

COMMONWEALTH DEVELOPMENT AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2005

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS  
BASED UPON THE AUDIT PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Commonwealth Development Authority:

We have audited the financial statements of the Commonwealth Development Authority (CDA), as of and for the year ended September 30, 2005, and have issued our report thereon dated June 15, 2006. 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 CDA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CDA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 11) as item 2005-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated June 15, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CDA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte + Touche LLC*

June 15, 2006

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER COMPLIANCE APPLICABLE  
TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors  
Commonwealth Development Authority:

Compliance

We have audited the compliance of the Commonwealth Development Authority (CDA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. CDA's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 11). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CDA's management. Our responsibility is to express an opinion on CDA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CDA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on CDA's compliance with those requirements.

As described in item 2005-2 in the accompanying Schedule of Findings and Questioned Costs, CDA did not comply with requirements regarding reporting related to U.S. Department of Housing and Urban Development programs that are applicable to its major programs. Compliance with such requirements is necessary, in our opinion, for CDA to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, CDA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

### Internal Control Over Compliance

The management of CDA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered CDA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect CDA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 2005-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions described above to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of CDA as of and for the year ended September 30, 2005, and have issued our report thereon dated June 15, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of CDA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the management, the Board of Directors, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLC*

June 15, 2006

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2005

| Federal Grantor/<br>Program Title   | Federal<br>CFDA<br>Number            | Federal<br>Cumulative<br>Amount of<br>Grant Award | Receivable<br>(Deferred<br>Revenue)<br>from Grantor<br>at October<br>1, 2004 | Federal<br>Funds<br>Received<br>in Fiscal<br>Year 2005 | Federal<br>Funds<br>Expended<br>in Fiscal<br>Year 2005 | Receivable<br>(Deferred<br>Revenue)<br>from Grantor<br>at September<br>30, 2005 |
|---|--------------------------------------|---|--|--|--|---|
| <b>Direct Programs:</b>   |                                      |   |  |  |  |   |
| U.S. Department of the Interior/Covenant Capital Development Fund   | 15.875                               | \$ 1,398,366                                      | \$ -   | \$ 1,398,366   | \$ 1,398,366   | \$ -  |
| U.S. Department of Housing and Urban Development<br>/Section 8 Housing Choice Vouchers Program                              | 14.871                               | 3,283,718   | -  | 3,283,718  | 2,330,809  | (952,909)   |
| U.S. Department of Housing and Urban Development<br>/Lower Income Housing Assistance Program_Section 8<br>New Construction  | 14.856<br>14.856<br>14.856<br>14.856 | 448,703<br>251,257<br>238,185<br>175,291          | -<br>-<br>-<br>-   | 448,703<br>251,257<br>238,185<br>175,291               | 448,703<br>251,257<br>238,185<br>175,291               | -<br>-<br>-<br>-  |
| Subtotal CFDA #14.856   |                                      | 1,113,436   | -  | 1,113,436  | 1,113,436  | -   |
| U.S. Department of Housing and Urban Development/Community<br>Development Block Grants/Special Purpose Grants/Insular Areas |                                      |   |  |  |  |   |
| Basketball Court Lower Navy Hill  | 14.225                               | 46,248  | -  | 22,445   | 22,445   | -   |
| Garapan Water Quality Restoration   | 14.225                               | 1,000,000   | -  | 807,902  | 807,902  | -   |
| Kagman Community Center Renovations/Repairs   | 14.225                               | 120,152   | -  | 5,424  | 5,424  | -   |
| Koblerville Sports Complex  | 14.225                               | 200,000   | -  | 104,845  | 104,845  | -   |
| Rota Pathway  | 14.225                               | 350,000   | -  | 181,634  | 181,634  | -   |
| Susupe Track and Field  | 14.225                               | 250,000   | -  | 74,918   | 74,918   | -   |
| Tinian Public Library   | 14.225                               | 340,000   | -  | 146,961  | 146,961  | -   |
| Administrative Fee  | 14.225                               | 976,436   | -  | 332,350  | 332,350  | -   |
| Subtotal CFDA #14.225   |                                      | 3,282,836   | -  | 1,676,479  | 1,676,479  | -   |
| U.S. Department of Housing and Urban Development<br>/Emergency Shelter Grants Program                                       | 14.231                               | 229,450   | -  | 38,879   | 53,677   | 14,798  |
| U.S. Department of Housing and Urban Development<br>/HOME Investment Partnerships Program                                   | 14.239<br>14.239                     | 382,800<br>2,169,200                              | -<br>-   | 193,010<br>622,439                                     | 193,010<br>622,439                                     | -<br>-  |
| Subtotal CFDA #14.239   |                                      | 2,552,000   | -  | 815,449  | 815,449  | -   |
| U.S. Department of Agriculture<br>/Very Low-Income Housing Repair Loans and Grants  | 10.417                               | 39,500  | -  | -  | -  | -   |
|   |                                      | \$ 11,899,306                                     | \$ -   | \$ 8,326,327   | \$ 7,388,216   | \$ (938,111)  |
| <b>Reconciliation of expenditures to Statement of Revenues, Expenses and<br/>Changes in Net Assets:</b>                     |                                      |   |  |  |  |   |
| Federal award expenditures per above:   |                                      |   |  |  |  |   |
| U.S. Department of the Interior/Covenant Capital Development Fund   |                                      |   |  |  | \$ 1,398,366   |   |
| Federal award expenditures per Statement of Revenues, Expenses and<br>Changes in Net Assets:                                |                                      |   |  |  |  |   |
| Transfers out for capital development grants  |                                      |   |  |  | \$ 1,359,489   |   |
| Reconciling items:  |                                      |   |  |  |  |   |
| Administrative expenditures funded by Covenant Funds  |                                      |   |  |  | 38,877   |   |
|   |                                      |   |  |  | \$ 1,398,366   |   |

See accompanying notes to schedule of expenditures of federal awards.

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2005

## (1) Scope of Review

The Commonwealth Development Authority (CDA) was created as an autonomous public agency of the Commonwealth of the Northern Mariana Islands (CNMI) pursuant to Public Law 4-49 as amended by Public Law 4-63 and 5-27. CDA's existence is to be perpetual and it shall have all the rights and privileges of a corporation. The purpose of CDA is to stimulate the economic development of the CNMI. The Northern Marianas Housing Corporation (NMHC), a component unit and subsidiary corporation of CDA, was established under Public Law 5-37 as amended by Public Law 5-67. The purpose of NMHC is to develop and administer low cost residential housing in the CNMI. All significant operations of CDA and NMHC are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as CDA's cognizant agency for the Single Audit.

## (2) Summary of Significant Accounting Policies

### a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed, which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotment or grant award received. Disbursements made to subrecipients related to grant agreements are reported as expenditures. Disbursements made to subrecipients related to loan agreements are reported within applicable loan portfolios, and are subject to the Single Audit.

### b. Subgrantees

Certain program funds are passed through CDA to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees outside of CDA's control utilized the funds.

### c. Funds Received

*United States Department of the Interior, Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (the Covenant)*

- *Covenant Capital Development Funds obtained pursuant to the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands (the Agreement).*

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2005

(2) Summary of Significant Accounting Policies, Continued

c. Funds Received, Continued

CDA is a subrecipient of funding obtained in Part II, Section 3 of the Agreement, from the Government of the CNMI. These funds are to be disbursed in accordance with a seven-year strategic plan for capital improvement projects of which a minimum of eighty percent (80%) shall be obligated and expended in accordance with such plan for essential infrastructure and no more than twenty percent (20%) shall be obligated and expended in accordance with such plan to provide for economic development activities. Additionally, CDA is required to establish a revolving fund, into which repayments of principal and interest from revenue producing projects shall be deposited for financing of additional revenue producing capital development projects.

• Covenant Funds Obtained Pursuant to Article VII, Section 702(c) of the Covenant.

CDA accounts for all funds received by the former Northern Mariana Islands Economic Development Loan Fund pursuant to Article VII Section 702(c) of the Covenant from February 15, 1975 through September 30, 1985. In addition, CDA has been designated as the administrative agency for economic development loans transferred from the Trust Territory of the Pacific Islands government to the CNMI. In total, these funds are accounted for in a revolving fund for economic development loans which are made to qualified private sector enterprises.

*U.S. Department of HUD - CDBG Grants/HOME Investment Partnerships Program/Emergency Shelter Grants Program/Affordable Housing Program - NMHC* received these funds in a direct capacity in fiscal year 2005 and administers the funds and is responsible for ensuring compliance with laws and regulations.

*U.S. Department of the Interior - NMHC* records federal funds received from Covenant appropriations. Program income is interest income earned on notes receivable and time certificates of deposit. Federal funds disbursed are recorded as notes receivable, cash and time certificates of deposit, and operating transfers.

*U.S. Department of HUD - Lower Income Housing Assistance Program/Section 8 Rental Voucher Program/Section 8 Rental Certificate Program - NMHC* records federal rental assistance as Section 8 income. Program requirements do not entail the reporting of expenditures except for project No. TQ10-0016-004, Koblerville.

*U.S. Department of Agriculture - Rural Development - NMHC* received these funds in a direct capacity in fiscal year 2005 and administers the funds and is responsible for ensuring compliance with laws and regulations.

d. Indirect Cost Allocation

CDA does not receive an indirect cost allocation.

# COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards, Continued  
Year Ended September 30, 2005

## (3) Loan Funds

### a. Development Banking Division

The Development Banking Division of CDA represents the revolving fund required under the *Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands* into which repayments of principal and interest from revenue-producing projects funded under Section 702(c) of the Covenant shall be deposited. These funds will be used for financing additional revenue-producing capital development projects. During the year ended September 30, 2005, such funds amounting to \$1,359,489 were transferred out as capital development grants to CNMI Office of the Governor for matching funds for grants from the U.S. Department of the Interior. As of September 30, 2005, \$2,934,198 (net of the allowance for doubtful accounts of \$66,159,100) of loans made out of this revolving fund were outstanding.

### b. Development Corporation Division

The Development Corporation Division (DCD) of CDA represents the revolving fund established to account for funds received by the former Northern Mariana Islands Economic Development Loan Fund pursuant to Section 702(c) of the Covenant from February 15, 1975 through September 30, 1985. In addition to the aforementioned financial resources, DCD has been designated as the administrative agency for economic development loans transferred from the Trust Territory of the Pacific Islands government to the CNMI. DCD also served as an intermediary lender for part of the year, for the SBA Microloan Program and obtained loans from SBA and used the loan funds to issue short-term microloans to qualified newly-established and growing small business concerns in the CNMI. As of September 30, 2005, \$13,765,635 (net of the allowance for doubtful accounts of \$19,217,038) of loans made out of this revolving fund were outstanding.

### c. Northern Marianas Housing Corporation

The Northern Marianas Housing Corporation (formerly the Mariana Islands Housing Authority (MIHA)) received economic development loan funds from the former Northern Mariana Islands Economic Development Loan Fund pursuant to a Memorandum of Understanding transferring funds received under Section 702(c) of the Covenant to MIHA. These funds are used for a revolving fund for a special program of low interest housing loans for low income families. As of September 30, 2005, \$3,974,117 (net of the related allowance for doubtful accounts of \$290,115 and out of total NMHC net loans receivable of \$14,972,020) of loans made out of this revolving fund were outstanding.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2005

**Section I - Summary of Auditor's Results**

1. The Independent Auditors' Report on the financial statements expressed an unqualified opinion.
2. One reportable condition in internal control over financial reporting was identified, which is considered to be a material weakness.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. One reportable condition in internal control over compliance with requirements applicable to major federal awards programs was identified, which is not considered to be a material weakness.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. CDA's major programs were as follows:

| <u>Name of Federal Program or Cluster</u>                                   | <u>CFDA Number</u> |
|---|--------------------|
| U.S. Department of Housing and Urban Development:                           |                    |
| Community Development Block Grants/<br>Special Purpose Grants/Insular Areas | 14.225             |
| Section 8 Housing Choice Vouchers Program                                   | 14.871             |
| HOME Investment Partnerships Program  | 14.239             |

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. CDA did not qualify as a low-risk audit as that term is defined in OMB Circular A-133.

**Section II - Financial Statement Findings**

| <u>Reference Number</u> | <u>Findings</u> | <u>Questioned Costs</u> | <u>Refer Page #</u> |
|-------------------------|-----------------|-------------------------|---------------------|
| 2005-1                  | Receivables     | \$ -                    | 10                  |

**Section III - Federal Award Findings and Questioned Costs**

| <u>Reference Number</u> | <u>Findings</u> | <u>Questioned Costs</u> | <u>Refer Page #</u> |
|-------------------------|-----------------|-------------------------|---------------------|
| 2005-2                  | Reporting       | \$ -                    | 11                  |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

**Section II - Financial Statement Findings**

Receivables

Finding No. 2005-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis.

Condition: Our audit included an analysis of the Development Corporation Division's past due loans to determine the propriety of the allowance for doubtful loans as of September 30, 2005. This analysis revealed that as of September 30, 2005, one hundred seventy-two loans (85% of the two hundred three total loans outstanding) were six months or more in arrears. At September 30, 2004, one hundred thirty-two loans (61% of the two hundred fifteen total loans outstanding) were six months or more in arrears. Accrued interest on loans has also increased from \$11,225,283 at September 30, 2004 to \$13,140,752 as of September 30, 2005. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio.

Cause: The cause of the above condition is the increase in past due loans.

Effect: The effect of the above condition is an increased possibility of loan losses due to non-payment by borrowers.

Recommendation: We recommend that follow-up procedures on past due loans be adhered to. We recommend that evaluations be performed on these loans and a corrective plan be developed and documented. Future results may be compared against this plan and actions taken by management as deemed necessary. Legal action should be considered for those loans which are considered unlikely to be serviceable by the borrower.

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2004.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

U.S. Department of Housing and Urban Development  
Reporting - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M(04 to 05)-ST-69-0001  
Federal Award Period October 1, 2004-2005 to September 30, 2009-2010

Finding No. 2005-2

Criteria: HUD requires that HOME expenditures be reported on SF-272, Federal Cash Transactions Report.

Condition: NMHC draws funds for use in HOME expenditures and reports these expenditures on the SF-272. We noted that funds drawn in the current year include administrative expenditures incurred in prior years amounting to \$103,650. Additionally, NMHC has not requested for drawdowns for administrative costs incurred in the current year. Administrative costs are included under operating expenses and cannot be readily identified from other federal grant administrative expenses.

Cause: The cause of the above condition is the timing of filing for administrative expenditure.

Effect: The effect of the above condition is variances between expenditures reported on the SF-272 and the general ledger.

Recommendation: We recommend that management ensure proper reporting of expenditures on SF-272's to HUD. We also recommend that management separately account for and monitor administrative costs incurred per specific grant programs.

Prior Year Status: Lack of timeliness of filing of administrative expenditures on the SF-272 was reported as a finding in the Single Audit of CDA for fiscal year 2004.

COMMONWEALTH DEVELOPMENT AUTHORITY

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2005

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2005:

|   |                    |
|---|--------------------|
| Questioned costs as previously reported           | \$ 13,406          |
| Questioned costs of fiscal year 2005 Single Audit | <u>          -</u> |
| Unresolved questioned costs at September 30, 2005 | \$ <u>13,406</u>   |

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 11).



# COMMONWEALTH DEVELOPMENT AUTHORITY

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Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and Compliance for the Year Ended September 30, 2005

## Financial Statements Findings

### Receivables

#### Finding No. 2005-1

The Loan Department continues to do its Loan Servicing. Clients have been contacted to come to the Office and try to establish workable solutions to bring their accounts to current. Aging letters of 30, 60, 90-days delinquency and loan statements are mailed to clients on a monthly basis. Field visits are conducted so that a better communication system may be established with the clients and to have better understanding of their business situation and financial conditions. Intern services from the Pacific Business Center Program of the University of Hawaii, as well as the Northern Marianas College Small Business Development Center (SBDC) are maximized by conducting educational assistances, trainings, and workshops, and working on a one on one basis with our clients. We have also instituted a workshop program focused on clients' needs using peculiarly CDA's own resources and incentive programs. The goal is to improve CDA's overall loan portfolio by acting on delinquent clients. After all means have been exhausted, accounts that are 120 days in arrears are referred to the legal counsel for litigation. There are still many more loans over 120 days delinquent and have not been referred to legal counsel. Some of these loans are workable and only lack actions from either borrower or from CDA. However, as stated above if all efforts fail to work loan out litigation will follow. But again, even if a loan is still in litigation CDA and borrower can still explore avenues to move account out of litigation and back to the performing loan category.

Improving CDA-Client relationships and reducing the delinquency rate continue to be difficult objectives. Consistent communications and understanding of clients' business conditions via regular mailings of monthly statements, visits, and workshops are efforts to improve CDA-client relationships. The institution and implementation of various CDA initiated programs which include Deed in Lieu of Foreclosure options, waivers of interests and late charges and or deferred monthly payments during times of disasters, interest rate reductions, and others are tools aimed at reducing the delinquency rate. In addition, aggressive collection efforts, which may or may not include litigations, are enforced.

All accounts are carefully scrutinized and analyzed in how best the clients can be assisted to either make their accounts current or to improve their existing business conditions.

In addition to the above response for 2004 and 2005, it should be noted that the CDA Board of Directors has adopted new regulations for the loan program. The new regulations became effective September 2005. It allows for the extension of terms to 30 years amortization with a 5-year callable provision and reduced interests rates. We are actively calling in clients to avail of the reduced interest rates regardless whether borrowers are current or delinquent. Loan revisions are done where and when warranted, but not after all efforts to collect have been exerted and borrower shows willingness and promise.

**Federal Award Findings and Questioned Costs**

Reporting

Finding No. 2005-2

NMHC management ensures proper reporting of expenditures on SF-272s to HUD. NMHC did reconcile expenditures versus revenues prior to reporting to HUD and implemented administrative cost per specific grant programs based on the percentage allocation. The effect of the above condition is going to be the same every year, as such program year grant is received every end of the year but the fiscal year begins the following year. This refers to SF-272 for program year and general ledger for fiscal year.



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## Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2004:

### **Financial Statement Findings**

Finding No. 2004-1 - Not corrected. See corrective action plan to Finding No. 2005-1.

Finding No. 2004-2 - Corrective action was taken.

### **Federal Award Findings and Questioned Costs**

Finding No. 2004-3 - Corrective action was taken.

Finding No. 2004-4 - Not corrected. See corrective action plan to Finding No. 2005-2.