

February 8, 2017

Ms. Larrisa Larson
Secretary of Finance
Department of Finance
Commonwealth of the Northern Mariana Islands:

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2015 (on which we have issued our report dated February 8, 2017) and which report was modified to include explanatory paragraphs concerning the correction of errors, going concern, the lack of adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, the financial statements of the Northern Mariana Islands Settlement Fund not being included in the financial statements, our inability to determine the propriety of the Commonwealth Utilities Corporation's fixed assets and inventories, our inability to quantify the impact of typhoon damages on the Commonwealth Utilities Corporation's financial statements, our inability to determine the propriety of the Commonwealth Healthcare Corporation's receivables, advances, inventories, due to/from CNMI, capital assets, accounts payable, due to related parties, accrued taxes and other liabilities and related revenues, expenses and non-operating income (expense) due to the lack of physical inventory of capital assets and inadequacies of accounting records and the financial statements for the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund) not being audited, 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, we considered the CNMI's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the CNMI's internal control over financial reporting and other matters as of September 30, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Ralph DLG. Torres, also dated February 8, 2017, on our consideration of the CNMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that we consider to be material weaknesses or significant deficiencies under standards established by the American Institute of Certified Public Accountants.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Office of the Public Auditor and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the CNMI for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLC

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the CNMI’s internal control over financial reporting as of September 30, 2015.

(1) Advances

Advances to vendors should be timely updated for goods/services received. As of September 30, 2015, the General Fund recorded vendor advances of \$706,035, of which \$615,875 dates to fiscal year 2014 and prior. An aging of vendor advances by fiscal year follows:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 129,683
2013	50,215
2012	101,694
2011	71,719
2010	53,919
2009	70,325
2008	32,170
2007	24,732
2006	42,468
2005	28,540
2004	<u>10,410</u>
	<u>\$ 615,875</u>

We recommend that vendor advances be monitored and be timely adjusted upon receipt of related goods and/or services. Further, we recommend review of existing procedures related to advances for those goods and/or services likely to be received within a short period of time. This matter was discussed in our previous reports on the internal control over financial reporting for fiscal years 2008 through 2014.

(2) Travel

Travel authorization (TA) for travel outside the CNMI should be approved by the Governor or the Lieutenant Governor. In addition, travel advances should be timely liquidated through submission of travel vouchers or the return of funds and should be accompanied by a trip report. Tests of travel advances noted the following:

- a) TA # JUD-15-098 for employee # 00102464 was not approved by the Governor or the Lieutenant Governor. No written documentation was provided to indicate that approval of the Department Head was sufficient.
- b) The travel voucher for TA # JUD-15-098 for employee # 00102464 included \$1,611 for 9.75 days of per diem. Eight days were paid at a per diem rate of \$200 while 1.75 days related to flight travel time and were paid at a \$6 daily rate. No written documentation supporting the \$6 per diem rate was provided.
- c) Employee # 00102464 received a \$1,811 travel advance per TA # JUD-15-098; however, the amount recorded in the general ledger was \$1,890. Documentation and/or a reconciliation of the \$79 variance was not provided.
- d) Liquidation of the following travel advances exceeded the fifteen day liquidation grace period:

<u>Employee #</u>	<u>TA #</u>	<u>TA Date</u>	<u>Travel Period</u>	<u>Liquidation Date</u>
00102464	JUD-15-098	06/10/15	06/16/15 - 06/26/15	10/28/15
00102866	314974-OT	07/15/15	07/25/15 - 08/05/15	12/31/15, amended on 02/18/16

- e) A trip report was not attached to the travel voucher for employee # 00102464, TA # JUD-15-08.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(2) Travel, Continued

- f) The travel voucher for TA # 314974-OT for employee # 00102866 included \$1,708 for 9.75 days of per diem. 8.5 days were paid at a per diem rate of \$200 while 1.25 days related to flight travel time was paid at a \$6 daily rate. No written documentation supporting the \$6 per diem rate was provided.
- g) Employee # 00102866 received \$1,708 in travel advance per TA # 314974-OT; however, the amount recorded in the general ledger was \$1,131. Documentation and/or a reconciliation of the \$577 variance was not provided.

We recommend that policies and procedures be implemented and enforced requiring approval of the Governor or Lieutenant Governor for travel outside of the CNMI, daily per diem rates be based on established policy, the timely liquidation of all travel advances, a trip report be submitted by the traveler and that the amount recorded in the general ledger agree with the actual travel advance.

(3) Other Liabilities and Accruals

An effective system of internal control includes policies and procedures to record liabilities in the appropriate fiscal year. Tests of subsequent disbursements noted \$282,979 of unrecorded General Fund liabilities at September 30, 2015. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment. We recommend that DOF implement appropriate policies and procedures to record liabilities in the correct fiscal year. This matter was discussed in our previous reports on the internal control over financial reporting for fiscal years 2008 through 2014.

(4) Revenue/Receipts - Division Revenue and Taxation

Tests of cash receipts of the Division of Revenue and Taxation (DRT) noted the following:

- a. For one of forty-five business gross revenue tax receipts (account no. 40110), the amount paid by the taxpayer was in excess of actual tax due:

<u>Batch No.</u>	<u>Per CDRSR</u>	<u>Receipt Date</u>	<u>Tax Due</u>	<u>Amount Paid</u>	<u>Variance</u>
3410		03/31/15	\$ -	\$ 99	\$ (99)

Additionally, the following cash receipts were not timely deposited:

<u>Receipt No.</u>	<u>Receipt Date</u>	<u>Deposit Date</u>	<u>Business Days Delayed</u>
2964544	11/26/14	12/01/14	1
2986128	01/23/15	01/27/15	1
3077094	08/27/15	08/31/15	2

Further, a tax return for one cash receipt (receipt no. 2962273 dated 11/19/14) was not provided. Thus, we were unable to determine if the tax was properly assessed.

- b. For two of sixteen wage and salary receipts (account nos. 40210 and 40220), the supporting tax return was not provided.

<u>Receipt No</u>	<u>Receipt Date</u>	<u>Amount</u>
2948099	10/14/14	\$ 200,000
3092253	07/07/15	\$ 39,003

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(4) Revenue/Receipts - Division Revenue and Taxation, Continued

Additionally, for one receipt the amount paid by the taxpayer does not agree to the total tax due.

<u>Batch No. Per CDRSR</u>	<u>Receipt Date</u>	<u>Tax Due</u>	<u>Amount Paid</u>	<u>Variance</u>
7789	05/05/15	\$ 639,832	\$ 88,268	\$ 551,564

Further, total collections per CDRSR (batch no. 7789) of \$257,381 do not agree with cash received per the bank statement of \$244,701. It was represented that the difference of \$12,680 relates to credit card collections which may have been posted to an old account.

For four receipts, a detailed summary of taxes withheld by the taxpayer was not provided. Thus, we were unable to determine if the tax was properly assessed:

<u>Receipt No.</u>	<u>Receipt Date</u>	<u>Amount</u>
3061765	07/13/15	\$ 1,884
3074746	08/21/15	\$ 3,171
3082447	08/12/15	\$ 30,624
3086634	09/18/15	\$ 14,319

- c. For one of ten hotel occupancy tax receipts (account no. 41410), the amount paid by the taxpayer does not agree with the tax due.

<u>Batch No. Per CDRSR</u>	<u>Receipt Date</u>	<u>Tax Due</u>	<u>Amount Paid</u>	<u>Variance</u>
7931	07/20/15	\$ 279,534	\$ 85,258	\$ 194,276

We recommend that daily cash receipts be timely deposited and that all tax returns be reconciled, filed and maintained. These matters were discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012, June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2006 and March 1, 2006.

(5) Revenue/Receipts - Division of Customs

Of twelve cash receipts of the Division of Customs tested, we noted the following:

- a) Taxes due for one transaction was incorrectly calculated. Management did not consider the amount sufficiently material to the financial statements to warrant adjustment.

<u>Location Code</u>	<u>Transaction Date</u>	<u>DOE Number</u>	<u>Tax Due</u>	<u>Tax Due Per Tax Assessment Form</u>	<u>Variance</u>
43	07/20/15	06636-2015-SS	\$ 9,438	\$ 9,673	\$ (235)

- b) Vendor invoices for two (or 17%) transactions were not provided:

<u>Location Code</u>	<u>Transaction Date</u>	<u>DOE Number</u>	<u>Tax Due Per Tax Assessment Form</u>
64	04/29/15	02815-2010-AR	\$ 55
64	07/16/15	02470-2014-AR	\$ 19

- c) Collections for five transactions were not deposited on the business day following the collection date:

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(5) Revenue/Receipts - Division of Customs, Continued

<u>Location Code</u>	<u>Transaction Date</u>	<u>Deposit Date</u>	<u>Elapsed</u>	<u>Total Cash and Check Collections</u>
41	10/14/14	10/16/14	2	\$ 14,978
41	02/23/15	02/25/15	2	\$ 13,700
41	06/26/15	06/30/15	4	\$ 705
42	11/22/14	11/25/14	3	\$ 701
43	07/20/15	07/22/15	2	\$ 7,135

We recommend the CNMI strengthen controls over processing, recording, monitoring collections and systematic filing at the Division of Customs. Further, we recommend that all collections be timely deposited. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014 and May 24, 2013 and in our previous reports on the internal control over financial reporting for fiscal years 2011 through 2014.

(6) Revenue/Receipts

Tests of cash receipts of each governmental fund noted the following:

- a. Of seventy-four cash receipts of the Grants Assistance Fund tested, we noted the following:
 - i. Two drawdown request forms were not provided. There is no evidence that the drawdowns were approved prior to funds being drawn.

<u>Fund</u>	<u>Business Unit</u>	<u>Transaction Date</u>	<u>Document Number</u>	<u>Amount</u>
2020	C3482G	01/20/15	252552	\$ 16,398
2020	T15600A	09/25/15	258210	\$ 20,958

- b. Of thirteen cash receipts of the Saipan Amusement Fund tested, four supporting journal vouchers were not provided. There is no evidence that the journal entries were approved.

<u>Fund</u>	<u>Business Unit</u>	<u>Transaction Date</u>	<u>Document Number</u>	<u>Amount</u>
7069	7169B	05/20/15	255307	\$ 323,854
7069	7169D	05/20/15	255307	\$ 53,976
7069	7169B	09/10/15	257701	\$ 444,576
7069	7169E	09/10/15	257701	\$ 37,048

- c. Of forty-six cash receipts of the Other Grants Fund tested, we noted the following:
 - i. One cash receipt received on 09/12/14 was recorded as FY15 revenues.

<u>Fund</u>	<u>Business Unit</u>	<u>Transaction Date</u>	<u>Document Number</u>	<u>Amount</u>
2030	3022	12/22/14	14555	\$ 37,640

Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.

- ii. The drawdown request form for one receipt was not provided. There is no evidence that the drawdown was approved prior to funds being drawn.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(6) Revenue/Receipts, Continued

<u>Fund</u>	<u>Business Unit</u>	<u>Transaction Date</u>	<u>Document Number</u>	<u>Amount</u>
2030	3022	06/26/15	256186	\$ 24,140

iii. The drawdown request form for one receipt was not signed by the authorized approver. Approval of the drawdown prior to funds being drawn was not evident.

<u>Fund</u>	<u>Business Unit</u>	<u>Transaction Date</u>	<u>Document Number</u>	<u>Amount</u>
04042	4961E	07/27/15	256861	\$ 100,134

We recommend that:

- Revenues be recorded when earned;
- Journal entries be supported by journal vouchers or equivalent documents; and
- Drawdown requests be reviewed and approved prior to funds being drawn.

(7) Procurement

In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the CNMI procurement regulations state the following:

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the Procurement and Supply (P&S) Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.

Of thirty Other Governmental Funds expenditures tested aggregating \$2,151,577, price quotations were not obtained for one totaling \$9,500 and bidding did not occur for one expenditure (document no. 1209611, PO No. 587812 for \$18,200).

<u>Business Unit</u>	<u>Object Account</u>	<u>General Ledger Date</u>	<u>Document Number</u>	<u>PO Number</u>	<u>Amount</u>
3730	62690	05/11/15	1218079	590753 OP	\$ 1,500
3500I	62480	08/26/15	1244283	595500 OP	\$ 8,000

We recommend that the CNMI comply with applicable regulations.

(8) Payroll

Employee salaries and wages should be supported by an approved Personnel Action Form (PAF), timesheets, leave forms and employee allotments/deductions authorization forms. Tests of payroll expenditures noted the following:

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(8) Payroll, Continued

a. Approved annual leave forms for the following employees were not provided:

<u>Business Unit</u>	<u>Employee No.</u>	<u>Total Annual Leave Used per Payroll Register</u>
Unknown	101507	200.75
1011	402505	39.75

b. Of twenty-four General Fund payroll expenditures tested, the following were noted:

1. The timesheet for the following employee was not provided:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Employee Number</u>
1677	08/22/15	159873

2. There was no evidence that administrative leave for the following employee was approved:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Employee Number</u>	<u>Leave Hours</u>
1677	10/04/14	159873	4

3. The applicable journal voucher for the following payroll item was not provided:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
9040	09/30/15	259536	\$ 106,308

4. The PAF was not provided for the following:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Employee Number</u>
1677	08/22/15	159873

c. Of seven Other Governmental Funds payroll expenditures tested, the following were noted:

1. The business unit indicated in the general ledger does not agree with the authorized business unit indicated on the PAF:

<u>Employee No.</u>	<u>General Ledger Date</u>	<u>Business Unit Per General Ledger</u>	<u>Business Unit Per PAF</u>	<u>Gross Payroll Amount</u>
817024	12/27/14	T5205N	T02059	\$ 1,602

2. An approved annual leave form for the following employee was not provided:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Employee No.</u>	<u>Leave Hours</u>
T5205N	11/01/14	680620	4

3. There was no evidence that administrative leave for the following employees was approved:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Employee Number</u>	<u>Leave Hours</u>
T4205W	10/04/14	817022	4
T5205N	09/19/15	103422	28

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(8) Payroll, Continued

4. A variance exists between our calculation of employee benefits and the amount per the payroll distribution report (PDR). We were not provided with an explanation for the variance. Management did not consider the amount sufficiently material to the financial statements to warrant adjustment.

<u>Business Unit</u>	<u>Object No.</u>	<u>General Ledger Date</u>	<u>Employee No.</u>	<u>Amount Per PDR</u>	<u>Calculated Amount</u>	<u>Variance</u>
T5205N	61210	10/04/14	640445	\$ 127	\$ 396	\$ (269)

Our walkthrough of the payroll and personnel flow of transactions noted the following:

- a. A memo granting 16 hours of administrative leave was not provided for business unit no. 1016, pay period ended 07/11/15.
- b. The W-4 form for employee #10252 was not provided.

We recommend:

- The CNMI review payroll related documents to support leave hours paid;
- The CNMI investigate calculation of employee benefits in the PDRs;
- The CNMI file and maintain relevant payroll documents and reports;
- Employees be paid only for approved hours; and
- Payroll expenditures charged to a business unit agree with the authorized business unit indicated on the PAF.

This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012, June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

(9) Fund 1016 - Department of Public Land (DPL) Balances

DPL is a governmental fund of the CNMI. DPL transactions throughout the fiscal year, including cash receipts and disbursements, receivables, revenues and other liabilities, were not recorded in the financial management system (FMS). These transactions were recorded at year-end through proposed audit adjustments. We recommend that DOF coordinate with DPL in recording all transactions into the FMS. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013 and May 1, 2012.

(10) Recording of Transactions

The CNMI did not record related transactions throughout the fiscal year for the following funds:

<u>Fund No.</u>	<u>Fund Name</u>
3210	Debt Service
7066	Security Deposit
7067	Tobacco Land Settlement
9090	General Long-Term Debt
9091	Capital Assets

SECTION I - CONTROL DEFICIENCIES, CONTINUED(10) Recording of Transactions, Continued

Transactions were recorded through proposed audit adjustments. We recommend that DOF establish policies and procedures for the timely recording of transactions related to the above funds. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012 and June 23, 2010.

(11) Recording of Transactions - Security Deposits

At September 30, 2015, approximately \$1,258,481 was held by the CNMI representing monies received for bail, restitution, child support and other related funds received in a fiduciary capacity. The Division of Treasury is not a signatory to the related bank accounts. This condition could result in unrecorded bank accounts. Further, related cash transactions throughout the fiscal year were not recorded in the FMS. The year-end balances of these cash accounts are adjusted only at year-end through proposed audit adjustments. We recommend that all bank accounts be established through the Division of Treasury unless legislation requires otherwise. Further, we recommend DOF coordinate with the Superior Court in recording related cash transactions into the FMS. Finally, we recommend that DOF establish policies and procedures for the timely recording of transactions related to the above funds. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012 and June 23, 2010.

(12) Computer Processing Environment

Our understanding of the entity's computer processing environment noted that there is no documentation of network modifications. We recommend that all significant network modifications (e.g. changes of network settings, update of network software, installation of new network components) be documented in change forms before the modifications are implemented. The forms should be approved by EDP management and/or division management. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012, June 23, 2010 and June 15, 2009.

(13) Network Penetration Testing

The CNMI did not perform network penetration testing in fiscal year 2015. Network vulnerability testing and/or network penetration testing should be performed annually to identify weak areas of the network and to lower the risk of hackers modifying/viewing critical information in the network. This matter was discussed in our previous letter dated June 29, 2015, June 30, 2014, February 27, 2014 and May 24, 2013.

SECTION II - OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

(1) Journal Entries

Total debits did not agree to total credits of the CNMI's 2015 journal entries by \$114,821. We were not provided with a reconciliation of the variance. Management did not consider the amount sufficiently material to warrant an adjustment. We recommend that management review journal entries prior to posting.

SECTION II - OTHER MATTERS, CONTINUED

(2) Receivables

At September 30, 2015, the General Fund recorded a fully allowed receivable from the Tinian Casino Gaming Control Commission (TCGCC) (A/c no. 12341-1010, totaling \$3,103,600). This balance should have been paid during fiscal year 2001 in accordance with a Memorandum of Agreement between the Office of the Governor and TCGCC. We recommend that DOF collect receivables in accordance with established repayment plans. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012, June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005 and in our previous reports on the internal control over financial reporting dated October 14, 2003 and August 13, 2002.

(3) Receivables - Returned Checks

As of September 30, 2015, the General Fund recorded returned checks receivable (account no. 1010.12800) of \$694,373 for which no subsidiary ledger was provided. An allowance of \$604,060 was recorded in the General Fund to provide for this account. We recommend that periodic reconciliation of returned checks receivable be performed. This matter was discussed in our previous letter dated June 29, 2015 and in our previous reports on the internal control over financial reporting for fiscal years 2008 through 2013.

(4) Inventory

In fiscal year 2002, ServMart suspended its operations. Inventory of \$232,387, representing old and expired items, remain in the general ledger at September 30, 2015. We recommend that the Division of Procurement and Supply dispose of old and expired inventories and adjust the general ledger. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012, June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007 and June 16, 2006.

(5) Payables

At September 30, 2015, the General Fund payable subsidiary ledger includes invalid debit items aggregating \$3,005,485. While the fiscal year 2015 general ledger was adjusted, the debit items have not been deleted from the subsidiary ledger. We recommend that the CNMI delete invalid debits from the payable subsidiary ledger. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012, June 23, 2010 and June 15, 2009.

(6) Vouchers Payable

Of seven Other Grants Fund payables tested, invoices for the following were not provided:

<u>Transaction Date</u>	<u>Document Number</u>	<u>Amount</u>
09/14/06	585749	\$ 215,000
07/06/98	22207	\$ 31,574

We recommend that vouchers payable be supported prior to posting.

SECTION II - OTHER MATTERS, CONTINUED

(7) Landfill Costs Liability

CNMI’s assessment of total estimated future closure costs of \$6.87 million of the solid waste facility and its estimated life of 18 years was performed in 2003. Since the landfill facility has been in operation for a number of years, there could be a more reliable basis of estimating the life and cost; however, no updated estimates to reflect current circumstances were provided. We recommend that the CNMI perform an updated assessment of landfill costs and estimated life of the solid waste facility. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013 and May 1, 2012.

(8) CNMI Local Noncompliance

Pursuant to Public Law (PL) No. 13-42, Section 3, the Solid Waste Management Revolving Account (SWMRA), the Commonwealth Treasury should establish and maintain a SWMRA which shall be accounted for separately from the General Fund. As of September 30, 2015, the SWMRA Fund was not established. We have been advised that such a fund has not been established due to the timeframe in which revenues are received and disbursements are processed. We recommend that DOF separately account for funds relating to SWMRA as required by PL 13-42. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012, June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

(9) CNMI Local Noncompliance

Public Law 12-61 requires that all deposits of public funds be 100% collateralized by U.S. Government securities. As of September 30, 2015, compliance with the collateralization requirement for deposits with two banks of \$1,758,359 was unable to be verified. We recommend that DOF obtain sufficient documentation and periodically update collateralization requirements to demonstrate compliance with Public Law 12-61. This matter was discussed in our previous letters dated June 29, 2015, June 30, 2014, February 27, 2014, May 24, 2013, May 1, 2012, June 23, 2010, June 15, 2009, June 27, 2008, June 18, 2007 and June 16, 2006.

(10) Accounting System

An effective system of internal control requires an accounting system capable of separately accounting for data for different programs under different funds. We noted a project, under business unit C1300B, for which expenditures were erroneously mapped to fund 4058. Additionally, business units 2412 and 4099 relate to TIQ renovation and repair.

<u>Fund</u>	<u>Business Unit</u>	<u>Amount</u>
4058	C1300B	\$ 925,393
4052	4099	136,630
4052	2412	<u>111,104</u>
		<u>\$ 1,173,127</u>

We recommend that the CNMI correctly map program revenues and expenditures to the correct fund. This matter was discussed in our previous letter dated June 29, 2015.

SECTION II - OTHER MATTERS, CONTINUED(11) Expired Funds

Tests of expenditures noted surplus funds of \$1,762,241 after applying carryover funding for the 2015 fiscal year. The amount was not requested for carry over for fiscal year 2016 and therefore was lost. We recommend that funds be monitored and used to avoid surplus loss.

SECTION III - DEFINITION

The definition of a deficiency is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The CNMI's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.