

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

**REPORTS ON INTERNAL CONTROL AND
COMPLIANCE**

Years Ended September 30, 2014

**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, in accordance with the 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, the financial statements of the Northern Marianas College (the College), as of and for the year ended September 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 1, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

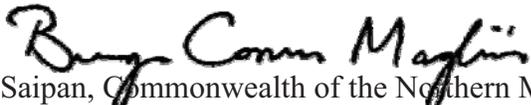
As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2014-001 and 2014-002.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the College, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated June 1, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Saipan, Commonwealth of the Northern Mariana Islands
June 1, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

Board of Regents
Northern Marianas College:

Report on Compliance for Each Major Federal Program

We have audited the Northern Marianas College's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the College's major federal programs for the year ended September 30, 2014. The College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

The College's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the College, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 a 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. 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Saipan, Commonwealth of the Northern Mariana Islands
June 1, 2015

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/Program Title	CFDA Number	Expenditures
Direct Programs		
<u>U.S. Department of Education</u>		
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	\$ 4,047,257
Federal Supplemental Educational Opportunity Grants	84.007	215,337
Federal Work-Study Program	84.033	<u>22,887</u>
Sub-total Student Financial Assistance Cluster		4,285,481
College Access Challenge Grant Program	84.378	1,333,298
Adult Education - Basic Grants to States	84.002	<u>376,966</u>
Sub-total U.S. Department of Education		<u>5,995,745</u>
<u>U.S. Department of Agriculture</u>		
Payment to Agricultural Experiment Stations under the Hatch Act	10.203	453,268
Cooperative Extension Services	10.500	<u>957,681</u>
Sub-total U.S. Department of Agriculture		<u>1,410,949</u>
Sub-total Direct Programs, carried forward		<u>\$ 7,406,694</u>
Indirect Programs		
<u>U.S. Department of the Interior</u>		
Economic, Social, and Political Development of the Territories	15.875	<u>86,762</u>
Sub-total U.S. Department of the Interior		<u>86,762</u>
<u>National Science Foundation</u>		
Education and Human Resources - Partnership for Advance Marine and Environmental Science	47.076	<u>1,500</u>
Sub-total National Science Foundation		<u>1,500</u>
Sub-total Indirect Programs, carried forward		<u>\$ 88,262</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/Program Title	CFDA Number	Expenditures
Sub-total Direct Programs, brought forward		\$ 7,406,694
Sub-total Indirect Programs, brought forward		<u>88,262</u>
 <u>U.S. Department of Agriculture</u>		
Agriculture and Food Research Initiative	10.310	545,248
Resident Instruction Grants for Insular Area Activities	10.308	86,515
Cooperative Extension Service:		
Fruit Flies and Mango Fruits	10.500	4,658
Integrated Programs	10.303	<u>20,815</u>
Sub-total U.S. Department of Agriculture		<u>657,236</u>
 <u>U.S. Department of Commerce - National Oceanic and Atmospheric Administration</u>		
Marine Conservation Plan Grant:		
Building Capacity on Farm Made Aquafeed	11.unknown	29,260
Rabbitfish Farming	11.unknown	<u>63,914</u>
Sub-total U.S. Department of Commerce		<u>93,174</u>
 <u>U.S. Department of Homeland Security</u>		
U.S. Apprenticeship Program (CWAP)	97.unknown	<u>499,084</u>
Sub-total U.S. Department of Homeland Security		<u>499,084</u>
 <u>U.S. Department of Health and Human Services</u>		
University Centers for Excellence in Developmental		
Disabilities Education, Research, and Service (B)	93.632	168,238
Model State-Supported Area Health Education Centers	93.107	<u>77,920</u>
Sub-total U.S. Department of Health and Human Services		<u>246,158</u>
Sub-total Indirect Programs		1,583,914
Total Federal Programs		<u>\$ 8,990,608</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

(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 postsecondary educational opportunities to the people of the CNMI. The U.S. Department of the Interior has been designated as the College's cognizant agency.

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 and the National Science Foundation which are subject to OMB Circular A-133.

(2) Summary of Significant Accounting Policies

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.

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 2014, the College has an approved indirect cost rate of 21% for all grant programs, except for U.S. Department of Education programs, which is 8%.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no

- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X yes _____ none reported

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION I – SUMMARY OF AUDITORS’ RESULTS, Continued

Federal Awards

Identification of major programs:

<u>CFDA Number</u>	<u>Description</u>	<u>Federal Expenditures</u>
	Student Financial Assistance Cluster:	
84.063	Federal Pell Grant Program	\$ 4,047,257
84.007	Federal Supplemental Educational Opportunity Grants	215,337
84.033	Federal Work-Study Program	<u>22,887</u>
	Student Financial Assistance Cluster	4,285,481
84.378	College Access Challenge Grant Program	1,333,298
84.002	Adult Education - Basic Grants to States	376,966
10.203	Payment to Agricultural Experiment Stations under the Hatch Act	453,268
10.500	Cooperative Extension Services	962,339
97.Unknown	U.S. Apprenticeship Program (CWAP)	499,084
10.310	Agriculture and Food Research Initiative	<u>545,248</u>
Total Federal Expenditures-Major Programs		<u>\$ 8,455,684</u>
Percentage of total federal awards tested		<u>94%</u>
Dollar threshold used to distinguish between Type A and Type B programs		<u>\$ 300,000</u>
Auditee qualified as low-risk auditee		_____ yes <u> X </u> no

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – COMPLIANCE AND OTHER MATTERS

Finding No: 2014-001 Travel Costs

Criteria:

Pursuant to OMB Circular A-21,

Factors affecting allowability of costs. The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

Reasonable costs. A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are: (a) whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement; (b) the restraints or requirements imposed by such factors as arm's length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions; (c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and, (d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

NORTHERN MARIANAS COLLEGE
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – COMPLIANCE AND OTHER MATTERS, Continued

Finding No: 2014-001 Travel Costs, Continued

Conditions:

For the 3 or 9% of the 35 Travel Authorizations selected for testing, we were unable to determine the reasonableness of some components of cost incurred for the travel and other related costs. There were no justifications or other substantive documentation to support the costs incurred.

A. TA 107194

To attend the ASCD 69th Annual Conference and Exhibit in Los Angeles, CA from March 12, 2014 to March 17, 2014. The authorized trip was for March 11, 2014 to March 19, 2014.

We noted from the submitted boarding passes that the traveler changed itinerary. The traveler left a day earlier on March 10, 2014 and extended the return from March 19, 2014 to March 24, 2014. There was no documentation attached to support that the change in itinerary is reasonable and necessary.

B. TA 107333

To attend The Chair Academy: Leadership and Development Conference from November 10, 2013 to November 15, 2013 in Florida. The trip authorized was from November 9, 2013 to November 20, 2013.

We are unable to determine the reasonableness of the actual airfare, which included the additional days for the side trip, vis-à-vis what the airfare would have been had there been no side trip because there were no price quotations obtained for the latter.

NORTHERN MARIANAS COLLEGE
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – COMPLIANCE AND OTHER MATTERS, Continued

Finding No: 2014-001 Travel Costs, Continued

Effect:

We are unable to determine through audit that the costs incurred are reasonable and necessary.

Cause:

The College's Travel Procedure and Policy does not have a clear provision for changes in itinerary.

Recommendation:

The College should clearly define on its Travel Procedure and Policy the allowed and unallowed changes in itinerary. Furthermore documentation must be kept to support that the airfare paid by the College is the customary standard commercial airfare and any deviation should be justified.

Auditee Response:

The College partially agrees with this finding and has taken corrective action. At the time of the audit NMC had in place Administrative Procedure 2120 requiring all travel costs to be reasonable and necessary. Also, while not formalized in this written procedure at the time, in practice the College regularly required substantiation of cost effectiveness in the form of three airfare quotes from available public air carriers. However, the College did recognize the need to strengthen its existing travel procedures to formalize in writing the practice of requiring three quotations for airfare, among other practices, and on March 15, 2015, the College implemented Procedure No. 7006.1 for Travel firming provisions to substantiate that all travel costs are reasonable and necessary. In particular, the new travel procedure specifically requires evidence that no additional expense to the College will be incurred should a traveler select an indirect or less economical route for personal preference reasons and proper leave applications to be approved and filed with travel authorizations. In line with this, the College now requires justification for any deviation from the most direct and economical route.

Contact Person: Tracy M. Guerrero, Chief Financial Officer

Target Completion: The College implemented Procedure No. 7006.1 for Travel on March 15, 2015. With the implementation of this revised procedure, the College considers this finding resolved.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – COMPLIANCE AND OTHER MATTERS, Continued

Finding No: 2014-002 Travel Liquidation

Criteria:

IRS Publication 5137 and 26 CFR 1.62-2, states that:

Under an accountable plan, allowances or reimbursements paid to employees for job related expenses are excluded from wages and are not subject to withholding. An allowance or reimbursement policy (not necessarily a written plan) that includes the following requirements is considered an accountable plan:

- There is a business connection to the expenditure.
- There is adequate accounting by the recipient within a reasonable period of time.
- Excess reimbursements or advances are returned within a reasonable period of time.
IRC §62(c); Reg. §1.62(c)(2)-2(c)(2)

The IRS considers an advance substantiated within 60 days or returned to the payor within 120 days after an expense is paid or incurred as having occurred within reasonable period of time.

Conditions:

1. 8 or 23% of 35 travel tested were not liquidated within a reasonable period.

	End of Travel	Liquidation Date	No. of Days
TA107766	6/15/2014	10/15/2014	122
TA107133	10/7/2013	1/27/2014	112
TA107853	9/10/2014	12/30/2014	111
TA107152	10/15/2013	1/27/2014	104
TA107636	5/1/2014	7/24/2014	84
TA107303	12/14/2013	2/28/2014	76
TA107301	11/12/2013	1/21/2014	70
TA107158	11/22/2013	1/27/2014	66

2. 1 or 3% of 35 travel tested, (TA 107766) the boarding passes are not on file.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – COMPLIANCE AND OTHER MATTERS, Continued

Finding No: 2014-002 Travel Liquidation, Continued

Effect:

The travel advances received by the traveler may be construed as taxable income of the traveler because the travel liquidations were not in compliance with 26 CFR 1.62-2.

Cause:

The College's Travel Procedure and Policy does not have specific condition as to how long is deemed reasonable for traveler to liquidate travel advance.

Recommendation:

The College should establish a policy on when travel liquidation is due. Furthermore, the College should implement IRS Publication 5137 on the withholding of taxes from travel advances that were not liquidated in compliance with the IRS Regulation and 26 CFR 1.62-2.

Auditee Response:

1. The College agrees with this finding and has taken corrective action to implement a new procedure to clearly define a reasonable period of time within which to liquidate travel advances. IRS Regulation 26 CFR 1.62-2(c) and (g) allows for tax-free business related allowances or reimbursements subject to adequate accounting and return of excess reimbursements or advances by recipients "within a reasonable period of time," and defines "a reasonable period of time" as "an expense substantiated to the payor within 60 days after it is paid or incurred..." The College's new travel procedure implemented on March 15, 2015 provides 15 working days for liquidation of travel authorizations. Revisions to the College's newly implemented procedures are under way to include provisions to withhold taxes on travel advances not liquidated within the specified time period, as well as to extend the time period for reasonable liquidation to 60 days, consistent with IRS Publication 5137 and 26 CFR 1.62-2, among other revisions.
2. The College does not dispute the lack of boarding passes for TA 107766. However, this travel advance was substantiated with an affidavit filed by another traveler who attended the same business function as the traveler in reference, attesting that the traveler did in fact attend the business function. A copy of this affidavit was provided to the auditors on June 17, 2015. Accordingly, the College requests that this be reflected in this finding.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION II – COMPLIANCE AND OTHER MATTERS, Continued

Finding No: 2014-002 Travel Liquidation, Continued

Contact Person: Tracy M. Guerrero, Chief Financial Officer

Target Completion: The College considers this partially completed, with the revisions on the travel policy to be completed by September 30, 2015.

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS,

Continued

Finding No: 2014-003

Federal Agency: U.S. Department of Agriculture
CFDA Programs: 10.500 Cooperative Extension Services
Area: Allowable Costs/Cost Principles –Travel Liquidation
Questioned Costs: \$ -

Criteria:

IRS Publication 5137 and 26 CFR 1.62-2, states that:

Under an accountable plan, allowances or reimbursements paid to employees for job related expenses are excluded from wages and are not subject to withholding. An allowance or reimbursement policy (not necessarily a written plan) that includes the following requirements is considered an accountable plan:

- There is a business connection to the expenditure.
- There is adequate accounting by the recipient within a reasonable period of time.
- Excess reimbursements or advances are returned within a reasonable period of time
IRC §62(c); Reg. §1.62(c)(2)-2(c)(2)

The IRS considers an advance substantiated within 60 days or returned to the payor within 120 days after an expense is paid or incurred as having occurred within reasonable period of time.

Condition:

2 or 4% of the 45 federally funded travel advances selected for testing were not timely liquidated as follows:

	End of Travel	Liquidation Date	No. of Days
TA 107239	11/17/2013	3/3/2014	106
TA 107417	3/4/2014	5/20/2014	77

NORTHERN MARIANAS COLLEGE
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Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS,
Continued

Finding No: 2014-003, Continued

Federal Agency: U.S. Department of Agriculture
CFDA Programs: 10.500 Cooperative Extension Services
Area: Allowable Costs/Cost Principles –Travel Liquidation
Questioned Costs: \$ -

Effect:

The travel advances received by the traveler may be construed as taxable income of the traveler because the travel liquidations were not in compliance with 26 CFR 1.62-2.

Cause:

The College’s Travel Procedure and Policy does not have specific condition as to how long is deemed reasonable for traveler to liquidate travel advance.

Recommendation:

The College should establish a policy on when travel liquidation is due. Furthermore, the College should implement IRS Publication 5137 on the withholding of taxes from travel advances that were not liquidated in compliance with the IRS Regulation and 26 CFR 1.62-2.

Auditee Response:

The College agrees with this finding and has taken corrective action to implement a new procedure to clearly define a reasonable period of time within which to liquidate travel advances. IRS Regulation 26 CFR 1.62-2(c) and (g) allows for tax-free business related allowances or reimbursements subject to adequate accounting and return of excess reimbursements or advances by recipients “within a reasonable period of time,” and defines “a reasonable period of time” as “an expense substantiated to the payor within 60 days after it is paid or incurred...” The College’s new travel procedure implemented on March 15, 2015 provides 15 working days for liquidation of travel authorizations. Revisions to the College’s newly implemented procedures are under way to include provisions to withhold taxes on travel advances not liquidated within the specified time period, as well as to extend the time period for reasonable liquidation to 60 days, consistent with IRS Publication 5137 and 26 CFR 1.62-2, among other revisions.

Contact Person: Tracy M. Guerrero, Chief Financial Officer

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS,
Continued**

Finding No: 2014-003, Continued

Federal Agency: U.S. Department of Agriculture
CFDA Programs: 10.500 Cooperative Extension Services
Area: Allowable Costs/Cost Principles –Travel Liquidation
Questioned Costs: \$ -

Target Completion: The College considers this partially completed, with the revisions on the travel policy to be completed by September 30, 2015.



Northern Marianas College

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ending September 30, 2014

A. FINANCIAL STATEMENT FINDINGS

No findings reported

B. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Finding No.:	2013-01
Federal Agency:	U.S. Department of Education
CFDA Program:	84.063
	84.007
	84.033
Questioned Costs:	\$0
Corrective Action Taken:	Yes. The U.S. Department of Education issued a Final Audit Determination (Audit Control Number 10-2013-43268) on December 19, 2014 agreeing that NMC had taken the necessary corrective action to address this finding.

The College believes that all other prior federal award findings and questioned costs are no longer valid and do not warrant further action. Therefore, the College requests all other prior federal award findings and questioned costs to be removed according to the criteria set forth in the Office of Management and Budget's guidance titled "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (2 C.F.R. Part 200). The guidance states, "**A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred: (a) two years have passed since the audit report was filed with the central clearinghouse designated by OMB, (b) the Federal agency or pass-through entity is not currently following up on the audit finding, and (c) a management decision was not issued.**"

Status: Resolved

NORTHERN MARIANAS COLLEGE
(A Component Unit of the CNMI Government)

Summary of Unresolved Questioned Costs
Year Ended September 30, 2014

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, 2014:

Questioned costs as previously reported	\$ 76,575
Questioned costs resolved during the year ended September 30, 2014	-
Questioned costs of fiscal year 2014 Single Audit	<u>-</u>
Unresolved questioned costs at September 30, 2014	<u>\$ 76,575</u>

Details of these questioned costs are as follow:

	<u>USDA</u>
2009-6	\$ 7,083
2009-7	60,607
2009-8	5,202
2010-2	<u>3,683</u>
Questioned costs as previously reported	76,575
Resolved in 2014	<u>-</u>
Unresolved questioned costs at September 30, 2014	<u>\$ 76,575</u>

Pursuant to OMB Circular A-133 §.315(b) (4), the College believes that the above prior year questioned costs are no longer valid or do not warrant further action. The reasons for this position is that the following has occurred:

- i. Two years have passed since the audit report in which the findings occurred was submitted to the Federal Clearinghouse;
- ii. The Federal agency or pass-through entity is not currently following up with the College on the audit findings; and
- iii. A management decision was not issued.

Therefore, the College deems the prior year questioned costs resolved.