real property management compliance requirements.

Recommendation: We recommend that the program take necessary actions to comply with applicable federal property management standards.

Prior Year Status: Lack of policies and procedures to comply with federal property management standards was reported as a finding in the Single Audits of the College for fiscal years 2005 through 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Mr. Ross Manglona, CREES Director/Expenditure Authority and Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-3, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.500 Cooperative Extension Service
Federal Award Nos.: 2010-41100-05700, 2010-41510-05700, 2010-48024-05700 and 2008-41520-04315
Federal Award Period: 10/01/08 - 09/30/09
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The College partially agrees with this finding. The program conducts an annual inventory with the assistance of the Procurement and Property Management Office (PPMO). The annual inventory records were transmitted to the auditor. We agree that the inventory records lack information required by federal regulations. PPMO's inventory of the program's equipment that contains all the required information was transmitted to the program for reconciliation. PPMO will continue working with the program to ensure that all required information is contained in the inventory records. The program has been informed that it is responsible for maintaining and updating the records to ensure compliance with applicable federal property management standards.

Proposed Completion Date: September 30, 2011

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-4
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Accreditation Reaffirmation Plan
Federal Award No.: OMIP-CNMI-NMC-2008-3
Federal Award Period: 04/04/08 - 03/04/10
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Criteria: Procurement regulations require procurements of \$10,000 and above to be procured using competitive sealed bidding and public notice should be publicized at least once a week over a period of thirty (30) calendar days.

Condition: Of \$225,000 of nonpayroll expenses tested (contract no. 3055), we noted there was no evidence of adequate publication of an amended request for proposal (RFP, RFP no. 09-002) which was advertised only once in one newspaper.

Cause: The cause of the above condition is weak controls over ensuring that procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with applicable procurement requirements. No questioned costs result as procurement procedures were performed and the selection process was documented.

Recommendation: We recommend that the College comply with applicable procurement requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement and Property Manager and Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College disagrees with this finding. The College's Procurement Policies and Procedures do not state a frequency of publication for amended RFPs. The auditor is questioning compliance with a non-existent policy or procedure.

Proposed Completion Date: September 30, 2011

Auditor Response: The College should adopt a policy specifying the required duration of public notice and advertising for amended RFPs. With the absence of policy governing amended RFPs, we tested the selection using the criteria for regular RFPs.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-5
Federal Agency: U.S. Department of Education
CFDA Programs: 84.042 TRIO - Student Support Services, 84.044 TRIO - Talent Search and
84.047 TRIO - Upward Bound
Federal Award Nos.: P042A051370-09, P044A060919-09 and P047A071200-09
Federal Award Periods: 09/01/09-08/31/10 and 09/01/10-08/31/11
Area: Procurement and Suspension and Debarment
Questioned Costs: \$13,199

Criteria: In accordance with Section 7-B(2) of the College's procurement regulations, when special circumstances require the expedited purchasing of goods or services, the College official with expenditure authority may request the Procurement and Property Management Officer to approve expedited procurement without the solicitation of bids or proposals.

Condition: Of \$559,669 nonpayroll expenses, thirty items totaling \$33,929 were tested. Software, procured through expedited procurement, was purchased to formulate the Annual Performance Report (APR) due on August 31, 2010. The justification for the procurement method was to meet the reporting deadline. The APR is an annual reporting requirement that has been met in the past and the circumstances did not warrant expedited procurement.

| <u>Check No.</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>Amount</u> |
|------------------|---------------------|----------------------------|------------------|
| 39977 | PO-114031 | 07/19/10 | \$ <u>13,199</u> |

Cause: The cause of the above condition is noncompliance with the College's procurement policies and procedures.

Effect: The effect of the above condition is questioned costs of \$13,199.

Recommendation: We recommend that the College comply with its procurement policies and procedures.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement and Property Manager and Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with the auditor. Although the APR is an annual reporting requirement that has been met in the past, the identification of reporting software that would facilitate producing the report was considered a critical purchase that justified an expedited purchase. However, the College will continue to strengthen its compliance with procurement policies and procedures.

Proposed Completion Date: September 30, 2011

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-6
Federal Agency: U.S. Department of Education
CFDA Program: 84.378 College Access Challenge Grant Program
Federal Award Nos.: P378A090051 and P378A100051
Federal Award Period: 08/14/09 - 08/13/10 and 08/14/10 - 08/13/11
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Criteria: A grantee may not use more than 6 percent of the total amount of the sum of the “total federal share provided per legislative authority and program description” (nonfederal share) for administrative purposes.

Condition: There is no separate account code to identify expenses for administrative purposes, hence we could not verify if the administrative costs do not exceed the 6% ceiling.

Cause: The cause of the above condition is the lack of a separate account code to monitor charges to administrative costs.

Effect: The effect of the above condition is potential noncompliance with the grant requirement. No questioned costs is raised as actual expenses subsequently identified as administrative costs were below the maximum allowed; however, we could not verify if additional expenses were for administrative purposes as there was no separate account code to identify the costs.

Recommendation: We recommend that the College establish a separate account code to monitor charges to administrative costs.

Prior Year Status: The lack of an account code to monitor charges to administrative costs was reported as a finding in the Single Audit of the College for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Mr. Leo Pangelinan, Dean of Student Services and Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College concurs with this finding. The College will establish a separate account code to monitor charges to administrative costs.

Proposed Completion Date: September 30, 2011

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-7
Federal Agency: U.S. Department of Education
CFDA Program: 84.378 College Access Challenge Grant Program
Federal Award Nos.: P378A090051 and P378A100051
Federal Award Period: 08/14/09 - 08/13/10 and 08/14/10 - 08/13/11
Area: Allowable Costs/Cost Principles
Questioned Costs: \$18,927

Criteria: Employees that charge to more than one federal program are required to maintain records documenting the allocation of time to the different programs, unless an alternative method has been authorized by the funding agency.

Condition: Of \$64,307 in payroll expenses, eleven items totaling \$13,205 were tested. We noted one employee who, as Outreach Counselor, was 100% chargeable to the program through December 2009. In January 2010, the employee was promoted to Director for Counseling Programs and Services. The employee held this position until June of 2010. As Director for Counseling Programs and Services, the employee's time and effort towards fulfilling her role as Director should have been charged to separate funding sources; however, the employee remained 100% chargeable to the program. The employee's salary from January to June 2010 was \$18,927 which is questioned as it represents unsupported payroll costs and there is no documentation to substantiate the actual use of the employee's time.

Cause: The cause of the above condition is the lack of documentation to allocate time charges to various programs.

Effect: The effect of the above condition is potential noncompliance with applicable cost allocation principles and questioned costs of \$18,927.

Recommendation: We recommend that the College establish procedures to allocate payroll costs being charged to programs.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Mr. Leo Pangelinan, Dean of Student Services and Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College partially concurs with this finding. The employee's time and effort towards fulfilling her role as Acting Director of Counseling Programs and Services (CPS) should have been documented and charged to a separate funding source. The College disagrees that the employee's entire salary for the period January to June 2010 be considered a questioned cost. During this period, the employee still fulfilled her primary duties as an Outreach Counselor in addition to the duties of the Acting Director. To question her entire salary for the period implies she did not fulfill her duties as an Outreach Counselor and that all of her time was devoted to the Directorship. An additional consideration is that the current Director of CPS's salary is allocated 50% federal and 50% local appropriation. The College is requesting that the questioned costs be reduced.

The College will strengthen procedures to allocate payroll costs being charged to programs.

Proposed Completion Date: September 30, 2011

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-7, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.378 College Access Challenge Grant Program
Federal Award Nos.: P378A090051 and P378A100051
Federal Award Period: 08/14/09 - 08/13/10 and 08/14/10 - 08/13/11
Area: Allowable Costs/Cost Principles
Questioned Costs: \$18,927

Auditor Response: We agree that the Director partially worked for the program; however, without documentation evidencing the allocation of time and effort we cannot determine costs applicable to the Program and thus consider total costs reportable.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-8
Federal Agency: U.S. Department of Education
CFDA Program: 84.394 State Fiscal Stabilization Fund (SFSF) - Education State Grants,
Recovery Act
Federal Award No.: S394A090054A
Federal Award Period: 10/15/09 - 09/30/10
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Criteria: When a pass-through entity makes an award to a sub recipient, a sub award agreement should be entered into. The sub award agreement must contain certain information including:

- *Catalog of Federal Domestic Assistance* name and number;
- Award amount, name and number;
- Award year and duration of the award;
- Whether funds were awarded for research and development activities;
- Description of the scope of work and any special conditions; and
- The name of the federal awarding agency.

The sub award agreement should describe the requirements imposed on the sub recipient by program laws, regulations and the provisions of contracts or grant agreements, as well as any supplemental requirements imposed by the pass-through entity.

The lack of a sub award agreement raises uncertainties as to the party responsible for noncompliance.

Condition: The College received U.S. Department of Education State Fiscal Stabilization Funds (SFSF) passed through the CNMI government without entering into a sub grant agreement with the CNMI. Certain aspects of program compliance cannot be determined without a sub grant agreement that defines the rules and responsibilities of each party to the agreement.

Cause: The cause of the above condition is that a subrecipient agreement between the primary recipient and the College has not been executed that defines the roles and responsibilities of each party.

Effect: The effect of the above condition is possible noncompliance. No questioned costs result from this finding as without a sub award agreement, the liability for potential noncompliance cannot be determined.

Recommendation: We recommend that the College execute a subrecipient agreement with the CNMI Government. The College should ensure that the subrecipient agreement addresses compliance requirements including period of availability of funds and allowable costs/cost principles.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-8, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.394 State Fiscal Stabilization Fund (SFSF) - Education State Grants,
Recovery Act
Federal Award No.: S394A090054A
Federal Award Period: 10/15/09 - 09/30/10
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The College concurs with this finding. Although, the College and the Office of the CNMI ARRA State Lead began developing a subrecipient agreement, the process was not completed. The College will immediately contact the CNMI ARRA State Lead to complete the subrecipient agreement with the CNMI Government.

Proposed Completion Date: September 30, 2011

NORTHERN MARIANAS COLLEGE

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2010

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, 2010:

| | |
|--|-------------------|
| Questioned costs as previously reported | \$ 443,464 |
| Less questioned costs resolved in fiscal year 2010 | <u>(70,762)</u> |
| | 372,702 |
| Questioned costs of fiscal year 2010 Single Audit | <u>35,809</u> |
| Unresolved questioned costs at September 30, 2010 | \$ <u>408,511</u> |

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 23).



Northern Marianas College

P.O. Box 501250 • Saipan, MP 96950 U.S.A. • Phone: (670) 234-5498
Fax: (670) 234-0759 • Web Site: www.nmcnet.edu

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, 2009:

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

- Finding No. 2009-1 - Corrective action was taken.
- Finding No. 2009-2 - Corrective action was taken.
- Finding No. 2009-3 - Corrective action was taken.
- Finding No. 2009-4 - Corrective action was taken.
- Finding No. 2009-5 - Corrective action was taken.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

- Finding No. 2009-6 - Corrective action was taken.
- Finding No. 2009-7 - Corrective action was taken.
- Finding No. 2009-8 - Not corrected. See corrective action plan to Finding No. 2010-2.
- Finding No. 2009-9 - Corrective action was taken.
- Finding No. 2009-10 - Corrective action was taken.
- Finding No. 2009-11 - Corrective action was taken.
- Finding No. 2009-12 - Corrective action was taken.
- Finding No. 2009-13 - Not corrected. See corrective action plan to Finding No. 2010-6.
- Finding No. 2009-14 - Corrective action was taken.
- Finding No. 2009-15 - Not corrected. See corrective action plans to Finding Nos. 2010-1 and 2010-3.