

# EXECUTIVE SUMMARY

## CNMI Single Audit Report as of September 30, 2004

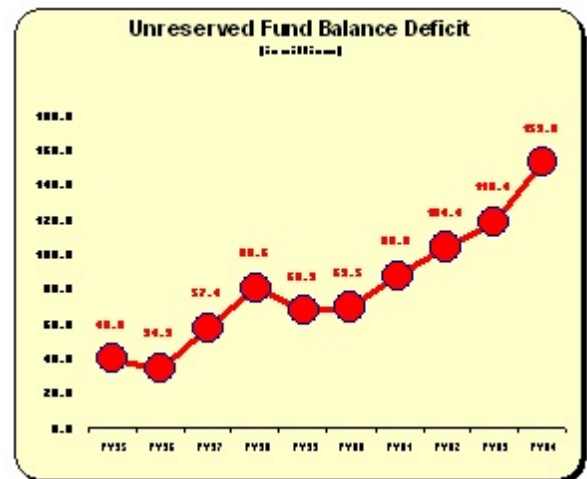
### Single Audit Summary No. 06-004, Issued May 8, 2006

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, 2004. 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, 2004. 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.

#### ***Cumulative Deficit Quadrupled Between FYEs 1995 and 2004***

The combined effects of the overall economic decline and excessive government expenditures were readily apparent in the CNMI Government's audited financial statements. Most notable was the one year \$34 million increase of the CNMI General Fund's unreserved fund balance deficit ("deficit"). This increased the CNMI's cumulative deficit to \$153 million from the prior year's deficit of \$118.4 million. Over the ten year period from FYE 1995 through FYE 2004, the cumulative deficit increased from \$40.0 million to \$153 million.

The Single Audit report further shows that the CNMI Government's deficit was funded primarily by the failure of the General Fund to pay employee retirement contributions totaling over \$111 million. The seriousness of this situation has resulted in the assessment and recording of \$19 million in penalties and interest due from the General Fund to the Northern Mariana Islands Retirement Fund.



#### ***General Fund Expenditures Increased \$35.6 Million in FYE 2004***

General Fund revenues in FYE 2004 increased by nearly \$10 million over the prior year. While significant, this increase was \$2.3 million below projected revenues. In addition, the increase in revenues was insufficient to offset an increase in government expenditures totaling \$35.6 million over the same period from FYE 2003 to FYE 2004. The largest increase in expenditures related to salaries and wages which increased by \$7.7 million (7.1%) over the prior year.

#### ***Expenditures Exceeded Budget by \$33.7 Million - Penalty for NMIRF Contributions Largest Expense Item***

Government expenditures in FYE 2004 exceeded the approved spending levels by \$33.7 million. Agencies and programs with the largest over-expenditures included:

Department of Public Health	\$ 818,090
Legislative Branch	161,581
Rota Mayor's Office	135,581
Government Utilities	6,127,992
Bad Debts	8,481,484
Penalty for Non Payment of Retirement Contributions	19,030,187

### ***Audit Findings Increased from 27 to 44; \$2.7 Million in Questioned Costs***

The significant increase in the cumulative deficit was not the only negative item reported in the Single Audit report. Audit findings, which represent known violations of accounting principles and compliance and/or weaknesses in internal controls increased from 27 reported findings in FYE 2003, to a total of 44 in FYE 2004. Of these findings, 21 represented uncorrected findings from the previous year. Among the major findings were:

- ▶ Bank reconciliations for five major accounts were not performed on a timely basis.
- ▶ The Commonwealth Health Center's large receivable balance (\$99.3 million) and the backlog of billing files all reflect inadequate billing and collection procedures.
- ▶ Advances to vendors totaling \$2.3 million were not properly supported, recorded or liquidated.
- ▶ Of the \$2.3 million in recorded travel advances, over \$860,000 remained unchanged from the prior year. Further, the travel records of six individuals were not made available to the auditors despite repeated requests.
- ▶ \$713,000 of questioned costs relating to Federal grants was created by a failure to obtain grantor approval to sole-source purchases in excess of \$100,000.
- ▶ The CNMI was substantially in violation of the Federal cash management requirements for drawdowns and release of funds relating to the Medical Assistance Program (five of six items tested) and the Capital Improvement Program (44 of 50 items tested).

The overall effect of the audit findings was the disclosure of \$2.7 million in questioned costs relating to Federal grants. This represents a significant increase from the previous balance of \$293,088. These questioned costs are subject to Federal review and may require reimbursements from the General Fund to the Federal grantor agencies.

### ***Unfunded Pension Liability Reaches \$517 Million - a Major Contingent Liability for the Government***

In addition to Federal questioned costs, other major contingent liabilities disclosed by the auditors related to the closure of the Puerto Rico dump and the unfunded pension liability at the Northern Marianas Islands Retirement Fund. The CNMI government's liability for future costs associated with closing the Puerto Rico dump site in accordance with US-EPA requirements was not determinable. With respect to the NMIRF's unfunded pension liability, the latest actuarial valuation report (dated October 1, 2003) estimated the liability at \$516,968,120. This amount represented a future claim of current and retired governmental workers. It also represented the forecasted shortfall between existing retirements assets, future earnings and contributions against future benefits which must be paid.

Not shown in the contingent liabilities is the amount related to "unprocessed medical claims" of the Government Health and Life Insurance Fund which total an estimated \$24 million. To the extent that these monies are owed to the CHC, there would be an offsetting receivable to the General Fund. However, amounts owed to third party providers (primarily off-island hospitals) represent potential claims against the General Fund.

### ***Deloitte Issued "Qualified" Opinion for FYE 2004 Financial Statements***

For FYE 2004, 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."*



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