



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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June 13, 2000

Mr. Fermin M. Atalig
Acting Chairman, Board of Regents
Northern Marianas College
P.O. Box 501250
Saipan, MP 96950

Dear Acting Chairman Atalig:

Subject: Final Letter Report on the Audit of the Northern Marianas College's Collections and Deposits from July to November 1999 (Report No. LT-00-05)

On November 18, 1999, the Office of the Public Auditor (OPA) received an anonymous call claiming that there had been an embezzlement of funds collected at the Business Office of Northern Marianas College (NMC). The incident allegedly happened between November 5 and 9, 1999. The caller gave no other information aside from stating that there were three persons who alternately work as a cashier and that he was requesting OPA to look into this matter as soon as possible.

On November 29, 1999, the discovery of missing collections was reported by former NMC President Agnes M. McPhetres. She also requested OPA to conduct a comprehensive review of NMC's cash receipts and determine the amount of cash that may have been misappropriated.

This report presents the results of our audit of the NMC's collections and deposits from July to November 1999. The objectives of the audit were to: (1) establish the amount of missing collections and gather evidence in order to possibly identify who was responsible; and (2) determine the internal control weaknesses that enabled the funds to be misappropriated.

Our audit showed that the former NMC cashier failed to deposit the full amount of daily collections and to account for cash funds in his custody. This occurred because some internal controls over cash collections were inadequate and others were not followed. As a result, about \$10,500 in cash collections (\$9,943) and petty cash/change funds (\$557) were unaccounted for and appear to have been misappropriated.

We recommended that the Board of Regents take the following steps: (1) adopt and implement clear policies, procedures, and administrative sanctions that will ensure regular performance or

control over the following: a) the proper turnover of cashiering duties and responsibilities any time a cashier goes out of the office or is absent, and is temporarily relieved by another person making it impossible to commingle cash collected by the cashier with the reliever's cash collections; b) the proper custodianship for the cash safe's combination and key (only one person may have access), unused ORs, blank checks, and limited access to the cashier's office; c) use of control features in the computerized accounting system such as the use of passwords or log on IDs, limiting access and user capabilities to specific users and key officials only. For example, people collecting tuition and other fees should only be allowed to see (inquiry options only) the student accounts receivable subsidiary ledger balances on the computer monitors, but must not be allowed to input or adjust any financial information; d) periodic audits or surprise cash counts for managers of petty cash and change funds, and having petty cash vouchers and other supporting documents for payments in the files at all times; and (2) require the Comptroller to implement and enforce effective internal controls over cash. The Comptroller must also identify the specific Business Office supervisor who will perform the following: a) supervision must be continuous and the review of collections reports must be daily. We are reiterating the proper procedure for the review process as follows: 1) determine the amount of collections based on the printed UTR, 2) verify the accuracy and completeness of reported collections by reviewing the sequence of ORs issued, 3) count the cash and checks collected, compare the breakdown and total amount counted against what was reported in the UTR, 4) determine the cause of cash shortages or overages, if any, and report such occurrences to management, 5) determine if the deposit slip was properly prepared and then sign the deposit slip to show the review process was conducted, and 6) ensure that the collection to be deposited is placed inside a locked bank deposit bag and placed in a safe under lock and key if the actual deposit will be made on the next banking day; b) bank reconciliation statements should be made on a monthly basis and should be reviewed by the comptroller to determine the accuracy of cash account balances and the propriety of adjustments. The staff assigned to prepare the bank reconciliation statements and the comptroller should sign the reconciliation statements and the adjusting entries to document the preparation and review process; c) separate duties so that collection, recording and deposits are made by three different employees.

In his letter response dated May 11, 2000 (**Appendix A**), the NMC President agreed with all our recommendations. The President stated that many of OPA's recommendations were already implemented by the College prior to receiving the report. He further enumerated some actions undertaken by the College to minimize the risk of such situation recurring. We appreciate the College's prompt action in improving internal controls.

Based on the response we received from NMC, we consider Recommendations 1 and 2 as resolved. The additional information or action required to close the recommendations is presented in **Appendix B**. We ask that the College take equally prompt action to complete the implementation of our recommendations.

BACKGROUND

The NMC Business Office is headed by the Comptroller. The task of receiving and recording cash payments or transfers is assigned to this office. Most of the cash collections handled at the Business Office pertain to NMC Operations, particularly the collection of student tuition and other fees. The Business Office is divided into five sections which are: (1) Accounts Receivable/Cash Collections, (2) Federal and Special Programs, (3) Accounts Payable/Cash Disbursements, (4) General Ledger/Reporting, Payroll System, and (5) Operations/Vocational Education. These sections are supervised by the chief accountant. During the five-month period under review, the chief accountant rather than the comptroller was the highest ranking employee at the NMC Business Office. The former Comptroller had retired in June 1999 and his replacement took over only in the latter part of November 1999.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit were to: (1) establish the amount of missing collections and gather evidence in order to possibly identify who was responsible; and (2) determine the internal control weaknesses that enabled the funds to be misappropriated. Our audit covered collections from July 1 to November 30, 1999.

To accomplish our objectives, we (1) obtained an understanding of NMC's system of internal controls through observation and inquiries about the collection and deposit processes; (2) compared details of NMC's daily collections, daily deposits, and actual deposits recorded by NMC's depository banks, (3) ensured the completeness of daily collections by accounting for the numerical sequence of the official receipts (ORs); (4) evaluated NMC personnel compliance with NMC collection policies and procedures; and (5) evaluated the adequacy of current internal controls.

We conducted our audit in the NMC Business Office located at the As Terlaje Campus, Saipan from November 1999 to January 2000. This audit was made, where applicable, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were considered necessary in the circumstances.

PRIOR AUDIT COVERAGE

OPA has conducted two prior audits of cash operations at the NMC Business Office during the past nine years. First, OPA conducted an examination of student check refunds from May to July 1993. The audit report, dated December 6, 1993, stated that \$82,906 was embezzled by the operations accountant from June 1992 to April 1993 by improperly cashing 133 student refund checks. Secondly, OPA again conducted a special cash examination from August to October 1993, with the audit covering collections from October 1, 1991 to April 12, 1993. The audit report dated March 22, 1994 showed that more than \$49,870 may have been misappropriated for a period of more than one year and of that amount, \$43,107 could have been embezzled by the former fiscal

officer. This embezzlement and misappropriation of NMC funds occurred due to inadequate internal controls at the NMC Business Office. Such internal control weaknesses included: (1) no monthly bank reconciliation statements were prepared; (2) no review of adjusting journal entries was made; and (3) the former fiscal officer had unchecked authority in supervising the staff, handling financial transactions and preparing financial reports. Some of the internal control weaknesses found in the two previous reports were still evident during the five-month period covered by this audit of the NMC-Business Office.

FINDING AND RECOMMENDATIONS

Missing Collections and Petty Cash/Change Funds of Over \$10,500

NMC policies and generally accepted accounting principles (GAAP) require that collections be deposited intact on a daily basis and that all cash funds be accounted for at all times. By contrast, the audit of NMC collections showed that the former cashier failed to deposit the full amount of daily collections and to account for cash funds in his custody. This occurred because some internal controls over cash collections were inadequate and others were not followed. As a result, about \$10,500 in cash collections (\$9,943) and petty cash/change funds (\$557) were unaccounted for and appear to have been misappropriated.

NMC's Policy and Procedures on Cash Receipts

The NMC Board of Regents has adopted policies governing cash receipts. The Board stated that in order for the College to be accountable for all fiscal transactions, all cash collections must be recorded appropriately. The Board also required the NMC Business Office to set up a cash receipts system, and then established the following procedures for handling cash.

1. Cash receipt forms will be three-part prenumbered forms to be used for all cash received by the College.
2. Prenumbered receipts for payment received will be issued with white copy to the payor.
3. Total per cash receipts will be reconciled with actual cash and cash report.
4. Cash receipts from all sources will be combined and bank deposits for delivery to the bank will be prepared by the Cashier.
5. Supervisor verifies cash count, reviews deposit and initials deposit slip.
6. Deposit is submitted with duplicate deposit slips; duplicate stamped by the bank is returned to NMC.
7. All receipts will be accounted for, including those voided, and receipt series numbers will be recorded in "LOG."
8. Supervisor will review "LOG" each month and initial...

The NMC Board's enumerated procedures did not specifically state that cash collections should be deposited intact daily on the next banking day. Such practice, however, should always be followed by any organization handling cash because it is a very basic procedure that is always included in any internal control system adopted in accordance with GAAP.

NMC's Policies and Procedures on Petty Cash Fund

In addition to the cash receipts policy, the NMC Board of Regents also adopted policies governing petty cash funds. The board basically stated that the petty cash fund is to be used for nominal purchases where it would be inefficient to follow the institution's regular payment process. To meet this need, a petty cash fund is to be established within the Business Office not to exceed \$2,500. The amount of the fund will be determined by the President and the Comptroller. The custodian of the petty cash fund is responsible for its safekeeping and has the right to deny an advance or reimbursement for any expense which is contrary to College policies and procedures. Although the amended policy did not specifically state that the petty cash fund should be on hand at all times in the form of cash, receipts or petty cash vouchers waiting for reimbursement, good internal control dictates that this should always be the practice. In previously conducted surprise cash counts at NMC, OPA ascertained that the petty cash fund in the custody of the cashier was only \$1,000.

In addition, the amount of \$200 was maintained as a change fund and the former cashier was designated as its custodian. However, there was no board policy concerning a change fund.

Missing NMC Cash Collections

The NMC cashier failed to deposit about \$9,943.41 in cash collections from July to November 1999. The schedule below shows the specific dates and other information when the cashier failed to make the deposits. Printed in the right-hand column of the schedule are note numbers. Each note number pertains to a discussion about the difference or missing amount of cash referred to in the schedule.

Date	Batch#	OR Number From-To	Amount Collected			Amount Deposited			Remarks
			Cash	Check	Total	Date	Amount	Difference	
7/23/99	9CR274	27758-27767	\$1,204.00	\$868.89	\$2,072.89	7/30/99	\$1,872.89	\$200.00	Note 1
8/9/99	9CR293	27906-27962	6,626.50	13,203.00	19,829.50	8/11/99	19,295.50	534.00	Note 2
8/26/99	9CR307	28647-28673	5,984.00	65.00	6,049.00	8/31/99	5,964.00	85.00	Note 2
9/3/99	9CR313	28823-28842	147.00	910.00	1,057.00	12/14/99	910.00	147.00	Note 3
9/20/99	9CR323	29006-29032	3,633.50	1,221.00	4,854.50	12/14/99	1,221.00	3,633.50	Note 3
9/21/99	9CR324	29033-29051	1,721.50	199.50	1,921.00	12/14/99	199.50	1,721.50	Note 3
9/7/99	9CR314	28843-28870	1,314.20	1,666.25	2,980.45	10/15/99	2,831.45	149.00	Note 4
9/9/99	9CR316	28891-28906	2,059.00	700.00	2,759.00	12/14/99	777.59	1,981.41	Note 5
10/28/99	0CR016	29425-29438	517.00	0.00	517.00		0.00	517.00	Note 6
10/29/99	0CR017	29439-29443	67.00	0.00	67.00		0.00	67.00	Note 6
11/5/99	0CR023	29470-29482	545.00	1,651.16	2,196.16	11/24/99	1,656.16	540.00	Note 7
9/2/99		Various	553.00	325.00	878.00	Various	510.00	368.00	Note 8
TOTAL			\$24,371.70	\$20,809.80	\$45,181.50		\$35,238.09	\$9,943.41	

Schedule 1 - Details of Differences Found in the Comparison of Collections and Deposits from July 1 to November 30, 1999

Discussion about the amount of missing collections:

Note 1 - The \$200 was cash collected for which the cashier issued a manually prepared OR # 27766. There was no explanation why the OR had to be manually prepared and why the \$200 collection was not subsequently recorded.

It was also discovered that OR # 27767 was missing in the files and that no amount of collection was reported for the missing OR. If the OR was not voided, then the amount for which the OR was issued may also be missing and possibly misappropriated.

Note 2 - Cash shortages of \$534 and \$85 were reported by the cashier for collections on August 8 and 26, 1999, respectively. The cashier reported them to the chief accountant by writing notes about the shortages on the "unposted transaction reports" (UTR)¹ printed for those two days. The cause of the shortages was not investigated and no adverse action was initiated against the cashier. The shortages were simply written off on September 30, 1999 by a charge to a "cash short/over" (expense) account.

Note 3 - Except for a \$1,100 cash collection supported by OR #28906 (see Note 5), all collections on September 3, 9, 20 and 21 were supported by regular computer printed ORs. However, none of the collections for the four days were deposited. On December 7, the new cashier found all the checks collected (during the four days) inside the safe but the cash portion was missing. The checks were later deposited to the bank on December 14, 1999.

Note 4 - The former cashier collected \$2,980.45 on September 7. He deposited only \$2,831.45 on October 15, 1999, 38 days later, thus resulting in a \$149 cash shortage. This time, there was no notation of the shortage in the UTR, and it was discovered only when we compared the amount collected with the amount deposited.

Note 5 - The difference or undeposited portion of the day's collection is broken down as follows:

1. \$1,100 - this pertains to cash collected by the former Accounts Payable (AP) accountant (as shown by her initials on the OR) and supported by a manually prepared OR # 28906 (see Note 3 also). The \$1,100 collected based on this specific OR was also not recorded.

Although other business office personnel were allowed to issue ORs during the day, the former cashier was still required to report and deposit all collections. There was no reason for not reporting or recording any collection evidenced by one of the prenumbered ORs.

2. \$881.41 - this represents the net amount missing after depositing a portion of the day's collection that was found in the safe. (Also see Note 3.)

Note 6 - The former cashier did not prepare deposit tickets for the cash he collected on October 28 and 29, 1999 of \$517 and \$67, respectively. For unknown reasons, the ORs issued during the two days were manually prepared, and the former cashier never entered the information about the collections in the computerized accounting system. The new cashier subsequently found and filed the copies of the ORs. She also entered the collection information in the computerized accounting system and printed a copy of the UTR;

¹This report is printed by the Cashier at the end of the day. It includes the following information: batch number, OR number, description of payment received, vendor/customer number, fiscal year period, GL account, Department, program type and amount of collection.

however, an update (to actually record the transactions in the general ledger) has not yet been made because the cash is missing.

Note 7 - Based on the ORs issued and the UTR for November 5, 1999, the total collection was \$2,196.16. However, during a November 23, 1999 surprise cash count, we found that the November 5, 1999 collection was undeposited and still in the custody of the new cashier, and that \$540 in cash was missing. The way the collection was handled and the events that occurred in the three days after November 5 made it difficult to identify who may have taken the \$540.

The acting cashier who collected the \$2,196.06 on Friday, November 5, 1999 stated that she put the collection in an envelope which she placed inside the safe at the end of the day. She had a key for the safe but did not lock the key-operated lock because, according to her, she thought closing the door and turning the knob of the safe's "combination lock" was enough to secure the safe. She also failed to place the collection inside a bank deposit bag which also has its own key. On Monday, November 8, 1999, the acting cashier stated in a written statement that she noticed something different on how the items she put in the safe appeared. She alerted a co-employee about the missing cash and the incident was reported to the former NMC President. The former President immediately asked her special assistant to investigate the matter and report his findings to her. The special assistant met with the acting cashier and her co-employee to gather information about the incident. A cash count was then conducted by the special assistant in the presence of the acting cashier and her co-employee and they found that \$540 was missing. The acting cashier also said that when she "logged on" to the computer that day, she saw the log-on ID of the former cashier on the computer screen. That indicated that the former cashier went to the Business Office sometime during the night of November 5 or early morning of November 6 and used the computer in the cashier's office.

Based on the statements of the acting cashier and other NMC employees about what occurred from November 5 to 8, 1999, there is no conclusive evidence as to what happened to the missing \$540. Only the acting cashier can attest that the total \$2,196.06 collection was put in the safe, and several NMC employees knew the number combination to open the safe. Therefore, anyone who had access before the safe combination was locked or who knew the safe combination might be responsible.

Note 8 - The \$368 in missing cash was part of the Continuing Education Department (CED) collections that were turned over to the former cashier.

The CED was not authorized to collect fees from students and issue ORs. However, CED personnel still accepted payments and then signed the enrollees' registration forms as evidence of collection. The collections were then turned over to the cashier to obtain the ORs. The CED coordinator said that \$878 in collections was turned over to the former cashier on September 2, 1999. Of that amount, only \$201 was traced to bank deposits, \$16 was accounted for as credit card sales, and \$293 was in checks that were found in the safe by the new cashier on December 16, 1999. Therefore, the former cashier did not deposit or turn over \$368 of the CED cash collections.

We examined the Summary Time Sheet (STS) of the Business Office from July to November 1999. We found that except on November 5, 1999, the former cashier reported eight regular hours during the days when cash collections were missing. Therefore, even if part of the daily collection was collected by another employee, it was still the former cashier's responsibility to account for the total daily collection and report any cash shortage. However, the audit showed that the former cashier only reported incidents of shortage on August 9 and 26, 1999. It was unlikely that any employee who temporarily acted as cashier (during any day that the former cashier was present)

would risk not reporting what he/she collected because the failure to report would surely be discovered by the cashier.

Missing Petty Cash and Change Funds

Based on records and interviews of NMC personnel, the NMC cashier was supposed to have custody of \$1,000 in petty cash and \$200 in a change fund. On November 23, 1999, OPA staff members conducted a surprise count at the cashier's office. The count was conducted in the presence of the new cashier and the new AP accountant. During the count, the auditors found that the new cashier did not have any cash fund on hand. A search within the premises yielded the following: (1) petty cash vouchers for replenishment totaling \$597.44, and (2) loose change totaling \$45.27 found in different areas within the office. Thus, \$557.29 ([petty cash (\$1,000) + change fund (\$200)] - [petty cash vouchers for replenishment (\$597.44) + loose change (\$45.27)]) was missing from the combined petty cash and change fund of \$1,200.

When asked about the missing funds, the NMC chief accountant stated that the former cashier, who was the custodian of the funds, had been absent without leave (AWOL) since October 1999. The chief accountant further stated that the former cashier did not turn over or provide any accounting of the funds in his custody.

Inadequate Internal Controls

Sound management practices, with respect to either government or private enterprises, require that an organization have adequate internal controls. Our audit of the NMC Business Office showed that internal controls were insufficient to prevent and detect fraud. It appeared that NMC management (the Board of Regents and the President) did not pay close attention to the operations of the Business Office. We identified specific controls that were either missing or inadequate, and which may have contributed to the cash misappropriation.

1. Absence of Written and Clear Policies and Procedures for Employees Involved in Cash Transactions

Making cash custodians aware that there must be a trail for verifying accountability and that there are legal and administrative sanctions can be an effective deterrent to conduct that leads to financial irregularities. The NMC Business Office should therefore have written policies on how cashiering duties and responsibilities are assigned any time a cashier goes out of the office and is temporarily relieved by another person. Written policies should also take into account the proper segregation of duties among Business Office personnel, such as separating collecting from depositing and from recording, or giving keys and safe combinations to different people to limit access to cash and ensure that the handling of cash is witnessed by another employee. There should also be policies on limiting access to the cashier's office, to unused ORs and blank checks, and to both recording and adjustment features in the computerized accounting system.

2. Lack of Supervision and Review

The failure to detect missing collections for a five-month period indicated a lack of supervisory review of the former cashier's duties. One of the procedures adopted by the NMC Board of Regents is *Supervisor verifies cash count, reviews deposit, and initials deposit slip*. The immediate supervisor of the former cashier was the chief accountant. If the chief accountant had been cognizant of her responsibilities that were required by the Board of Regents, then she should have reviewed the former cashier's daily collection. The review should have included the following: (1) determining the amount of collections based on the printed UTR, (2) verifying the accuracy and completeness of reported collections by reviewing the sequence of ORs issued, (3) counting the cash and checks collected, comparing breakdown and total amount counted against what was reported in the UTR, (4) determining the cause of cash shortages or overages, if any, and reporting such occurrences to management, (5) determining if the deposit slip was properly prepared and then signing it to show that the review process was conducted, and (6) ensuring that the collection to be deposited is placed and locked inside a bank deposit bag and/or placed and locked in the safe if the actual deposit will be made on the next banking day.

Because the chief accountant had been employed at the business office for a considerable time and accepted the highly paid position, NMC management should have been able to rely on her to perform very basic review procedures on cash. Because NMC collects money on almost a daily basis, the chief accountant should have conducted a daily review and immediately questioned the former cashier when no collection report was submitted to her. It also appears that NMC management was not aware of the performance of key personnel (such as the cashier and chief accountant) involved in financial operations.

3. No Bank Reconciliation

Our review likewise revealed that bank reconciliations were not performed on a monthly basis. As a result of this delay in reconciling bank and book balances, cash transaction errors and irregularities were not being detected and corrected.

Bank reconciliation was also among the responsibilities of the chief accountant. There was over a year's backlog in bank reconciliation work even though we found that the chief accountant had been granted compensatory time to do bank reconciliation. To update the reconciliations, NMC resorted to contracting with an independent accounting firm to do the job. Again, it seems that routine financial accounting work was not being performed, resulting in additional cost for NMC to have it carried out.

Conclusions and Recommendations

The NMC Business Office has weaknesses in its internal controls over collections. As a result, collections can easily be misappropriated without immediately being detected. For the past several years, there has been no genuine concern by NMC management on how the Business Office operates, although the function of the office is very critical for sound financial management. Management failed to implement existing policies and procedures, and to evaluate existing procedures to determine what needs improvement. Consequently, management failed to detect that recorded cash receipts were more than what were actually deposited and cash funds were missing. Accordingly, we recommend that the Board of Regents take the following steps:

1. Adopt and implement clear policies, procedures, and administrative sanctions that will ensure regular performance or control over the following:
 - a. the proper turnover of cashiering duties and responsibilities any time a cashier goes out of the office or is absent, and is temporarily relieved by another person making it impossible to commingle cash collected by the cashier with the reliever's cash collections.
 - b. the proper custodianship for the cash safe's combination and key (only one person may have access), unused ORs, blank checks, and limited access to the cashier's office.
 - c. use of control features in the computerized accounting system such as the use of passwords or log-on IDs, limiting access and user capabilities to specific users and key officials only. For example, people collecting tuition and other fees should only be allowed to see (inquiry options only) the student accounts receivable subsidiary ledger balances on the computer monitors, but must not be allowed to input or adjust any financial information.
 - d. periodic audits or surprise cash counts for handlers of petty cash and change funds, and having petty cash vouchers and other supporting documents for payments in the files at all times.
2. Require the Comptroller to implement and enforce effective internal controls over cash. The Comptroller must also identify the specific Business Office supervisor who will perform the following:
 - a. Supervision and Review of the cashier

Supervision must be continuous and the review of collection reports must be daily. We are reiterating the proper procedure for the review process as follows: (1) determine the amount of collections based on the printed UTR, (2) verify the accuracy and completeness of reported collections by reviewing the sequence of ORs issued, (3) count the cash and checks collected, compare the breakdown and total amount counted against what was

reported in the UTR, (4) determine the cause of cash shortages or overages, if any, and report such occurrences to management, (5) determine if the deposit slip was properly prepared and then sign the deposit slip to show that the review process was conducted, and (6) ensure that the collection to be deposited is placed inside a locked bank deposit bag and placed in a safe under lock and key if the actual deposit will be made on the next banking day.

b. Review of Bank Reconciliation Statements

Bank reconciliation statements should be made on a monthly basis and should be reviewed by the comptroller to determine the accuracy of cash account balances and the propriety of adjustments. The staff assigned to prepare the bank reconciliation statements and the comptroller should sign the reconciliation statements and the adjusting entries to document the preparation and review process.

c. Separate duties so that collection, recording and deposits are made by three different employees.

Northern Marianas College Response

In his letter response dated May 11, 2000 (**Appendix A**), the President of the Northern Marianas College said that the \$540 OPA reported (*Please see Table 1 and related discussion in page 5 and 7 of the report.*) missing from the November 5, 1999 collections was actually part of the November 3, 1999 collections. Nevertheless, the President generally agreed with all the recommendations. Summarized discussions on how each recommendation was addressed are as follows:

Recommendation 1 - The President agreed with the recommendation and stated that the Business Office is in the process of formulating clear written policies and procedures for all employees including those handling cash transactions. He further stated that a system of internal controls, although not written at this time, has been set up by the Comptroller to properly segregate the duties of each employee in the Business Office. He enumerated actions already taken by the College to minimize the risk of such situation recurring.

Recommendation 2 - agreed with the recommendation and stated that under the supervision of the Comptroller, the Chief Accountant reviews and verifies the daily cash collections and related official receipts and deposit slips. The sequence number of the official receipts is noted and any discrepancy is immediately investigated by the Chief Accountant. Bank reconciliation is being done on a monthly basis by the Chief Accountant or, on occasion, by the Comptroller.

The President also stated that many of the procedures mentioned in OPA's Recommendation 1 and 2 had already been implemented by the College prior to receiving the report.

OPA Comments

As reported, OPA compared the amount of collections on November 5, 1999 against what the acting cashier had on hand during a cash count conducted on November 23, 1999. Based on official receipts (ORs) issued on November 5, the collection was \$2,196.16, while the amount on hand as of November 23 (pertaining to November 5 collections) was only \$1,656.16. Missing was \$540. That the missing \$540 was from the November 5 collections was also corroborated by written statements provided by the acting cashier and other NMC employees. The auditors were able to substantially examine all documents related to the collections from July 1 to November 30, 1999. They have also interviewed most of the employees who were involved with the cashiering and accounting functions during the period covered by the audit. On June 1, 2000, the Special Assistant to the President was interviewed. He told OPA that he did not count the collections on November 3 and November 5, 1999. What he counted was only the contents of the safe in the cashier's office. Accordingly, his memorandum to the President only showed some loose change amounting to \$82, undeposited checks from students and other individuals totaling \$10,222 and checks issued by NMC to employees, students and vendors totaling \$218,858. OPA therefore stands behind the finding that \$540 was missing from the November 5, 1999 collections because evidence obtained during the audit supported that conclusion.

Based on the letter response from the President of NMC, we consider recommendations 1 and 2 resolved.

Recommendation 3 which was included in the draft letter report is withdrawn. Since OPA investigated this matter, we will refer it to the Attorney General's Office.

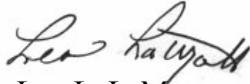
The additional information or action required to close Recommendations 1 and 2 is presented in **Appendix B**.

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Our office has implemented an audit recommendation tracking system. All audit recommendations will be included in the tracking system as open or resolved until we have received evidence that the recommendations have been implemented. An *open* recommendation is one where no action or plan of action has been made by the client (department or agency). A *resolved* recommendation is one in which the auditors are satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame of action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or we have withdrawn it.

Please provide to us the status of recommendation implementation within 30 days along with documentation showing the specific actions that were taken. If corrective actions will take longer than 30 days, please provide us additional information every 60 days until we notify you that the recommendation has been closed.

Sincerely,



Leo L. LaMotte
Public Auditor, CNMI

xc: Governor
Lt. Governor
Twelfth CNMI Legislature (27 copies)
President of the Northern Marianas College
Secretary of Finance
Special Assistant for Management and Budget
Attorney General
Public Information Officer
Press

05-12-00 14:32 NMC PRES OFFICE

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Northern Marianas College

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May 11, 2000

Mr. Leo L. LaMotte
Public Auditor
Office of the Public Auditor
Commonwealth of the Northern
Mariana Islands
P.O. Box 1399
Saipan, MP 96950

Dear Mr. LaMotte:

Thank you for your draft letter report on the audit of the Northern Marianas College's collections and deposits from July to November 1999.

We wish to clarify some of the facts that were presented in your draft letter report as well as to provide you with additional information that you may not have been aware of during the preparation of your report.

On page 7 of your report, a specific incident of missing cash was cited. However, some of the facts presented on the incident is not entirely accurate. On the morning of November 5, 1999, the acting cashier discovered \$540 missing from the safe in the cashier's office. This amount represented cash collected from the previous business day's transactions (November 3). November 4 was Citizenship day, which was a holiday in the Commonwealth. The acting cashier informed a co-employee about the missing cash and the incident was reported to former NMC President Agnes M. McPhetres. The former President immediately asked her special assistant to investigate the matter and report his findings to her.

The special assistant met with the acting cashier and her co-employee to gather information about the incident. A cash count was conducted by the special assistant in the presence of the acting cashier and her co-employee. All contents in the safe were removed and identified. Based on information from the acting cashier, the misappropriation of the \$540 must have occurred between the evening of November 3 and early morning of November 5.

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On November 15, 1999, a report was prepared by the special assistant summarizing his findings in the cashier's office. In order to rule out any doubt about the integrity of the former cashier, it was decided that an internal audit be conducted. The audit, covering the period from July to October 1999, was substantially completed on November 29, 1999. Preliminary findings from the audit indicated that there were discrepancies between cash collected and cash deposited. The findings were turned over to the Office of the Public Auditor (OPA) on November 29, 1999 for a more detailed review and analysis. The special assistant's report of November 15, 1999 was also provided to OPA. In fact, OPA used NMC's internal audit findings as the foundation for its work.

In addition to the internal audit undertaken by the College, the following actions were taken to minimize the risk of such a situation recurring again:

1. The locks to the doors of the Business Office and the lock and combination to the cash safe were changed. The new Comptroller and the Chief Accountant are custodians of the cash safe combination and the key to the cash safe is assigned to the cashier.
2. Under the supervision of the Comptroller, the Chief Accountant reviews and verifies the daily cash collections and related official receipts and deposit slips. The sequence number of the official receipts is noted during the review process to ensure the integrity of the cash receipts system. The Chief Accountant initials the deposit slip to indicate that the review process was conducted and that no discrepancies were discovered. Any discrepancy is immediately investigated upon by the Chief Accountant.
3. Cash collections are deposited intact on a daily basis using duplicate deposit slips, a copy of which is stamped by the bank and returned to NMC.
4. A new and permanent cashier has been hired whose primary function is to receive cash and issue pre-numbered official receipts as well as disbursing checks to suppliers. The cashier is not involved in the posting of cash collected to customer accounts nor is she involved in the processing of checks to vendors.
5. Under the supervision of the Comptroller, the Chief Accountant conducts surprise cash counts on a regular basis as a mechanism to monitor compliance with internal control procedures for the handling of cash.

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6. The Business Office is in the process of formulating clear written policies and procedures for all employees including those handling cash transactions. However, a system of internal control, although not written at this time, has been set up by the Comptroller to properly segregate the duties of each employee in the Business Office. A procedure has been also been established for instances when the cashier is out of the office or is absent. This procedure includes the use of a separate change fund and a separate password to log on to the automated cash receipts system by the temporary cashier.
7. NMC plans to bond employees involved in cash transactions and the Comptroller is currently soliciting price quotations from local insurance providers.
8. The College plans to limit physical access to the cashier's office by modifying the entrance to the office. The renovation will be implemented as soon as a schematic plan is developed.
9. The Chief Accountant or on occasion, the Comptroller, is reconciling the bank accounts on a monthly basis.

With the exception of the Chief Accountant, all Business Office personnel employed during the period of the audit have resigned or have been reassigned to another office. New and more qualified staff have been hired for the Business Office, including a new Comptroller.

We concur with your report's conclusions and recommendations but would like to point out that many of the recommendations were already implemented by the College prior to receiving the report.

In order to ensure compliance with our recently established internal control procedures by our Business Office staff, the College requests that your office conduct periodic audits of our internal control system. These audits can be conducted on a quarterly, semi-annual, or annual basis depending on the availability of your staff. We also ask for your assistance in working with the College and the Office of the Attorney General to recover the misappropriated funds.

Thank you for the opportunity to provide comments on your report and for your consideration to our requests.

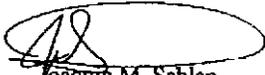
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Sincerely,

A handwritten signature in black ink, appearing to be "J. Sablan", enclosed within a hand-drawn oval.

Joaquim M. Sablan
President

AUDIT OF THE NORTHERN MARIANAS COLLEGE'S COLLECTIONS AND DEPOSITS FROM JULY TO NOVEMBER 1999

STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/ Action Required
<p>The Board of Regents should take the following steps:</p> <ol style="list-style-type: none"> 1. Adopt and implement clear policies, procedures, and administrative sanctions that will ensure regular performance or control over the following: <ol style="list-style-type: none"> a. the proper turnover of cashiering duties and responsibilities any time a cashier goes out of the office or is absent, and is temporarily relieved by another person making it impossible to commingle cash collected by the cashier with the reliever's cash collections. b. the proper custodianship for the cash safe's combination and key (only one person may have access), unused ORs, blank checks, and limited access to the cashier's office. c. use of control features in the computerized accounting system such as the use of passwords or log-on IDs, limiting access and user capabilities to specific users and key officials only. For example, people collecting tuition and other fees should only be allowed to see (inquiry options only) the student accounts receivable subsidiary ledger balances on the computer monitors, but must not be allowed to input or adjust any financial information. d. periodic audits or surprise cash counts for handlers of petty cash and change funds, and having petty cash vouchers and other supporting documents for payments in the files at all times. 	NMC	Resolved	<p>The President of NMC agreed with our recommendations. For recommendation 1, he stated that the Business Office is in the process of formulating clear written policies and procedures for all employees including those handling cash transactions. A procedure has been also established for instances when the cashier is out of the office or is absent. He also stated that the locks to the doors of the Business Office and the lock and combination to the cash safe were changed. The College also plans to limit physical access to the cashier's office by modifying the entrance to the office. For recommendation 2, the President said that the chief accountant reviews and verifies the daily cash collections and related official receipts and deposit slips. Furthermore, the chief accountant or, on occasion the Comptroller, is reconciling the bank accounts on a monthly basis.</p> <p><i>Further Actions Needed</i></p> <p>NMC should provide OPA a copy of the written policies and procedures of the Business Office. They should also incorporate in the written policies and procedures legal and administrative sanctions in case an employee commits financial fraud.</p>

**AUDIT OF THE NORTHERN MARIANAS COLLEGE'S
COLLECTIONS AND DEPOSITS FROM JULY TO NOVEMBER 1999**

STATUS OF RECOMMENDATIONS

Recommendations	Agency to Act	Status	Agency Response/ Action Required
<p>2. Require the Comptroller to implement and enforce effective internal controls over cash. The Comptroller must also identify the specific Business Office supervisor who will perform the following:</p> <p>a. Supervision and Review of the cashier</p> <p>Supervision must be continuous and the review of collection reports must be daily. We are reiterating the proper procedure for the review process as follows: (1) determine the amount of collections based on the printed UTR, (2) verify the accuracy and completeness of reported collections by reviewing the sequence of ORs issued, (3) count the cash and checks collected, compare the breakdown and total amount counted against what was reported in the UTR, (4) determine the cause of cash shortages or overages, if any, and report such occurrences to management, (5) determine if the deposit slip was properly prepared and then sign the deposit slip to show that the review process was conducted, and (6) ensure that the collection to be deposited is placed inside a locked bank deposit bag and placed in a safe under lock and key if the actual deposit will be made on the next banking day.</p> <p>b. Review of Bank Reconciliation Statements</p> <p>Bank reconciliation statements should be made on a monthly basis and should be reviewed by the comptroller to determine the accuracy of cash account balances and the propriety of adjustments. The staff assigned to prepare the bank reconciliation statements and the comptroller should sign the reconciliation statements and the adjusting entries to document the preparation and review process.</p> <p>c. Separate duties so that collection, recording and deposits are made by three different employees.</p>	NMC	Resolved	