

# EXECUTIVE SUMMARY

## CNMI Single Audit Report As of September 30, 2005

### Single Audit Summary No. 06 - 005

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, 2005. 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 OPA's review of Deloitte & Touche's *Report on the Audit of Financial Statements in Accordance with OMB Circular A-133* for the fiscal year ended September 30, 2005. 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.

### ***CNMI Cumulative Unreserved Fund Deficit Increased to \$174.3 Million in FYE 2005***

In FYE 2005, actual General Fund revenue collections totaled \$214.9 million, an increase of \$ 4.3 million from the prior year. However, the increased General Fund revenues were insufficient to cover total General Fund expenditures during the fiscal year by \$30 million. As in prior fiscal years, the General Fund deficit was funded largely by the failure of the General Fund to pay employer retirement contributions to the Northern Mariana Islands Retirement Fund.

This increase in the General Fund deficit contributed significantly to the increase in the CNMI's total unreserved fund deficit which rose from \$153.4 million in FYE 2004 to \$174.3 million in FYE 2005. The total unreserved fund deficit has nearly doubled since FYE 2001 when it stood at \$87.9 million.

The Single Audit report noted the following historical information relating to the General Fund.

	4 Year Change	<i>Figures are in \$ Millions</i>				
		2005	2004	2003	2002	2001
Total Assets	- 7.7%	74.7	95.5	63.5	71.2	80.9
Total Liabilities	46.8%	210.5	201.4	157.5	152.1	143.4
Total Revenues	0.6%	214.9	210.6	200.7	195.1	213.6
Total Expenditures	6.7%	244.9	246.9	211.2	209.8	229.5
Unreserved Fund Deficit	98.3%	174.3	153.4	118.4	104.4	87.9

As shown, over the four year period from FYE 2002 to FYE 2005, the unreserved fund deficit increased by a staggering 98.3% and total liabilities increased by 46.8%.

OPA analyzed the four year period covered by the above data to determine which agencies and programs had the largest over-expenditures. Also shown is the deficit in projected revenues for the periods.

	Total	<i>Figures are in \$ Millions</i>			
		2005	2004	2003	2002
Penalty - Retirement Contributions	20.6	1.6	19.0	-0-	-0-
Government Utilities	16.3	2.1	6.1	6.3	1.9
Bad Debts	13.3	4.9	8.4	-0-	-0-
Department of Public Health	2.7	1.9	0.8	-0-	-0-
Revenue projections	(10.9)	2.0	(2.2)	(12.2)	1.5

The inability of the government to pay its retirement obligations has resulted in over \$20 million in recorded penalties, which have never been budgeted. Likewise, and despite reprogramming, government utility expenditures exceeded budgeted levels in each of the previous four fiscal years analyzed.

Of great concern is the substantial amount recorded as bad debts. As disclosed in Audit Finding number 2005-4, historically there has been substantial losses incurred by the government for failure to collect amounts owed for services. The amount reserved for bad debts by the Commonwealth Health Center (CHC) now exceeds \$98 million. The lack of adequate controls has been reported by the auditors since 1995.

### ***Questioned Costs Increased to \$3.6 Million; Number of Audit Findings Remain at 44***

Audit findings, which represent known violations of accounting principles and non-compliance with and/or weaknesses in internal controls, remain at 44. Of the 44 findings cited in the prior year FYE 2004 audit report, a total of 10 were corrected. Ten new findings are cited in the FYE 2005 audit. Fourteen findings are classified as financial statement related and 30 relate to Federal awards and question costs (Federal grant administration). The inability to properly administer certain aspects of the CNMI's Federal grants has led to an additional \$718,716 in questioned costs reported by the auditors, bringing the total questioned costs to \$3,567,232. Of the \$718,716 in questioned costs, \$521,493 (72%) related to programs administered by the Workforce Investment Agency primarily related to payroll. These findings could lead to eventual repayment by the CNMI General Fund to the Federal government.

An analysis of the 30 audit findings relating to Federal awards and questioned costs shows an inordinate amount relating to three program areas. Eight of those findings pertained to the Medical Assistance Program; programs related to disaster recovery had 8 findings; and procurement related issues totaled 7 findings.

### ***Unfunded Pension Liability Increased to \$522 M - Now a Major Contingent Liability***

The direct, recorded liability owed by the General Fund to the retirement system increased during FYE 2005 by \$8.6 million, to a cumulative total of \$120.3 million. Additionally, based upon an actuarial report dated October 1, 2004, the unfunded pension liability (an unrecorded contingent liability) totaled \$552 million. Other contingent liabilities included: landfill closure costs, costs unknown; questioned costs relating to federal grants, \$3,567,232; potential insurance costs from self-insurance, costs unknown; prior service awards for former Trust Territory retirement payments, \$780,733; and unused sick leave for government workers, which had a balance of \$35,249,780.

### ***Deloitte Issued 'Qualified' Opinion for FYE 2005 Financial Statements***

For FYE 2005, the auditors could only attest to a "qualified" audit opinion. This was due primarily to "inadequacies in the accounting records over financial reporting, we [the auditors] were unable to form an opinion regarding the amount at which taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals, due to other component units and reserve for continuing appropriations are recorded in the Governmental Fund Balance Sheet". Additionally, audited financial statements of the Commonwealth Utilities Corporation for FYEs 2004 and 2005 remained unissued.



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

Michael S. Sablan  
Public Auditor  
Commonwealth of the Northern Mariana Islands  
Web Site: [www.opacnmi.com](http://www.opacnmi.com)

P.O. Box 501399  
Saipan, MP 96950  
Tel. No. (670) 322-6481  
Fax No. (670) 322-7812