

EXECUTIVE SUMMARY

CNMI Single Audit Report as of September 30, 2006

Single Audit Summary No. 07-004

Summary The Office of the Public Auditor (OPA) contracted with Deloitte & Touche, an independent auditing firm to conduct the “Single Audit” of the CNMI Government as a whole, for the fiscal year ended September 30, 2006. The audit was conducted in accordance with auditing standards generally accepted in the United States and with applicable standards contained in Government Auditing Standards issued by the Comptroller General of the United States. This summary presents highlights from Deloitte & Touche’s Report on the Audit of Financial Statements in Accordance with OMB Circular A-133 and other historical financial information. This summary is provided solely for informational purposes. As the audit was conducted by the independent auditing firm of Deloitte & Touche, no audit opinion on the related data is expressed nor inferred by OPA.

“Qualified” Opinion for FYE 2006 Financial Statements

For FYE 2006, the auditors issued a “qualified” opinion based on four conditions:

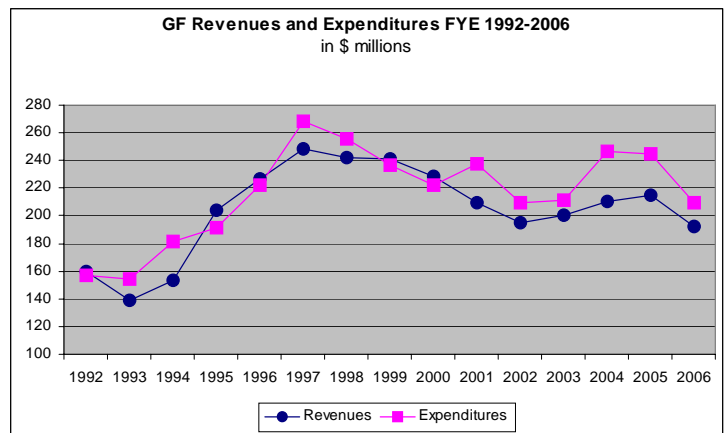
- Inadequacies in the accounting of taxes receivable, advances, accounts payable, tax rebates payable, and other liabilities and accruals.
- Inadequacies in the accounting records for capital assets of the Northern Marianas College.
- Unaudited financial statements of the Public School System.
- Unaudited financial statements of the Commonwealth Utilities Corporation, a significant government autonomous agency.

General Fund Revenues Decreased 10.3%, Expenditures Decreased 14.7%

CNMI General Fund revenues and expenditures simultaneously decreased in fiscal year 2006. Revenues decreased by \$22.2 million to a total of \$192.7 million. The significant decrease was primarily the result of a shrinking tax base due to the declining garment industry coupled with a downturn in the tourism industry since the pullout of Japan Airlines in October 2005. Revenue collections for FYE 2006 were the lowest they have been since 1994.

Additionally, through various cost-cutting measures the government successfully decreased General Fund expenditures by \$35.9 million to a total of \$209 million for the fiscal year. Despite the weighty reduction, General Fund revenues were again insufficient to cover total expenditures.

The greatest losses in revenue were from a \$20.6 million decrease in the collection of taxes, a \$2.2 million reduction in interest and dividends, and a \$1.8 million decline in the collection of revenue from licenses and fees. At the same time, General Fund expenditures saw a sharp reduction in payments to the Department of Public Lands (formerly Marianas Public Lands Authority) for land claims by \$12.2 million as well as a reduction of \$8.2 million for the general government and \$5.6 million for public safety and law enforcement.



General Fund Unreserved Deficit Increased to \$177.2 in FYE 2006

The CNMI’s cumulative unreserved fund deficit continues to mount with an increase of 2% to a total of \$177.2 million for the fiscal year. This is a significantly smaller increase than the 30% and 14% increases that were seen in fiscal years 2004 and 2005, respectively.



Major factors for the deficit increase were 1) payments to the Department of Public Lands toward land claims, despite the nearly 65% reduction in payments from the previous fiscal year, and 2) the inclusion of \$11.9 million in employer retirement contributions as expenditures. The contributions were suspended from payment in 2006 by Public Law 15-15, for the period of March 1, 2006 through September 30, 2007; therefore these contributions were not budgeted for in 2006.

Expenditures \$5 million less than budgeted

Expenditures by function examined on a budgetary basis came in under budget by a total of \$5 million. The following table shows budgeted amounts versus actual expenditures by function. (Figures in millions)

<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Executive branch	\$93.1	\$91.9	\$1.3
2 nd Senatorial District - Tinian	\$10.1	\$9.6	\$.5
1 st Senatorial District - Rota	\$10.4	\$9.9	\$.5
Government Utilities	\$17	\$14.6	\$2.4
Legislative Branch	\$7.5	\$7.5	\$0
Judicial Branch	\$4.1	\$4	\$.1
Independent Programs	\$1	\$.9	\$.08
Office of the Mayors	\$2.5	\$2.5	\$.03
Office of the Public Auditor	\$2.2	\$1.7	\$.6
Office of the Washington Rep.	\$1.4	\$1.3	\$.09
Boards and Commissions	\$.9	\$.9	\$0
Education	\$40.6	\$40.6	\$0
Tourism (payment to MVA)	\$4.9	\$4.9	\$.002
Employee Benefits	\$2	\$2	\$0
Payment to DPL	\$.1	\$.1	\$0
Unallocated audit adjustments, net	\$0	\$.5	(\$.5)

Audit Findings Increased from 48 to 52; Questioned Costs Jump to \$5 Million

Audit findings, which represent known violations of accounting principles and non-compliance with and/or weaknesses in internal controls, increased to 52; of which, 37 represent uncorrected findings from the previous year. Sixteen findings relate to financial statements, 34 relate to federal awards and questioned costs, and two relate to both financial statements and federal awards. Among the findings were:

- ▶ The General Fund's large taxes receivable balance (\$15.1 million) indicates a lack of policies and procedures over the assessment of taxes receivable.
- ▶ Of the \$1.6 million in outstanding and unliquidated travel advances, \$1.2 million represents carryforwards from prior years. Improper and untimely travel liquidations were also noted.
- ▶ Advances to vendors totaling \$4.1 million were not properly supported, reported, or liquidated.
- ▶ Noncompliance with federal property standards and the CNMI Property Management Policies and Procedures.
- ▶ Noncompliance with established procurement policies and regulations, incomplete procurement files, and questioned costs of \$196,248.
- ▶ The Medicaid Program paid out \$1.6 million for services that were not reviewed for eligibility or for propriety of rates charged.

The overall effect of the audit findings was the disclosure of \$1.5 million in questioned costs relating to Federal grants. This is a 104% increase over the questioned costs identified in the FYE 2005 Single Audit, bringing the cumulative total of unresolved costs to \$5 million. The questioned costs are subject to Federal review and may require reimbursements from the General Fund to the Federal grantor agencies.



A copy of this report is available at the Office of the Public Auditor

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