

**COMMONWEALTH GOVERNMENT
EMPLOYEES' CREDIT UNION**

Independent Auditors' Report on
Internal Control and on Compliance

December 31, 2008 and 2007

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON THE AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Commonwealth Government Employees' Credit Union:

We have audited the financial statements of the Commonwealth Government Employees' Credit Union (the Credit Union) for the years ended December 31, 2008 and 2007, and have issued our report thereon dated September 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Credit Union's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Credit Union'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control 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 misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Credit Union's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Credit Union's financial statements that is more than inconsequential will not be prevented or detected by the Credit Union's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting as items 2008-1 through 2008-5.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Credit Union's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Credit Union's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 Responses as items 2008-6 and 2008-7.

The Credit Union's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Credit Union's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Bryce & Co., P.C.

September 18, 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-1

Reconciliation of subsidiary ledgers to general ledger

Criteria – In a depository and lending institution, with hundreds or thousands of customers, subsidiary ledgers are maintained for borrowers and depositors. In an accounting system, it is imperative that the details that are posted to the subsidiary ledgers are reconciled with the totals that are posted to the general ledger, usually monthly.

Condition – There were differences between the balances of loans and deposits per the subsidiary ledgers with the balances in the general ledger. Reconciliations of the subsidiaries to the general ledger are performed, but are not reviewed by management.

Cause – Lack of clearly defined procedures and responsibilities.

Effect – The general ledger had to be adjusted in both 2007 and 2008 for unreconciled differences between the subsidiary ledger and the general ledger.

Recommendation – The subsidiary ledgers should be reconciled to the general ledger on a monthly basis. These reconciliations should be reviewed by the General Manager. If the General Manager is not available (for example, off-island), the reconciliations should be reviewed by a Board member.

Auditee Response/Corrective Action Plan – The differences in the Credit Union subsidiary ledgers and general ledger balances were due to a minor glitch in the new system in processing the monthly reports. As a corrective plan, Credit Union will implement a control procedure to ensure that reconciliation of the general and subsidiary ledger is done on a monthly basis. The reconciliation will be reviewed and approved by the General Manager or Acting General Manager.

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-2

Review of bank reconciliations

Criteria – Bank accounts should be reconciled on a monthly basis. The reconciliations should be reviewed by a person other than by the preparer of the reconciliation.

Condition – Bank accounts are prepared on a monthly basis, but they are not reviewed.

Cause – Lack of clearly defined procedures and responsibilities.

Effect – We did not note any financial statement impacts for 2008 or 2007.

Recommendation – Bank accounts should be reconciled to the general ledger on a monthly basis. These reconciliations should be reviewed by the General Manager. If the General Manager is not available (for example, off-island), the reconciliations should be reviewed by a Board member.

Auditee Response/Corrective Action Plan – As a corrective plan, Credit Union will implement as a requirement in its accounting procedures the preparation of monthly bank reconciliations by the Accountant will be reviewed and approved by the General Manager or Acting General Manager.

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-3

Processing Cash Receipts

Criteria – Individuals who collect receivables should not be able to post cash receipts to the receivables subsidiary ledger, review the receivables aging trial balance, or process customer service calls and complaints.

Individuals who post cash receipts to the receivables subsidiary ledger should not be able to review the receivables aging trial balance, maintain or authorize receivables adjustments, open mail or copy checks received, prepare deposits, deposit cash receipts or reconcile bank accounts.

Individuals who open mail or copy checks should not be able to prepare deposits, deposit cash receipts, reconcile bank accounts, maintain the cash receipts journal, or post journal entries to the general ledger.

Individual who deposit cash receipts should not be able to reconcile bank accounts, investigate discrepancies related to cash, maintain the cash receipts journal, or post journal entries to the general ledger.

Condition – We found that employees are able to perform incompatible duties as listed above.

Cause – Primarily due to the small number of employees, which can sometimes be only two people on a given day.

Effect – The Credit Union is susceptible to misappropriation of cash.

Recommendation – To the greatest extent possible given the size of the Credit Union, incompatible duties should be assigned to different people. More detailed review by management or the Board will help to reduce exposure to risk.

Auditee Response/Corrective Action Plan – The new CGECU system has in place security features that restrict certain processing of transactions to the GM or the Office Manager only. In addition, a daily report of activities is printed and reviewed by the GM for any discrepancies or suspicious activities. Furthermore, the processing of adjustments, transfers and allotments to members accounts is restricted to only the GM and the Office Manager. The design of CGECU's system requires that a direct deposit transaction be posted before a receipt can be printed. (As a corrective plan, a CGECU staff who receives cash deposits will not be permitted to post the transaction to the ledger. It will be a requirement for another staff to post such deposit.)

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-4

Review of Cashier Fund Reconciliations

Criteria – It is necessary to reconcile cashier funds at the end of each shift to promptly identify overages or shortages.

Condition – Although cashier funds are counted and reconciled, they are not reviewed by a supervisor or management.

Cause – Lack of clearly defined controls and responsibilities

Effect – We did not note any financial statement impacts for 2008 or 2007.

Recommendation - At the end of each shift, cashier funds should be counted and reconciled. These reconciliations should be reviewed by a Supervisor.

Auditee Response/Corrective Action Plan – As a corrective plan, Credit Union will implement and enforce in its accounting procedure the need for daily counting and reconciliation of cashier funds. A teller form will be created which shall be reviewed and approved by the Supervisor.

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-5

Adjustment of Cash Accounts

Criteria – Cash is highly susceptible to misappropriation. Without adequate oversight, such misappropriations can go undiscovered. Adjustments to general ledger cash balances must be reviewed and approved by an appropriate member of management.

Condition – Adjustments to cash accounts are prepared and entered into the general ledger, but the adjustments are not reviewed by management or another appropriate person.

Cause – Lack of clearly defined controls and responsibilities.

Effect – We did not note any financial statement impact for 2008 and 2007.

Recommendation – All adjustments to cash balances should be reviewed and approved by an appropriate member of management.

Auditee Response/Corrective Action Plan – The only adjustments thus far posted into the general ledger cash balances by the Credit Union's Accountant is the adjustment in entry of monthly bank charges for online cash management and bank monthly savings interest earned. As an internal control procedure the Credit Union's Accountant will have the General Manager or the Acting General Manager (in case the General Manager is off-island) review and approve all adjusting entries.

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-6

NMIRF Loan Conditions

Criteria – The Agreement among the Government of the Commonwealth of the Northern Mariana Islands and the Commonwealth Government Employees' Credit Union and the Northern Mariana Islands Retirement Fund to provide Financing and Guarantee of Financing for the Commonwealth Government Employees states that the Credit Union shall charge no less than twelve percent (12%) interest per annum on all loans made to qualified loan applicants (Section 5.6), and that the Credit Union shall submit all proposed rules and regulations, policies, and amendments thereto to the Fund for its approval prior to publication (Section 5.17).

Condition – Our tests of the Credit Union's compliance with the Fund's loan conditions noted the following:

- The revised loan policy dated November 28, 2007 states that a fully secured loan can be made to a qualified loan applicant with an interest rate of 10%.
- The Fund's approval for changes to existing regulations, policies, and related amendments was not available.

Cause – The cause of the above condition is lack of procedures in place to monitor compliance with borrower obligations stipulated in the loan agreement.

Effect – The effect of the above condition is noncompliance with loan conditions.

Recommendation – We recommend that the Credit Union establish procedures to monitor compliance with loan conditions or obtain a waiver of those conditions that are no longer in effect or which are no longer enforced by the lender.

Auditee Response and Corrective Action Plan – As a corrective plan, the General Manager will ask the board to recall the board resolution making the fully secured loan interest rate 10%, therefore, bringing back the original rate of 12% as stipulated in the NMIRF Loan Agreement.

Since the creation of the Credit Union, there have been no amendments to the CGECU Regulations or Bylaws. Throughout the years, changes to internal policies were done and implemented through Board Resolutions. A review of CGECU's records dating back to the time of creation did not show that any of the internal policies such as Loan, Travel, Personnel, or Procurement Policies were ever reviewed and approved by the NMIRF. The CGECU will write to the NMIRF requesting if it is required for such internal policies to be reviewed and approved by them. If so, future changes will definitely be forwarded to the Fund for review and approval. If not, the CGECU will obtain a letter in writing.

Proposed Completion Date – Ongoing

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses Years Ended December 31, 2008 and 2007

Finding No. 2008-7

Loan Policy

Criteria – Revised loan policy dated November 28, 2007 states that the Credit Union has established a generous debt to income ratio of 50% and at no time will credit be granted to members if the debt to income ratio exceeds 50%.

Condition – Loans were given to members without calculating the debt to income ratio when the loan amount is fully or partially secured.

Cause – The cause of the above condition is lack of procedures in place to monitor compliance with the loan policy.

Effect – The effect of the above condition is noncompliance with loan policy.

Recommendation – We recommend that compliance with loan policy be monitored.

Auditee Response and Corrective Action Plan – The GM will ask the board to review and amend the Loan Policy to specify that any loans fully or partially secured will not be processed in the same manner as an unsecured loan, therefore, eliminating the need for credit checks and a financial statement indicating a debt to income ratio of no more than 50%.

Proposed Completion Date – Ongoing