

Report on CNMI Agencies' Implementation of
Audit Recommendations
As of June 30, 2010

Office of the Public Auditor
Commonwealth of the Northern Mariana Islands



EXECUTIVE SUMMARY

Report on CNMI Agencies' Implementation of Audit Recommendations, as of June 30, 2010

Report No. TR-10-01, January 20, 2011

Summary

Background

The Office of the Public Auditor (OPA) maintains an audit recommendations tracking system to monitor the implementation and resolution of audit recommendations. On a semi-annual basis, OPA issues its *Report on CNMI Agencies' Implementation of Audit Recommendations* (Audit Recommendation Tracking Report) which presents the audited agencies' compliance with OPA's recommendations.

The provisions of 1 CMC § 2307 established the Interagency Audit Coordinating Advisory Group (Coordinating Group) consisting of the presiding officer and minority leader of each house of the Legislature, the Secretary of Finance, and the Special Assistant for Management and Budget. According to the law, the Coordinating Group is to review all audit reports of the Public Auditor, and the Public Auditor will discuss the manner in which audit recommendations can be implemented with the assistance of the members of the Coordinating Group. The Coordinating Group shall also recommend to the Governor and to the Legislature any changes in laws or regulations which it finds necessary or desirable as a result of its work with the Public Auditor.

The Coordinating Group has not met since 2000. However, OPA continues to send follow-up letters and/or contact agencies with outstanding recommendations to request for information on corrective actions taken to implement OPA's audit recommendations. OPA also meets with agencies when requested to discuss and clarify actions necessary to implement OPA's audit recommendations. This report incorporates agency responses to OPA's follow-up letters or documents obtained by OPA on or before January 7, 2011. In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals and entities are not disclosed in OPA's Audit Recommendation Tracking Report.

Classification of OPA Audit Recommendations

OPA recommendations are classified as either *open*, *resolved*, or *closed*. Open and resolved recommendations are included in OPA's Audit Recommendation Tracking Report.

An *open* recommendation is one where no action or plan of action has been made, or no time frame for the plan of action has been provided by the client (department or agency). A *resolved* recommendation is one in which OPA is satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame for action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or OPA has withdrawn it. Also, OPA classifies open and resolved recommendations as *delinquent* if the recommendation has been outstanding for at least 180 days and OPA has not been informed by the concerned agency or department of any action being taken to close the recommendations.

Status of OPA Audit Recommendations

OPA tracked a total of 46 audit recommendations during the first six months of 2010. Of the 46 audit recommendations, 1 closed and 45 remained either open or resolved. Of the 45 open or resolved recommendations, 42 were considered delinquent.



The table below presents the status of OPA's audit recommendations as of June 30, 2010.

| Status of Audit Recommendations | As of 06/30/10 |
|---|-------------------|
| Total Recommendations Tracked as of June 30, 2010 | 46 |
| Less: Closed Recommendation(s) | 1 |
| Outstanding Recommendations as of June 30, 2010 (Open or Resolved) | 45 |
| Number of Delinquent Recommendations | 42 |

Closed Recommendations

OPA closed one of the 46 audit recommendations it tracked during the first six months of 2010. An analysis of the recommendation closed showed that the Public School System (PSS) implemented OPA's recommendation.

Delinquent Recommendations

The number of delinquent recommendations increased by 12 (40%) from 30 in 2009 to 42 during the first six months of 2010. Agencies with delinquent recommendations as of June 30, 2010 include the Office of the Attorney General, Commonwealth Ports Authority, Commonwealth Utilities Corporation, Department of Finance, Department of Public Lands, Department of Public Safety, Northern Marianas College, and the Northern Mariana Islands Retirement Fund. The recommendations addressed to these agencies were classified as delinquent as OPA was not informed by these agencies within the last 180 days of any corrective action taken to implement OPA's recommendations.

Potential Recovery of \$2.6 Million Referred to the AGO

As of June 30, 2010, audit recommendations in 7 audit reports were referred to the Attorney General's Office for legal action to recover monies improperly expended. According to these 7 audit reports, approximately \$2.6 million is potentially recoverable. The AGO did not provide OPA an update on these referral cases during OPA's follow-up process, therefore, the status of these referrals remains unchanged.

Potential Recovery of \$3.7 Million Depend on Agencies' Action

OPA identified potential recoveries of approximately \$3.7 million in 8 audit reports addressed to various agencies. During its semi-annual follow-up process for the period January 1, 2010 through June 30, 2010, OPA has not received any update on the status of recovery of funds from the responsible agencies. Therefore, approximately \$3.7 million remains potentially recoverable from the previous report as of December 31, 2009.

Independent Auditor's Recommendations

OPA also includes in its Audit Recommendation Tracking Report a total of 172 recommendations from 12 recent audit reports issued by private CPA firms.



A copy of the full report is available at the Office of the Public Auditor, or through OPA's Website

**Michael Pai, CPA
Public Auditor
Commonwealth of the Northern Mariana Islands
Web Site: www.opacnmi.com**

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



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

World Wide Web Site: <http://opacnmi.com>

1236 Yap Drive

Capitol Hill, Saipan, MP 96950

Mailing Address:
P.O. Box 501399
Saipan, MP 96950

E-mail Address:
mail@opacnmi.com

Phone: (670) 322-6481
Fax: (670) 322-7812

REPORT ON CNMI AGENCIES'
IMPLEMENTATION OF AUDIT RECOMMENDATIONS
AS OF JUNE 30, 2010
(with agency responses up through January 7, 2011 incorporated)

January 20, 2011

Interagency Audit Coordinating Advisory Group
Saipan, MP 96950

Enclosed is a copy of the report on CNMI agencies' implementation of audit recommendations included in audit reports issued by the Office of the Public Auditor (OPA) as of June 30, 2010. OPA tracked a total of 46 audit recommendations during the first six months of 2010.

We have also included in this report recommendations issued by private Certified Public Accounting (CPA) firms. OPA is not responsible for tracking the implementation of these recommendations, however, they are included in the audit recommendations tracking report for information purposes. As of June 30, 2010, there were a total of 172 recommendations from 12 recent audit reports issued by private CPA firms.

Although the Coordinating Group members did not meet during the first six months of 2010, OPA again issued follow-up letters and/or called various government agencies with outstanding audit recommendations as of June 30, 2010. This report incorporates agency responses to follow-up letters received or documents obtained by OPA on or before January 7, 2011. The number of delinquent recommendations increased by 40% as of June 30, 2010.

In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals and entities in the audits are not disclosed in this report.

Sincerely,

Michael Pai, CPA
Public Auditor

Table of Contents

| | |
|---|------------|
| Introduction | iii |
| Status of Audit Recommendations | v |
| Executive Branch Offices and Departments | 1 |
| Office of the Attorney General | 2 |
| Department of Finance | 19 |
| Department of Public Lands | 28 |
| Department of Public Safety | 32 |
| Autonomous Agencies | 37 |
| Commonwealth Ports Authority | 38 |
| Commonwealth Utilities Corporation | 39 |
| Northern Marianas College | 45 |
| Northern Mariana Islands Retirement Fund | 47 |
| Public School System | 51 |
| Senate | 53 |
| Independent Auditor’s Report on Internal and Compliance | 57 |
| Commonwealth of the Northern Mariana Islands | 59 |
| Commonwealth Development Authority | 159 |
| Commonwealth Government Employees’ Credit Union | 232 |
| Commonwealth Ports Authority | 240 |
| Commonwealth Utilities Corporation | 255 |
| Department of Public Lands (formerly Marianas Public Lands Authority) | 285 |
| Marianas Public Land Trust | 289 |
| Northern Marianas College | 291 |
| Northern Mariana Islands Retirement Fund | 319 |
| Public School System | 328 |

Workers' Compensation Commission 353

Appendix A - Acronyms Used 356

Introduction

Background

The provisions of 1 CMC §2307 established the Interagency Audit Coordinating Advisory Group (Coordinating Group) consisting of the presiding officer and minority leader of each house of the Legislature, the Secretary of Finance, and the Special Assistant for Management and Budget. According to the law, the Coordinating Group is to review all audit reports of the Public Auditor, and the Public Auditor will discuss the manner in which audit recommendations can be implemented with the assistance of the members of the Coordinating Group. The Coordinating Group shall also recommend to the Governor and to the Legislature any changes in laws or regulations which it finds necessary or desirable as a result of its work with the Public Auditor.

The Coordinating Group has not met since 2000, however, OPA continues to issue follow-up letters semi-annually to agencies with outstanding recommendations requesting for information on actions taken to address its recommendations. Additionally, telephone follow-up procedures were also conducted to encourage agencies to respond to OPA's follow-up letters. Moreover, meetings are held when requested by agencies to discuss and clarify actions required to address OPA's recommendations.

On March 13, 2002, the then-Acting Governor issued a letter to the Senate President, Speaker of the House, and the then-Acting Secretary of Finance to remind them of their membership on the Coordinating Group.

This report incorporates agency responses to follow-up letters which OPA received or documents obtained by OPA on or before January 7, 2011. In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals and entities in the audits are not disclosed in this report.

Audit Recommendations Tracking System

OPA maintains an audit recommendations tracking system to monitor implementation and resolution of OPA audit recommendations. Recommendations issued by Independent Auditors are also included in the tracking system for information purposes.

OPA Recommendations - Open and resolved audit recommendations are included in OPA's tracking report. In addition, we have also included recommendations which were closed during the past six months. An *open* recommendation is one where no action or plan of action has been made, or no time frame for the plan of action has been provided by the client (department or agency). A *resolved* recommendation is one in which OPA is satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame for action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or we have withdrawn it. Also, we have considered open or resolved recommendations as *delinquent* if the recommendation has been outstanding for at

least 180 days and we have not been informed by the concerned agency or department of any action being taken to close the recommendations.

Independent Auditors Recommendations - We have also included in this report recommendations issued by private Certified Public Accountant (CPA) firms. OPA is not responsible for tracking the implementation of these recommendations, however, they are included in the audit tracking report for information purposes. Because OPA is responsible for overseeing all audits of the CNMI government, follow-up procedures are also conducted for these recommendations to determine what actions have been taken by the individual agencies to implement the recommendations issued by private CPA firms. A copy of the agencies' responses is subsequently provided to the CPA firms that conducted the audit to determine whether the agencies' responses are sufficient to consider the recommendations resolved. Based on the classification followed by private CPA firms, a recommendation is described as either *resolved* or *unresolved*.

Status of Audit Recommendations



Audit recommendations tracked during the first six months of 2010 totaled 46. Of the 46 audit recommendations, 1 was closed and 45 remained either open or resolved. Of the 45 open or resolved recommendations, 42 were considered delinquent.

The following table presents a comparative schedule of the status of all our audit recommendations for calendar years 2008, 2009, and the first six months of 2010.

| Status of Audit Recommendations | 2008 | 2009 | As of 06/30/10 |
|---|------|------|-------------------|
| Total Recommendations Tracked for the Year | 49 | 48 | 46 |
| Less: Closed Recommendations | (1) | (2) | (1) |
| Outstanding Recommendations, End of Year (Open or Resolved) | 48 | 46 | 45 |
| Number of Delinquent Recommendations | 42 | 30 | 42 |

Closed Recommendation

OPA closed one of the 46 audit recommendations it tracked during the first six months of 2010. An analysis of the recommendation closed showed that the agency implemented OPA's recommendation.

Delinquent Recommendations

Delinquent recommendations increased by 12 (40%) from 30 in 2009 to 42 during the first six months of 2010.

| Year | 2008 | 2009 | 06/30/10 |
|-------|------|------|----------|
| 1995 | 2 | 2 | 2 |
| 1996 | 1 | 1 | 1 |
| 1997 | 3 | 2 | 4 |
| 1998 | 3 | 1 | 3 |
| 1999 | 3 | 0 | 3 |
| 2000 | 6 | 4 | 7 |
| 2001 | 0 | 1 | 1 |
| 2002 | 3 | 2 | 4 |
| 2003 | 6 | 4 | 5 |
| 2005 | 15 | 13 | 12 |
| Total | 42 | 30 | 42 |

Table 1 - Delinquent Recommendations

Below is an aging of the 42 delinquent recommendations issued in years 1995 to 2005:

| Agency to Act | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2005 | Total |
|---|------|------|------|------|------|------|------|------|------|------|-------|
| 1. Office of the Attorney General | | | 2 | 1 | 3 | 3 | | 2 | 1 | | 12 |
| 2. Commonwealth Ports Authority | | | | | | | | | | 1 | 1 |
| 3. Commonwealth Utilities Corporation | | | | | | | | 2 | 2 | 1 | 5 |
| 4. Department of Finance | 1 | 1 | 2 | 2 | | | | | | 5 | 11 |
| 5. Department of Public Lands | 1 | | | | | 2 | | | | 1 | 4 |
| 6. Department of Public Safety | | | | | | | | | | 2 | 2 |
| 7. Northern Marianas College | | | | | | | | | 2 | 1 | 3 |
| 8. Northern Mariana Islands Retirement Fund | | | | | | 2 | 1 | | | 1 | 4 |
| Number of Delinquent Recommendations | 2 | 1 | 4 | 3 | 3 | 7 | 1 | 4 | 5 | 12 | 42 |

Independent Auditor's Report

OPA has included in the tracking report a total of 172 recommendations from 12 recent audit reports released by private CPA firms.

OPA would like to recognize the CNMI Group Health and Life Insurance Trust Fund (GHLITF) for having no reportable audit finding in its Annual Financial and Compliance audit report for fiscal year ended September 30, 2009 conducted by a private CPA firm. This is a noteworthy accomplishment for GHLITF and OPA appreciates the dedication and hard work carried out by GHLITF in improving its operation and eliminating the repetition of prior year audit findings.

Other OPA Reports

OPA also issued one procurement appeal decision during the first six months of 2010 as follows:

- OPA issued a decision on the second Appeal (BP-A061) filed by GPPC, Inc. from the denial of its protest of DPW 09-IFB-19 (Puerto Rico Dump Final Closure) by the Division of Procurement and Supply (P & S), Department of Finance. OPA found that ITSI's bid was responsive, and thus affirms P&S decision to deny GPPC's second protest on this matter.

AGO Action Needed for Recovery of Approximately \$2,620,000

As of June 30, 2010, recommendations in 7 audit reports were referred to the Attorney General's Office (AGO) for legal action to recover monies improperly expended. On October 14, 2010, OPA requested for an update on these referrals. The AGO did not respond to this request or provide OPA an update on these referrals, as such, the status of these referrals remains unchanged.

The following table presents a listing of AGO referral recommendations involving recovery of funds in which approximately \$2,628,808 is potentially recoverable.

| | Report No. (Issue Date) | Particulars | Amount Recoverable | Status per AGO |
|---|----------------------------|---|-----------------------|--|
| 1 | AR-97-06 (4/23/97) | DPH - Rota Health Center (RHC) - Recovery from the former RHC Director of amount taken from RHC funds and reimbursement for cost of a washing machine for the period December 1993 to March 1996. | \$4,982 | AGO will conduct further review and will provide OPA the results of its review. |
| 2 | AR-98-06 (12/14/98) | DOF - Funds misused by the former Secretary of Finance during fiscal years 1995 to 1997. | 75,000 | AGO will conduct further review and will provide OPA the results of its review. |
| 3 | AR-99-02 (3/29/99) | WRO - Recovery of the balance of a loan receivable made to a CNMI constituent by the former Washington Representative. | 2,200 | AGO to follow-up with the Secretary of Finance to see if payments have been made. |
| 4 | AR-99-03 (4-7-99) | TCGCC - Legal action to recover overpayment of \$543,375 from the consultant on grounds of unjust enrichment, conversion, fraud and breach of fiduciary duty and recovery of \$195,971 from three other individuals for breach of fiduciary trust. | 739,346 | AGO will conduct further review and will provide OPA the results of its review. |
| 5 | AR-99-04 (10-28-99) | CNMI - Overpayments of professional services contracts. Balance of overpayments totaling \$1,315,102 re-directed to AGO of which \$8,302 is immediately recoverable and \$1,306,800 is recoverable if adequately supported. | 1,315,102 | AGO will conduct further review and will provide OPA the results of its review. |
| 6 | AR-00-01 (4/13/00) | DPW - Recovery of \$164,534 in improper payments made to a surveying contractor and adverse action against contractor for misrepresentation relating to the Tinian road resurfacing project in 1997. A decision issued by the United States District Court, reduced the amount for restitution. | 100,000 | AGO will follow-up with the federal court regarding the payment of the restitution and will provide OPA with the results of their follow-up. |
| 7 | AR-02-02 | TCGCC - Audit of Travel | 392,178 | AGO will conduct further |

| Report No. (Issue Date) | Particulars | Amount Recoverable | Status per AGO |
|----------------------------|---|-----------------------|--|
| (9-11-02) | Transactions for fiscal years 1996 - 2001. The potential recovery amount for outstanding advances of \$406,925 was reduced by \$14,747. | | review and will provide OPA the results of its review. |
| Total Amount Recoverable | | \$2,628,808 | |

OPA Referrals to AGO for Legal Determinations

OPA also referred to the AGO recommendations in 3 audit reports requesting legal determinations as follows:

- *Audit of the Compensatory Time Claimed and Retirement Benefits Paid to Two Former Officials of the Commonwealth Ports Authority* [Report No. AR-00-03 issued on July 20, 2000] - On December 24, 2002, OPA referred recommendation 1 of this audit report to the AGO requesting for a determination on the propriety of the Commonwealth Ports Authority's practice of making advance payments of unused annual leave and salary, instead of complying with the provision in the employment contracts that payments will be made upon contract expiration. In addition, the AGO was requested to review OPA's opinion regarding granting six designated officials 14 annual leave hours per pay period.
- *Audit of the Monthly Subsistence Allowance Provided to Members of the Senate* [Report No. AR-03-05 issued on August 6, 2003] - The AGO was requested to review and determine whether legislation should be introduced to grant the Senate authority for the subsistence allowance, to set the amount of the allowance, and to certify the allowance as a public purpose. OPA referred its concerns regarding the allowance to the AGO as OPA and the Senate are unable to reach an agreement to address the recommendation.

Potential Recovery of \$3.7 Million Hinges on Agencies' Actions

Recommendations in 8 audit reports identified potential recoveries due to unpaid rentals of land leases, uncollected labor processing fees, overpayments in professional services contracts and retirement benefits, and improper expenditures of public funds.

During its semi-annual follow-up process for the period covering January 2010 through June 2010, OPA has not received an update on the status of recovery of funds by agencies included in the table below. As such, the status of these referrals remains unchanged from the previous report as of December 31, 2009.

Of the \$4,662,816 identified as potentially recoverable, \$950,289 has been partially recovered leaving a balance of \$3,712,527 still recoverable as of June 30, 2010 as shown in the following table.

| Report No. (Issue Date) | Particulars | Amount Recoverable | Status per Agency |
|----------------------------|---|-----------------------|---|
| 1 AR-00-04 (11/22/00) | Board of Marianas Public Lands Authority - Collection of rentals from 8 quarry operators for six lease years from 1990 to 1995 totaling \$4,690,708, less \$946,968 write-off for one bankrupt quarry operator resulting in an amount recoverable of \$3,743,740. | \$3,743,740 | \$896,747 was recovered from seven quarry operators. Due to incomplete ledgers provided to OPA on 4/11/06, OPA was unable to ascertain total amount collected from Quarry Operator F as of April 2006. |
| 2 AR-05-02 (6/6/05) | DOL - Audit of Controls Over the Nonresident Worker Application Process. Amount recoverable consists of uncollected fees of \$330,835 from Company A and \$181,575 from Company B. | 512,410 | The on-going investigation is nearly complete. The Secretary of Labor will keep OPA apprised of any new developments. |
| 3 AR-00-03 (7/20/00) | CPA - NMIRF to recover improper payments to two former CPA officials for retirement benefits and compensatory time claimed. | 126,730 | Recoupment of one former CPA official's benefits will commence if and when re-employed by the government. For the other former CPA official, pursuant to a stipulation, the case will be returned to the administrative hearing process and a new Notice of Administrative Hearing will be issued. |
| 4 AR-95-18 (10/10/95) | MPLA - Double payment of travel expenses and overpaid per diem allowances to the former Board Chairman, Tinian board member and Rota board member for the period September 1992 to September 1994. Amount recoverable from the former Rota Board member as of 3/26/04 is \$71,289.14 (principal plus interest); amount recoverable from the former Board Chairman as of 3/26/04 is \$27,743.74 (principal plus interest); and amount recoverable from the former Tinian Board member as of 6/7/04 is \$16,829.45 (principal only). Amount recoverable for the former Tinian Board Member was reduced to \$11,657 pursuant to a court order. Total amount recoverable from the three former board members is \$115,862.33. | 110,690 | \$20,400 partially recovered from the former Rota Board member and \$5,825 partially recovered from the former Board Chairman. On 9/29/06, OPA was provided a copy of the former Tinian Board member's account ledger showing that the Court Order in the amount of \$11,657 was fully paid as of 10/28/04. Due to discrepancies noted in the subsidiary ledgers provided to OPA on 4/11/006, OPA was unable to ascertain the total amount recovered from the two board members. |
| 5 AR-97-05 (3/20/97) | CNMI - Promissory note for \$96,100 on overpayment of two professional services contracts (Contract nos. C40113 and C50108) covering the | 96,100 | Partial recovery of \$14,000 leaving a balance of \$81,900 still to be recovered. |

| Report No. (Issue Date) | Particulars | Amount Recoverable | Status per Agency |
|--|---|-----------------------|---|
| | period October 1, 1991 to July 20, 1995. | | |
| 6 AR-98-06 (12/14/98) | DOF - Funds misused by the former Secretary of Finance from fiscal years 1995 to 1997. On 2/22/01, the Federal Court ordered the Secretary of Finance to pay \$56,462 in restitution. | 56,462 | \$1,125 partially recovered from the former Secretary of Finance. |
| 7 AR-97-05 (3/20/97) | CNMI - Overpayment to contractors on four professional services contracts (Contract nos. C40276, C50083, C50132 & C50208) audited covering the period October 1, 1991 to July 20, 1995. Overpayments on C40276 totaling \$10,000 was fully recovered by OMB. Therefore, recovery of \$25,079 is reduced to \$15,079. | 15,079 | DOF is consulting with AGO as to the appropriate course of action(s) that can be taken considering lack of supporting documents and the statute of limitations on these claims. |
| 8 AR-03-04 (3/10/03) | AGIU - Recovery of overpayments of per diem from three travelers involved. | 1,605 | Partial recovery of \$535. |
| Total Amount Recoverable | | 4,662,816 | |
| Less: Partial Recoveries | | (950,289) | |
| Balance of Amount Recoverable as of 06/30/10 | | <u>\$3,712,527</u> | |

Executive Branch Offices

Office of the Attorney General
Department of Finance
Department of Public Lands
Department of Public Safety

Office of the Attorney General

Report No. AR-97-06 issued April 23, 1997 Rota Health Center (RHC) Director's Claims Against the RHC

Date(s) of followup letter(s) sent : 6/23/97, 7/16/97, 2/2/98, 9/17/98 (DOF), 9/21/98 (RMO), 11/23/99 (DOF), 11/29/99 (RMO), 7/6/00 (RMO), 7/13/00 (DOF), 1/17/01 (Re-directed to AGO), 1/19/01 (DOF), 8/21/01 (AGO) (DOF), 2/14/02 (AGO), 3/12/02 (DOF), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (AGO) (DOF), 8/9/05 (AGO), 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 6/16/97 (RMO), 2/24/98 (RMO), 7/19/00 (RMO), 11/17/00 (DOF), 11/21/00 (meeting with Coordinating Group on DOF), 11/27/00 (DOF), 3/9/01 (AGO), 9/18/01 (DOF), 2/12/02 (meeting with AGO), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 9/1/05 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation I : *Original:* The Secretary of Finance should require the current Director of RHC to return the amount of \$4,282.02 taken from RHC funds.

As Revised and Redirected to AGO: Determine appropriate legal action to be taken to recover from the current Director of RHC the \$4,282.02 taken from RHC funds.

Agency to Act : Department of Finance - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : During the 11/21/00 meeting with the Coordinating Group, the DOF Secretary provided OPA a bill of collection dated 11/17/00 for \$4,982.02 sent to the current Director of RHC which consists of \$4,282.02 taken from RHC funds and \$700 reimbursement for the cost of the washing machine. On 11/27/00, DOF referred the matter to the AGO to possibly pursue collection through legal proceedings. In his 3/9/01 response, the Acting Attorney General requested a copy of the report for further review purposes.

During a meeting on 2/12/02, AGO informed OPA that the Statute of Limitations has passed regarding this recommendation. In a follow-up letter dated 2/14/02, OPA requested AGO to provide a letter documenting the applicability of the Statute of Limitations to formally close this recommendation.

In his response dated 9/15/03, the Acting Attorney General stated that a search of their files reveal that there are no records of this case in the AGO. On 10/27/03, OPA provided AGO with a copy of the audit report on this case referral and requested the Acting Attorney General to review the matter on this case and determine (1) whether the statute of limitations bars an action, and (2) if it is a matter that the AGO will pursue. On 10/31/03, the Acting Attorney General informed OPA that the CNMI's claim in this matter is potentially in the public interest, thereby removing the statute of limitations as a defense in this case insofar as civil liability is concerned. He further stated that AGO will further evaluate whether a viable suit exists. Based on the 10/31/03 response, OPA will forward to the AGO the file on this referral case for further evaluation.

In his 4/30/04 response, the Deputy Attorney General stated that AGO has adopted a policy to pursue all such cases until the CNMI Supreme Court rules to the contrary.

In his 10/25/04 response, the Acting Attorney General informed OPA that although this referral case was previously closed on 9/5/02, the AGO plans to contact OPA for verification of records.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that AGO Civil Division will review the file and decide whether this is an appropriate case to test neverending statute of limitation for the sovereignty.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required**

: AGO should inform OPA whether it will pursue legal action for recovery.

Recommendation 4

: *Original:* The Secretary of Finance should deny the claim of the Director of RHC for reimbursement of the cost of the washing machine.

As Revised and Redirected to AGO: Determine appropriate legal action to be taken to recover the \$700 reimbursement for the cost of the washing machine.

Agency to Act

: Department of Finance - Redirected to the Attorney General's Office

Status

: Resolved - Delinquent

Agency Response

: During the 11/21/00 meeting with the Coordinating Group, the DOF Secretary provided OPA a bill of collection dated 11/17/00 for \$4,982.02 sent to the current Director of RHC which consists of \$4,282.02 taken from RHC funds and \$700 reimbursement for the cost of the washing machine. On 11/27/00, DOF referred the matter to the AGO to possibly pursue collection through legal proceedings. In his 3/9/01 response, the Acting Attorney General requested a copy of the report for further review purposes.

During a meeting on 2/12/02, AGO informed OPA that the Statute of Limitations has passed on this recommendation. In a follow-up letter dated 2/14/02, OPA requested AGO to provide a letter documenting the applicability of the Statute of Limitations to formally close this recommendation.

In his response dated 9/15/03, the Acting Attorney General stated that a search of their files reveal that there are no records of this case in the AGO. On 10/27/03, OPA provided AGO with a copy of the audit report on this case referral and requested the Acting Attorney General to review the matter on this case and determine (1) whether the statute of limitations bars an action, and (2) if it is a matter that the AGO will pursue. On 10/31/03, the Acting Attorney General informed OPA that the CNMI's claim in this matter is potentially in the public interest, thereby removing the statute of limitations as a defense in this case insofar as civil liability is concerned. He further stated that AGO will further evaluate whether a viable suit exists. Based on the 10/31/03 response, OPA will forward to the AGO the file on this referral case for further evaluation.

In his 4/30/04 response, the Deputy Attorney General stated that AGO has adopted a policy to pursue all such cases until the CNMI Supreme Court rules to the contrary.

In his 10/25/04 response, the Acting Attorney General informed OPA that although this referral case was closed on 9/5/02, the AGO plans to contact OPA for verification of records.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that AGO Civil Division will review the file and decide whether this is an appropriate case to test neverending statute of limitation for the sovereignty.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

Additional Information

or Action Required : AGO should inform OPA whether it will pursue legal action for recovery.

Report No. AR-98-06 issued December 14, 1998
Department of Finance
Audit of Misuse of Funds by the Former Secretary of Finance
Fiscal Years 1995, 1996, and 1997

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 1/26/99, 1/5/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 2/14/02 (AGO), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (DOF) (AGO), 8/8/05 (DOF), 8/9/05 (AGO), 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 1/20/00 (AGO), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 3/31/05 (DOF), 9/1/05 (AGO), 4/18/06 (DOF), 9/11/06 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation I : *As Revised:* DOF should provide OPA documents showing recovery of the \$56,461.98 in restitution on the federal case. In addition, AGO should take further legal action against the former Secretary for misappropriation and improper expenditure of public funds.

Agency to Act : Department of Finance / Attorney General's Office

Status : Resolved - Delinquent

Agency Response : On 2/22/01, the Federal Court sentenced the former Finance Secretary to 33 months imprisonment and ordered payment of \$56,461.98 in restitution to the court for disbursement to the CNMI Department of Finance.

In his 3/9/01 response, the Acting Attorney General stated that AGO waited until the federal crime case concluded since one count in the case was covered by AGO's case. The former Secretary was ordered to pay restitution in the federal case, thereby reducing the maximum potential judgment. AGO will make a Motion for Summary Judgment and will still seek a judgment of approximately \$75,000 against the former Secretary of Finance for misappropriation and improper expenditure of public funds.

During the 2/12/02 meeting, AGO informed OPA that it will file a Motion for Summary Judgment in the civil action filed against the former Secretary of Finance. In a follow-up letter to AGO dated 2/14/02, OPA compiled a list of its referrals for AGO to prioritize for action. The list included this recommendation.

In his response dated 9/15/03, the Acting Attorney General stated that this case has been forwarded to the AGO's collection team (an in house team assembled to collect debts owed the government that are over the statutory limit for small claims) and the matter is still pending.

In his 10/25/04 response, the Acting Attorney General stated that the civil case against the defendant is still pending for the recovery of funds.

In a response letter dated 3/18/05, the Secretary of Finance stated that the defendant has not made any payments towards his restitution obligation to the CNMI government to date. On 3/31/05, OPA was provided a copy of the letter received from the U.S. Attorney of the District of Guam to the Secretary of Finance informing him that the former Secretary of Finance's assigned U.S. Probation Officer will be setting a payment schedule to dispose of his restitution obligation after July 2005. The U.S. Attorney of the District of Guam will be notifying the Secretary of Finance once the payment plan is established.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

In his letter response dated 4/18/06, the Secretary of Finance provided OPA with a copy of the letter from the US Attorney's District Office on Guam advising OPA of the payment plan the former secretary will be making to the Government. OPA was also provided with a summary of all payments made by the former secretary owed to the government to date. The US Attorney's District Office has been notified that the former secretary has agreed to make monthly payments in the amount of \$100 effective 8/1/05. Additionally, the letter stated that a balance still remains towards the former secretary's imposed assessment fee and that any payments will first be applied to it until it is paid off.

In her response dated 9/11/06, the Assistant Attorney General informed OPA that the former Secretary of Finance has paid \$1,125 towards his restitution obligation as of August 2006. Therefore, a balance of \$55,336.98 is still recoverable from the former Secretary of Finance.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO Civil Division will conduct a review on the status of the civil case against the former Secretary of Finance. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required** :

DOF should provide OPA proof of collection of the \$56,461.98 restitution in the federal case. In addition, AGO should also provide OPA with copies of any judgement issued.

**Report No. AR-99-02 issued March 29, 1999
Verification of Expenses and Review of Selected Administrative
Practices of the Washington Representative's Office
Fiscal Years 1995 and 1996**

Date(s) of followup letter(s) sent : 11/29/99 (DOF), 7/11/00, 1/24/01, 8/22/01, 3/4/02, 8/9/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/13/06, 4/28/06 (Re-directed to AGO), 9/26/06 (AGO), 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 12/10/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 10/6/99, 9/25/01, 3/20/02, 8/12/02, 8/21/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 3/29/06 (DOF request for extension), 4/18/06 (DOF), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation 15 : *Original:* The Washington Representative should continue his efforts to collect the outstanding loans until such time as he is assured that any further collection efforts would be futile. At that time, the loan documentation should be turned over to the Department of Finance in Saipan for further action. If the obligations are

collected, the amount should be returned to the CNMI General Fund.

As Revised and Redirected to DOF: DOF should determine the current status of the loan receivable from the former Resident Representative.

As Revised and Redirected to AGO: AGO should determine appropriate legal action to be taken to recover the \$2,200 reimbursement for the loan receivable from the former Resident Representative.

Agency to Act : Washington Representative's Office - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : In the 9/25/01 response from WRO, it was stated that the \$1,080 loan was fully paid. OPA was provided copies of the official cash receipt and a check for \$50.25 evidencing final payment representing the balance on the employee loan of \$1,080. This portion of the recommendation pertaining to the \$1,080 employee loan is considered closed.

For the \$2,500 loan, the former Resident Representative has entered into an agreement with DOF to make monthly payments in the amount of \$100. The Resident Representative has made three payments totaling \$300 leaving a balance still collectible of \$2,200. OPA was provided copies of the official receipts and checks evidencing payments made of \$300 and a copy of the promissory note for the \$2,500 loan.

In his 3/20/02 response, the current Resident Representative sought the advice of OPA on how to go about collecting the loan made by the former Resident Representative.

In his 8/12/02 response, the Resident Representative suggested that OPA redirect the recommendation to DOF as his office is not involved in the repayment of the loan. On 8/28/02, OPA issued a letter to the Secretary of Finance requesting the current status of the loan receivable.

In his letter dated 3/18/05, the Secretary of Finance stated that the Director of Finance and Accounting had issued a letter to the former Washington Representative on 2/7/03 requesting verification on the total amount already paid pursuant to the audit. DOF has not received a response from the former Washington Representative. DOF will be sending another letter concerning the outstanding balance. DOF will be updating OPA on the status of the outstanding balance upon receipt of a response to their latest letter.

In his letter response dated 4/18/06, the Secretary of Finance informed OPA that the current balance of the loan receivable is \$2,200. He stated that they have not received any additional payments from the former Washington Representative since their last update. The Secretary provided OPA with a copy of the last notice sent out regarding this matter. On 4/28/06, OPA forwarded this to the AGO requesting that they pursue recovery of the remaining balance due from the former Washington Representative.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO will follow-up with the Secretary of Finance to see if payments have been made.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will send a letter to the former Washington Representative concerning the outstanding balance. On 12/10/09, OPA provided AGO a copy of OPA's Audit Report AR-99-05, a copy of the promissory note for the \$2,500 loan, and copies of correspondences received pertaining to the former Washington Representative.

Additional Information or Action Required : The AGO should inform OPA of their progress in their attempt to recover the remaining balance due from the former Washington Representative.

Report No. AR-99-03 issued April 7, 1999
Audit of Consultant's Contract
Fiscal Year 1997

Date(s) of followup letter(s) sent : 1/5/00 (AGO), 7/12/00, 1/17/01, 8/21/01, 8/12/02, 10/3/02, 2/14/03, 8/4/03, 10/27/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 4/9/99 (TMO), 1/20/00 (AGO), 11/7/00 (meeting with Coordinating Group on AGO), 3/9/01 (AGO), 12/31/01, 2/12/02 (meeting with AGO), 9/15/03 (AGO), 10/31/03, 4/30/04, 10/25/04, 9/1/05, 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation I : *Original* - The Mayor of Tinian and Aguiguan should request the Attorney General to institute an action to declare the Consulting Service Agreement between TCGCC and the consultant null and void, and to recover all amounts paid by TCGCC to the consultant and the consultant's son.
As Redirected to AGO - Institute legal action to declare the Consulting Service Agreement between TCGCC and the consultant null and void, and to recover all amounts paid by TCGCC to the consultant and the consultant's son.

Agency to Act : Attorney General's Office

Status : Resolved - Delinquent

Agency Response : In his 3/9/01 response, the Acting Attorney General informed OPA that there is an ongoing investigation related to the facts and circumstances of this matter.

On December 31, 2001, civil action was filed against the consultant to recover overpayment of \$543,375 on grounds of unjust enrichment, conversion, fraud and breach of fiduciary duty. Civil action was also filed against three other individuals to recover \$195,971 for breach of fiduciary trust. Recoverable amounts totaled \$739,346.

In a meeting on 2/12/02, this recommendation was included in the list provided by OPA to AGO pertaining to outstanding matters requiring specific actions to be taken by AGO.

In his response dated 9/15/03, the Acting Attorney General stated that a search of their files reveal that there are no records of this case in the AGO. On 10/27/03, OPA provided AGO with a copy of the audit report on this case referral.

On 4/30/04, the Deputy Attorney General informed OPA that a request for Declaratory and Injunctive relief is currently pending in the CNMI Superior Court.

In his response dated 10/25/04, the Acting Attorney General informed OPA that the AGO is researching legal issues that have arisen in the pending suit and will follow-up on this matter with TCGCC's legal counsel.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case. The Attorney General further stated that a memo from an Acting Attorney General dated 3/23/05 indicated that DOF was contacted in January 2005 requesting documentation of payments made to the Gaming Commission and payments made to other entities. She also stated that the case is still pending as the DOF is still trying to locate the documents.

On 6/2/08 OPA met with the Attorney General. The Attorney General advised OPA that the AGO Civil Division will check to see if a civil case has been filed against the consultant to recover the overpayment and the three other individuals for breach of fiduciary trust.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required**

: The AGO should inform OPA the results of its review.

**Report No. AR-99-04 issued October 28, 1999
Executive Branch of the CNMI Government
Audit of Professional Service Contracts
From October 1, 1995 to May 4, 1998**

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 11/26/99 (TMO), 1/5/00 (AGO), 7/12/00 (AGO), 7/13/00 (DOF), 1/17/01 (AGO), 1/19/01 (DOF), 8/21/01 (DOF) (AGO), 2/14/02 (AGO), 3/12/02 (DOF), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/14/04 (DOF), 9/28/04 (DOF), 2/15/05 (DOF), 8/9/05 (Re-directed to AGO), 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 1/12/00 (GOV), 1/20/00 (AGO), 2/18/00 (DOF), 11/7/00 (meeting with Coordinating Group on AGO), 11/9/00 (DOF), 11/19/00 (DOF), 11/21/00 (meeting with Coordinating Group on DOF), 1/14/01 (DOF), 3/9/01 (AGO), 5/01 (DOF), 10/01/01 (DOF), 2/12/02 (meeting with AGO), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 10/21/03 (AGO), 10/22/03 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 9/1/05 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation 7 : *Original:* Issue a memorandum instructing the DOF - Accounting Section to recover the nearly \$1.49 million in overpayments by requesting contractors to return the amounts overpaid. Of these amounts, \$87,096.02 is immediately recoverable and \$1,400,955.91 is recoverable unless adequately supported by the contractors. If a contractor refuses to cooperate or repay the funds, the matter should be referred to the AGO for legal action.

Of the \$87,096.02 which is immediately recoverable: \$61,794.07 has already been recovered (C50305, C60114 and C60142); \$6,000 will not be pursued (C60334); and \$11,000 has been redirected to the AGO leaving a balance of \$8,301.95 immediately recoverable [\$1,320.94 for C60196, \$2,426.25 for C70156, \$3,619.66 for C50388, and \$935 for C60355].

Of the \$1,400,955.91 recoverable unless adequately supported, \$94,156.41 was substantiated by invoices and receipts by the contractor for C60114 and C50305 leaving a balance of \$1,306,799.50 still recoverable unless adequately supported [\$1,199,316.56 for C50388 and 31075-OC; \$65,182.12 for C60323, C60373, C70091, C70179 and 300082-OC; and \$42,300.82 for C60196].

(Note: No further action required for contract nos. C50305, C60114, C60142, C70180, C70149, C60334).

As Revised and Redirected to AGO: Determine appropriate legal action to be taken to recover the remaining \$8,301.95 that is immediately recoverable and the remaining \$1,306,799.50 that is recoverable unless adequately supported.

Agency to Act : Department of Finance - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : On 1/4/01, DOF provided OPA with copies of bills for collection dated 9/1/99 for the following contracts: Contract No. C60196 for \$1,320.94; Contract No. C70156 for \$2,426.25; Contract No. C50388 for \$1,619.66 (additional billing for \$2,000 still to be provided).

In the 10/1/01 response by DOF, the Secretary of Finance stated that the contractor for Contract no. C60355 has a claim against the CNMI for \$18,000. The CNMI refuses to pay the contractor's claim for lack of a change order. DOF is planning to charge the \$935 against the amount claimed by the contractor. For Contract no. C50388, DOF claims that the additional billing of \$2,000 to be provided to OPA is already included in the \$1.4 million which is separately recoverable. OPA looked into DOF's claim and ascertained that the \$2,000 was not included in the \$1.4 million. In addition, DOF is verifying all documents which were identified in the \$1.4 million as recoverable unless adequately supported. DOF provided OPA letters to three contractors requesting supporting documents for invoice under Contract nos. C50388, C31075, C60323, C60373, C70091, C70179, 300082-OC and C60196. DOF will inform OPA of any responses.

In his 4/12/02 response, the Secretary of Finance informed OPA that DOF has sent out notices to four contractors. One contractor responded. Two of the notices were returned undelivered and one contractor replied asking for a more reasonable request given the amount of information and length of time that has elapsed.

On 3/18/05, the Secretary of Finance provided OPA a copy of the invoices and receipts to substantiate payments made for C60114 and C50305 totaling \$94,156.41. Therefore, of the \$1,400,955.91 that is recoverable unless adequately supported, \$1,306,799.50 from three contractors remain to be recovered. The Secretary of Finance is requesting that OPA refer the remaining \$8,301.95 that is immediately recoverable and the remaining \$1,306,799.50 that is recoverable unless adequately supported to AGO given the time lapsed since the issuance of the bills for collections and letters requesting for supporting documents from the contractors with no response to date. On 6/2/05, OPA referred this matter to the AGO for their review and legal action.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

On 6/2/08 OPA met with the Attorney General. The Attorney General to confirm an existing 99' accord and settlement he discovered in 2006. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required :**

AGO should inform OPA of the results of legal actions taken to pursue collection of the remaining \$8,301.95 that is immediately recoverable and the remaining \$1,306,799.50 that is recoverable unless adequately supported.

**Report No. AR-00-01 issued April 13, 2000
Audit of the Land Survey Contract
for the Tinian Road Resurfacing Project
Fiscal Year 1997**

Date(s) of followup letter(s) sent : 7/3/00 (DPW), 7/12/00 (AGO), 7/13/00 (DOF), 1/17/01 (Re-directed to AGO), 8/21/01, 2/14/02, 8/12/02, 10/3/02, 2/14/03, 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 5/10/00 (DPW), 11/7/00 (meeting with Coordinating Group on AGO), 12/7/00 (meeting with Coordinating Group on DOF), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 9/15/03 (AGO), 4/30/04, 10/25/04, 9/1/05, 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation 5 : *Original:* DOF should continue to take necessary steps to recover the \$164,534 improper payments made to the contractor, unless restitution to the CNMI Government is made in the Federal Court mail fraud case. Recovery efforts should be coordinated with the Attorney General's Office. In implementing this

recommendation, recovery of the whole contract price of \$229,438 on the basis that the contract was invalid may be undertaken in lieu of the approach taken above where recovery would be based on the overpayments made to the contractor.

As Redirected to AGO: AGO should continue to take necessary steps to recover the \$164,534 improper payments made to the contractor, unless restitution to the CNMI Government is made in the Federal Court mail fraud case. Recovery efforts should be coordinated with the Attorney General's Office. In implementing this recommendation, recovery of the whole contract price of \$229,438 on the basis that the contract was invalid may be undertaken in lieu of the approach taken above where recovery would be based on the overpayments made to the contractor.

As Revised: AGO should provide OPA documents showing recovery of the \$100,000 in restitution imposed by the United States District Court's sentence imposed on the contractor.

Agency to Act : Department of Finance - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : The DOF Secretary requested AGO's assistance in getting information on the Federal Court case involving the contract. The DOF Secretary stated that her office will proceed with the recommendation after the Federal Court's decision.

During the 12/7/00 meeting with the Coordinating Group, it was agreed that this recommendation should be redirected to the AGO. In its 3/9/01 response, the Acting Attorney General stated that no further action will be taken on this matter. Contact has been made with the United States Probation Department requesting that restitution from the contractor be ordered at sentencing.

During the 2/12/02 meeting, AGO informed OPA that it had already requested the United States Probation Department to recommend that restitution be required from the contractor and that it is awaiting sentencing decision.

On 4/2/02, the United States (US) District Court's sentence imposed on the contractor was 8 months imprisonment and restitution of \$100,000.

In his response date 9/15/03, the Acting Attorney General stated that this case was assigned to an Assistant Attorney General on 5/21/03 and is pending further legal analysis.

In his response dated 10/25/04, the Acting Attorney General stated that the enforcement of the federal court order of restitution should be the responsibility of the U.S. Attorney's Office. Accordingly, the AGO plans to request enforcement by that office.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO will review its internal file to confirm the request made to the US Attorney to enforce the federal court order of restitution.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will follow-up with the federal court regarding the payment of the restitution and will provide OPA with the results of their follow-up.

Additional Information or Action Required : AGO should inform OPA of the results of its request to enforce payment of the restitution ordered by the federal court.

Report No. AR-00-03 issued July 20, 2000
Commonwealth Ports Authority
Audit of the Compensatory Time Claimed and Retirement Benefits
Paid to Two Former Officials of the CPA

Date(s) of followup letter(s) sent : 1/17/01 (CPA), 1/19/01 (NMIRF), 8/20/01 (CPA), 8/21/01 (NMIRF), 3/5/02 (CPA) (NMIRF), 8/9/02 (CPA) (NMIRF), 8/12/02 (AGO), 10/3/02 (AGO), 12/24/02 (AGO), 2/14/03 (AGO) (CPA), 2/18/03 (NMIRF), 8/4/03 (NMIRF) (AGO), 4/13/04 (AGO), 4/16/04 (NMIRF), 9/21/04 (AGO), 9/28/04 (NMIRF), 2/15/05 (AGO) (NMIRF), 8/9/05 (AGO), (NMIRF), 3/10/06 (AGO) (NMIRF), 9/26/06 (AGO), 2/7/07 (AGO), 9/4/07 (AGO), 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 8/31/01 (meeting with CPA), 10/4/01 (NMIRF letter of request for extension to respond until 11/3/01), 10/12/01 (CPA), 1/29/01, 2/12/02 (meeting with AGO), 8/12/02 (CPA request for extension), 8/30/02 (CPA), 9/25/02 (CPA), 4/2/03 (NMIRF), 7/22/03 (NMIRF), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/22/05 (NMIRF), 9/1/05 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation I : *Original:* The CPA Board of Directors should adopt personnel rules and regulations that are: (a) within the authority granted by the Commonwealth Ports Authority Act and other CNMI laws such as the Compensation Adjustment Act, (b) consistent with and governed by the same principles of fairness and equality as the CNMI Personnel Regulations, thereby eliminating authorization for FLSA-exempt (executive, administrative and professional) officials and employees to earn comptime, and the granting to six designated officials of 14 annual leave hours per payperiod, or 360 hours per year.

As Redirected: The AGO should review the opinion provided by OPA regarding granting six designated officials 14 annual leave hours per pay period and take legal action if determined necessary.

Agency to Act : Commonwealth Ports Authority - Redirected to the Attorney General's Office

Status : Open - Delinquent

Agency Response : In his letter response dated 5/12/00, the CPA Board Chairman disagreed with Recommendation 1. He believed that CPA is not required or obliged to adopt rules and regulations similar or identical to the CNMI Personnel Regulations. He also stated that CPA's system of compensation is generally commensurate with the rest of the Commonwealth government. He further said that the granting of 14 hours annual leave per pay period to designated officials is a matter of personnel policy.

In his 10/12/01 response, the CPA Executive Director also disagreed with OPA's conclusion that CPA is required to adopt personnel rules and regulations that are similar, if not identical, to the CNMI's PSSRR. He stated that matters involving CPA personnel regulations, policies and benefits are strictly for the CPA board to decide. The Executive Director, suggested that the legislature could always review the matter and make recommendations to CPA to enact remedial legislation.

In the proposed CPA Personnel Rules and Regulations, the CPA Executive Director has proposed provisions enumerated under Sections 3.05 and 3.07 which addressed OPA's recommendation of eliminating the grant to FLSA-exempt officials and employees to earn overtime or comptime. Also, Section 5.02 of the proposed Personnel Rules and Regulations states that "Employees shall accumulate annual leave at the same rate as such leave time would be accumulated by employees of the Government of the Commonwealth of the Northern Marianas Islands." However, upon inquiry to the CPA Office Manager, OPA learned that CPA still granted the 14 annual leave hours for the last personnel contract executed. The proposed Personnel Rules and Regulations were published in the Commonwealth Register on January 29, 2002 for review and comments by interested parties until February 29, 2002.

In his response dated 8/30/02, the CPA Executive Director informed OPA that CPA's Personnel Rules and Regulations were adopted on August 8, 2002 and were published in the Commonwealth Register. He also stated that CPA's Personnel Rules and Regulations are similar to the PSSRR in terms of personnel regulations, benefits and policies', however, the CPA Board decided to continue the accrual of 14 hours annual leave bi-weekly for several of its key management employees. On 9/16/02, OPA requested CPA for additional information on the matter.

Based on additional information CPA provided to OPA on 9/25/02, OPA conducted an analysis of the various CPA positions that are currently receiving the 14 hours annual leave benefit per pay period. Based on the analysis, OPA concluded that the positions of the deputy director, deputy comptroller, and the staff engineer may not be entitled to 14 hours annual leave per pay period because they are not encompassed in the exception provided by 2 CMC §2122(n) and are not considered to be "specialists for which no comparable position exist in the Commonwealth". Thus, the compensation, wages, and salary scales of these positions "shall be commensurate with those paid by the Commonwealth requiring comparable education, training, or experience." Based on the analysis, OPA also concluded that while certain positions such as the executive director, comptroller and ports managers, are able to receive compensations non-commensurate "with those paid by the Commonwealth requiring comparable education", OPA maintains its concerns regarding the extension of such generous leave benefits and whether such compensation is truly "reasonable related to the operations of the government" as set forth in Article X, Section 1 of the NMI Constitution, Public Laws 12-2 and 11-84. On 12/24/02, OPA forwarded this information to the AGO for review of the legal issues identified and action if determined necessary.

In his response dated 9/15/03, the Acting Attorney General stated that this case has been assigned to an Assistant Attorney General for review.

On 4/30/04, the Deputy Attorney General informed OPA that the Chief of the Civil Division is currently evaluating this case and expects to have its analysis and review completed by June 30, 2004.

The Acting Attorney General's response dated 10/25/04 did not address this recommendation.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

In a meeting with the Attorney General on 6/2/08, OPA was advised that the AGO will conduct further review of the matter. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required**

: The AGO should provide OPA the results of its review on the matter.

Recommendation 5

: *Original:* The CPA Board of Directors should instruct the CPA Accounting Department to stop the practice of making advance payments of unused annual leave and salary, and comply with the provision in the employment contracts that payments will be made upon contract expiration. In the case of retiring employees not covered by employment contracts, payment should be made on the next payday following the termination of employment or on payroll due dates.

As Redirected: The AGO should provide its legal opinion on the propriety of CPA's practice of making advance payments of unused annual leave and salary, instead of complying with the provision in the employment contracts that payments will be made upon contract expiration. In the case of retiring employees not covered by employment contracts, payment should be made on the next payday following the termination of employment or on payroll due dates.

Agency to Act

: Commonwealth Ports Authority - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : In his 10/12/01 response, the CPA Executive Director disagreed with the recommendation and stated that there is nothing illegal about making advanced leave payments for annual leave that has already accrued or advancing a salary that an employee has already earned. He further stated that this is a matter that rests exclusively with the CPA Board.

In a meeting on 2/12/02, this recommendation was included in the list provided by OPA to AGO pertaining to outstanding matters requiring AGO's legal opinion.

In his response dated 9/15/03, the Acting Attorney General stated that this case has been assigned to an Assistant Attorney General for review.

On 4/30/04, the Deputy Attorney General informed OPA that the Chief of the Civil Division is currently evaluating this case and expects to have its analysis and review completed by June 30, 2004.

The Acting Attorney General's response dated 10/25/04 did not address this recommendation.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

In a meeting with the Attorney General on 6/2/08, OPA was advised that the AGO will conduct further review of the matter. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will not pursue this issue and will provide a letter documenting AGO's decision on the matter.

Additional Information or Action Required : AGO should provide OPA the results of its review on the matter.

**Report No. AR-02-02 issued September 11, 2002
 Tinian Casino Gaming Control Commission
 Audit of Travel Transactions
 Fiscal Years 1996 - 2001**

Date(s) of followup letter(s) sent : 3/5/02, 8/9/02, 2/18/03, 8/4/03, 4/13/04, 9/21/04 (Re-directed to AGO), 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 7/22/03, 6/17/04 (TCGCC), 10/25/04 (AGO), 9/1/05 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation I : *Original* - Recover advances totaling \$406,925 (Appendix A) from the commissioners, officials, and employees unless convincing evidence is submitted showing otherwise. If the commissioners, officials, and employees refuse to repay the funds, the Chairman should request the Attorney General's Office to take legal action against the commissioners, officials, and employees to recover the amount of advances outstanding.

As re-directed to the AGO - Institute legal action against the commissioners, officials, and employees to recover the amount of advances outstanding.

Agency to Act : Tinian Casino Gaming Control Commission - Redirected to the Attorney General's Office

Status : Open - Delinquent

Agency Response : The table on page 4 of the report presents five types of exceptions noted and the potentially recoverable amount. The following information or actions are required for each exception in order to consider the recommendation closed:

1. No travel voucher submitted - \$107,414 - the Tinian Casino Gaming Control Commission (TCGCC) should present travel vouchers and documents to support claimed expenses. Otherwise, it should collect the advances and present evidence of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.
2. Insufficient supporting documentation - \$247,278 - TCGCC should present valid documents to support claimed expenses. Otherwise, it should collect the advances and present evidence of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.

After the exit briefing conducted on August 14, 2002, certain travelers provided copies of documents evidencing that official trips were performed. Although these documents had not been timely submitted, most of them adequately documented claimed expenses and would reduce exception no. 2 by \$14,672.

3. Unallowable discretionary fund expenses - \$15,829 - TCGCC should present evidence of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.

Two travelers concurred that they should pay TCGCC for personal expenses cited by OPA.

4. Improper CNMI advances - \$26,808 - TCGCC should present evidence of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.
5. Excessive Per diem - \$9,596 - TCGCC should present proof of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.

On August 16, 2002, a traveler provided OPA a copy of official receipt for payment of \$75 excess per diem.

In his response dated 6/17/04, the Chief Legal Counsel for TCGCC stated that TCGCC had contacted certain commissioners, officials and employees about the allegations in the audit report and was unable to settle their accounts consistent with the requirements of the recommendation. However, they have followed the recommendation made by OPA and has referred this matter to the AGO for "appropriate action". Although no specific referral letter was issued to the AGO, one of the Assistant Attorney General acknowledged his familiarity with the conclusions of the report and the request by TCGCC that the AGO take "appropriate action" to recover the funds identified in this recommendation. The Assistant Attorney General advised the Chief Legal Counsel that the AGO will review the report and determine what "appropriate action" will be taken against the commissioners, officials and employees identified in the report.

In his response dated 10/25/04, the Acting Attorney General stated that the AGO is currently researching standing issues related to the collection of the debt.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

On 6/2/08 OPA met with the Attorney General. The Attorney General advised OPA to re-direct this recommendation to the Tinian Mayor's Office. Therefore, OPA will re-direct this referral to the Tinian Mayor's Office for review and determination of appropriate actions to be taken to address this recommendation.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA not to re-direct this recommendation to the Tinian Mayor's Office. AGO will conduct further review and will provide OPA a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required**

: AGO should provide OPA the results of its review.

Report No. AR-02-04 issued on November 5, 2002
Audit of the Department of Labor and Immigration - (Currently Dept. of Labor/AGO
Division of Immigration)
Tinian Long Distance Telephone Charges
January 1998 through June 2000

Date(s) of followup letter(s) sent : 2/18/03 (DOLI), 8/4/03 (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/06 (AGO), 9/26/06 (AGO), 2/7/07 (AGO), 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 9/1/05 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation 2 : Request the telephone company to reduce the number of agency telephone lines with long-distance access and limit long-distance access only to certain employees.

Agency to Act : AGO-Division of Immigration - Tinian

Note: This recommendation was previously addressed to the Department of Labor and Immigration (DOLI) - Tinian. Pursuant to Executive Order 03-01 dated 3/10/03, the Division of Immigration was transferred to the AGO. Implementation of this recommendation will now be required from AGO-Division of Immigration - Tinian.

Status : Resolved - Delinquent

Agency Response : The Resident Director of DOLI Tinian appears to disagree with the recommendation. She stated that DOLI Tinian has four divisions which contains an average of two to three sections. She explained that the current ten telephone lines often results in hampered public services due to busy telephone signals. Hence, she maintained that her department will continue with the set up of ten telephone lines.

In a conference call between the DOLI Tinian Resident Director's Secretary and OPA on 2/18/03, the Secretary stated that there are only four DOLI personnel who have access to a pin number used to make long-distance calls. Also, the only telephone line with direct access to long-distance is in the Resident Director's office.

In a telephone conversation with the Deputy Attorney General in Mid-June, OPA was informed that the recommendation has been implemented. OPA will request the AGO to provide written documentation evidencing implementation of the recommendation in order to consider the recommendation closed.

In her response letter dated 9/1/05, the Attorney General stated that they are currently working on this matter.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA to follow-up on this recommendation with the Division of Immigration-Tinian. Therefore, based on AGO's response this recommendation will be re-directed to the Division of Immigration - Tinian.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA not re-direct this recommendation to the Division of Immigration - Tinian and to consider this recommendation moot due to the federalization of the Division. AGO will provide a written response to document their decision on the matter.

Additional Information or Action Required : AGO should provide OPA with a written response to document their decision on the matter.

Report No. AR-03-04 issued March 10, 2003
Office of the Attorney General
Audit of the Attorney General's Investigative Unit Confidential
Informant/Cash Funds From October 1, 1994 to April 30, 2002

Date(s) of followup letter(s) sent : 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 5/12/03, 9/15/03, 4/30/04, 10/25/04, 9/1/05, 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation 3 : Recovering the residual value of three unused return airline tickets totaling \$723 and the overpayment of per diem of \$1,605 from the three travelers involved.

Agency to Act : Attorney General's Investigative Unit

Status : Resolved - Delinquent

Agency Response : In her response dated 5/12/03, the former Attorney General informed OPA that a \$723 credit voucher had been issued by the involved travel agency to be depleted by off-setting with future airline tickets for investigation related to the local law enforcement funds purpose with no restrictions. Furthermore, the Attorney General outlined two steps to resolve the travelers' overpayment of per diem - (1) the current AGIU investigator will re-pay the fund in cash, and (2) the two other travelers, now both civilians and not attached to AGIU, will be contacted by an Assistant Attorney General for repayment through legal process.

In his response dated 9/15/03, the Acting Attorney General stated that this case was cleared by OPA. Upon further review, OPA determined that this case has not yet been cleared since OPA was not provided copies of documents evidencing repayment made into the fund by the current AGIU investigator for the overpayment of per diem and the results of their collection effort for the other two travelers with overpayments of per diem who are no longer employed with the AGIU.

On 4/30/04, the Deputy Attorney General informed OPA that one AGIU investigator has repaid \$535 to the CI Fund. Supporting documents to evidence repayment made by the AGIU investigator was subsequently provided to OPA on 7/20/04. Also, an attorney has been assigned to evaluate the case and to recover the uncollected balances due to the CNMI government. Based on AGO's response and supporting documents provided, \$535 has been collected, leaving a balance of \$1,070 still recoverable from the two remaining investigators who are no longer attached to AGIU.

In his response dated 10/25/04, the Acting Attorney General stated that OPA only allowed \$200 per diem rate, however, the AGO Administrative Officer determined that AGIU was allowed higher per diem rate. He further stated that OPA required receipts and disallowed some expenses, however, under current travel policies and memoranda, per diem does not have to be justified by receipts. The requirement imposed is that boarding passes must be supplied. The AGO also stated that there are no fiscal rules regarding paid travel, per diem, or hearing procedures in contested cases. AGO plans to meet with OPA and DOF to discuss this matter.

OPA Response: The CNMI Travel Regulations are clear as to what type of expenses can be covered by the travel advance and OPA agrees that per diem does not have to be covered by receipts. However, per diem rates per locality are also established by the Regulations and we have not seen anything in writing allowing AGIU to exceed the \$200 per diem rate for the Korea trip. Pursuant to regulations, meals are covered by the per diem and should not form part of the additional expenses deductible from the advance. Sightseeing tour entrance fees are also not among those allowed as legitimate travel expenses. OPA still believes that the excess amount should be returned by the travelers unless the AGO can justify what it claims "a higher per diem rate for investigators". OPA would be ready to further discuss this issue with AGO.

In her response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

On 6/2/08, OPA met with the Attorney General. The Attorney General requests that OPA provide additional information pertaining to this recommendation for further review. OPA will provide AGO with a copy of the audit report and the additional information requested.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct an internal review and will provide OPA the results of its review.

**Additional Information
or Action Required**

: AGO should inform OPA of the results of their collection effort for the other two travelers with overpayments of per diem who are no longer employed with the AGIU and provide copies of documents evidencing payments until fully recovered.

**Report No. AR-03-05 issued August 6, 2003
CNMI Senate, Thirteenth Legislature
Monthly Subsistence Allowance Provided to Members
of the Senate Covering the Period Ending June 30, 2002**

Date(s) of followup letter(s) sent : 4/13/04 (Senate), 9/27/04, 2/15/05, 8/9/05, 9/22/05, 3/8/06, 2/7/07 (Re-directed to AGO), 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 5/12/04 (request for extension to respond), 10/13/04, 3/8/05 (telephone follow-up), 3/14/05, 8/17/05 (meeting with Senate Legal Counsel), 8/29/05, 6/2/08, 12/1/09 (meeting with AGO)

Recommendation I : *Original:* Introduce legislation to grant it authority for the subsistence allowance, to set the amount of the allowance, and to certify it as a public purpose.

As Revised and Re-directed to the AGO: AGO should inform OPA of the results of its review and legal determination on whether the Senate should introduce legislation to grant it authority for the subsistence allowance, to set the amount of the allowance, and to certify it as a public purpose.

Agency to Act : Senate - Redirected to the Attorney General's Office

Status : Open - Delinquent

Agency Response : The Senate stated that the subsistence allowance need not be in the form of a law. Instead the Senate asserts that it has implied statutory authority to establish the subsistence allowance for its members by Senate rule because 1 CMC §121(i) states that "expenditures authorized and regulated by legislative rules are expressly declared to be for a public purpose...".

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate and that no further legislation is necessary at this time.

OPA Response - OPA did extensive legal research which formed the basis for the recommendation. OPA believes the CNMI Constitution clearly addresses these issues. OPA disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. Therefore, until such time as the allowances that have been created by the Senate rules are discontinued, OPA must reiterate that the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists. OPA urges the Senate to reconsider its position and to establish and justify the amount of its subsistence allowance through legislation.

OPA is redirecting this recommendation to the Attorney General's Office for review as OPA and the Senate were unable to reach an agreement to address OPA's concern.

Although OPA respects the Senate's position on this matter, OPA still disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. As the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists, OPA feels it is in the best interest to refer the legal issues identified to the Attorney General's Office for its legal review and determination.

On 6/2/08, OPA met with the Attorney General. The Attorney General requested for a copy of the audit report and prior communications between the Senate and OPA so that the AGO can conduct its review. AGO will issue an opinion on the legality of the issue.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required :**

The AGO should review the legal issues identified in OPA's audit report and inform OPA of its determination.

Report No. AR-98-06 issued December 14, 1998
Department of Finance
Audit of Misuse of Funds by the Former Secretary of Finance
Fiscal Years 1995, 1996, and 1997

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 1/26/99, 1/5/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 2/14/02 (AGO), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (DOF) (AGO), 8/8/05 (DOF), 8/9/05 (AGO), 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 1/20/00 (AGO), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 3/31/05 (DOF), 9/1/05 (AGO), 3/31/06 (request for extension), 4/18/06, 9/11/06 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation I : *As Revised:* DOF should provide OPA documents showing recovery of the \$56,461.98 in restitution on the federal case. In addition, AGO should take further legal action against the former Secretary for misappropriation and improper expenditure of public funds.

Agency to Act : Department of Finance / Attorney General's Office

Status : Resolved - Delinquent

Agency Response : On 2/22/01, the Federal Court sentenced the former Finance Secretary to 33 months imprisonment and ordered payment of \$56,461.98 in restitution to the court for disbursement to the CNMI Department of Finance.

In his 3/9/01 response, the Acting Attorney General stated that the AGO waited until the federal crime case concluded since one count in the case was covered by AGO's case. The former Secretary was ordered to pay restitution in the federal case, thereby reducing the maximum potential judgment. AGO will make a Motion for Summary Judgment and will still seek a judgment of approximately \$75,000 against the former Secretary of Finance for misappropriation and improper expenditure of public funds.

During the 2/12/02 meeting, AGO informed OPA that it will file a Motion for Summary Judgment in the civil action filed against the former Secretary of Finance. In a follow-up letter to AGO dated 2/14/02, OPA compiled a list of its referrals for AGO to prioritize for action. The list included this recommendation.

In his response dated 9/15/03, the Acting Attorney General stated that this case has been forwarded to the AGO's collection team (an in house team assembled to collect debts owed the government that are over the statutory limit for small claims) and the matter is still pending.

In his 10/25/04 response, the Acting Attorney General stated that the civil case against the defendant is still pending for the recovery of funds.

In a response letter dated 3/18/05, the Secretary of Finance stated that the defendant has not made any payments towards his restitution obligation to the CNMI government to date. On 3/31/05, OPA was provided a copy of the letter received from the U.S. Attorney of the District of Guam to the Secretary of Finance informing him that the former Secretary of Finance's assigned U.S. Probation Officer will be setting a payment schedule to dispose of his restitution obligation after July 2005. The U.S. Attorney of the District of Guam will be notifying the Secretary of Finance once the payment plan is established.

In his response letter dated 4/18/06, the Secretary of Finance provided OPA with a copy of the letter from the US Attorney's District Office on Guam advising OPA of the payment plan the former secretary will be making to the government. OPA was also provided with a summary of all payments made by the former secretary owed to the government to date. The US Attorney's District Office has been notified that the former secretary has agreed to make monthly payments in the amount of \$100 effective 8/1/05. According to the payment summary provided by DOF, payments made by the former secretary totaled \$625.00 as of 3/21/06, thus leaving a balance outstanding of \$55,837.00. Additionally, the letter stated that a balance still remains towards the former secretary's imposed assessment fee and that any payments will first be applied to it until it is paid off.

In her response dated 9/11/06, the Assistant Attorney General informed OPA that the former Secretary of Finance has paid \$1,125 towards his restitution obligation as of August 2006. Therefore, a balance of \$55,336.98 is still recoverable from the former Secretary of Finance.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO Civil Division will conduct a review on the status of the civil case against the former Secretary of Finance. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required**

: DOF should continue to update OPA on the collection of the \$56,461.98 restitution in the federal case until the entire amount is fully recovered. In addition, AGO should update OPA on the status of its earlier plan to make a motion for Summary Judgement of approximately \$75,000 against the former Secretary of Finance or provide OPA with a copy of any judgement issued if already filed.

**Report No. LT-95-06 issued November 1, 1995
Investigation of a Motor Vehicle Leased by the Tinian Mayor's Office**

Date(s) of followup letter(s) sent : 7/16/96, 11/29/96, 12/3/96, 2/2/98, 9/17/98, 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 11/21/00 (meeting with Coordinating Group on DOF), 10/01/01, 3/27/02 (DOF request for extension), 4/12/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05, 3/31/06 (request for extension), 4/18/06

Recommendation 2 : The Secretary of Finance should designate responsibility to a specific DOF office for implementing government vehicle regulations, developing specific procedures for confiscating vehicles, and bringing disciplinary actions against offending officials or employees.

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : The provisions of Government Vehicle Regulations No. 1101 Section 11 (e) as adopted by the Department of Finance in the Commonwealth Register on 4/15/93 state that the Secretary of Finance shall have the authority to revoke the employee's CNMI government vehicle permit, immediately confiscate the vehicle in question, bring disciplinary action against the offending official or employee, or refer the matter to the Attorney General or Department of Public Safety for further investigation.

In his 4/12/02 response, the Secretary of Finance informed OPA that revisions to the amended Government Vehicle Regulations are near completion and a copy will be provided to OPA upon their adoption.

In his 3/18/05 response, the Secretary of Finance informed OPA that DOF is currently reviewing the proposed amendments to the regulations. The Director of Procurement and Supply has asked for an additional 30 days to conduct further review with the assistance of the Attorney General's Office. The Secretary of Finance stated that they will have the amended regulations published in the April 2005 Commonwealth Register and have the amendments adopted in May 2005.

In his letter response dated 4/18/06, the Secretary of Finance informed OPA that the review of existing regulations has taken longer than expected. The Secretary of Finance was informed by the Director of Procurement and Supply that the amended regulations will be due by June 30, 2006 and published for adoption 60 days thereafter.

Additional Information

or Action Required : DOF should provide OPA a copy of the revised Government Vehicle Regulations upon its adoption.

Report No. AR-96-01 issued January 31, 1996
Office of the Mayor
Audit of Operations
For Fiscal Years Ended September 30, 1990 to 1993

Date(s) of followup letter(s) sent : 3/28/96, 11/25/96, 2/2/98, 9/17/98, 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 6/11/97, 9/27/00, 9/22/99, 11/21/00 (meeting with Coordinating Group on DOF), 3/27/02 (DOF request for extension), 4/12/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05, 3/31/06 (request for extension), 4/18/06

Recommendation 7 : The Secretary of Finance should direct the head of the Tinian Procurement Office to maintain an updated record of capital assets. On a regular basis, the Tinian Procurement Office should conduct an inventory to establish the physical existence, condition and location of fixed assets. It should also compare its record of assets with the inventory and take appropriate action with respect to any differences. Any missing item should be properly accounted for by the concerned agency.

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : During the 11/21/00 meeting with the Coordinating Group, the Procurement and Supply (P&S) Director agreed to issue a memorandum to the Tinian Procurement Office and even to the Rota Procurement Office directing them to conduct their own annual inventory. In the 10/1/01 response from DOF, there was no indication of any action taken on this recommendation.

On 4/12/02, the current Secretary of Finance responded that his office has requested copies of the inventory results from Rota and Tinian for DOF to provide to OPA.

On 3/18/05, the Secretary of Finance provided OPA a copy of the new CNMI Property Management Policies and Procedures dated 1/8/03 which states that capital inventories shall be conducted on an annual basis. Based on the new policies and procedures, the inventory results for 2004 is due on March 23, 2005. OPA was also provided a copy of the memorandum from the Secretary of Finance addressed to the Supply Representatives for Tinian and Rota dated 3/14/05 requesting for their office inventory listing of all CNMI government property assigned under each department and agency in their respective area no later than March 23, 2005. The Property Management Branch will schedule a physical inventory verification once the listing has been received and compiled. DOF will be providing OPA with the inventory results once completed.

In his letter dated 4/18/06, the Secretary of Finance informed OPA that the Director of Procurement and Supply has issued notices to the Procurement Offices in Rota and Tinian to conduct an annual inventory of their fixed assets. The Secretary of Finance further stated that the physical inventory of all fixed assets on Tinian and Rota are still ongoing and that DOF will provide OPA with the inventory results as soon as they are completed.

Additional Information or Action Required : The P&S Director should provide OPA a copy of the inventory results and actions taken.

**Report No. AR-97-05 issued March 20, 1997
Audit of the Executive Branch of the CNMI Government's
Professional Services Contracts from October 1991 to July 1995**

Date(s) of followup letter(s) sent : 7/9/97, 2/02/98, 9/17/98, 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 11/9/00, 11/21/00 (meeting with Coordinating Group on DOF), 5/01, 10/1/01, 3/27/02 (DOF request for extension), 4/12/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05, 3/22/05, 3/29/06 (request for extension), 4/18/06, 6/2/08 (meeting with AGO)

Recommendation 3 : The Contracting Officers should recover payments (including interest) made to contractors whom we identified as having been paid without performing their work, and refer those who refuse to pay to the AGO for legal action.

Agency to Act : Department of Finance - Treasury for Contact C40113, C50108

Status : Resolved - Delinquent

Agency Response : On 1/14/00, AGO and the Director of Procurement and Supply met with the former contractor which resulted in the former contractor agreeing to repay the Commonwealth \$96,100. The former contractor signed a promissory note with the AGO for monthly payments of \$300 to the CNMI Treasury beginning 2/15/00.

During the 2/12/02 meeting, AGO informed OPA that the former contractor in this matter remains in compliance with the settlement promissory note and therefore AGO just needs to continue to monitor compliance.

In his letter dated 4/18/06, the Secretary of Finance informed OPA that total payments made on the promissory note as of 3/21/06 amounted to \$14,000 leaving a balance of \$81,900 still to be recovered. According to the summary schedule provided by DOF, the former contractor is 27 months behind with his payments as of 3/21/06.

In a meeting with the Attorney General on 6/2/08, OPA was advised that AGO will follow-up with DOF on the \$96,100 promissory note signed by the contractor.

Additional Information or Action Required : *For Contract Nos. C40113 and C50108* - Until full amount has been paid, DOF-Treasury should continuously provide OPA evidence (*i.e.*, official receipts) of collections from the former contractor which pay directly to the CNMI Treasury. DOF should also update AGO on the status of payments made by the former contractor and his non-compliance with the promissory note. Accordingly, DOF should update OPA on the results of its communication with the AGO on this matter.

Recommendation 8 : The Secretary of Finance should issue a memorandum instructing the DOF - Accounting Section to recover or offset from future payments the \$15,079 in overpayments to contractors.

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : In the 10/1/01 response from DOF, the Secretary of Finance stated that \$7,559 (for Contract no. C50083) of the \$15,079 in total overpayment has already been settled and that supporting documents regarding the settlement were provided to OPA. For the others in question which include \$1,020 (for Contract no. C50132) and \$6,500 (for Contract no. C50208), DOF requested that AGO initiate a recovery action, given the length of time involved and the improbability of a reply from both contractors.

In his 4/12/02 response, the Secretary of Finance provided OPA a copy of a memorandum requesting the Acting Director of Finance and Accounting to review the records pertaining to the payments in question and to issue a demand for payment immediately.

In his letter dated 3/18/05, the Secretary of Finance informed OPA that after their review of the files, DOF was unable to confirm whether bills were sent out to two contractors. DOF will gather all the required documents to include with the bills for collection and provide OPA a copy. DOF will also refer the matter to the AGO for collection.

In his response letter dated 4/18/06, the Secretary of Finance informed OPA that the Acting Director of Finance and Accounting is unable to provide copies of accounts payable vouchers (APV) that are needed as supporting documents when bills are sent out for collection. The Secretary further stated that since this was an OPA-initiated audit, the OPA should have copies of the payment vouchers in question, as they should have been part of the working files. In the meantime, they are consulting with the Office of the Attorney General as to the appropriate course of action(s) that can be taken considering the lack of supporting documents and the statute of limitation on these claims.

Additional Information or Action Required : DOF should provide OPA with the documents evidencing settlement of the \$7,559 (for Contract no. C50083). DOF should also provide OPA a copy of the bills for collection to recover the overpayment of \$1,020 (for Contract no. C50132) and \$6,500 (for Contract no. C50208). Finally, DOF should update OPA on the results of its communication with the AGO on the appropriate course of action(s) that can be taken on these claims.

Report No. AR-98-02 issued May 26, 1998
Review of CNMI's Compliance with Government Vehicle Act and Regulations
March 1995 to March 1997

Date(s) of followup letter(s) sent : 9/17/98 (DOF), 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 9/29/00 (DOF), 12/7/00 (meeting with Coordinating Group on DOF), 10/01/01 (DOF), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 3/17/03 (DOF request for extension), 3/7/05 (DOF), 3/18/05, 3/31/06 (request for extension), 4/18/06

Recommendation 2 : The Secretary of Finance should instruct the Director of Procurement and Supply to:

a) Develop written procedures for marking of government vehicles (except law enforcement vehicles and vehicles used by elected officials). Among other things, the written procedures should specify 1) the period when markings should be made (e.g., within a specified time frame after vehicle has been delivered by vendor); 2) the information to be included in the markings, such as the agency name, and if the vehicle is government-owned, the property number as well; 3) the exact size of the markings that will allow them to be visible and readable even when the vehicle is in motion; 4) the exact placement of the markings on the door; and 5) the material to be used for marking.

(Note: The marking should show the agency's full name and not just the acronym or the first letters of the agency's name. Use of full name instead of acronym readily identifies the agency accountable for the vehicle, and prevents mistaking one agency for another that has the same acronym.)

- b) Maintain updated government vehicle inventory listings and conduct periodic inventories of all government vehicles on Saipan, Rota, and Tinian.
- c) Revise the standard vehicle specifications and features guidelines issued by the Procurement and Supply Division to emphasize that procurement of vehicles with factory-tinted windows is prohibited by statute. Reject purchase requisitions made by any government agency to procure vehicles that do not conform to the standard vehicle specifications and features guidelines.

Agency to Act : Department of Finance - Procurement & Supply

Status : Resolved - Delinquent

Agency Response : In the 10/1/01 response from DOF, the Secretary of Finance stated that DOF is currently updating the vehicle regulations to include items (a) and (c) of Recommendation 2. OPA was provided the initial draft copy of the regulations. In addition, DOF provided OPA a government vehicle inventory listing as of January 2001 which addressed item (b) of the recommendation.

In his 4/12/02 response, the Secretary of Finance informed OPA that revisions to the amended Government Vehicle Regulations are near completion, and a copy will be provided to OPA upon their adoption.

In his 3/18/05 response, the Secretary of Finance informed OPA that DOF is currently reviewing the proposed amendments to the regulations. The Director of Procurement and Supply had requested for an additional 30 days to conduct further review with the assistance of the Attorney General's Office. The Secretary of Finance stated that they will have the amended regulations published in the April 2005 Commonwealth Register and have the amendments adopted in May 2005.

In his letter response dated 4/18/06, the Secretary of Finance informed OPA that the amended regulations will be completed by 6/30/06 and published for adoption 60 days thereafter.

Additional Information or Action Required : DOF should provide OPA a copy of the revised Government Vehicle Regulations upon their adoption.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 3/31/06 (request for extension), 4/18/06

Recommendation I : The Secretary of Finance should adopt regulations to "interpret, execute and enforce" the Government Deposit Safety Act, including defining and clarifying what items constitute "obligations and securities backed by the CNMI government."

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : In his letter response dated 4/18/06, the Secretary of Finance provided OPA with the proposed Rules and Regulations of the Department of Finance Government Deposit Safety Act. The Secretary noted that the regulation was not adopted and that they will review the regulations and submit the update for publication and

subsequent adoption in the CNMI register.

**Additional Information
or Action Required**

: DOF should inform OPA of actions taken to adopt regulations to “interpret, execute and enforce” the Government Deposit Safety Act, including defining and clarifying what items constitute “obligations and securities backed by the CNMI government.” DOF should also provide OPA with a copy of the regulations once they are adopted.

**Report No. AR-05-03 issued August 12, 2005
Marianas Hawaii Liason Office
Audit of the Marianas Liason Office
From October 1, 1999 through December 31, 2002**

Date(s) of followup letter(s) sent : 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 3/31/06 (request for extension), 4/3/06, 4/18/06

Recommendation 13 : Establish policies and procedures requiring DOF staff to account and record expenditures and receivables related to advances for funeral service charges of medical referral patients.

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA’s concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to ensure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system. The Secretary of Finance directed this action as DPH and MHLO enter their own payment vouchers and cash receipts into the DOF financial management system and have the responsibility to insure initial transactions are properly entered and the proper accounting codes are used.

OPA Response - OPA agrees that DOF’s assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. Since DOF has a better understanding of the system and the proper coding of payments and receipts, OPA believes that it will also be helpful if DOF establish guidelines and procedures in the proper coding and recording of these payments and receipts which DPH and MHLO can follow.

In his letter dated 3/18/06, the Secretary of Finance stated that they have met with the Medical Referral Office Manager to discuss the recording of accounts receivables for funeral expenses, as well as other medical referral related expenses not covered by the CNMI government. The MRO Manager will renew the existing MOU with each of the responsible parties to ensure that the amount outstanding is accurate. Once this is completed, all the receivables will be entered into the financial management system. He further stated that the DOF will assist with any training needed to ensure the completion of this project.

The Secretary also proposes that all vendor payments relating to funeral expense advances to families come directly out of the Treasury Office on Saipan to ensure that receivable accounts are established correctly through the MRO.

**Additional Information
or Action Required**

: OPA reiterates the need for DOF to adopt written guidelines and procedures to ensure proper accounting and recording of funeral service advances. Written procedures will also help ensure that proper accounting and recording will continue when DOF or MHLO personnel change. The guidelines and procedures can be incorporated in a memorandum or directive from the DOF secretary to DOF and MHLO personnel. A copy of the circulated memorandum or directive should also be provided to OPA so this recommendation can be closed.

Recommendation 14 : Designate DOF staff to review: (a) the outstanding balance of receivable accounts (#12150 and #12151) and (b) disbursements and collections debited/credited to Professional Service expense account to establish an accurate outstanding receivable balance of each promisor.

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA's concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to insure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system.

OPA Response - Although the benefit of what DOF intends to do will only be realized prospectively, OPA agrees that DOF's assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. As DOF has a better understanding of the system and the proper coding of payments and receipts, OPA believes that it will also be helpful if DOF establish guidelines and procedures in the proper coding and recording of these payments and receipts which DPH and MHLO can follow.

In his letter dated 4/18/06, the Secretary of Finance stated that as noted in Recommendation 13, DOF will assist the MRO in booking the accurate A/R amount for each responsible party. The Secretary also noted that the MRO must determine the accurate amount since the receivables were never included in either the CHC billing system or the DOF financial management system.

Additional Information or Action Required : As stated in recommendation 13, DOF should provide OPA a copy of the written guidelines and procedures adopted to ensure proper accounting and recording of funeral service advances. These guidelines and procedures should also identify the designated DOF and MHLO personnel responsible for reviewing the accuracy of accounts receivable balances, and for billing outstanding receivables.

Recommendation 16 : DOF Should establish written guidelines and procedures for the use of check exchanges. Such guidelines should address: (a) the purpose of check exchanges, (b) circumstances when a check may be issued through check exchange before receiving DOF-Treasury or DOF-Payroll approval, and (c) whether personal checks should be accepted for a check exchange. As DOF requires pre-approval of all check exchange transactions, DOF should establish monitoring procedures to ensure that all check exchanges are collected and credited to the check exchange receivable account.

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : The Acting Director of Finance and Accounting was directed to prepare written guidelines for the use of the check exchange account and provide a copy to MHLO and assign a staff member to review the check exchange account periodically to ensure MHLO is following the guidelines.

In his letter dated 4/18/06, the Secretary of Finance informed OPA that they are currently in the process of drafting procedures and guidelines for the use of check exchange accounts. DOF will provide OPA a copy of the policy once completed.

Additional Information or Action Required : DOF should provide OPA a copy of the written guidelines for the use of the check exchange account for OPA's review.

Recommendation 17 : DOF should issue a memorandum instructing staff to: make adjustments to the proper fund and receivable accounts. The Secretary of Finance should also instruct the staff assigned to record expenditure transactions concurrently with payment transactions to avoid double recording of disbursements. (The Secretary of Finance should ensure that Acct#1972 should be used for all expenditure transactions of medical referral operations, Acct#1041 should be used for operations of MHLO other than medical referral, and Receivable Acct#12160 should be used for disbursements and deposits of check exchange transactions).

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA's concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to insure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system.

OPA Response - Although the benefit of what DOF intends to do will only be realized prospectively, OPA agrees that DOF's assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. Proper coding and accurate recording will then eliminate the need for DOF to perform future bank reconciliation adjustments to correct expenditure accounts of MHLO Operations and Medical Referral Imprest Funds. DOF should provide OPA the name of the DOF official who will be responsible for assisting DPH and MHLO and the target date to complete the task as well as a copy of the written guidelines and procedures to be followed by DOF and MHLO.

In his response letter dated 4/18/06, the Secretary of Finance indicated that there are two imprest fund accounts for the MHLO, one for operational expenses and another for medical referral expenses. He stated that the MHLO has to post each transaction into the appropriate accounts and object class. He also noted that they have provided training on posting transactions to the financial management system to designated staff at the MHLO on two separate occasions.

The Secretary also proposes that all vendor payments relating to funeral expense advances to families come directly out of the Treasury Office on Saipan to ensure that receivable accounts are established correctly through the MRO.

Additional Information or Action Required : DOF should provide OPA the name of the DOF official who will be responsible for assisting DPH and MHLO and the target date to complete the task as well as a copy of the written guidelines and procedures to be followed by DOF and MHLO.

Department of Public Lands

Report No. AR-95-18 issued October 10, 1995 Department of Public Lands (DPL) (Formerly Marianas Public Lands Authority) Audit of Credit Card and Related Travel Transactions

Date(s) of followup letter(s) sent : 9/18/98 (DLNR), 11/23/99, 1/26/99, 7/6/00 (DPL), 1/24/01 (DLNR), 8/23/01 (OPL), 8/12/02 (MPLA), 2/14/03, 8/4/03, 4/23/04, 9/21/04, 2/15/05, 8/9/05, 3/13/06, 9/29/06, 2/6/07, 8/28/07, 3/17/08, 8/25/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10, 10/14/10

Date(s) of response letter(s) received : 10/21/99 (DPL), 10/31/00 (meeting with Coordinating Group on DLNR), 2/8/01 (DPL), 2/22/01, 8/30/01 (OPL), 9/28/01, 3/6/02 (MPLA), 8/19/02, 3/10/03, 6/7/04, 4/3/06 (request for extension), 4/11/06, 9/29/06

Recommendation 6 : The Secretary of DPL should instruct the current Comptroller to determine the correct balance of the travel advance account, and forward advances not reimbursed to DOF for collection. The remaining travel advance balances of cardholders/travelers still working for the Government should be recovered through salary deduction. For employees/officials who no longer work for the Government, the assistance of the Attorney General should be sought to collect the outstanding balances.

Agency to Act : Department of Public Lands (formerly Marianas Public Lands Authority)

Status : Resolved - Delinquent

Agency Response : On 3/4/04, a member of the 14th CNMI Legislature requested OPA to review documents relating to the status of the outstanding account balance of the former Rota board member. During the review, OPA discovered that some of the documents provided by the member of the 14th Legislature regarding the account balance of the former Rota Board member were not previously submitted by MPLA during OPA's periodic audit recommendation follow-up requests. OPA also discovered that the schedule of payments submitted did not incorporate interest computation.

On 7/21/05, the MPLA Commissioner provided OPA with a copy of the subsidiary ledgers maintained to record payments received from these former board members. The subsidiary ledgers provided incorporated interest computations on the outstanding balances for the former Board Chairman and former Rota Board member.

The status of accounts based on the above documents provided by the MPLA Commissioner are as follows:

Former Chairman of the Board - The account balance through 6/30/05 is \$25,393.86. The MPLA Commissioner stated that since the account is overdue, it would be forwarded to their Legal Counsel for further action.

Former Rota Board Member - The account balance through 6/30/05 is \$52,942.06. The MPLA Commissioner also stated that MPLA is attempting to have a lien put on the former Rota board member's property, and that if no property is pledged, MPLA will bring his account to their Legal Counsel for further action.

Former Tinian Board Member - Based on the stipulation to judgement and order in the civil case against the former Tinian Board member, a settlement agreement was entered for the Tinian Board member to pay the sum of \$11,657 in monthly installments of \$250 beginning January 15, 2000. On 9/29/06, OPA was provided a copy of the former Tinian Board member's account ledger showing that the Court Order in the amount of \$11,657 was fully paid as of October 28, 2004. Based on the account ledger provided to OPA, the part of the recommendation pertaining to

the former Tinian Board member is considered closed.

On 4/11/06, DPL provided OPA with the updated subsidiary ledgers pertaining to the accounts listed above. Due to discrepancies found between the balances of these ledgers to the ledgers provided to OPA on July 21, 2005, OPA was unable to accurately ascertain the exact amount still to be recovered from the former Chairman of the Board and former Rota Board member . OPA will be contacting DPL to reconcile the balances. Aside from the account ledgers provided to OPA, DPL stated that the accounts of the former Board Chairman and former Rota Board Member are seriously delinquent. Their accounts will be forwarded to their in-house Legal Counsel for legal action and to obtain some collateral.

**Additional Information/
Action Required** :

DPL should continue to provide OPA with the updated ledgers of the accounts for the three former board members as well as an update on possible legal proceedings to be taken against the former board chairman and the former Tinian board member. Additionally, DPL should inform OPA of the results of DPL's attempt to have the former Rota board member lien his property and subsequent action if no property is pledged by the former Rota Board Member.

**Report No. AR-00-04 issued November 22, 2000
Department of Public Lands
(Formerly Marianas Public Lands Authority)
Audit of Collection of Rentals on Land Leases with Quarries
For Six Lease Years from 1990 to 1995**

Date(s) of followup letter(s) sent : 9/18/98 (DLNR), 11/23/99, 1/26/99, 7/6/00 (DPL), 1/24/01 (DLNR), 8/23/01 (OPL), 8/12/02 (MPLA), 2/14/03, 8/4/03, 4/23/04 (BMPLA), 9/21/04, 2/15/05, 8/9/05, 3/13/06 (DPL), 9/29/06, 2/6/07, 8/28/07, 3/17/08, 8/25/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10, 10/14/10

Date(s) of response letter(s) received : 10/21/99 (DPL), 10/31/00 (meeting with Coordinating Group on DLNR), 2/8/01 (DPL), 2/22/01, 8/30/01 (OPL), 9/28/01, 3/6/02 (MPLA), 8/19/02, 3/10/03, 6/8/04, 4/11/06

Recommendation 2 : The DPL Secretary should take steps to collect the \$4.69 million in underpayment of rentals (including interest) on land leases with 8 quarries, and refer those lessees who refuse to pay to the Attorney General's office for legal action.

Agency to Act : Department of Public Lands (formerly addressed to the Board of Marianas Public Lands Authority)

Status : Resolved - Delinquent

Agency Response : After billings were sent to eight quarry operators to collect \$4,690,707.81 in underpaid rentals, Quarry Operator H paid \$789.87 as full payment while \$946,967.58 owed by Quarry Operator B was written off due to bankruptcy.

Four additional Quarry Operators accounts were also considered fully recovered and closed based on OPA's 8/12/04 review of their subsidiary ledgers showing account balances through 5/31/04. These Quarry Operators are: Quarry Operator C of which amount recoverable of \$5,384.25 has been fully recovered, Quarry Operator D of which amount recoverable of \$424,083.85 has been fully recovered, Quarry Operator E of which amount recoverable of \$379,486.51 has been fully recovered, and Quarry Operator G of which amount recoverable of \$27,585.74 has been fully recovered. (OPA's review of the subsidiary ledgers for these four Quarry Operators showed that their account balances included additional rentals and interest which may have increased their receivable, however, OPA applied total payments and adjustments through 5/31/04 to their 1995 balance per OPA's FY2000 audit). For the remaining two Quarry Operators (Quarry Operators A and F), DPL should continue to pursue collection of \$2,906,410.01 in underpaid lease rentals and interest.

On 4/11/06, the DPL Chief Financial Officer provided OPA with a copy of the subsidiary ledgers showing the account balances for the remaining two quarry operators through 4/10/06 as follows.

Quarry Operator A - Amount recoverable per FY2000 audit is \$2,753,839.88 as of FY1995. Based on DPL records, additional rentals and interest of \$1,826,829.25 increased the receivable to \$4,580,669.13 as of April 2006. Within 2001 to 2005, only \$4,987.50 was paid by Quarry Operator A. Thus, if payments were applied against the old balance, the amount still to be recovered from the 1995 balance is still \$2,748,852. According to the DPL Chief Financial Officer, the account of Quarry Operator A will be forwarded to their in-house Legal Counsel to pursue legal action and obtain some collateral.

Quarry Operator F - Amount recoverable per FY2000 audit is \$152,570.13 as of FY1995. Based on MPLA records, additional rentals and interest of \$708,407.31 increased the receivable to \$860,977.44 as of May 2004. Payments and adjustments as of 5/31/04 totaled \$54,429.25. Thus, if payments and adjustments were applied against the 1995 balance, the amount still to be recovered is \$98,140.88.

In his 4/11/06 update, the DPL Chief Financial Officer provided OPA incomplete subsidiary ledgers for Quarry Operator F. Therefore, OPA is unable to ascertain total amount collected as of April 2006. Total amount to be recovered of \$98,140.88, therefore, remains unchanged from the previous audit tracking report. The DPL Chief Financial Officer informed OPA, however, that there has been no movement in Quarry Operator F's account. DPL will be forwarding this account to their in-house Legal Counsel to pursue legal action and obtain some collateral.

**Additional Information
or Action Required**

: DPL should continue to update OPA on the status of accounts for Quarry Operators A and F and provide subsidiary ledgers to support account balances and total payments made by these two Quarry Operators.

Recommendation 5

: The DPL Secretary should send letters to lessees who misinterpreted certain provisions of the lease agreements/permits and incorrectly computed required rentals, clarifying for them the proper interpretation of material subject to royalty or gross receipts rent, and the common errors noted such as not implementing rate increases on the anniversary dates of lease agreements.

Agency to Act

: Department of Public Lands (formerly addressed to the Board of Marianas Public Lands Authority)

Status

: Resolved - Delinquent

Agency Response

: OPA was provided with a 9/15/00 letter sent by DPL to quarry operator E evidencing communication as to the audit finding on its quarry operations. Another quarry operator, quarry operator H, fully paid its amount due to DPL, so there is no need to send it a letter. We consider the part of the recommendation pertaining to quarry operators E and H closed.

On 12/18/01, OPA was provided with a 3/13/01 letter sent by MPLA to quarry operator G clarifying the proper interpretation of material subject to royalty or gross receipts rent, and the common errors noted such as not implementing rate increases on the anniversary dates of lease agreements. Based on the response provided, we consider the part of the recommendation pertaining to quarry operator G closed.

In her response letter dated 8/19/02, the Commissioner informed OPA that MPLA has not yet sent a letter to Quarry Operator F pending an investigation of the permittee's land exchange claim.

The response submitted by the Commissioner of MPLA dated 3/10/03 did not address this recommendation.

In his response dated 6/8/04, the MPLA Comptroller stated that although Quarry Operator F was involved in a land exchange during the time, MPLA should have notified the lessee about the results of the OPA audit which uncovered revenues of

\$115,210.11. The Comptroller provided OPA with a copy of the memorandum he had addressed to the Commissioner requesting him to send a letter notifying Quarry Operator F to this effect.

In his letter dated 4/11/06 DPL Chief Financial Officer stated that in part, this recommendation is connected to recommendation 2 regarding Quarry Operator F. He further stated that he was going to schedule a meeting with Quarry Operator F to discuss the recognition of royalty revenue, and that he would update OPA with the results of the meeting.

Additional Information or Action Required : DPL should Provide OPA copies of documents evidencing communication with the remaining lessee, *i.e.* Quarry Operator F.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/13/06, 9/29/06, 2/6/07, 8/28/07, 3/17/08, 8/25/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10, 10/14/10

Date(s) of response letter(s) received : 4/11/06

Recommendation 6 : The Department of Public Lands should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Department of Public Lands (formerly Marianas Public Lands Authority)

Status : Open - Delinquent

Agency Response : In his response dated 4/11/06, the DPL Chief Financial Officer informed OPA that through the enactment of Public Law 15-2, all funds of the Department of Public Lands except the frozen funds at Bank of Saipan have been deposited into an FDIC insured institution. He further stated that the funds that are at Bank of Saipan are under a depository agreement and that the agreement reveals the collateralization of the funds.

Additional Information or Action Required : The Department of Public Lands should provide OPA with documentation that DPL Funds are fully secured in accordance with the Government Deposit Safety Act.

Department of Public Safety

Report No. AR-05-04 issued September 21, 2005 Audit of the Department of Public Safety's Evidence Controls through June 2004

Date(s) of followup letter(s) sent : 3/7/06, 9/25/06, 2/7/07, 3/27/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 3/30/06, 11/8/06, 8/1/07

Recommendation 1 : The DPS should develop and implement a plan of action to address evidence presently in DPS custody. OPA encourages DPS to consult, as appropriate or necessary, with agencies such as the AGO, FBI, US Attorney's Office, Office of the Public Defender, CNMI Judiciary, and CNMI Bar Association. This plan of action should include, at a minimum, the following:

- a. Conducting a physical inventory to determine the actual quantity, classification and condition of evidence;
- b. Reconciliation of the physical inventory list with existing COCs or other evidence listings;
- c. Segregation of items to be disposed, disposal of evidence in accordance with laws and regulations, and proper documentation of all disposals;
- d. Implementation of an evidence tracking system; and
- e. Evaluation of the condition of the existing evidence storage facility and equipment and the implementation of necessary controls and improvements.

Agency to Act : Department of Public Safety

Status : Resolved - Delinquent

Agency Response : In his letter response to OPA's draft audit report dated 9/6/05, the Deputy Commissioner informed OPA that he agrees with most of the findings of the audit conducted and is aware of the issues that need immediate attention and correction for deficiencies. Accordingly, he has instructed one of the Sergeants to begin assessing the following: bars on windows; bar door to main entrance; bars to cover gap; assess bio-hazard chemicals in refrigerator; procure additional refrigerator; restart master list; labeling shelves; one location for COC; and procure aircondition for CST (purchase requisition enroute).

On 1/12/06, OPA staff performed a walkthrough of the new evidence storage facility as requested by DPS. During the walkthrough, OPA staff identified surrounding areas to have been renovated as follows: evidence receiving areas for submission of evidence; 17 separate rooms to house the different types of evidence; key-pad entry for all doors; air-conditioning in every room; back-up generator of up to 24 hours; and security camera system located around perimeter and inner rooms/halls, with records kept for three months. OPA was also informed that new refrigerators for bio-hazard materials have been ordered and a six-foot perimeter fence will be installed around the facility. Based on OPA's observation of the new evidence storage facility, recommendation 1 (e) is now considered closed.

OPA was also informed by DPS during the walkthrough of the new evidence storage facility that DPS is in the process of creating a task force to develop an evidence tracking system. Two personnel from the Guam Police Department's evidence storage facility are scheduled to assist DPS in developing its tracking system and transferring the evidence temporarily stored in two containers into the newly renovated facility. Plans for an additional facility that will be used to store general items of evidence is also being considered. Based on the information provided, OPA considers recommendation 1 (a through d) resolved.

In his letter dated 3/30/06, the CIB Commander stated that due to the organizational restructuring of the CIB, the ongoing project at the evidence room has been delayed. However, he stated that the evidence custodian with the assistance of the Crime Scene Investigators are currently conducting a physical inventory and creating a data base for all evidence materials with respect to items a through d of this recommendation. In addition, he stated that they are also coordinating with the Attorney General's Office to decide what to do with all evidence materials that are no longer needed.

The CIB Commander also informed OPA that their plan to bring in two personnel from the Guam Police Department (GPD) to assist DPS with the creation of an evidence tracking system has been put on hold and most likely will not materialize. This was a result of a recent discovery by GPD that they too are experiencing problems with respect to their handling of evidence. The CIB Commander also informed OPA of a \$48,000 grant which was recently awarded to them under the Justice Assistance Grant for Crime Scene Investigation (CSI) Enhancement Project. He further stated that this money will be used to purchase programs and equipment to aid them in the tracking of evidence.

The response letter from the Sergeant/Evidence Custodial Unit Supervisor dated 11/8/06 did not separately address this recommendation.

OPA Response: There was no follow-up reply to what DPS stated as its course of action in 3/30/06. As for the inventory of items gathered prior to 2006 the process still has not been completed. Thus, DPS has still to inform us about the target completion date.

In his letter dated 8/1/07, the CSI/ECU Supervisor informed OPA that the physical inventory, sorting, identifying, and tagging of evidence and/or properties is still in progress. Segregation of evidence for disposal is done by documenting evidence or property to be disposed on the Evidence List for Disposal Authorization form, which is then forwarded to the Attorney General's Office, Criminal Section for review and authorization to dispose evidence or property.

The CSI/ECU Supervisor also stated that an evidence log book has been implemented to document and register all evidence submitted into the evidence/property facility. He further stated that the present condition of the evidence facility does not affect any operation being performed. ECU is consistently receiving, storing, and releasing evidence or property with no difficulties.

OPA Response: OPA will continue to follow-up on this recommendation until provided with documentation evidencing implementation of the recommended actions outlined in recommendation 1 (a-d)

**Additional Information
or Action Required :**

DPS should continue to update OPA on the status of implementation of the recommended actions outlined in recommendation 1 (a-d) until completed. Once the recommended actions have been implemented or completed, DPS should provide OPA documentation evidencing implementation to formally close the recommendation.

Recommendation 2 :

Adopt and implement amendments to DPS policies and procedures regarding the receipt, storage and management of evidence. When developing these policies and procedures, OPA encourages DPS to refer to (1) established industry standards, such as those created by the CALEA or the IAPE, and (2) policies and procedures of established law enforcement agencies, such as the HPD. These policies and procedures should be in writing, be applicable department-wide, and, at a minimum, address the following:

- a. Deadline for submission of evidence;
- b. Temporary storage of evidence;
- c. Required documentation for the collection, transfer and storage of evidence;
- d. Classification, segregation, security, and disposal of evidence;

- e. Structural measures and management controls over the evidence storage facility;
- f. Duties and responsibilities of the Evidence Custodian and any alternate(s);
- g. Prohibition of incompatible duties for evidence room personnel; and
- h. Periodic inspections, inventory and reports.

Agency to Act : Department of Public Safety

Status : Open - Delinquent

Agency Response : In his letter response to OPA's draft audit report dated 9/6/05, the Deputy Commissioner informed OPA that he agrees with most of the findings of the audit conducted and is aware of the issues that need immediate attention and correction for deficiencies.

On 1/12/06, OPA staff performed a walkthrough of the new evidence storage facility as requested by DPS. During the walkthrough, OPA was informed that DPS is in the process of creating a task force to develop a Standard Operating Procedures (SOP) manual over evidence controls and that a government attorney will be assigned to take part on the development of the SOP.

In his letter dated 3/30/06, the CIB Commander stated their legal counsel was in the process of reviewing the Honolulu Police Department's evidence policy to use as a model for DPS when he was transferred unexpectedly. The Commander stated that he will be working with their new legal counsel on this matter. He further stated that the Commissioner has indicated his desire to incorporate some items from the military evidence policy to DPS's policy.

The response letter from the Sergeant/Evidence Custodial Unit Supervisor dated 11/8/06 did not separately address this recommendation.

OPA Response: The Evidence Custodial Unit Supervisor stated what they are doing at present but there is not mention of a comprehensive written manual.

In his letter dated 8/1/07, the CSI/ECU Supervisor stated that ECU does not have a deadline for evidence submission and that each departmental employee in possession of evidence should be responsible for its safekeeping until submitted into the evidence facility. The supervisor also stated that the ECU does not deal with Temporary Storage of evidence. Required documentation for the collection, transfer, and storage of evidence is documented on the Evidence/Property Custody Receipt form. A copy of the form was provided to OPA.

With regards to the classification and segregation of evidence/property, the Supervisor informed OPA of its evidence classification type and a diagram of the facility indicating the segregation of evidence. In addition, ECU's facility is now equipped with an electronic security system. An Electro magnetic locking mechanism was installed on the doors of the facility, from the main entrance to all evidence/property storage. OPA was also informed of the duties and responsibilities of the evidence custodian and any alternates. However, he stated that there is no prohibition of incompatible duties for evidence room personnel and that the supervisor should be able to determine if other tasks assigned to evidence personnel conflicts or interrupts with the operation of the evidence facility. ECU is consistent in receiving and releasing evidence and that their only obstacle as far as evidence is the sorting and documentation of evidence that were submitted dating back to the 1980's.

OPA Response: OPA recognizes the written response provided by the CSI/ECU Supervisor which provides a narrative of what actions have been done. However, the response still fails to provide written and duly adopted policies. At the minimum, there should be a written order by the Commissioner to implement such policies.

**Additional Information
or Action Required** :

DPS should continue to update OPA on the status of the development of written policies and procedures to address the receipt, storage, and management of evidence outlined in recommendation 2 (a-h). DPS should provide OPA a copy of the written policies and procedures once they are officially adopted and a copy of the Commissioner's memo or order implementing such policies and procedures to formally close the recommendation.

This page was intentionally left blank.

Autonomous Agencies

Commonwealth Ports Authority
Commonwealth Utilities Corporation
Northern Marianas College
Northern Mariana Islands Retirement Fund
Public School System

Commonwealth Ports Authority

Report No. AR-05-01 issued March 3, 2005 Audit of the Security of CNMI Government Funds Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/7/06, 9/25/06, 2/14/07, 8/23/07, 12/6/07 (Deloitte re: CPA response), 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 9/6/07 (Request for extension), 10/4/07 (Request for extension), 10/29/07, 4/7/08 (Request for extension), 4/17/08

Recommendation 4 : The Commonwealth Ports Authority should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Commonwealth Ports Authority

Status : Open - Delinquent

Agency Response : In his letter dated 10/29/07, the acting Executive Director informed OPA that all of CPA's funds and investment accounts are in FDIC banks.

OPA Response: OPA recognizes the written response provided by the CPA acting Executive Director which provides a narrative of what actions have been done. However, the response still fails to provide written and duly adopted policies and/or procedures to address the issue of the security of public funds.

On 4/17/08, the CPA Acting Director resubmitted his 10/29/07 response which still fails to provide written and duly adopted policies and/or procedures to address the issue of the security of public funds.

Additional Information or Action Required : The CPA should provide OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Commonwealth Utilities Corporation

Report No. AR-02-01 issued August 27, 2002 Commonwealth Utilities Corporation Audit of Small Purchases from October 1999 through March 2001

Date(s) of followup letter(s) sent : 2/14/03, 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 10/17/03, 10/29/04, 3/16/05, 8/24/05, 3/27/06 (request for extension), 4/11/06, 11/9/06

Recommendation I : The CUC Board should amend CUC's Procurement Regulations to include:

- (a) a clear definition of artificial division of purchases or split purchases;
- (b) the procurement method to be followed in special circumstances, such as for urgently needed goods or services;
- (c) an exception to the required 3 quotations when the number of available suppliers is very limited.

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Delinquent

Agency Response : On 10/17/03, the CUC Executive Director provided OPA with the following proposed policies, forms, and amendments to the CUC Procurement Regulations which are now with the CUC Board for their review, adoption, and promulgation.

Split Purchases - CUC has proposed amendments to the CUC Procurement Regulations regarding split purchases which provided clear definition of split purchases and guidance for determining the existence of such type of procurement.

Emergency Procurement - CUC has proposed amendments to the CUC Procurement Regulations regarding emergency procurement which specifies conditions for use, procedures, documentation, and authorizations required for such type of procurement.

Sole Source Procurement - CUC has designed a Sole Source Justification Form to document the procurement method when CUC cannot obtain three quotations because of special circumstances.

On 10/29/04, the CUC Executive Director informed OPA that the CUC Board has adopted the Proposed Amendments to the Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement on 10/7/04 and is in the process of promulgating the said amendments.

On 3/16/05, the CUC Executive Director advised OPA that the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement will be submitted to the Attorney General's Office for review by April 15, 2005.

In her response letter dated 8/24/05, the Executive Director Stated that CUC is in the process of finalizing all the necessary documents to promulgate the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement.

In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

In his response dated 11/9/06, the Executive Director informed OPA that after careful review of the former Board's approved changes to the Procurement and Personnel Regulations (PPR), CUC found that they are unable to submit the approved changes to the PPR in its current form to the Attorney General's Office for promulgation. Specifically, CUC needs to ensure that the Board approved PPR conforms to the Executive Order issued by the Governor. He also stated in his letter that CUC and its Legal Counsel are reviewing if the Executive Order allows for the involvement of the Advisory Board created by the Executive Order. Once these matters are resolved, CUC will promptly act to promulgate the regulations to address OPA's recommendation.

**Additional Information
or Action Required :**

CUC should continue to update OPA on its efforts in promulgating amendments to the PPR. Once promulgated, CUC should provide OPA with an official copy of the amendments to its Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement promulgated as regulations.

Recommendation 2 :

- The CUC Board should adopt policies and procedures for small purchases that:
1. provided adequate guidance to CUC employees on determining split purchases or artificially divided purchases;
 2. define the coverage of emergency procurement under the after-the-fact procurement method specified in the CUC Comptroller's memorandum dated October 24, 2001;
 3. provide procedures for identifying and documenting actual or potential conflicts of interest, including procedures for ensuring that conflicted employees recuse themselves from participating in the procurement process.

Agency to Act :

Commonwealth Utilities Corporation

Status :

Resolved - Delinquent

Agency Response :

On 10/17/03, the CUC Executive Director provided OPA with the following proposed policies, forms, and amendments to the CUC Procurement Regulations which are now with the CUC Board for their review, adoption, and promulgation.

Split Purchases - CUC has proposed amendments to the CUC Procurement Regulations regarding split purchases which provided clear definition of split purchases and guidance for determining the existence of such type of procurement.

After-the-Fact Purchase Orders - CUC has drafted a proposed policy on after-the-fact purchase orders viewing it as a serious matter and with the ultimate goal of eliminating it. Only in emergency situations may the corporation ratify after-the-fact purchases as commitments which are governed by applicable emergency procurement regulations.

Conflict of Interest - In a memorandum dated 10/17/03, the CUC Executive Director instructed the CUC Procurement Manager to advise all employees involved in the procurement process to observe CUC's policy on conflict of interest. CUC has proposed a Disclosure Statement Form which will require all concerned to disclose any substantial interest that employees or their relative have in any CUC procurement matter. The CUC Procurement Manager was also instructed to coordinate with OPA to provide annual Government Ethics training for its staff.

On 10/29/04, the CUC Executive Director informed OPA that the CUC Board has adopted the Proposed Amendments to the Procurement Rules and Regulations addressing split purchases, after-the-fact purchase orders, and Disclosure Statement Form and is in the process of promulgating the said rules and regulations.

On 3/16/05, the CUC Executive Director advised OPA that the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, after-the-fact purchase orders, and Disclosure Statement Form will be submitted to the Attorney General's Office for review by April 15, 2005.

In her response letter dated 8/24/05, the Executive Director Stated that CUC is in the process of finalizing all the necessary documents to promulgate the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, after-the-fact purchase orders, and Disclosure Statement Form.

In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

In his response dated 11/9/06, the Executive Director informed OPA that after careful review of the former Board's approved changes to the Procurement and Personnel Regulations (PPR), CUC found that they are unable to submit the approved changes to the PPR in its current form to the Attorney General's Office for promulgation. Specifically, CUC needs to ensure that the Board approved PPR conforms to the Executive Order issued by the Governor. He also stated in his letter that CUC and its Legal Counsel are reviewing if the Executive Order allows for the involvement of the Advisory Board created by the Executive Order. Once these matters are resolved, CUC will promptly act to promulgate the regulations to address OPA's recommendation.

**Additional Information
or Action Required :**

CUC should provide OPA with a copy of the official amendments to its Procurement Rules and Regulations addressing split purchases, after the fact purchase orders, and disclosure statement form promulgated as regulations.

**Report No. AR-03-01 issued January 15, 2003
Commonwealth Utilities Corporation
Audit of Personnel Hiring
from October 1, 1999 through July 15, 2001**

Date(s) of followup letter(s) sent : 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 2/21/03, 10/17/03, 10/29/04, 3/16/05, 8/24/05, 3/27/06 (request for extension), 4/11/06, 11/9/06

Recommendation I : Continue the effort to develop and adopt comprehensive personnel rules and regulations. If it determines that limited term appointments are necessary for CUC operation, it should define its practice in the proposed personnel regulations.

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Delinquent

Agency Response : In her response dated 10/17/03, the CUC Executive Director stated that the Board's Personnel Committee is pursuing the revision of their existing Personnel Rules and Regulations to be presented to the Board for approval and for promulgation as CUC Regulations. OPA was provided a copy of the Executive Director's letter to the Board dated 10/2/03 requesting action on this matter.

On 10/29/04, the CUC Executive Director informed OPA that the CUC Board has adopted the proposed CUC Human Resources Rules and Regulations on 10/7/04 and is in the process of promulgating the said rules and regulations.

On 3/16/05, the CUC Executive Director advised OPA that the revised Personnel Rules and Regulations will be brought back to the Personnel Committee for further review. Upon adoption of the necessary changes, the Corporation will pursue promulgation of the said revised rules and regulations.

In her letter response dated 8/24/05, the Executive Director stated that CUC is in the process of finalizing all the necessary documents to promulgate its revised Personnel Rules and Regulations.

In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

In his response dated 11/9/06, the Executive Director informed OPA that after careful review of the former Board's approved changes to the Procurement and Personnel Regulations (PPR), CUC found that they are unable to submit the approved changes to the PPR in its current form to the Attorney General's Office for promulgation. Specifically, CUC needs to ensure that the Board approved PPR conforms to the Executive Order issued by the Governor. He also stated in his letter that CUC and its Legal Counsel are reviewing if the Executive Order allows for the involvement of the Advisory Board created by the Executive Order. Once these matters are resolved, CUC will promptly act to promulgate the regulations to address OPA's recommendation.

Additional Information or Action Required : CUC should provide OPA with the official copy of the Human Resources Rules and Regulations promulgated as regulations.

**Report No. AR-03-02 issued January 22, 2003
Commonwealth Utilities Corporation
Audit of Premium Pay, Overtime, and Salary Increases
from October 1, 1999 through September 30, 2001**

Date(s) of followup letter(s) sent : 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 2/21/03, 10/17/03, 10/29/04, 3/16/05, 8/24/05, 3/27/06 (request for extension), 4/11/06, 11/9/06

Recommendation I : Develop and adopt Personnel Rules and Regulations to cover promotion and salary increase justifications, and the various forms of premium pay it plans to use, as well as to conform to the requirements of the Fair Labor Standards Act concerning computation of overtime.

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Delinquent

Agency Response : In her response dated 2/21/03, the CUC Executive Director informed OPA that the CUC Board of Directors adopted an interim manual for Human Resources Policies and Procedures (HRPP) on 12/27/02. Upon completion of its review from staff and management, the Board will adopt the manual in a final form and present it to the AGO for review and promulgation in the Commonwealth Register as a regulation. CUC is preparing to issue a solicitation for a firm to create new classification and

compensation plans for reclassification for the Corporation. The HRPP will address the issues of promotion and provide for a competitive promotional process. The compensation plan will provide for step increases in salaries for employees. The HRPP requires strict compliance with the Fair Labor Standards Act and it is CUC's intention that, with the concurrence of the consulting firm doing the compensation plan, CUC will eliminate premium pay and incorporate all aspects of any individual position which would impact compensation into the base salary. Based on the information provided, this recommendation is considered resolved until such time that the manual for HRPP is promulgated as regulations.

In her response dated 10/17/03, the CUC Executive Director stated that the Board's Personnel Committee is pursuing the revision of their existing Personnel Rules and Regulations to be presented to the Board for approval and for promulgation as CUC Regulations.

On 10/29/04, the CUC Executive Director informed OPA that the CUC Board has adopted the proposed Human Resources Rules and Regulations on 10/7/04 and is in the process of promulgating the said rules and regulations.

On 3/16/05, the CUC Executive Director advised OPA that the revised Personnel Rules and Regulations will be brought back to the Personnel Committee for further review. Upon adoption of the necessary changes, the Corporation will pursue promulgation of the said revised rules and regulations.

In her letter response dated 8/24/05, the Executive Director stated that CUC is in the process of finalizing all the necessary documents to promulgate its revised Personnel Rules and Regulations.

In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

In his response dated 11/9/06, the Executive Director informed OPA that after careful review of the former Board's approved changes to the Procurement and Personnel Regulations (PPR), CUC found that they are unable to submit the approved changes to the PPR in its current form to the Attorney General's Office for promulgation. Specifically, CUC needs to ensure that the Board approved PPR conforms to the Executive Order issued by the Governor. He also stated in his letter that CUC and its Legal Counsel are reviewing if the Executive Order allows for the involvement of the Advisory Board created by the Executive Order. Once these matters are resolved, CUC will promptly act to promulgate the regulations to address OPA's recommendation.

**Additional Information
or Action Required :**

CUC should provide OPA with the official copy of the Human Resources Rules and Regulations promulgated as regulations.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/10/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09,
11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 3/27/06 (request for extension), 4/11/06, 11/9/06

Recommendation I : The Commonwealth Utilities Corporation should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Commonwealth Utilities Corporation

Status : Open - Delinquent

Agency Response : In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

Additional Information or Action Required : The CUC should provided OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Report No. AR-03-03 issued February 19, 2003
Northern Marianas College
Evaluation of the Facts and Circumstances Surrounding
the Termination of Employees

Date(s) of followup letter(s) sent : 8/1/03, 4/28/04, 9/27/04, 2/15/05, 8/8/05, 3/8/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 4/1/03, 8/5/03, 6/7/04, 9/15/06 (Response to Governor's Office)

Recommendation 6 : The President inquire with the Western Association for Schools and Colleges (WASC) as to whether or not the Administration Procedures Act should apply to NMC; if WASC determines that they should apply, the President should ensure that NMC policies are published as regulations as required by the Administrative Procedures Act; if WASC determines they do not apply, the President should bring this matter to the Board to propose legislation which would exclude NMC from the Act.

Agency to Act : Northern Marianas College

Status : Resolved - Delinquent

Agency Response : In the NMC Board of Regent's response prior to issuance of the final audit report, the Board agreed that NMC should follow the Administrative Procedures Act on future actions. In his 8/5/03 response, the former NMC President stated that the Board initially approved the first section of revised policies at its regular June meeting. These policies have been reviewed by the Chamorro/Carolinian Language Policy Commission as the initial step in the Administrative Procedures Act and will soon be published. OPA was provided a copy of the first section of revised policies that have already been adopted. NMC will forward more policies as they are adopted.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

In his response letter to the Special Legal Counsel for the Governor's Office dated 9/15/06, the Acting President stated that NMC has been working to ensure that all its revised policies and procedures are published in the Commonwealth Register. He also stated that NMC's lack of adequate personnel has hampered their ability to comply fully with this recommendation, but will continue to work towards full compliance with this recommendation.

Additional Information or Action Required : NMC should provide OPA with a copy of the revised policies published as regulations in the Commonwealth Register.

Recommendation 10 : The President and the Board consult with its legal counsel to determine the effect of the Civil Service Commission's decision on NMC employment status.

Agency to Act : Northern Marianas College

Status : Open - Delinquent

Agency Response : In his response dated 8/5/03, the NMC President stated that the Civil Service issue is still pending in the court.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

In his response letter to the Special Legal Counsel for the Governor's Office dated 9/15/06, the Acting President stated that the College continues to review this finding through its counsel as a recent court ruling concluded that NMC employees may be subject to the Civil Service Commission. NMC is appealing this ruling as WASC requires the College be autonomous in this regard. Additional information on this issue will be provided to OPA as it becomes available.

Additional Information or Action Required : NMC should provide OPA with the results of its appeal.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/8/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 9/15/06 (Response to Governor's Office)

Recommendation 10 : The Northern Marianas College should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Northern Marianas College

Status : Open - Delinquent

Agency Response : In his response letter to the Special Legal Counsel for the Governor's Office dated 9/15/06, the Acting President stated that the College's policy is to maintain its funds in FDIC insured banks. The College currently does not have insurance coverage on deposits in excess of the \$100,000 FDIC coverage, but will explore additional insurance options available for amounts in excess of the FDIC coverage. Additional information will be provided to OPA as they become available.

OPA Response: OPA is unsure whether the College's policy for maintaining its funds in FDIC insured banks is a practice or a written policy adopted by the Board of Regents. If it is only a practice, NMC should document and adopt the policy in order to address OPA's recommendation. If the policy has already been documented and adopted, NMC should provide OPA a copy of the written policy for its review to formally close the recommendation.

Additional Information or Action Required : The NMC should provide OPA with a copy of the policies and procedures, and/or regulations to address the issues of the security of public funds.

Northern Mariana Islands Retirement Fund

Report No. LT-01-04 issued August 8, 2001 Northern Mariana Islands Retirement Fund Audit of Travel Outside the CNMI from October 1996 Through March 2000

Date(s) of followup letter(s) sent : 3/5/02, 8/9/02, 2/18/03, 8/4/03, 4/16/04, 9/28/04, 2/15/05, 8/9/05
3/10/06, 10/17/06, 2/7/07, 8/27/07, 3/17/08, 9/16/08, 8/12/09,
11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 7/22/03, 3/22/05, 8/14/06, 10/26/06, 1/4/08, 8/31/09, 9/3/09

Recommendation 2 : The Fund Administrator should consistently enforce sanctions or other remedies for travel violations. Travelers with unliquidated advances should be denied additional travel advances; payroll deductions should be immediately implemented for travelers who fail to submit the required travel documents on time; and board members, especially those who are not government employees, should be required to immediately repay outstanding travel advances.

Agency to Act : Northern Mariana Islands Retirement Fund

Status : Resolved - Delinquent

Agency Response : NMIRF agreed with the recommendation and stated that erroneous and unnecessary travel reimbursements must be collected. The BOT will work with the Administrator towards identifying the travel violations and collecting from the travelers who owe the Fund.

On 7/22/03, the NMIRF Administrator provided OPA with a copy of the memorandum directed to the Fund Comptroller reminding him to strictly enforce the NMIRF Travel Policy that no further travel shall be authorized or permitted for a traveler who has failed to submit the proper vouchers from prior travel, until the vouchers are received and approved by the Administrator, and all outstanding travel advances cleared. He also authorized the Comptroller to deduct from payroll any amounts due from travelers and require Board of Trustees who are not part of the government payroll to immediately repay the advances when a completed travel voucher is submitted. OPA was not informed, however, of the expected date of when the scheduled overpayments will be collected.

In his response dated 3/22/05, the NMIRF Administrator stated that the Fund is strictly enforcing its travel policy and continuously reminds travelers to liquidate travel vouchers within 10 days after the culmination of official travels. The Fund also collected from travelers anything that was due from each individual traveler upon liquidation of advances.

On 8/14/06, the then NMIRF Administrator stated that no collection attempts have been initiated.

On 10/26/06, the NMIRF Administrator stated that a meeting was held with representatives from OPA, AGO, NMIRF, and CPA to discuss various options to recoup funds expended by the NMIRF Board of Trustees such as civil collection efforts, criminal prosecutions, and statutory revisions potentially allowing retiree pay garnishment. Concerning these options, the issue of statute of limitations and any applicable exceptions to this rule was also discussed. The group discussed with a consensus that the Attorney General had previously prioritized some recoupment actions and will make a test case for the exception to the statute of limitations. In the meantime, NMIRF will issue dunning letters to its previous Trustees.

On 1/4/08, the NMIRF Administrator stated in its response for OPA to revisit the 10/26/06 meeting with the representatives from OPA, AGO, NMIRF, and CPA. No additional updates were provided to OPA.

On 8/31/09, the NMIRF Administrator stated in its response to refer to NMIRF's previous correspondences dated 10/26/06 and 1/4/08. Additionally, in a phone conversation with the NMIRF Administrator on 9/3/09, OPA was informed that NMIRF will forward any updated information pertaining to this recommendation once it becomes available.

**Additional Information
or Action Required**

: NMIRF is requested to provide OPA the status of collection of overpayments cited in the audit report. NMIRF should also provide OPA reasons, if any, for those overpayments that were not collected or resolved.

**Report No. AR-00-03 issued July 20, 2000
Commonwealth Ports Authority
Audit of the Compensatory Time Claimed and Retirement Benefits
Paid to Two Former Officials of the CPA**

Date(s) of followup letter(s) sent : 1/17/01 (CPA), 1/19/01 (NMIRF), 8/20/01 (CPA), 8/21/01 (NMIRF), 3/5/02 (CPA) (NMIRF), 8/9/02 (CPA) (NMIRF), 8/12/02 (AGO), 10/3/02 (AGO), 12/24/02 (AGO), 2/14/03 (AGO) (CPA), 2/18/03 (NMIRF), 8/4/03 (NMIRF) (AGO), 4/13/04 (AGO), 4/16/04 (NMIRF), 9/21/04 (AGO), 9/28/04 (NMIRF), 2/15/05 (AGO) (NMIRF), 8/9/05 (AGO) (NMIRF), 3/10/06 (NMIRF) (AGO), 10/17/06 (NMIRF), 2/7/07, 8/27/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 8/31/01 (meeting with CPA), 10/4/01 (NMIRF letter of request for extension to respond until 11/3/01), 10/12/01 (CPA), 1/29/01, 2/12/02 (meeting with AGO), 8/12/02 (CPA request for extension), 8/30/02 (CPA), 9/25/02 (CPA), 4/2/03 (NMIRF), 7/22/03 (NMIRF), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/22/05 (NMIRF), 9/1/05 (AGO), 8/14/06 (NMIRF), 1/4/08 (NMIRF), 8/31/09 (NMIRF)

Recommendation 8 : The Fund Administrator should instruct his staff to recalculate and adjust the pension benefits of all other fund members by disregarding overtime and comp time hours that were considered as additional credited service.

Agency To Act : Northern Mariana Islands Retirement Fund

Status : Resolved - Delinquent

Agency Response : NMIRF obtained the legal opinion of AGO on whether overtime and compensatory time can be used to determine the benefit amount of a retirement annuity.

AGO, in its legal opinion dated 6/9/00, stated that overtime and compensatory time may not be used to calculate the amount of benefit, but only for determining eligibility for retirement. AGO also stated that overtime and compensatory time cannot be used to determine the amount of the benefit paid to a retiree by the Retirement Fund.

AGO recommended that re-calculation of benefits to affected members should be made, and the amount of overpayments should be determined. AGO further stated that members should be informed and advised of their right to appeal an adverse determination. If no appeal is filed, then the collection process must be undertaken by the NMIRF.

The Fund is in the process of determining which beneficiaries have been overpaid. Further actions will be taken after this determination, *i.e.*, informing affected beneficiaries, appeal and collection process, etc.

In his response dated 7/22/03, the NMIRF Administrator stated that the pensions of two former CPA officials were recalculated "down" from the original calculations. OPA was not informed, however, of the results for recalculating the pension benefits of all other fund members in determining which beneficiaries have been overpaid and what further actions were taken after their determination.

On 3/22/05, the NMIRF Administrator stated that at the 3/10/05 Board of Trustees meeting, the Board agreed to revisit the issue of recovering overpayments at its next regular meeting. The Administrator also stated that the Fund does not currently have a full-time legal counsel.

On 8/14/06, the then NMIRF Administrator stated that the recalculation of pension benefits is ongoing, yet is subject to certain due process applications of the Administrative Procedure Act prior to recoupment.

**Additional Information
or Action Required**

: NMIRF should inform OPA of a target date when their recalculation of pension benefits for all other fund members will be completed. Once completed, NMIRF should provide OPA evidence that corrective action was taken to adjust the benefits of affected members.

Recommendation 9

: The Fund Administrator should recover improper payments to the two former CPA officials totaling \$126,730.06, and also from all other fund members who have been overpaid by including overtime and comp-time in the computation of their retirement annuity. If any problems exist in recovering overpayments, refer the matter to the Attorney General for legal action.

Agency to Act

: Northern Mariana Islands Retirement Fund

Status

: Resolved - Delinquent

Agency Response

: On 5/15/00, the Fund began withholding 50% of the former CPA Executive Director's semi-monthly pension. The Fund also conducted two separate agency hearings in connection with the retirement benefits improperly paid or being paid to the former Executive Director and former Security Chief. In its decision dated 2/15/01, the Fund's Board of Trustees affirmed the decision and actions of its Administrator in terminating the retirement benefit of the former Security Chief. Also, in a letter dated 7/27/00, AGO concurred with the findings of OPA and determined that the overpayment to the former Security Chief of CPA must be recovered. The Fund's Board of Trustees has not yet issued its decision on the case of the former Executive Director.

On 4/2/03, OPA was provided with a copy of the Board of Trustees decision dated 6/21/01 in which it affirmed the decision and actions of its Administrator in recalculating and adjusting the retirement benefits of the Former Executive Director. OPA was informed, however, that the Former Executive Director had appealed the Board's final decision to the Superior Court (Civil Action No. 00-0409E) and the case is still on-going.

In his response dated 7/22/03, the NMIRF Administrator stated that they will update OPA on this issue when the CNMI Courts renders its decision on the Former Executive Director's appeal to the Superior Court.

On 3/22/05, the NMIRF Administrator stated that at the 3/10/05 Board of Trustees meeting, the Board agreed to revisit the issue of recovering overpayments at its next regular meeting. The Administrator also stated that the Fund does not currently have a full-time legal counsel.

In a phone conversation with the NMIRF Administrator on 4/5/05, OPA was informed that the Former Executive Director's appeal to the Superior Court is still on-going.

In his 8/14/06 response, the then NMIRF Administrator informed OPA that recoupment from his benefits from one of the former CPA officials will commence if and when re-employed with the government. For the other former CPA official, pursuant to a stipulation the case will be returned to the administrative hearing process and a new Notice of Administrative Hearing will be issued forthwith.

In his 1/4/08 response, the NMIRF Administrator stated that one individual is unemployed and currently seeking employment, has approximately 20 months before retirement eligibility; and, upon re-employment or retirement recoupment will be sought. For the other individual, his case has been submitted and is under advisement with the court.

On 8/31/09, the NMIRF Administrator stated in its response to refer to NMIRF's previous correspondences dated 10/26/06 and 1/4/08. Additionally, in a phone conversation with the NMIRF Administrator on 9/3/09, OPA was informed that NMIRF will forward any updated information pertaining to this recommendation once it becomes available.

**Additional Information
or Action Required**

: NMIRF should provide OPA (1) evidence of a written settlement agreement with the former CPA Security Chief requiring repayment to the Retirement Fund and (2) the Superior Court's Order in the appeal made by the Former Executive Director to the Superior Court.

**Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions**

Date(s) of followup letter(s) sent : 3/10/06, 10/17/06, 2/7/07, 8/27/07, 3/17/08, 9/16/08, 8/12/09,
11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 8/14/06

Recommendation 9 : The Northern Mariana Retirement Fund should adopt policies and procedures, and/or regulations to address the issue of the security of public funds

Agency to Act : Northern Mariana Islands Retirement Fund

Status : Open - Delinquent

Agency Response : In his letter dated 8/14/06, the then NMIRF Administrator stated that they are currently in compliance with law as evident by their receipt of monthly Collateral Security Agreements from its banking institution.

OPA Response -The receipt of the monthly Collateral Security Agreement between NMIRF and the bank is insufficient to close the recommendation. This agreement does not state how NMIRF is to manage its operational funds.

**Additional Information
or Action Required**

: The NMIRF should provide OPA with a copy of their formally adopted policies and procedures, and/or regulations to address the issue of the security of public funds.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/9/06, 9/28/06, 2/7/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received : 3/28/06, 8/22/07, 12/10/10, 1/7/11

Recommendation 12 : The Public School System should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Public School System

Status : Closed

Agency Response : In her letter response dated 3/28/06, the Commissioner of Education informed OPA that all PSS monies must be deposited in an FDIC insured bank. However, OPA was not provided with a copy of the PSS policy evidencing this requirement.

In his letter dated 8/22/07, the Commissioner of Education informed OPA that PSS has successfully obtained collateralization beyond the FDIC insured limits for PSS deposits from a banking institution. OPA was also provided a copy of the certification of compliance letter from the bank which stated its compliance with Public Law 12-61. The certification of compliance letter also stated that it will monitor the deposits on a quarterly basis and collateral will be adjusted as needed.

OPA Response: OPA recognizes the written response and documents provided by PSS. OPA will continue to follow-up on this recommendation until provided with written policies and procedures.

On 12/10/10, OPA received a copy PSS's Policy and Procedures addressing the issue of the security of public funds. PSS will provide OPA with a copy of the approved board meeting minutes evidencing the approval of the policy as soon as the board officially approves the meeting minutes at their next meeting.

On 1/7/11, PSS provided OPA a copy of the board meeting minutes evidencing that the policies and procedures, and/or regulations addressing the issue of the security of public funds has been formally adopted and approved, therefore, this recommendation is now considered closed.

This page was intentionally left blank.

Senate

**Report No. AR-03-05 issued August 6, 2003
CNMI Senate, Thirteenth Legislature
Monthly Subsistence Allowance Provided to Members
of the Senate Covering the Period Ending June 30, 2002**

Date(s) of followup letter(s) sent : 4/13/04, 9/27/04, 2/15/05, 8/9/05, 9/22/05, 3/8/06, 2/7/07, 8/23/07, 3/20/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10, 10/14/10

Date(s) of response letter(s) received : 5/12/04 (request for extension to respond), 10/13/04, 3/8/05 (telephone follow-up), 3/14/05, 8/17/05 (meeting with Senate Legal Counsel), 8/29/05, 9/11/08

Recommendation 2 : Undertake an analysis of reasonable travel costs to ensure that the amount set for allowance is appropriate given expenses incurred.

Agency to Act : Senate

Status : Open - Active

Agency Response : The Senate said it will replace the existing subsistence allowance system with a new revolving reimbursement system that would use uniform per diem rates to reimburse Senators for expenses incurred in the exercise of their constitutional duties. It would also conduct an analysis of travel expenses to ensure that the new per diem rate was reasonable.

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate and that no further legislation is necessary at this time.

OPA Response - OPA did extensive legal research which formed the basis for the recommendation. OPA believes the CNMI Constitution clearly addresses these issues. OPA disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. Therefore, until such time as the allowances that have been created by the Senate rules are discontinued, OPA must reiterate that the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists. OPA urges the Senate to reconsider its position and pursue the analysis to determine the reasonable amount of members' travel allowance.

In a telephone follow-up conversation with a Senate Legal Counsel, OPA was informed that the Senate's position on this matter remains the same. Therefore, this recommendation will remain *Open - Active* until such time that the Senate reconsiders its position and addresses OPA's recommendation.

On 8/17/05, OPA met with the Senate Legal Counsel to discuss OPA's audit recommendations. The Senate Legal Counsel informed OPA that the Senate's position on this matter is essentially the same. However, OPA expressed its concern that a better system of accountability should be established. On 8/29/05, the Senate President reiterated to OPA that the Senate's position on this matter still remains the same and that no further legislation is necessary at this time. However, after discussing the matter with the Senate Legal Counsel and the concerns expressed by OPA staff during the 8/17/05 meeting, the Senate President agreed that a better system of accountability should be established. The Senate President therefore requested OPA's assistance in establishing an accounting system for the monthly Senatorial allowance or stipend that balances ease of use and proper accountability and is mutually acceptable to both the Senate and OPA. In OPA's response to the Senate President dated 9/22/05, OPA stated that in developing a system for the Senate's use, OPA consulted with representatives of the Hawaii Legislature, the Hawaii State Auditor, the Virgin Islands Inspector General, and the American Samoa Territorial

Auditor because of the similarities in the multi-island geographic composition of the state or territory and the level of sophistication of accounting systems. OPA provided the Senate President with a copy of the Hawaii House Administrative and Financial Manual for the Hawaii House of Representatives, Twenty Second State Legislature as reference in developing an accounting system for the monthly allowances paid to CNMI Senators. In its letter, OPA cited various requirements, restrictions, and forms which must be completed governing the Hawaii Legislature's annual allowance. For the CNMI Senator's stipend, OPA proposed a simple one page form which would simply list the date and amount of the monthly disbursement and then account for its usage. Since the Senators are currently being required to provide the Senate President with their monthly receipts, this system incorporates that method and make it easily reviewable. This form will also allow the Senators to undertake an analysis to determine reasonable travel costs to ensure that the amounts set for allowances are appropriate for the expenses incurred.

In his response dated 9/11/08, the Senate President informed OPA that he has instructed the Senior Legal Counsel to write an opinion regarding the subsistence allowance. OPA acknowledges that and has instructed the Legal Counsel to meet with OPA Legal Counsel to discuss a final resolution.

Additional Information or Action Required :

The Senate should inform OPA whether or not it will adopt the proposed form for accounting the monthly Senatorial allowance.

Recommendation 3 : Document travel activity to enable the Senate to more accurately estimate an appropriate monthly allowance.

Agency to Act : Senate

Status : Open -Active

Agency Response : The Senate agreed to provide OPA with a written analysis of what it considers as reasonable travel to support changing the amount set for the monthly subsistence allowance.

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate and that no further legislation is necessary at this time.

OPA Response - OPA did extensive legal research which formed the basis for the recommendation. OPA believes the CNMI Constitution clearly addresses these issues. OPA disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. Therefore, until such time as the allowances that have been created by the Senate rules are discontinued, OPA must reiterate that the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists. OPA urges the Senate to reconsider its position and pursue the analysis to determine the reasonable amount of its subsistence allowance.

In a telephone follow-up conversation with a Senate Legal Counsel, OPA was informed that the Senate's position on this matter remains the same. Therefore, this recommendation will remain *Open - Active* until such time that the Senate reconsiders its position and addresses OPA's recommendation.

On 8/17/05, OPA met with the Senate Legal Counsel to discuss OPA's audit recommendations. The Senate Legal Counsel informed OPA that the Senate's position on this matter is essentially the same. However, OPA expressed its concern that a better system of accountability should be established. On 8/29/05, the Senate President reiterated to OPA that the Senate's position on this matter still remains the same and that no further legislation is necessary at this time. However, after discussing the matter with the Senate Legal Counsel and the concerns expressed by OPA staff during the 8/17/05 meeting, the Senate President agreed that a better system of accountability should be established. The Senate President therefore requested OPA's assistance in establishing an accounting system for the monthly Senatorial allowance or stipend that balances ease of use and proper accountability and is

mutually acceptable to both the Senate and OPA. In OPA's response to the Senate President dated 9/22/05, OPA stated that in developing a system for the Senate's use, OPA consulted with representatives of the Hawaii Legislature, the Hawaii State Auditor, the Virgin Islands Inspector General, and the American Samoa Territorial Auditor because of the similarities in the multi-island geographic composition of the state or territory and the level of sophistication of accounting systems. OPA provided the Senate President with a copy of the Hawaii House Administrative and Financial Manual for the Hawaii House of Representatives, Twenty Second State Legislature as reference in developing an accounting system for the monthly allowances paid to CNMI Senators. In its letter, OPA cited various requirements, restrictions, and forms which must be completed governing the Hawaii Legislature's annual allowance. For the CNMI Senator's stipend, OPA proposed a simple one page form which would simply list the date and amount of the monthly disbursement and then account for its usage. Since the Senators are currently being required to provide the Senate President with their monthly receipts, this system incorporates that method and make it easily reviewable.

In his response dated 9/11/08, the Senate President informed OPA that he has instructed the Senior Legal Counsel to write an opinion regarding the subsistence allowance and has instructed the Legal Counsel to meet with OPA Legal Counsel to discuss a final resolution.

Additional Information or Action Required :

The Senate should inform OPA whether or not it will adopt the proposed form for accounting the monthly Senatorial allowance.

Recommendation 5 :

Amend legislation and/or travel policy to prevent senators from being reimbursed for other concurrent travel.

Agency to Act :

Senate

Status :

Open -Active

Agency Response :

The Senate stated it would take action so that members do not receive "double compensation" for travel costs.

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate and that no further legislation is necessary at this time.

OPA Response - OPA did extensive legal research which formed the basis for the recommendation. OPA believes the CNMI Constitution clearly addresses these issues. OPA disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. Therefore, until such time as the allowances that have been created by the Senate rules are discontinued, OPA must reiterate that the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists. OPA urges the Senate to reconsider its position and amend legislation and/or travel policy to prevent Senators from being reimbursed for other concurrent travel.

In a telephone follow-up conversation with a Senate Legal Counsel, OPA was informed that the Senate's position on this matter remains the same. Therefore, this recommendation will remain *Open - Active* until such time that the Senate reconsiders its position and addresses OPA's recommendation.

In his response dated 9/11/08, the Senate President informed OPA that he has instructed the Senior Legal Counsel to write an opinion regarding the subsistence allowance and has instructed the Legal Counsel to meet with OPA Legal Counsel to discuss a final resolution.

Additional Information or Action Required :

The Senate should amend language in legislation and/or travel policy requiring senators to adjust their vouchers or allowances so as not to obtain reimbursement for other concurrent travel.

Independent Auditor's Recommendations

CNMI
Commonwealth Development Authority
Commonwealth Government Employees' Credit Union
Commonwealth Ports Authority
Commonwealth Utilities Corporation
Department of Public Lands
Marianas Public Land Trust
Northern Marianas College
Northern Mariana Islands Retirement Fund
Public School System
Workers' Compensation Commission

Attached is the Schedule of Findings, Questioned Costs and Recommendations issued by Independent Auditors.¹

This section of the report presents recommendations from Single Audit reports and other types of audit reports issued by private Certified Public Accountant (CPA) firms. The Office of the Public Auditor is not responsible for tracking the implementation of these recommendations, however, they are included in our audit tracking report for information purposes. Because OPA is responsible for overseeing all audits of the CNMI government, follow-up procedures are also conducted for these recommendations to determine what actions have been taken by the individual agencies to implement the recommendations issued by private CPA firms. A copy of the agencies' responses is subsequently provided to the Independent Auditor who conducted the audit to determine whether the agencies' responses are sufficient to consider the recommendations resolved.

Based on the classification followed by private CPA firms, a recommendation is described as either resolved or unresolved.

¹ The following pages were taken directly out of the Independent Auditors' reports. As such, the page numbers in this section of the report do not correspond with the page numbers in the original reports.

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2009
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 10/14/10 (DEQ, DOF, DPH, DPL, DPW, GOV-CIP, Medicaid, NAP, WIC)

Date(s) of response letter(s) received: 11/15/10 (AGO)

See pages 60 to 158 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

B. FINANCIAL STATEMENT FINDINGS

External Financial Reporting

Finding No. 2009-1

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, requires that the financial statements of the reporting entity include component units for which the primary government is either financially accountable for, or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: As of September 30, 2009, the Commonwealth Utilities Corporation (CUC) and the Public School System (PSS) were unaudited.

Cause: The cause of the above condition is the lack of audited financial statements for the entities.

Effect: The effect of the above condition is nonconformity with GASB Statement No. 14 resulting in a qualification in the opinion on the financial statements of the CNMI.

Recommendation: We recommend that the CNMI conform with GASB Statement No. 14 by obtaining audited financial statements of the above entities for inclusion within the CNMI's financial statements.

Prior Year Status: Lack of audited financial statements for component units was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Robert A. Schrack, Secretary of Finance and Michael Pai, Public Auditor

Corrective Action: CNMI component units are required to have annual audits performed. The Office of the Public Auditor has been working with CNMI's component units to complete their audits within nine months of the close of their fiscal years.

Proposed Completion Date: FY2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Cash Flows

Finding No. 2009-2

Criteria: Sufficient cash flows should be maintained to ensure current obligations are met as well as to ensure efficient operations.

Condition: During the last few years, the CNMI's economic condition has been greatly affected by global policies and influences, natural disasters and terrorism among others. As a result, financial burden has been placed on the Government causing cost cutting measures to be implemented. The financial activities of the CNMI's General Fund in the last five years are as follows:

| | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| Total assets | \$ 50,023,703 | \$ 63,742,784 | \$ 84,562,318 | \$ 73,178,439 | \$ 74,676,988 |
| Total liabilities | \$ 322,606,682 | \$ 299,614,851 | \$ 283,813,688 | \$ 225,281,973 | \$ 210,539,483 |
| Total fund deficit | \$ (272,582,979) | \$ (235,872,067) | \$ (199,251,370) | \$ (152,103,534) | \$ (135,862,495) |
| Total revenues | \$ 137,755,573 | \$ 195,025,126 | \$ 159,879,556 | \$ 192,660,289 | \$ 214,891,036 |
| Total expenditures | \$ 182,674,263 | \$ 224,417,008 | \$ 193,136,802 | \$ 209,039,185 | \$ 244,881,423 |
| Other financing sources (uses) | \$ 8,207,778 | \$ (7,228,815) | \$ (2,996,864) | \$ 137,857 | \$ 16,143 |

Cause: The cause of the above condition is that resources are not readily available to alleviate cash flow needs. Further, revenue resources are not adequate to meet increasing expenditures/obligations.

Effect: The effect of the above condition is the potential for inadequate cash flows to meet current obligations. It appears that this condition has been mitigated by the increase in the liability to the Northern Mariana Islands Retirement Fund.

Recommendation: We recommend that the CNMI review its various functions to ensure adequate cash flows are available to meet current obligations.

Prior Year Status: Inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Secretary of Finance

Corrective Action: See also Finding 2009-14 relating to liability to the Retirement Fund and Note 14 General Fund Financial Position. Since the liability to the Retirement Fund is \$235.2 million and the net unrestricted asset deficit is \$282.0, resolving the retirement liability will also resolve this finding. As noted by the auditors, the cash flow deficit has been substantially mitigated by the increase in the retirement liability.

Various austerity measures, including reduced work hours, hiring freeze, stringent review of non personnel expenditures and reduced budget allotments have reduced expenditures from \$244.9 million in 2005 to \$185.0 million in 2009 as noted above. Revenues have fallen at a faster rate than expenditures during this period but the cash flow effect has mitigated by \$60 million in deferred retirement contributions. In 2009 Public Law 16-32 authorized the transfer of \$3.5 million in expenditures from the General Fund to other funds. Additionally the ARRA State Stabilization grant authorized reimbursement of \$4 million in General Fund medical referral expenses as pre award costs.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Subsequent to the end of fiscal year 2009, Public Law 17-6 authorized the Governor to reprogram available resources and transfer General Fund expenses to other funds up to \$10 million and the ARRA State Stabilization grant reimbursed \$3 million in General Fund expenditures.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues/Receipts - Division of Customs

Finding No. 2009-3

Criteria: Revenue/receipts control ensures that cash receipts are recorded in the period in which they are received and that collections are deposited in a timely manner. Further, relevant supporting documents should be properly filed and maintained.

Condition: Of seventy-five cash receipts of the Division of Customs tested, the following were noted:

1. Twenty-nine transactions were not uploaded to the general ledger on the date of transaction. These transactions were recorded in the general ledger through a journal entry dated 09/30/09 as reconciling items in the bank reconciliation. The collections/revenues were recorded under one lump sum customs revenue account and not by specific revenue accounts. Details are as follows:

| <u>Location Code</u> | <u>Transaction Date</u> | <u>Deposit Date (for cash and check collections)</u> | <u>Total Collections (for cash, check and credit cards)</u> |
|----------------------|-------------------------|--|---|
| 41 | 03/02/09 | 03/05/09 | \$ 86,503 |
| 41 | 03/06/09 | 03/09/09 | \$ 96,218 |
| 41 | 03/17/09 | 03/18/09 | \$ 44,564 |
| 41 | 03/23/09 | 03/26/09 | \$ 81,729 |
| 41 | 03/31/09 | 04/06/09 | \$ 4,274 |
| 41 | 04/03/09 | 04/06/09 | \$ 216,047 |
| 41 | 04/13/09 | 04/15/09 | \$ 9,329 |
| 41 | 04/14/09 | 04/17/09 | \$ 4,638 |
| 41 | 04/17/09 | 04/24/09 | \$ 108,908 |
| 41 | 04/24/09 | 04/29/09 | \$ 155,123 |
| 41 | 05/04/09 | 05/05/09 | \$ 168,485 |
| 41 | 05/13/09 | 05/20/09 | \$ 84,335 |
| 41 | 05/18/09 | 05/20/09 | \$ 21,388 |
| 41 | 05/21/09 | 05/29/09 | \$ 34,742 |
| 41 | 05/28/09 | 05/29/09 | \$ 6,369 |
| 41 | 06/04/09 | 06/19/09 | \$ 29,267 |
| 41 | 06/12/09 | 06/19/09 | \$ 194,797 |
| 41 | 06/22/09 | 06/23/09 | \$ 15,966 |
| 41 | 06/24/09 | 06/26/09 | \$ 47,820 |
| 41 | 06/29/09 | 07/13/09 | \$ 35,126 |
| 41 | 07/02/09 | 07/13/09 | \$ 145,783 |
| 41 | 07/08/09 | 07/13/09 | \$ 34,242 |
| 41 | 07/10/09 | 07/20/09 | \$ 89,770 |
| 41 | 07/14/09 | 07/20/09 | \$ 5,339 |
| 41 | 07/20/09 | 07/29/09 | \$ 1,720 |
| 42 | 05/15/09 | 05/19/09 | \$ 2,076 |
| 43 | 03/20/09 | 03/23/09 | \$ 4,176 |
| 43 | 07/09/09 | 07/13/09 | \$ 9,852 |
| 43 | 07/20/09 | 07/21/09 | \$ 1,810 |

2. The related invoice supporting the following excise tax receipts indicated in the declaration of entry (DOE) was not provided:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-3, Continued

Condition, Continued:

| <u>Location Code</u> | <u>Transaction Date</u> | <u>Cash Receipt #</u> | <u>DOE or EC #</u> | <u>Excise Tax per DOE</u> |
|----------------------|-------------------------|-----------------------|--------------------|---------------------------|
| 41 | 05/28/09 | 479854 | DOE 4859-09 | \$ 46 |
| 41 | 03/06/09 | 136680 | DOE 16865-09 | \$ 38,959 |
| 41 | 08/20/09 | 237-09 | DOE 4706-09 | \$ 217 |
| 41 | 10/07/08 | 205-09 | DOE 463-09 | \$ 16 |
| 41 | 05/04/09 | 137424 | DOE 728-09 | \$ 1,551 |
| 41 | 03/17/09 | 136736 | DOE 18710-09 | \$ 313 |
| 41 | 12/05/08 | 2053-09 | DOE 5185-09 | \$ 10,536 |
| 41 | 07/30/09 | 28-09 | DOE 8221-09 | \$ 14 |
| 41 | 06/04/09 | 479955 | DOE 1540-09 | \$ 409 |
| 41 | 08/19/09 | 231-09 | DOE 4174-09 | \$ 1,091 |
| 43 | 01/13/09 | 3158-09 | DOE 10870-09 | \$ 127 |

3. The supporting certification of entry or DOE for the following two items was not available:

| <u>Location Code</u> | <u>Location Name</u> | <u>Transaction Date</u> | <u>Cash Receipt #</u> | <u>DOE or EC #</u> |
|----------------------|----------------------|-------------------------|-----------------------|--------------------|
| 43 | Postal | 07/13/09 | 492011 | DOE 3113-09 |
| 43 | Postal | 07/28/09 | 492125 | DOE 8701-09 |

4. The Cashier Deposit Reconciliation Summary Report (CDRSR), receipt details and other relevant supporting documents for the following seven items were not provided:

| <u>Location Code</u> | <u>Transaction Date</u> |
|----------------------|-------------------------|
| 7 | 11/05/08 |
| 7 | 01/15/09 |
| 64 | 02/24/09 |
| 41 | 04/14/09 |
| 131 | 05/19/09 |
| 131 | 05/22/09 |
| 41 | 06/15/09 |

5. The collections for the following fifteen transactions were deposited to the bank more than three business days from the date of collection:

| <u>Location Code</u> | <u>Transaction Date</u> | <u>Deposit Date</u> | <u>Elapsed</u> | <u>Total Cash and Check Collections</u> |
|----------------------|-------------------------|---------------------|----------------|---|
| 41 | 04/17/09 | 04/24/09 | 4 | \$ 4,416 |
| 41 | 05/13/09 | 05/20/09 | 4 | \$ 13,995 |
| 41 | 05/21/09 | 05/29/09 | 5 | \$ 12,500 |
| 41 | 06/04/09 | 06/19/09 | 10 | \$ 8,356 |
| 41 | 06/12/09 | 06/19/09 | 4 | \$ 8,033 |
| 41 | 06/29/09 | 07/13/09 | 9 | \$ 21,014 |
| 41 | 07/02/09 | 07/13/09 | 8 | \$ 31,968 |
| 41 | 07/10/09 | 07/20/09 | 5 | \$ 8,233 |
| 41 | 07/20/09 | 07/29/09 | 6 | \$ 1,720 |
| 41 | 08/13/09 | 09/02/09 | 13 | \$ 31,752 |
| 41 | 08/14/09 | 09/02/09 | 12 | \$ 19,059 |
| 41 | 08/19/09 | 09/02/09 | 9 | \$ 8,833 |
| 41 | 08/20/09 | 09/02/09 | 8 | \$ 19,226 |
| 41 | 09/02/09 | 09/09/09 | 4 | \$ 2,609 |
| 41 | 09/14/09 | 09/21/09 | 4 | \$ 5,163 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-3, Continued

Condition, Continued:

6. The validated deposit ticket for one transaction (ref. loc. 41, 02/13/09) was not provided.

Cause: The causes of the above conditions include the e-Customs system failure/breakdown during the periods March 2009 through September 2009, inadequate file maintenance and the lack of established policies and procedures to ensure that collections are deposited in a timely manner.

Effect: The effects of the above conditions are incorrect customs revenue account classification, unsupported revenue transactions, the potential for cash misappropriation, unreported collections and unrecorded revenues.

Recommendation: We recommend the CNMI strengthen controls over processing, recording and monitoring of collections at the Division of Customs. We also recommend the Division of Customs ensure that all relevant supporting documents are filed and maintained. Further, we recommend that all collections be deposited in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesus C. Muna, Director, Customs Services

Corrective Action: In December 2005, the Division of Customs Service launched a new software called the Border Management System or BMS for short. We had encountered many obstacles in regards to this system, from errors made in manifesting (arrival of a carrier) to the receipting, reporting and transmittal of deposits to Treasury. It had been more difficult most especially when the BMS was locked out by the contracted programmer on February 2009. The Division was forced to process all assessments and collections manually for seven months. During this time, a new programmer was hired to create a new software or system mirroring the BMS called the ECustoms. The Division launched the new system in August; however, with some problems encountered, the Seaport Branch was unable to start receipting electronically until September 2009. The setbacks on our normal operations did not end and the Division continued to experience problems with ECustoms. Due to the setback, the Division was forced to revert to the CNMI Tax System AS400 managed by the Electronic Data Processing (EDP) Division under the Department of Finance since June 1, 2010. The following are the corrective actions the Division has taken to minimize and eventually eliminate the errors that had occurred:

- The Division is back on the CNMI Tax System allowing the CNMI Treasurer access to the daily operations and collections. As soon as the cashiers close their daily batches, the CNMI Treasurer will be able to upload into the general ledger.
- Due to the setbacks with the BMS and ECustoms, documents were moved between ports. The Division has met with the supervisors to correct this issue and created a filing system on the management of assessment paid at other ports of entry.
- Cashier point areas have been instructed to close and verify deposits at the end of the business day to ensure timely transmittal of deposits to the CNMI Treasurer in a timely manner.
- The Division collects and transmits the monies to the Division of Treasury. The deposit to the bank is the duty of the staff of the Division of Treasury.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2009-4

Criteria: GASB Technical Bulletin (TB) 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, clarifies recognition guidance for transactions and payments made to settling governments pursuant to the Master Settlement Agreement with major tobacco companies. GASB TB 2004-1 requires the recognition of estimated receivables and revenues based on domestic sales/shipments of cigarettes.

Condition: For fiscal year 2009, the CNMI recognized \$2,040,386 in tobacco settlement resources (TSR) revenues (Ref. fund 7067 account 45640) based on cash received during the fiscal year. The CNMI was unable to provide a relevant analysis or schedules to support compliance with GASB TB 2004-1. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of established estimation techniques to determine accrued tobacco settlement receivables and revenues.

Effect: The effect of the above condition is nonconformity with GASB TB 2004-1.

Recommendation: We recommend the CNMI ensure GASB TB 2004-1 requirements are met.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Secretary of Finance

Corrective Action: The CNMI has agreed to proposed audit adjustment for 2009 and will request documentation from the trustee regarding accrual amounts in future years.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Purchases/Disbursements

Finding No. 2009-5

Criteria: Expenditures should be recorded when incurred.

Condition: Of total medical related expenditures of \$6,184,138 at September 30, 2009, professional services of \$5,564,722 and non-payroll expenses of \$521,030 were tested. Of eighty-one items tested, ten items, totaling \$1,018,705, included billings from medical service providers for services rendered in prior years. These expenditures represent those approved by the responsible local office, which were subsequently forwarded to the Department of Finance (DOF) for recording and payment.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure timely recognition of expenditures relating to medical bills at the time services are rendered.

Effect: The effect of the above condition is the potential misstatement of accrued liabilities.

Recommendation: We recommend that the CNMI ensure that all medical billings received are reviewed and forwarded to the Department of Finance in a timely manner to ensure that expenditures are properly recorded.

Prior Year Status: The lack of policies and procedures regarding the timely recognition of expenditures at the time services are rendered was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Secretary of Finance

Corrective Action: This is not a Medicaid compliance issue as Medicaid considers expenditure to be made when payment is issued. Expenditures posted to the grant need to follow this rule. Payments made subsequent to the end of the fiscal year for prior services (up to a cut-off date) can be recorded as payable in the prior year outside of the grant with an offsetting receivable.

Proposed Completion Date: FY2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Disbursements - Land Compensation

Finding No. 2009-6

Criteria: Land compensation disbursements should be made in accordance with established claims rules and regulations. Further, an effective system of internal control includes policies and procedures to ensure that all relevant records, documents and reports supporting land compensation are complete prior to disbursement.

Condition: Of three land compensation disbursements tested, a warranty deed to convey title to the Department of Public Lands (DPL) was not obtained for the following:

| <u>Land Claimant #</u> | <u>Check Number Reference</u> | <u>Amount</u> |
|------------------------|-------------------------------|---------------------|
| 1 | 341790 | \$ 848,206 |
| 2 | 342094 | 364,347 |
| 3 | 342039 | <u>290,461</u> |
| | | \$ <u>1,503,014</u> |

Disbursements made to two land claimants (#s 1 and 3) were pursuant to court judgments.

For claimant # 2, the offer letter was not signed by the claimant as evidence of acceptance of DPL's offer of compensation.

Due to the lack of relevant documents supporting ownership of the related land, the disbursements were not capitalized.

Cause: The cause of the above condition is failure to ensure that all relevant land compensation documents are complete prior to disbursement of claims.

Effect: The effect of the above condition is noncompliance with DPL's Land Compensation Claims Rules and Regulations and that legal rights to the land are not transferred to DPL.

Recommendation: We recommend that DPL ensure compliance with established land compensation rules and regulations. Further, we recommend that the Department of Finance and DPL ensure that all relevant documents supporting land claims are complete prior to approving and processing related disbursements.

Prior Year Status: Failure to ensure that all relevant land compensation documents are complete prior to disbursement of claims was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Margaret Keene Villagomez, Manager of Accounting Services

Corrective Action: On April 17, 2009, the Department of Finance (DOF) billed the Department of Public Lands (DPL) \$1,523,014 under SFM2009-059 for land compensation payments issued to the following claimants:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-6, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

| | |
|-------------|---------------------|
| Claimant #1 | \$ 848,206 |
| Claimant #2 | 310,461 |
| Claimant #3 | <u>364,347</u> |
| | \$ <u>1,523,014</u> |

Upon review of DPL records, the Land Claims Director advised that DPL should not reimburse DOF for the payment already issued to Claimant #2. Unlike Claimant #1 and Claimant #3, the request to pay Claimant #2 was not pursuant to a court judgment.

On May 7, 2009, DPL fund transferred \$1,057,560. This amount represents the reimbursements of \$848,206 for Claimant #1, \$290,461 for Claimant #3, and an offset/deduction of \$81,107 for an erroneous reimbursement made on April 14, 2009 for a payment made to Henry T. Indalecio. Per the Land Claims Director, this claim should have been paid through local appropriations.

To this date, DOF billings to DPL for land compensation continue to show an underpayment of \$465,453. In essence, DPL did not reimburse DOF for the payment DOF made to Claimant #2.

Proposed Completion Date: Completed 05/07/09

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Cash and Cash Equivalents

Finding No. 2009-7

Criteria: Bank reconciliations should be performed in a timely manner. Further, book reconciling items should be timely adjusted.

Condition: During tests of bank reconciliations, the following were noted:

1. During the fiscal year ended September 30, 2009, bank reconciliations for the following accounts were prepared one to three months after month end.

| <u>Bank Code</u> | <u>Account Name</u> |
|------------------|------------------------------------|
| 11130 | LNO Hawaii - Medical Referral |
| 11150 | Superior Court NMI Imprest Fund |
| 11170 | Guam Medical Referral Imprest Fund |
| 11190 | Treasury (DOF) Imprest Fund |
| 11200 | Tinian Imprest Fund |
| 11210 | Rota Imprest Fund |
| 11220 | Supreme Court Imprest Fund |
| 11230 | Food Stamps |
| 11310 | CHC Medical Referral |
| 11320 | La Fiesta Imprest Fund |
| 11400 | NMTIT Rebate Trust |
| 11401 | NMTIT/USR Stimulus Tax Refund |
| 11410 | Special Disability Imprest Fund |
| 11420 | Payroll Account |
| 11430 | General Fund |
| 11450 | Animal Health Imprest Fund |
| 11480 | Lottery Commission Imprest Fund |
| 11520 | Credit Card |
| 11540 | Capital Improvement Projects |
| 11570 | Federal Grant Fund |
| 11830 | Law Revision Commission Imprest |

Further, book reconciling items identified during monthly bank reconciliations are adjusted only at year end.

2. A bank reconciliation as of September 30, 2009 was not provided for one account (Bank Code 11140).
3. The following cash account was confirmed by a bank but is not recorded:

| <u>Reference</u> | <u>Bank Balance</u> |
|------------------|---------------------|
| 0003-9456 | \$132,871 |

4. At September 30, 2009, the CNMI recorded a cash clearing account of \$1,324,314. This account is expected to be zero at fiscal year-end. An audit adjustment was proposed to correct this condition.

Cause: The cause of the above condition is the lack of adherence to policies and procedures related to the timely preparation of bank reconciliations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-7, Continued

Effect: The effect of the above condition is the possibility of misstated cash balances throughout the year.

Recommendation: We recommend that the CNMI adhere to established policies and procedures to ensure timely reconciliation of bank accounts and that book reconciling items be adjusted in a timely manner. Further, we recommend that the Department of Finance ensure that all cash accounts are recorded and that cash clearing accounts are adjusted and reconciled at fiscal year-end.

Prior Year Status: The lack of adequate policies and procedures related to timely preparation of bank reconciliations was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Bernadita C. Palacios, Acting Director, Finance & Accounting, Antoinette Calvo, CNMI Treasurer and Robert A. Schrack, Secretary of Finance

Corrective Action: We agree the finding although we feel the criteria of including one month past the end of the month as deficient overly stringent given available staff and receipt of bank statements and cleared check data from the bank. The auditors indicated the problem is the length of time reconciliations take rather than a lack of reconciliations. There are only two staff in the reconciliation Section due to staff turnover and lack of budget to replace the two departed employees. In addition, delayed bank statements, American Express statements and availability of the automated cleared check file contribute to the time lag experienced between month end and the reconciliation being completed. In order to improve timeliness of the checking account reconciliations, the Reconciliation Section has been given inquiry access to the bank accounts on line to allow quicker retrieval of information. We will also discuss faster availability of bank statements and cleared check files with our bank. Currently these are not received until a month after the month end. In addition, coordination between the Recon section and the Treasury and Revenue and Tax Divisions will be improved to facilitate checking account reconciliations. Procedures to provide for entry of reconciling items on a monthly basis are currently being implemented.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Cash and Cash Equivalents

Finding No. 2009-8

Criteria: A system of internal control provides for adequate monitoring of issued, unreleased, returned, cancelled and voided checks. While the holding of checks is unavoidable at times, checks held at year-end should be identified and reclassified as payables.

Condition: Our cutoff and bank reconciliation tests noted the following:

1. At September 30, 2009, approximately \$637,938 of checks were held by the Division of Treasury. The breakdown by account is as follows:

| <u>Bank Account GL #</u> | <u>Account Name</u> | <u># of Checks</u> | <u>Amount</u> |
|--------------------------|-----------------------------------|--------------------|-------------------|
| 7063.11400 | Rebate Trust Fund | 1,615 | \$ 202,357 |
| 1010.11430 | General Fund | 138 | 415,824 |
| 1010.11420 | Payroll Account | 33 | 11,327 |
| 7400.11401 | Stimulus Tax Refund Account | 15 | 5,840 |
| 1010.11540 | Capital Improvement Projects Fund | <u>1</u> | <u>2,590</u> |
| | | <u>1,802</u> | <u>\$ 637,938</u> |

The Division of Treasury did not prepare a list of checks held at year-end. The above were reflected as outstanding checks in the September 30, 2009 bank reconciliations.

2. Additionally, one hundred fifteen checks held aggregating \$24,401 included in the rebate trust fund represent checks returned by the post office. The checks have dates ranging from October 2008 through September 2009. The Division of Treasury does not appear to have monitored these returned checks as such are reported as outstanding checks in the September 30, 2009 reconciliation.
3. The September 30, 2009 General Fund (Acct. #11430) bank reconciliation reflected stale-dated checks of \$376,783. A substantial portion of the stale-dated checks was scholarship-related; however, the \$376,783 was recorded to a miscellaneous adjustment account in the General Fund.

Cause: The cause of the above condition is the lack of policies and procedures to monitor issued, unreleased and returned checks, the lack of policies and procedures to ensure that all manual checks are posted to the general ledger and the failure to address cash-related issues in a timely manner.

Effect: The effect of the above condition is the misstatement of cash, payables and expenditures and numerous reconciling items in the bank reconciliation. Further, the above condition may provide opportunity for fraudulent activities.

Recommendation: We recommend the CNMI Division of Treasury establish policies and procedures to adequately monitor issued, unreleased, returned, cancelled and voided checks. Further, we recommend that the CNMI Division of Treasury ensure that checks requested for cancellation are timely voided in the system. Additionally, we recommend that all disbursements be posted to the general ledger in a timely manner.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-8, Continued

Prior Year Status: The lack of policies and procedures to monitor issued, unreleased and returned checks, the lack of policies and procedures to ensure that all manual checks are posted to the general ledger and the failure to address cash-related issues in a timely manner was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action:

1. Treasury will institute a procedure to mail out all printed checks prior to the end of the fiscal year. Schedule will be prepared of unmailed checks which should include only the last few days of the fiscal year.
2. Checks are still considered outstanding unless voided in the system. Checks returned by the post office are held pending communication with the payee. Once they become stale dated they are voided.
3. Checks were held by the Scholarship Office and not returned to Treasury until they were stale dated. We will work with the Scholarship Office to ensure checks to be voided are returned on a timely basis.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Receivables

Finding No. 2009-9

Criteria: Receivables for services rendered by the Commonwealth Health Center (CHC) should be billed timely and follow-up procedures should be undertaken to collect outstanding accounts.

Condition: Our tests of CHC receivables at September 30, 2009 noted the following:

1. As of September 30, 2009, CHC receivables were \$129,749,668 of which \$112,327,603 date back to fiscal years 2008 and prior. An aging of the outstanding receivables by fiscal year is as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|-----------------------|
| 2009 | \$ 17,422,065 |
| 2008 | 8,890,510 |
| 2007 | 3,904,468 |
| 2006 | 11,202,906 |
| 2005 | 8,006,273 |
| 2004 and prior | <u>80,323,446</u> |
| | \$ <u>129,749,668</u> |

The large receivable balance, the many aged individual balances, and the backlog of billing files all reflect inadequate billing and collection procedures.

2. The receivables balance at September 30, 2009 provided by CHC is based on detailed reports generated on October 24, 2009. CHC's system is unable to generate "as of" balances and the listing may not reflect the correct receivables at September 30, 2009.
3. A detailed report for one major group payer category (Private Companies-NR), with a September 30, 2009 receivable balance of \$5,624,328, was not provided.
4. The Department of Finance entered into a contract with a collection agency in September 1995 for the collection of CHC receivables. Total receivables referred from 1992 to 1996, amounted to \$11,760,649. The collection agency ceased operations but never declared bankruptcy. The collection agency never cleared its account with CHC. Further, the \$11,760,649 is not reflected in CHC's records.
5. The CNMI Group Health and Life Insurance Trust Fund (GHLITF) confirmed amounts due to CHC of \$14,829,951. However, this amount has not been reconciled to CHC's records reflecting receivables from GHLITF of \$35,877,816.

Cause: The cause of the above condition is a lack of adequate policies and procedures related to the billing and collection of CHC revenues.

Effect: The effect of the above condition is the possibility of a misstatement of CHC receivable balances; however, this effect is mitigated by a corresponding allowance for uncollectible accounts.

Recommendation: We recommend that CHC implement procedures to ensure that all billings are processed timely and that standard procedures are implemented to follow-up on aged accounts. Uncollectible accounts should be written off.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-9, Continued

Prior Year Status: Inadequate controls over receivables at CHC was reported as a finding in the Single Audits of the CNMI for fiscal years 1995 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Joseph Kevin Villagomez, Secretary of Public Health

Corrective Action:

1. DPH agrees with the findings. Implementing policies and procedures, as recommended by the auditors, will help but will not resolve the backlog in the processing of bills or decrease the huge outstanding receivable. The major cause of the problem is nonpayment of bills by the Government Health Insurance (GHI) program outstanding since 1992 and inclusion of Medicaid expenditures beyond the annual cap as receivables. Medicaid expenditures above the annual cap represent over one third of the total receivable and GHI represents fifty percent of the remaining outstanding receivable. Inefficiency of the present computer billing system and inadequate FTE's in the Billing and Collection Office contribute to the billing backlog. DPH is seeking funding for a newer, faster more efficient billing system. DPH will discuss the write off of accounts considered uncollectible with the Department of Finance. Since these amounts have never been booked as revenue, no bad debt expense needs to be booked, only adjustments to the receivable and reserve accounts.
2. The lack of "as of" reports is being corrected. Our IT manager is working with the system users and program consultant to update all applications. The AR package currently cannot generate this report.
3. Same as #2. Report cannot be generated separately with current system.
4. DOF and CHC will review status of these accounts.
5. Discrepancy exists due to unprocessed claims at GHI that have been recorded by CHC. GHI is no longer functional as the government uses a commercial insurer. Since the CNMI government incorporates both the payable and receivable writing off both amounts is being explored.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Receivables

Finding No. 2009-10

Criteria: A system of internal control requires that subsidiary ledgers be timely reconciled to the general ledger.

Condition: As of September 30, 2009, the General Fund recorded returned check receivables (account #1010.12800) of \$785,903, which is \$162,796 higher than the subsidiary ledger. A reconciliation of the difference was not made available.

Our tests of seven returned checks aggregating \$147,616 that were collected during the current fiscal year, noted six items that were still included in the subsidiary ledger at September 30, 2009. Details are as follows:

| <u>Check Number</u> | <u>Check Date</u> | <u>Principal Amount</u> | <u>Service Charge</u> | <u>Total</u> | <u>OCR #</u> |
|---------------------|-------------------|-------------------------|-----------------------|-------------------|--------------|
| 152 | 02/01/09 | \$ 48,000 | \$ 25 | \$ 48,025 | 2117026 |
| 34410 | 02/06/09 | \$ 9,070 | \$ 25 | 9,095 | 424593 |
| 1231 | 02/02/09 | \$ 5,674 | \$ 25 | 5,699 | 2118132 |
| 1048 | 03/21/09 | \$ 38,500 | \$ 25 | 38,525 | 216385 |
| 13053 | 06/09/09 | \$ 25,530 | \$ 25 | 25,555 | 2190632 |
| 6294 | 07/31/09 | \$ 9,591 | \$ 25 | <u>9,616</u> | 2215506 |
| | | | | \$ <u>136,515</u> | |

Cause: The cause of the above condition is the lack of periodic reconciliations of returned checks.

Effect: The effect of the above condition is the possibility of misstatements of returned checks; however, this effect is mitigated by a corresponding allowance for uncollectible accounts of \$679,202.

Recommendation: We recommend that periodic reconciliation of returned checks receivable be performed.

Prior Year Status: The lack of periodic reconciliation of returned checks was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: We agree with the finding. Lack of staff has been on ongoing problem. In 2010, Treasury was able to hire two additional staff to alleviate the problem. Reconciliation will be assigned to one of the staff members.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Travel Advances

Finding No. 2009-11

Criteria: Employee travel advances should be timely liquidated through submission of travel vouchers or the return of funds.

Condition: As of September 30, 2009, the General Fund recorded travel advances of \$1,528,516, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, approximately \$1,162,667 represents carryforwards from prior years.

Additionally, of three travel advances tested, the travel authorization, travel voucher supporting subsequent liquidation and other relevant supporting documents were not made available, as follows:

| <u>Employee Number</u> | <u>Travel Advance at September 30, 2009</u> |
|------------------------|---|
| 100399 | \$ 22,275 |
| 103443 | \$ 175 |
| 251536 | \$ 2,867 |

Cause: The cause of the above condition is the lack of adherence to policies and procedures regarding the liquidation of outstanding advances. In addition, individual files are not readily accessible.

Effect: The effect of the above condition is the possibility of a misstatement of expenditures and related advances.

Recommendation: We recommend that all advances outstanding for more than one year be reviewed, their collectability evaluated, and any amounts deemed uncollectible be written off. In addition, we recommend that the Department of Finance consider payroll deductions as a means of collecting outstanding advances and policies and procedures be implemented and enforced requiring the timely liquidation of all travel advances.

Prior Year Status: Liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Secretary of Finance

Corrective Action: We agree that the travel advance balance needs to be adjusted for old balances and that most these old balances cannot be adequately documented. We have implemented automated sub ledgers by traveler for our travel advance accounts. Advance and voucher filing procedures are now being enforced so that new advances are not issued if there are pending outstanding advances. Payroll deductions are being made if vouchers are not filed in a timely manner. Scanning of travel vouchers is now being done. We are reviewing and clearing old balances. Since 09/30/05 the outstanding travel advance balance has been reduced by almost 50% with reductions in each of the subsequent years. The amount currently outstanding is reserved against fund balance on the balance sheet either through the reserve for encumbrances (recent advances) or reserve for related assets (old advances).

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Advances

Finding No. 2009-12

Criteria: Advances to vendors should be timely updated for goods/services already received.

Condition: As of September 30, 2009, the General Fund recorded advances to vendors of \$1,250,188, of which \$662,588 date to fiscal year 2008 and prior. An aging of vendor advances by fiscal year is as follows:

| <u>Fiscal Year</u> | <u>Amount</u> |
|--------------------|-------------------|
| 2008 | \$ 205,802 |
| 2007 | 146,800 |
| 2006 | 209,631 |
| 2005 | 73,375 |
| 2004 | <u>26,980</u> |
| | \$ <u>662,588</u> |

Of three advances tested aggregating \$477,377, the following were noted:

1. Total advances to one vendor for medical laboratory supplies amounted to \$394,550 at September 30, 2009. Of this amount, \$374,285 related to supplies that have been received on or before September 30, 2009 and \$20,265 was paid subsequent to September 30, 2009. Further, the receiving department/division is unable to provide a detailed accounting of the merchandise received to date.
2. Total advances to one vendor amounted to \$80,127 (Ref. 776182 PL) at September 30, 2009. Based on relevant supporting documents, the related goods and services were received during the fiscal year.
3. Total advances to one vendor amounted to \$2,700 (Ref. 812196 PL) which was paid subsequent to September 30, 2009, and is not a valid advance at September 30, 2009.

The above conditions were corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures to update advances upon receipt of related goods and/or services.

Effect: The effect of the above condition is the possibility of a misstatement of advances and related expenditures and encumbrances.

Recommendation: We recommend that advances to vendors 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.

Prior Year Status: The lack of adherence to established policies to update advances upon receipt of related goods and services was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-12, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We agree that old advances need to be reviewed and adjusted. We believe that believe the policies and procedures currently in place will address the problem of advances staying on the books for lengthy periods of time.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Interfund Receivables and Payables

Finding No. 2009-13

Criteria: GASB Statement No. 34, paragraph 112a(1) discusses interfund loans and states that if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

Condition: As of September 30, 2009, the general fund recorded payables to the following funds for which repayment is not expected within a reasonable time due to lack of available cash.

| <u>Receivable Fund</u> | <u>Fund No.</u> | <u>Interfund Amount</u> | <u>Uncollectible</u> |
|-------------------------|------------------|-------------------------|----------------------|
| Private Grants | 2030 | \$ 1,731,105 | \$ 1,731,105 |
| Local Revenue | 2043, 2300, 2400 | \$ 2,902,989 | \$ 2,902,989 |
| DOI Capital Projects | 4049 | \$ 521,044 | \$ 521,044 |
| DOI Capital Projects | 4052 | \$ 12,979,881 | \$ 7,925,865 |
| Smiling Cove Marina | 6065 | \$ 101,503 | \$ 101,503 |
| Fish and Game Revolving | 6075 | \$ 160,902 | \$ 160,902 |
| Infrastructure Tax | 2041 | \$ 1,020,777 | \$ 848,563 |
| Private Capital Grants | 4046 | \$ 641,590 | \$ 610,016 |

This condition was corrected through proposed audit adjustments and does not have any federal implications.

Cause: The cause of the above condition is the failure to track specific funds received, the lack of a plan to repay such funds, and the lack of available cash flow.

Effect: The effect of the above condition is the possible misstatement in interfund balances.

Recommendation: We recommend the CNMI assess collectability of interfund balances on a regular basis and ensure compliance with the requirements of GASB Statement No. 34, paragraph 112a(1).

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Secretary of Finance

Corrective Action: We have accepted the auditors' recommendation regarding audit adjustments for these balances and will review the status in 2010.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Retirement Contributions - General Fund

Finding No. 2009-14

Criteria: In accordance with Public Law 6-17, Section 8342(a), the Government shall make contributions to the Northern Mariana Islands Retirement Fund (the Fund) each year on an actuarially funded basis toward the annuities and benefits provided its members. Section 8342(c) requires that both employee and employer contributions be remitted to the Fund within five working days following the end of each payroll date. Further, Section 8342(e) states that an employer who fails to pay or remit contributions as required shall pay a penalty of ten percent per month or part thereof for which contributions remains unpaid, up to a maximum penalty of twenty-five percent of the unpaid contribution.

Condition: Our tests of balances due the Fund noted the following:

1. As of September 30, 2009, the CNMI recorded a contribution liability of \$146,371,544 of which \$131,693,784 dates back to fiscal year 2008 and prior. An aging of the outstanding contribution liability by fiscal year is as follows:

| | |
|----------------|-----------------------|
| 2009 | \$ 14,677,760 |
| 2008 | 17,067,675 |
| 2007 | 17,243,509 |
| 2006 | 16,806,429 |
| 2005 | 24,006,548 |
| 2004 and prior | <u>56,569,623</u> |
| | \$ <u>146,371,544</u> |

2. As of September 30, 2009, the CNMI's liability relating to penalties on unpaid contributions amounted to \$45,059,393.

Cause: The primary cause of the above condition is the lack of available cash flow.

Effect: The effect of the above condition is noncompliance with Public Law 6-17, Section 8342.

Recommendation: We recommend that the CNMI adhere to the requirements of Public Law 6-17.

Prior Year Status: The lack of compliance with Public Law 6-17, Section 8342 was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Secretary of Finance

Corrective Action: Public Law No. 15-13 established a Defined Contribution Retirement Plan (DCP) for all new public employees hired after January 1, 2007 (eligible employees hired prior to this date participate in the Retirement Fund which is a defined benefit plan) and defined the conditions under which certain members of the defined benefit Retirement Fund could transfer benefits to the DCP. Since the DCP has a 4% employer contribution rate versus 24% for the defined benefit plan, increasing annual savings will result as government employment includes more and more DCP participants. The defined benefit plan will have a fixed or declining number of members which will stabilize required contributions.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-14, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Public Law No. 15-14 extended the date by which the defined benefit plan must be fully funded from the year 2020 to 2045. This will reduce the annual amount required to liquidate the unfunded liability and reduce the annual required employer contribution.

Public Law No. 15-70 was passed on June 14, 2007 increasing employee contributions to the defined benefit plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. This will decrease the required employer contribution by a similar amount.

An actuarial study was completed in May 2010, as of October 1, 2008, incorporating the above plan changes and related assumptions, showed the actuarial accrued liability (AAL) declined from \$1,007.3 billion at October 1, 2005 to \$899.4 million and the unfunded AAL declined from \$547.2 million to \$529.9 million despite an investment portfolio loss of \$72.5 million from the 2008 market decline.

In May 2010, the Retirement Fund and Executive Branch agreed to a plan that would define a corpus to be maintained, include a portion of earnings to be used for payment of pensions, proposed an initiative to be placed on the ballot for voters to approve issuance of pension obligation bonds to pay the outstanding liability and amend the required employer contribution to a dollar amount rather than a rate as the number of contributing members continues to decline. This plan was presented it to the Legislature along with proposed legislation to implement retirement plan changes that would reduce future government retirement liabilities such as paying cost of living increases as annual bonuses rather than additions to the base annuity.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Tax Rebates Payable

Finding No. 2009-15

Criteria: The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid. The rebate liability is therefore estimated at the end of each fiscal year.

In addition, in accordance with Public Law 9-22, §1713, Interest on Overpayments, interest allowed by NMTIT §6611 on an overpayment shall be calculated only on the amount not already rebated.

Condition: At September 30, 2009, tax rebates payable aggregated \$30,865,860. The balance consists of the following:

| | |
|--|----------------------|
| Estimated 2009 liability based on fiscal year 2009 collections | \$ 8,038,309 |
| 2008 and prior rebates unpaid as of September 30, 2009 | <u>22,827,551</u> |
| | <u>\$ 30,865,860</u> |

Tests of the rebate payable accounts noted the following:

1. Detailed tests of the unpaid tax year 2008 and prior rebates obtained from the detailed reports noted the following:
 - a. Of fifty-two unmatched filings tested relating to individual and corporate tax rebate payables of \$6,856,286, the following were noted:
 - i. For four items totaling \$2,433,199, the rebate amount in the tax return was left blank. Further, the related tax return filed was incomplete, a different tax form was used, and/or the taxpayer did not submit relevant documentation to properly calculate the tax. Details are as follows:

| <u>Assigned #</u> | <u>Tax Year</u> | <u>Rebate Payable Per Detailed Reports</u> |
|-------------------|-----------------|--|
| A2 | 2003 | \$ 649,000 |
| A5 | 2005 | 1,024,000 |
| A7 | 2007 | 649,000 |
| B53 | 2002 | <u>111,199</u> |
| | | <u>\$ 2,433,199</u> |

- ii. Five items totaling \$1,124,169 did not agree to tax returns by \$591,115. The variances were substantially due to incomplete information where the taxpayer either did not submit the relevant supporting documentation and/or the required tax form was not used. Details are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-15, Continued

Condition, Continued:

| <u>Assigned #</u> | <u>Tax Year</u> | <u>Per Detailed Reports</u> | <u>Per Tax Returns</u> | <u>Variance</u> |
|-------------------|-----------------|-----------------------------|------------------------|-------------------|
| A1 | 2002 | \$ 465,940 | \$ 236,366 | \$ 229,574 |
| A3 | 2003 | 556,738 | 286,132 | 270,606 |
| B69 | 2006 | 77,724 | - | 77,724 |
| B30 | 2006 | 20,738 | 9,042 | 11,696 |
| B55 | 2002 | <u>3,029</u> | <u>1,514</u> | <u>1,515</u> |
| | | \$ <u>1,124,169</u> | \$ <u>533,054</u> | \$ <u>591,115</u> |

- iii. For one \$43,427 item, (ref. B75 for tax year 2008), the tax return was not provided.
- iv. For one \$105,178 item, (ref. B72 for tax year 2007), the rebate amount from the detailed report was higher by \$19,572 than the amount on the tax return due to data entry errors.
- b. Of thirty assessed and matched filings tested relating to individual and corporate tax rebate payables of \$1,062,425, the following were noted:
 - i. For three items totaling \$61,544, the tax return was not provided. Details are as follows:

| <u>Assigned #</u> | <u>Tax Year</u> | <u>Rebate Payable Per Detailed Reports</u> |
|-------------------|-----------------|--|
| B15 | 2004 | \$ 30 |
| B46 | 2003 | 20,000 |
| B48 | 2006 | <u>41,514</u> |
| | | \$ <u>61,544</u> |

- ii. One \$2,878 item (ref. B16 for tax year 2006) was paid prior to September 30, 2009 but was included in the year-end tax rebate payable report.
- ii. For one \$41,554 item (ref. B40 for tax year 2001) the taxpayer is in payable status, as indicated in the tax system, and as such no rebate is due; however, a rebate amount was included in the year-end tax rebate payable report.
- iii. One \$97,499 item (ref. B45 for tax year 2003) was credited to a 2003 estimated tax; however, the amount was still included in the year-end tax rebate payable report.
- 2. Of twenty-four accounts totaling \$596,160 that have been uploaded to the JDE system for payment, one \$4,939 item (ref. 399104 PV for tax year 1999) had already been paid prior to September 30, 2009 and was reflected as unpaid in JDE. Further, no details of rebate payables relating to tax years 1999 and below are available from the Division of Revenue and Taxation.

Further, no interest is calculated or paid on overpayments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-15, Continued

Cause: The cause of the above condition is the lack of periodic review of rebate payable reports to ensure accuracy and completeness and the lack of established policies and procedures to assess the reasonableness of estimated rebates payable. Further, there is a lack of compliance with Public Law 9-22 relating to interest calculations on tax overpayments.

Effect: The effect of the above condition is the possible misstatement of tax rebates payable; however, this effect is mitigated by a corresponding permanent tax reserve to offset any disputes or claims.

Recommendation: We recommend that policies and procedures be established for the periodic review of tax rebate payable reports to ensure accuracy and completeness. We also recommend that policies and procedures be established to assess the reasonableness of estimated rebates payable. Additionally, we recommend that the Division of Revenue and Taxation ensure that tax forms are properly filed and maintained. We also recommend that recorded rebates payable be reconciled with the liability indicated on the tax forms and significant variances, if any, be investigated, monitored, documented and timely addressed.

Prior Year Status: A lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Maria T. White and Canice M. Diaz, Division of Revenue and Tax

Corrective Action: The Division of Revenue and Taxation had implemented in FY 2009 a rebate payable review procedure to be done semi-annually. The semi-annual reviews have not been completed in a timely manner due to shortages of technical personnel to assign the review task on a regular basis, and also because of the need for a custom-made report to be produced before any review is done. The CNMI Tax System will be enhanced to include a standard report menu to generate detailed listings of all pending payables in each status category (unmatched, assessed, payable unpaid) and do away with the custom-made report. This enhancement will include other payable validations such as the case when a payable was paid but not timely posted back to the CNMI Tax system from JDE to reflect that payment has already been made. The technical research branch will be designated and made responsible to perform the periodic review as recommended.

The CNMI Tax system presently has a payable processing routine to determine the reasonableness of payables based on pre-established threshold amount, and for returns with initial status showing a tax due on the return or payment made on a return. The Division of Revenue and Taxation will add another level of review by comparing the rebate payable amount as indicated on the return versus the amount of rebate in the rebate payable report. Any discrepancy outside a pre-established threshold amount would be flagged for review and resolution before a payment is made.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-15, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The Division of Revenue and Taxation is currently in the development stage for the implementation of the Electronic Document Management System (EDMS) that will eventually scanned and imaged every return (including OCR/ICR) filed with the Division of Revenue and Taxation. The EDMS will permanently image and store the images in a database for future retrieval and reproduction. The images can be retrieved based on certain search and retrieval criteria (taxpayer name, tax period, tax form, etc.) The hard copies will be permanently filed/stored until ordered disposed by the Secretary. The EDMS will become the standard method to access and review information on the returns unless special circumstances require retrieval of the hard copy. The EDMS project development would be completed by July 31, 2010 and all 2010 tax returns will start imaging.

The Division of Revenue will enhance its payable review processes to include reconciliation of liabilities and payments. The enhancement will be part of its payable processing routines to compare the summary of tax liabilities against the summary of all payment credits and the recorded rebates payable to determine any significant discrepancy based on established threshold amount. The payable subsystem will automatically flag any payable that falls outside the threshold amount and classify the payable as requiring review. A report will be generated and included in the review submenu discussed in the second paragraph above.

Proposed Completion Date: August 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Other Liabilities and Accruals

Finding No. 2009-16

Criteria: An effective system of internal control includes policies and procedures to ensure that liabilities are recorded in the appropriate fiscal year.

Condition: During tests of subsequent disbursements, we noted \$1,873,800 of unrecorded liabilities at September 30, 2009. Details by fund follow:

| <u>Fund</u> | <u>Amount</u> |
|---------------------------|---------------------|
| General | \$ 657,247 |
| Federal Grants | 705,326 |
| DOI Capital Projects | 25,133 |
| Nonmajor Capital Projects | 484,094 |
| Nonmajor Special Revenue | <u>2,000</u> |
| | \$ <u>1,873,800</u> |

The above condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of appropriate cutoff procedures and controls.

Effect: The effect of the above condition is a misstatement of liabilities and expenditures.

Recommendation: We recommend that the Department of Finance implement appropriate policies and procedures to ensure recording of liabilities in the correct fiscal year.

Prior Year Status: A lack of appropriate cutoff procedures and controls was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We agree with the finding and will review cut-off procedures. However, it appears there will always be audit adjustments for this as our cut-off is 60 days after year (11/30/09) end while the auditors' cut-off is April 29, 2010.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Compensated Absences

Finding No. 2009-17

Criteria: Accrued annual leave is limited to 45 days or 360 hours, as amounts in excess of 45 days transfer to sick leave at the end of the leave year. Further, an effective system of internal control requires that accrued annual leave for employees who are separated from the entity are identified and reviewed for validity. The payroll records should be updated on a timely manner for annual leave balances that do not represent valid obligations.

Condition: At September 30, 2009, compensated absences payable per the subsidiary ledger aggregated \$8,404,096. Of this amount, \$908,645 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$893,735 represents accrued leave in excess of the 45 days/360 hours limit. Additionally, the balance at September 30, 2009 is net of individual debit balances of \$131,963.

The above condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of adequate procedures and controls to ensure that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records.

Effect: The effect of the above condition is the misstatement of compensated absences payable and related expenditures.

Recommendation: We recommend the CNMI Department of Finance ensure that recorded compensated absences payable represent valid obligations.

Prior Year Status: The lack of adequate procedures and controls to ensure that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We agree with the finding. We are reviewing the detail of the accrued leave still carried for inactive, terminated, resigned and retired employees to determine if they are valid. We will adjust balances determined to be invalid. There are some cases where ex employees have left their balances intact so it is available if they return to government service. We are also reviewing the individual debit balances and will adjust where necessary. Debit balances may be valid for active employees where they have been granted advance leave. For terminated employees balances need to be adjusted. However, we are determining if they actually overpaid or if final payments were not properly recorded.

In the cases of leave in excess of maximum balances, amount noted above is as of 09/30/09. Excess annual leave balances are transferred to sick leave on a calendar year basis. In all cases we have agreed to audit adjustments to adjust the financial statement effect of the above.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Fund Balance - Encumbrances

Finding No. 2009-18

Criteria: A system of internal control provides for adequate monitoring and tracking of commitments related to open purchase orders and unfulfilled contracts. Amounts reserved for encumbrances should be reviewed and adjusted for balances that are no longer valid.

Condition: Our tests of reserves for encumbrances noted the following:

1. For DOI Capital Projects Fund encumbrances:

- a. At September 30, 2009, the subsidiary ledger balance of the DOI Capital Project Fund encumbrances of \$4,667,268 is net of debit balances of \$2,507,115. Of the total debit balances, encumbrances of \$1,966,060 have been outstanding for more than five years. Further, we did not evidence review by the Department of Finance of these debit balances. This condition was corrected through a proposed audit reclassification.
- b. An aging of the reserve for encumbrances, excluding debit balances, by fiscal year indicates encumbrances totaling \$894,629 have been outstanding for more than five years. We did not evidence review by the Department of Finance of long outstanding encumbrances.
- c. Of twenty-two DOI Capital Projects Fund encumbrances tested aggregating \$2,413,436, the following exceptions were noted:
 - i. The obligating/encumbering document for the items below were not provided:

| <u>Fund/Business Unit</u> | <u>Document Number</u> | <u>Encumbrance Amount</u> |
|---------------------------|------------------------|---------------------------|
| 4044.4843 | 60048-OS | \$ 15,126 |
| 4044.4863 | 304837-OS | \$ 131,601 |
| 4045.4901 | 70169-OS #1 | \$ 245,591 |
| 4045.4901 | 70169-OS #2 | \$ (491,181) |
| 4045.4910 | 70152-OS | \$ (426,616) |
| 4045.4930 | 60134-OS | \$ (79,156) |
| 4045.4936 | 59-OS | \$ (71,248) |
| 4058.5634 | 486-OS | \$ 253,946 |

For five items (70169-OS #1, 70169-OS #2, 70152-OS, 60134-OS and 59-OS), the related projects were completed at September 30, 2009. Liquidation of the encumbrances was proposed in the adjustment at condition 1a. For three items (60048-OS, 304837-OS and 486-OS) aggregating \$400,673, we were unable to verify if these were valid encumbrances.

- ii. The following variances exist between amounts encumbered and expectations due to unrecorded expenditure accruals at year-end:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-18, Continued

Condition, Continued:

| <u>Fund/Business Unit/General Ledger Account</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u> | <u>APV Reference</u> |
|--|-----------------------------------|---------------------------|------------------------|-------------------|----------------------|
| 4058.5636.64320 | 498-OS | \$ 2,207,361 | \$ 2,164,991 | \$ 42,370 | 817570 |
| 4052.5241.64541 | 500-OS | 210,569 | 159,147 | 51,422 | 823076 |
| 4058.5617.64280 | 481-OS | <u>50,267</u> | <u>25,134</u> | <u>25,133</u> | 816354 |
| | | <u>\$ 2,468,197</u> | <u>\$ 2,349,272</u> | <u>\$ 118,925</u> | |

This condition was corrected through a proposed audit adjustment.

- iii. The following DOI Capital Projects Fund encumbrances did not indicate any activity for more than five years:

| <u>Fund</u> | <u>Business Unit #</u> | <u>General Ledger Account #</u> | <u>Obligating Document</u> | <u>Amount</u> |
|-------------|------------------------|---------------------------------|----------------------------|---------------|
| 4044 | 4843 | 64320 | 60048-OS | \$ 15,126 |
| 4044 | 4863 | 62060 | 304837-OS | \$ 131,601 |
| 4049 | 5805 | 64280 | 5-OS | \$ 5,794 |
| 4052 | 5134 | 64320 | 153-OS | \$ 38,959 |

We were unable to verify if these are valid encumbrances at September 30, 2009.

2. Of sixteen Federal Grants Fund encumbrances tested aggregating \$3,285,122, the following were noted:

- a. The obligating/encumbering document for the items below was not provided:

| <u>Fund/Business Unit</u> | <u>Obligating Document Number</u> | <u>Encumbrance Amount</u> |
|---------------------------|-----------------------------------|---------------------------|
| 2020. A8664N | 282068-OT | \$ 2,789 |
| 2020. H9778B | 281303-OT | \$ 23,668 |
| 2020. I9605D | 281940-OT | \$ 944 |

We were unable to verify if these are valid encumbrances at September 30, 2009.

- b. Accounts payable vouchers and supporting invoices evidencing subsequent liquidation of the following encumbrance was not provided:

| <u>Fund</u> | <u>Obligating Document Number</u> | <u>APV Reference Number</u> | <u>Encumbrance Amount</u> | <u>APV Amount</u> |
|-------------|-----------------------------------|-----------------------------|---------------------------|-------------------|
| 2020 | 282068 - OT | 815968 | \$ 2,789 | \$ 2,789 |
| 2020 | 509127 - OP | 817523 | \$ 50,320 | \$ 250 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-18, Continued

Condition, Continued:

- c. The following variances exist between amounts encumbered and expectations due to unrecorded expenditure accruals at year-end:

| <u>Fund/ Business Unit</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u> | <u>PV Reference #</u> | <u>Unrecorded Expenditure/ Liability</u> |
|--------------------------------|---|-----------------------------------|----------------------------|-----------------|---------------------------|--|
| 2020. H97783 | 509521-OD | \$ 97,571 | \$ 159,592 | \$ (62,021) | 815680 | \$ 62,021 |
| 2020. M8017A | 504459-OC | \$ 353,007 | \$ 364,076 | \$ (11,069) | 818525 | \$ 11,069 |
| 2020. T8205U | 495685-OC | \$ 560,098 | \$ 607,820 | \$ (47,722) | 819578 | \$ 47,722 |

This condition was corrected through a proposed audit adjustment.

- d. The following variances exist between amounts encumbered and expectations due to untimely updating of encumbrances for actual expenditures:

| <u>Fund/ Business Unit</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u> | <u>PV Reference #</u> |
|--------------------------------|---|-----------------------------------|----------------------------|-----------------|---------------------------|
| 2020. A95515 | 507040-OM | \$ 1,011,717 | \$ - | \$ 1,011,717 | 539860 |
| 2020. A95515 | 508435-OM | \$ 784,728 | \$ - | \$ 784,728 | 543788 |

This condition was corrected through a proposed audit adjustment.

- e. The following variances exist between amounts encumbered and expectations due to cancellations/deletions made subsequent to year-end:

| <u>Fund/ Business Unit</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u> |
|--------------------------------|---|-----------------------------------|----------------------------|-----------------|
| 2020. H8575B | 509127-OP | \$ 50,320 | \$ 50,120 | \$ 200 |
| 2020. I9605D | 281940-OT | \$ 944 | \$ - | \$ 944 |
| 2020. L7255A | 485009-OM | \$ 7,912 | \$ - | \$ 7,912 |
| 2020. P8600P | 499847-OP | \$ 984 | \$ - | \$ 984 |
| 2020. T96003 | 506141-OC | \$ 79,000 | \$ - | \$ 79,000 |

This condition was corrected through a proposed audit adjustment.

- f. One \$2,960 item (ref. 447091-OA, BU/Acct. #J4067I.63050) did not indicate any activity for more than three years. We were unable to verify if the reserve is still valid at September 30, 2009.

3. Our tests of General Fund encumbrances noted the following:

- a. An aging of the reserve for encumbrances by fiscal year indicates encumbrances totaling \$981,376 have been outstanding for three years or more. We did not evidence review by the Department of Finance of long outstanding encumbrances.
- b. Of twelve General Fund encumbrances tested aggregating \$382,688, the following were noted:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-18, Continued

Condition, Continued:

- i. The obligating/encumbering document for the items below was not provided:

| <u>Fund/Business Unit</u> | <u>Obligating Document Number</u> | <u>Encumbrance Amount</u> |
|---------------------------|-----------------------------------|---------------------------|
| 1010.1011 | 471415-OC | \$ 28,083 |
| 1010.1975 | 277115-OT | \$ 2,168 |
| 1010.1975 | 281987-OT | \$ 1,200 |
| 1012.1812 | 459362-OC | \$ 95,000 |
| 1010.1975 | 275007-OT | \$ 1,742 |

We were unable to verify if these are valid encumbrances at September 30, 2009.

- ii. The following variances exist between amounts encumbered and expectations due to unrecorded expenditure accruals at year-end:

| <u>Fund/Business Unit</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u> | <u>PV Reference #</u> | <u>Unrecorded Expenditure/Liability</u> |
|---------------------------|-----------------------------------|---------------------------|------------------------|-----------------|-----------------------|---|
| 1010.1340 | 505114-OP | \$ 2,465 | \$ - | \$ 2,465 | 548505 | \$ 2,465 |
| 1010.1812 | 459362-OC | \$ 95,000 | \$ 90,038 | \$ 4,962 | 818288 | \$ 4,962 |

- iii. The following variances exist between amounts encumbered and expectations due to cancellations/deletions made subsequent to year-end:

| <u>Fund/Business Unit</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u> |
|---------------------------|-----------------------------------|---------------------------|------------------------|-----------------|
| 1010.1975 | 277115-OT | \$ 2,168 | \$ - | \$ 2,168 |
| 1010.1975 | 275007-OT | \$ 1,742 | \$ - | \$ 1,742 |

- iv. The following General Fund encumbrances did not indicate any activity for three years or more:

| <u>Fund</u> | <u>Business Unit #</u> | <u>General Ledger Account #</u> | <u>Obligating Document</u> | <u>Amount</u> |
|-------------|------------------------|---------------------------------|----------------------------|---------------|
| 1010 | 1290 | 63060 | 461554-OP | \$ 655 |
| 1012 | 1840 | 63080 | 462024-OA | \$ 8,325 |

We were unable to verify if these are valid encumbrances at September 30, 2009.

Cause: The cause of the above condition is the lack of established policies and procedures to monitor recorded reserves for encumbrances and inadequate file maintenance.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-18, Continued

Effect: The effect of the above condition is the potential misstatement of the reserve for encumbrances.

Recommendation: We recommend the Department of Finance ensure that all encumbrances are supported by encumbering documents. Further, we recommend the Department of Finance ensure that encumbrances are updated for actual expenditures. Additionally, we recommend that long outstanding encumbrances and debit balances be examined to ensure validity.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We agree that encumbrance balances need to be reviewed and adjusted and are in the process of reviewing and correcting balances. This will include reconciling advance payment and travel encumbrances with the outstanding advance accounts. For #1 encumbrances are mainly construction contracts many of which were carried over from the old FMS system and it has been difficult physically adjusting the detail. We are upgrading our FMS and this will be one of the items we will be discussing with the vendor. For #2 and #3 many of the details relate to unrecorded liabilities and subsequent cancellations that were corrected through AJEs.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

CNMI Local Noncompliance

Finding No. 2009-19

Criteria: Budgets are a vital tool for establishing public policy and maintaining control over the management of public resources.

Condition: On March 11, 2009, the CNMI passed Public Law 16-32 as the Appropriations and Budget Authority Act for 2009. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2009.

| | Budgeted Level of Expenditures | Actual Expenditures | Over- Expenditure |
|--------------------------------------|--------------------------------------|------------------------|----------------------|
| Executive Branch: | | | |
| Attorney General | \$ 3,337,424 | \$ 3,665,129 | \$ (327,705) |
| Community & Cultural Affairs | \$ 2,131,750 | \$ 2,284,286 | \$ (152,536) |
| Commerce | \$ 845,203 | \$ 978,158 | \$ (132,955) |
| Corrections | \$ 3,337,055 | \$ 3,431,053 | \$ (93,998) |
| Finance | \$ 4,744,424 | \$ 5,228,080 | \$ (483,656) |
| Office of the Governor | \$ 8,890,178 | \$ 9,251,497 | \$ (361,319) |
| Public Health | \$ 32,456,088 | \$ 45,771,499 | \$ (13,315,411) |
| Public Safety | \$ 6,043,569 | \$ 8,247,700 | \$ (2,204,131) |
| Second Senatorial District - Tinian: | | | |
| Dental Services | \$ 142,548 | \$ 167,187 | \$ (24,639) |
| DPS Police | \$ 1,326,288 | \$ 1,378,215 | \$ (51,927) |
| Environmental Health | \$ 68,365 | \$ 71,334 | \$ (2,969) |
| Fish and Wildlife | \$ 98,091 | \$ 114,229 | \$ (16,138) |
| Historic Preservation | \$ 49,805 | \$ 57,797 | \$ (7,992) |
| Office of the Mayor | \$ 3,213,010 | \$ 3,180,532 | \$ (32,478) |
| Parks and Recreation | \$ 103,709 | \$ 116,730 | \$ (13,021) |
| Procurement and Supply | \$ 37,974 | \$ 44,130 | \$ (6,156) |
| Revenue and Taxation | \$ 35,150 | \$ 41,116 | \$ (5,966) |
| Tinian Health Center | \$ 1,369,975 | \$ 1,579,698 | \$ (209,723) |
| First Senatorial District - Rota: | | | |
| Agriculture | \$ 594,217 | \$ 607,124 | \$ (12,907) |
| Customs Service | \$ 133,623 | \$ 179,234 | \$ (45,611) |
| DPS Port and Prop | \$ 311,428 | \$ 363,729 | \$ (52,301) |
| Historic Preservation | \$ 95,839 | \$ 104,187 | \$ (8,348) |
| Labor | \$ 277,317 | \$ 280,267 | \$ (2,950) |
| Land Registration | \$ 117,245 | \$ 136,833 | \$ (19,588) |
| Office of the Mayor Contingency | \$ 68,633 | \$ 74,163 | \$ (5,530) |
| Municipal Council | \$ 243,441 | \$ 282,386 | \$ (38,945) |
| Operations and Maintenance | \$ 666,411 | \$ 712,160 | \$ (45,749) |
| Parks and Recreation | \$ 73,536 | \$ 85,327 | \$ (11,791) |
| Procurement and Supply | \$ 42,025 | \$ 47,910 | \$ (5,885) |
| Revenue and Taxation | \$ 53,548 | \$ 92,533 | \$ (38,985) |
| Rota Health Center | \$ 1,642,653 | \$ 1,856,614 | \$ (213,961) |
| Soil and Water Conservation | \$ 21,887 | \$ 25,000 | \$ (3,113) |
| Sports and Recreation | \$ 213,699 | \$ 248,532 | \$ (34,833) |
| Government Utilities | \$ 994,535 | \$ 5,894,904 | \$ (4,900,369) |
| Independent Programs: | | | |
| Flame Tree Festival | \$ - | \$ 14,200 | \$ (14,200) |
| National Governor's Association | \$ 16,745 | \$ 22,000 | \$ (5,255) |
| Judicial Branch: | | | |
| CNMI Superior Court | \$ 1,831,952 | \$ 2,095,108 | \$ (263,156) |
| CNMI Supreme Court | \$ 814,135 | \$ 837,206 | \$ (23,071) |
| Administrative | \$ 682,252 | \$ 790,418 | \$ (108,166) |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-19, Continued

Condition, Continued:

| | <u>Budgeted Level of Expenditures</u> | <u>Actual Expenditures</u> | <u>Over- Expenditure</u> |
|--|---|--------------------------------|------------------------------|
| Office of the Public Auditor | \$ 1,095,079 | \$ 1,374,695 | \$ (279,616) |
| Third Senatorial District - Saipan: | | | |
| Mayor Contingency Saipan | \$ - | \$ 17,894 | \$ (17,894) |
| Mayor Saipan | \$ 1,411,777 | \$ 1,418,375 | \$ (6,598) |
| Mayor Northern Islands | \$ 270,540 | \$ 280,831 | \$ (10,291) |
| Resident Representative to the United States | \$ 283,124 | \$ 293,845 | \$ (10,721) |
| Boards and Commissions: | | | |
| Civil Service Commission | \$ 183,646 | \$ 215,924 | \$ (32,278) |
| CNMI Election Commission | \$ 295,675 | \$ 318,372 | \$ (22,697) |
| Board/Professional Licensing | \$ 131,302 | \$ 134,147 | \$ (2,845) |
| Education (payment to Public School System): | | | |
| Payments to Public School System | \$ 32,491,764 | \$ 32,559,711 | \$ (67,947) |

Cause: The cause of the above condition is the authorization of expenditures in excess of budget allotments.

Effect: The effect of the above condition is the over-expenditure of amounts in excess of budget allotments.

Recommendation: We recommend that the Department of Finance authorize expenditures only within budgeted allotment levels.

Prior Year Status: Over-expenditures in excess of budget allotments was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Robert A. Schrack, Secretary of Finance and Virginia Villagomez, Special Assistant for Management & Budget

Corrective Action: We agree that a deficit was incurred in FY2009. Personnel austerity measures were incorporated in the budget expenditure level that were not included in the final passage of P.L. 16-32.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No.: 2009-20
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.551 Supplemental Nutrition Assistance Program
 Federal Award No.: 7NM4004NM
 Federal Award Period: 10/01/08 through 09/30/09
 Area: Cash Management
 Questioned Costs: \$-0-

Criteria: The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is seven days.

Condition: The CNMI Division of Supplemental Nutrition Assistance Program received \$8,012,868 in program benefits related to food costs. Of the total, \$7,847,124 was tested. For thirteen of twenty-four food cost samples tested, the following were paid after the allowable clearance pattern:

| <u>Document No.</u> | <u>Amount</u> | <u>Clearance Date</u> | <u>Cash Receipt Date</u> | <u>Days Elapsed After the Allowable Clearance Pattern</u> |
|---------------------|---------------|-----------------------|--------------------------|---|
| 766995 | \$ 566,763 | 12/01/08 | 10/31/08 | 14 |
| 770432 | \$ 528,445 | 02/20/09 | 12/12/08 | 43 |
| 773347 | \$ 593,640 | 01/08/09 | 12/19/08 | 7 |
| 777502 | \$ 472,756 | 03/20/09 | 02/20/09 | 13 |
| 780049 | \$ 496,284 | 04/09/09 | 03/13/09 | 12 |
| 782859 | \$ 517,334 | 05/01/09 | 04/20/09 | 2 |
| 790463 | \$ 487,487 | 07/07/09 | 05/13/09 | 30 |
| 804749 | \$ 526,991 | 07/27/09 | 06/17/09 | 21 |
| 815345 | \$ 822,846 | 09/15/09 | 08/12/09 | 17 |
| 817998 | \$ 188,871 | 10/08/09 | 09/18/09 | 7 |
| 818002 | \$ 697,185 | 10/26/09 | 09/18/09 | 19 |
| 773344 | \$ 74,092 | 02/20/09 | 12/19/08 | 38 |
| 804745 | \$ 140,726 | 07/07/09 | 06/17/09 | 7 |

Cause: The cause of the above condition is a lack of procedures to ensure cash advanced from the grantor agency is disbursed within a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$446 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Agriculture is less than \$10,000.

Recommendation: We recommend that the Department of Finance ensure strict compliance with the clearance pattern as approved and specified in the CMIAA.

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-20, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Federal Award Period: 10/01/08 through 09/30/09
Area: Cash Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2009) shows receivables from Federal agencies of \$7,291,112 for Federal grants as of September 30, 2009.

We will review our procedures with appropriate staff to minimize the timing differences; however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus drawdowns are not considered. The federal agency may not have made payments for other expenditures in the program

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-21
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Federal Award Period: 10/01/08 through 09/30/09
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with Title 7 Section 3016.32 of the Code of Federal Regulations, a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

The CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply (P&S) to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction. Further, P&S shall perform random audits of property held by each accountable person to validate the integrity of the property control process.

Further, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition: The following were noted during our examination of the Division of Supplemental Nutrition Assistance Program (SNAP) and the Division of Procurement and Supply compliance with the above requirements:

- a. Property records maintained by P&S did not have information as to source of the property and who holds title. Further, of five hundred and six items listed, forty-eight items did not have information as to physical location and one hundred eleven items did not have cost information.
- b. Property records maintained by SNAP did not have information as to source of the property and who holds the title. Further, of five hundred four items listed, ninety-one items did not have cost information and one item did not have an acquisition date.
- c. Although an annual inventory was performed, a reconciliation of property records maintained by SNAP and P&S has not been completed. The property records maintained by SNAP are \$12,004 in excess of the amounts maintained by P&S.
- d. Random audits of property held by SNAP to validate the integrity of the property control process were not performed.

We were unable to assess the overall cumulative monetary value of the deficiencies above. However, total capital outlays for fiscal years 2009, 2008 and 2007 were \$47,525, \$12,655 and \$10,272, respectively.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventories of property and equipment and an absence of a reconciliation between the property records maintained by P&S and SNAP.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-21, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Federal Award Period: 10/01/08 through 09/30/09
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Effect: The effect of the above condition is that the CNMI is not in compliance with applicable equipment and real property management requirements.

Recommendation: We recommend that the CNMI ensure compliance with applicable property rules and regulations.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and lack of reconciliation between the property records maintained by P&S and SNAP was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, Administrator

Corrective Action: A physical inventory was completed by P&S on August 2009 and reconciliation of the SNAP physical inventory was performed and completed and updated copy emailed to Deloitte & Touche on May 28, 2010. All records of SNAP physical inventory and P&S inventory master list were reconciled and completed on November 2009.

Proposed Completion Date: Completed

Auditor Response: The updated property and equipment listing provided by SNAP on May 28, 2010 was the one examined in relation to the criteria above. As such, the condition identified above were based on the updated property and equipment listing provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-22
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Federal Award Period: 10/01/08 through 09/30/09
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Criteria: Title 7 Section 3016.60(c) of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that a State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts.

Condition: Of five non-payroll samples tested, one item (ref. PV No. 782560) amounting to \$24,829 was awarded through a contract which included a local geographical preference clause.

Cause: The cause of the above condition is the lack of procedures in place to ensure that all federally funded procurements of goods and services exclude the local bidder preference clause.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and potential restriction on the manner of conducting procurement. No questioned costs result from this finding as the selected vendor's bid was lower than that of the highest rated bidder.

Recommendation: We recommend that the CNMI ensure that contracts funded by federal awards meet compliance with all applicable laws.

Prior Year Status: The lack of procedures to ensure that all federally funded procurement of goods and services exclude the local bidder preference clause was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, Administrator

Corrective Action: As of August 2009, all ITBs and contracts have no local preference clause in them. CNMI P.L 15-19 (CNMI Local Preference Law) is no longer applicable and USDA 7 CFR 277.14(f) and 7CFR 3016.36 have been implemented in all contracts.

Proposed Completion Date: Completed

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-23
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Federal Award Period: 10/01/08 through 09/30/09
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: The Memorandum of Understanding (MOU) between the CNMI and the Food and Nutrition Service under the U.S. Department of Agriculture requires the CNMI Division of Supplemental Nutrition Assistance Program (SNAP) to periodically monitor all retailers participating in the Program to determine compliance with Program Requirements.

Condition: Our tests of compliance visits to retailers indicated that compliance visits were not performed for the quarters ending March 31, 2009, June 30, 2009 and September 30, 2009.

Cause: The cause of the above condition is represented to be an inadequate number of personnel to perform the visits.

Effect: The effect of the above condition is noncompliance with the requirements of the MOU.

Recommendation: We recommend that SNAP comply with the provisions of the MOU.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, Administrator

Corrective Action: The Retail and Redemption Unit (RRU) agrees with the finding that the compliance visits for quarters ended March 31, 2009, June 30, 2009 and September 30, 2009 “High Redeemers” were not performed during the fiscal year. The cause of these conditions is due to inadequate number of personnel to perform these requirements. There are three full-time employees (FTE) assigned to RRU, however, during this fiscal year, one FTE was a CNMI Army Reservist and was activated for deployment to Kuwait which he served for over a period of twelve months. In addition, since the inception of the BICA Unit/CIC Section, at least one RRU staff is assigned to assist during the issuance of the NAP Coupons/ATP checks every month despite inadequate manpower to perform its duties and responsibilities on a timely manner as required.

Proposed Completion Date: RRU have completed the compliance visits for March 31, 2009, June 30, 2009 and September 30, 2009 and compliance visits reports for the said periods were submitted to NAP Administrator including the mailing of the confirmation letters to affected retailers on May 18, 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-24
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award No.: 7NM700NM7
Federal Award Period: 10/01/08 through 09/30/09
Area: Eligibility
Questioned Costs: \$3,167

Criteria: The CNMI Division of Special Supplemental Nutrition Program for Women, Infants, and Children's (WIC) Procedures Manual requires that participants must be informed of their rights and obligations and documentation of such must be performed at each certification.

Condition: Our tests of fifty participants indicated that rights and obligations documentation was not prepared for three participants (WIC ID Nos. 10010003564, 10010004171 and 10010004738).

Cause: The cause of the above condition is lack of controls over the eligibility process.

Effect: The effect of the above condition is noncompliance with eligibility requirements and the possible use of federal funds for ineligible individuals and questioned costs of \$3,167 since the projected costs exceeded \$10,000.

Recommendation: We recommend that WIC strengthen record keeping controls to ensure that case files supporting eligibility determination are completely maintained.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Erin Angela Camacho, RD, CLC, Program Administrator, CNMI WIC Program

Corrective Action: The CNMI WIC clinic has established better filing procedures to keep certification paperwork from being lost. Rights and Obligations forms are now stapled to the check issuance signature sheet, and secured in a daily file with metal tabs. This has minimized misfiled and lost paperwork since it was implemented in January of 2010. Staff have been trained and reminded that the rights and obligations paperwork must be signed at every certification appointment. This has been addressed in clinic staff meeting trainings. In October of 2008 the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government. To date the CNMI WIC Program has hired a Quality Assurance Coordinator he has been onboard as of February 2010. As recommended by the CNMI WIC's most recent USDA STAR onsite review that took place April 26th to the 30th steps are being taken to ensure that the Quality Assurance Coordinator receives the proper training in all aspects of Monitoring and Evaluation. What is suggested by the Clinic Manager is to have the CNMI WIC Quality Assurance Coordinator do random Audits on Participant files on a Quarterly basis to insure that the CNMI WIC Clinic meets this requirement.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-25
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award No.: 7NM700NM7
Federal Award Period: 10/01/08 through 09/30/09
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with Title 7 Section 3016.32 of the Code of Federal Regulations, a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

The CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply (P&S) to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction. Further, P&S shall perform random audits of property held by each accountable person to validate the integrity of the property control process.

Further, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition: The following were noted during our examination of the CNMI Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and Division of Procurement and Supply (P&S) compliance with the above requirements:

- WIC's property listing is not reconciled with the P&S's records.
- P&S maintained records of equipment and property held by WIC, which includes equipment and property purchased by WIC since 2006 with a total cost of \$185,023. However, the property records did not include information as to the source of the property and percentage of federal participation. Further, of one hundred fifty-seven items of property and equipment listed as of September 30, 2009, fifty items did not have cost information.
- The P&S listing as of September 30, 2009 indicated a total of one hundred fifty-seven fixed asset items compared to WIC's listing of one hundred ninety-two fixed asset items as of September 30, 2009.
- A physical inventory of equipment and property has not been performed since the WIC program started.

We are unable to assess the overall cumulative monetary value of the deficiencies above. However, total capital outlay for fiscal years 2009, 2008 and 2007 were \$20,252, \$107,331 and \$57,440, respectively.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-25, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award No.: 7NM700NM7
Federal Award Period: 10/01/08 through 09/30/09
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to reconcile property records.

Effect: The effect of the above condition is that the CNMI is not in compliance with applicable equipment and real property management requirements.

Recommendation: We recommend that the CNMI ensure compliance with applicable property rules and regulations.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to maintain property records was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Imelda Benavente, WIC Financial Manager and Irene Sigrah, WIC Administrative Assistant

Corrective Action: WIC is in the process of updating and reconciling its property records with DOF-P&S. WIC has also since obtained a copy of the CNMI Property Management Policies and Procedures to use as its guidance for the management and accountability of all property under WIC's possession. WIC will ensure that it comply with the CNMI Property Management Policies and Procedures.

Proposed Completion Date: August 31, 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-26
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award No.: 7NM700NM7
Federal Award Period: 10/01/08 through 09/30/09
Area: Procurement and Suspension and Debarment
Questioned Costs: \$2,500

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

The CNMI Procurement Regulations Section 3-105 states the following:

- 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.
- Bidding is not required for procurements under \$2,500.
- Bidding is also 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 Director for approval.

Condition: Of nine non-payroll Nutrition Services and Administration costs tested aggregating \$132,720, there is no indication that price or rate quotations were obtained from an adequate number of qualified sources which qualify under small purchase procedures for the following item:

| <u>Document Type</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>Expenditure Tested</u> |
|----------------------|---------------------|----------------------------|---------------------------|
| PV | 762025 | 10/07/08 | \$ 2,500 |

Cause: The cause of the above condition is the failure to enforce adherence to established procurement regulations and the absence of competitive procurement for items less than \$2,500.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$2,500 since the projected costs exceeded \$10,000.

Recommendation: We recommend that the Program comply with federal procurement regulations related to small purchase procedures.

Prior Year Status: The lack of policies and procedures within the requesting departments to ensure compliance with local and federal procurement regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-26, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award No.: 7NM700NM7
Federal Award Period: 10/01/08 through 09/30/09
Area: Procurement and Suspension and Debarment
Questioned Costs: \$2,500

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Imelda Benavente, WIC Financial Manager and Irene Sigrah, WIC Administrative Assistant

Corrective Action: The expenditure cited for lack of documentation to indicate compliance with the three price quotation requirement involves purchases made under an open purchase order for an office supply vendor. To comply with the three price quotation requirement, WIC will begin documenting that it has obtained three price quotations from other office supply vendors prior to making a purchase for office supplies under an open purchase order.

Attached is WIC's Desk Manual revised on June 2009 which includes a provision that requires three price quotations to be attached to every purchase request (\$10,000 and under), no exceptions.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
 Federal Award No.: 7NM700NM7
 Federal Award Period: 10/01/08 through 09/30/09
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with 7 CFR section 246.25(b), a State Agency is required to submit monthly financial and program performance (participation) data. Further, State Agencies prepare the FNS-798A annually to report: (1) Nutrition Services and Administration (NSA) expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. Further, total outlays reported to the grantor should correspond to amounts recorded per the general ledger.

Condition: Based on our examination of the CNMI Special Supplemental Nutrition Program for Women, Infants, and Children's (WIC) FNS-798A, the following differences were noted:

| | <u>Per FNS-798A</u> | <u>Per General Ledger</u> | <u>Difference</u> |
|------------|---------------------|---------------------------|---------------------|
| Food costs | \$ 3,191,428 | \$ 3,236,191 | \$ (44,763) |
| NSA costs | <u>1,115,637</u> | <u>1,173,360</u> | <u>(57,723)</u> |
| Total | \$ <u>4,307,065</u> | \$ <u>4,409,551</u> | \$ <u>(102,486)</u> |

Cause: The cause of the above condition is that the amounts reflected on the FNS-798A for the fiscal year ended September 30, 2009 did not reflect actual expenditures due to possible cut-off errors.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No questioned costs result from the condition as funds drawn down correspond with recorded expenditures.

Recommendation: We recommend that WIC ensure that information reported to the grantor reconciles to financial records.

Prior Year Status: Noncompliance with grant reporting requirements was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Imelda Benavente, WIC Financial Manager and Irene Sigrah, WIC Administrative Assistant

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-27, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award No.: 7NM700NM7
Federal Award Period: 10/01/08 through 09/30/09
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: WIC will work closely with DOF - Federal Grants Section to ensure that information reported to the grantor agency agrees with DOF financial records. Any discrepancies between WIC and DOF records will be communicated and resolved with DOF on a monthly basis.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-28
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Award No.: 7NM700NM7
Federal Award Period: 10/01/08 through 09/30/09
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: In accordance with applicable special tests and provision requirements, the State agency shall establish an on-going management evaluation system which includes at least monitoring of local agency operations, review of local agency financial and participation reports, development of corrective action plans to resolve Program deficiencies, monitoring of the implementation of corrective action plans, and on-site visits. The results of such actions shall be documented.

Condition: The CNMI Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) has not established a management evaluation system during fiscal year 2009.

Cause: The cause of the above condition is the lack of adherence to the State Plan.

Effect: The effect of the above condition is noncompliance with applicable special tests and provision requirements and the Program's State Plan.

Recommendation: We recommend that WIC establish its management evaluation system in accordance with the applicable special tests and provision requirements and the State Plan.

Prior Year Status: The lack of adherence to applicable special tests and provision requirements and the State Plan was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Erin Angela Camacho, RD, CLC, Program Administrator, CNMI WIC Program

Corrective Action: In October of 2008 the Program received approval from FNS for FY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government. To date, the CNMI WIC Program has hired a Quality Assurance Coordinator who has been onboard as of February 2010. As recommended by the CNMI WIC's most recent USDA STAR onsite review that took place April 26th to the 30th, steps are being taken to ensure that the Quality Assurance Coordinator receives the proper training that would enable him to establish an ongoing management evaluation system which will include monitoring of state run clinic site, operations, review of state run clinic financial and participation reports, development of corrective action plans to resolve program deficiencies if identified, monitoring of the implementation of corrective action plans.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-29
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Fiscal Year 2009 Compact Impact
Federal Award No.: CNMI-CI-2009-1
Federal Award Period: 01/07/09 through 09/30/13
Area: Allowable Costs/Cost Principles
Questioned Costs: \$2,081

Criteria: Expenditures and disbursements should be supported by certified accounts payable vouchers, invoices and other relevant documents.

Condition: Of fifteen non-payroll expenditures tested aggregating \$128,522, we noted the following:

1. For one item, the expenditure did not agree to supporting invoices as follows:

| <u>Business Unit</u> | <u>APV #</u> | <u>GL Amount</u> | <u>Federal Share</u> |
|----------------------|--------------|------------------|----------------------|
| 1350 | 525985 PV | \$ 2,834 | \$ 1,729 |

2. For one travel expenditure, the trip report was not provided as follows:

| <u>Business Unit</u> | <u>APV #</u> | <u>GL Amount</u> | <u>Federal Share</u> |
|----------------------|--------------|------------------|----------------------|
| 1335 | 533177 PV | \$ 2,937 | \$ 352 |

Cause: The cause of the above condition is the lack of expenditure verification.

Effect: The effect of the above condition is questioned costs of \$2,081 since the projected questioned costs exceeded \$10,000.

Recommendation: We recommend that the CNMI Department of Finance ensure that all expenditures and disbursements are supported by invoices, checks, contracts and other relevant documents.

Prior Year Status: Lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We will review specific documents noted, however reimbursement of costs was done on a lump sum basis not for specific individual expenditures. For #1, this particular payment was noted as a partial payment so the full invoice was probably attached with partial payment noted. For #2 we will follow up on trip report.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-30
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Fiscal Year 2009 Compact Impact
Federal Award No.: CNMI-CI-2009-1
Federal Award Period: 01/07/09 through 09/30/13
Area: Allowable Costs/Cost Principles
Questioned Costs: \$9,702

Criteria: Payroll charges should be supported by authorized personnel action forms and timesheets or equivalent.

Condition: Of thirty-one payroll expenditure aggregating \$168,015 that was reimbursed by the DOI Compact Impact Grant, we noted that an authorized timesheet or equivalent was not provided for one employee (#480993; PPE 01/17/09; federal share of gross pay \$9,702) and that the pay rate did not agree to the supporting personnel action form.

Cause: The cause of the above condition is the lack of systematic filing of timesheets or equivalent documents supporting time charges and failure to update pay rates in the payroll system on a timely basis.

Effect: The effect of the above condition is questioned costs of \$9,702 since the projected questioned costs exceeded \$10,000.

Recommendation: We recommend that all recorded payroll expenditures and disbursements are supported by timesheets or equivalent documentation and that changes to pay rates be updated in the payroll system on a timely basis.

Prior Year Status: The lack of systematic filing of personnel action forms and timesheets was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We will review specific document noted, however reimbursement was done on a lump sum basis not for specific individual expenditures. It appears this doctor was normally stationed on Tinian and was reimbursed for work done on Saipan outside his normal working hours.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-31
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2009 Compact Impact
 Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1
 Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13
 Area: Cash Management
 Questioned Costs: \$-0-

Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee for selected major programs. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The approved clearance pattern is three days.

Condition: Of seventy-one CIP samples tested, fifty-one items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's Account. Details are as follows:

| <u>APV #</u> | <u>Amount</u> | <u>Business Unit</u> | <u>CR Date</u> | <u>Date Check Cleared</u> | <u>Elapsed</u> |
|--------------|---------------|----------------------|----------------|---------------------------|----------------|
| 762162 | \$ 82,623 | 5152 | 10/23/08 | 01/13/09 | 55 |
| 762896 | \$ 42,000 | 5228 | 10/23/08 | 12/04/08 | 27 |
| 762902 | \$ 175,432 | 5618 | 10/23/08 | 12/19/08 | 38 |
| 762902 | \$ 132,546 | 5626 | 10/23/08 | 12/19/08 | 38 |
| 762903 | \$ 52,987 | 5626 | 10/23/08 | 10/28/09 | 239 |
| 763613 | \$ 35,153 | 5154 | 10/31/08 | 01/09/09 | 45 |
| 763898 | \$ 233,579 | 5615 | 10/31/08 | 12/01/08 | 18 |
| 764492 | \$ 30,013 | 5222 | 11/05/08 | 12/01/08 | 15 |
| 765291 | \$ 356,324 | 5615 | 11/21/08 | 02/12/09 | 64 |
| 765744 | \$ 81,420 | 5602 | 12/12/08 | 12/18/08 | 1 |
| 766778 | \$ 74,718 | 5238 | 11/28/08 | 12/12/09 | 223 |
| 767047 | \$ 16,574 | 5175 | 12/05/08 | 01/26/09 | 33 |
| 767048 | \$ 176,750 | 5626 | 11/28/08 | 12/19/08 | 12 |
| 768484 | \$ 25,517 | 5615 | 12/15/08 | 01/06/09 | 13 |
| 768587 | \$ 42,466 | 5615 | 12/15/08 | 02/05/09 | 37 |
| 769459 | \$ 62,760 | 5222 | 12/23/08 | 01/30/09 | 25 |
| 770361 | \$ 37,788 | 5218 | 12/31/08 | 02/11/09 | 27 |
| 770364 | \$ 43,975 | 5220 | 10/15/07 | 02/05/09 | 340 |
| 770365 | \$ 89,954 | 5626 | 12/31/08 | 02/11/09 | 27 |
| 770367 | \$ 81,422 | 5602 | 12/31/08 | 01/30/09 | 19 |
| 771217 | \$ 25,133 | 5605 | 01/08/09 | 01/26/09 | 9 |
| 771868 | \$ 40,000 | 5237 | 01/14/09 | 02/11/09 | 17 |
| 772001 | \$ 152,010 | 5612 | 01/14/09 | 01/20/09 | 1 |
| 772433 | \$ 69,218 | 5626 | 01/20/09 | 02/17/09 | 17 |
| 772755 | \$ 16,200 | 5228 | 04/03/09 | 05/21/09 | 31 |
| 774166 | \$ 5,226 | 5615 | 02/17/09 | 09/30/09 | 158 |
| 774373 | \$ 29,043 | 5626 | 02/17/09 | 03/03/09 | 7 |
| 774874 | \$ 38,133 | 5433 | 03/02/09 | 03/11/09 | 4 |
| 774880 | \$ 54,398 | 5626 | 02/24/09 | 03/04/09 | 3 |
| 774884 | \$ 102,218 | 5615 | 03/02/09 | 04/28/09 | 38 |
| 776151 | \$ 779 | 5222 | 03/16/09 | 04/20/09 | 22 |
| 776904 | \$ 24,803 | 5615 | 03/20/09 | 09/30/09 | 135 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-31, Continued
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2009 Compact Impact
 Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1
 Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13
 Area: Cash Management
 Questioned Costs: \$-0-

Condition, Continued:

| <u>APV #</u> | <u>Amount</u> | <u>Business Unit</u> | <u>CR Date</u> | <u>Date Check Cleared</u> | <u>Elapsed</u> |
|--------------|---------------|----------------------|----------------|---------------------------|----------------|
| 776947 | \$ 51,088 | 5222 | 03/16/09 | 03/27/09 | 6 |
| 776948 | \$ 55,879 | 5239 | 03/23/09 | 04/10/09 | 11 |
| 776950 | \$ 145,091 | 5626 | 03/16/09 | 04/22/09 | 24 |
| 776970 | \$ 13,200 | 5615 | 03/20/09 | 04/20/09 | 18 |
| 777299 | \$ 62,462 | 5626 | 03/24/09 | 04/22/09 | 18 |
| 779086 | \$ 6,225 | 5626 | 04/16/09 | 06/29/09 | 49 |
| 779363 | \$ 25,133 | 5605 | 05/19/09 | 06/02/09 | 7 |
| 780327 | \$ 98,047 | 5626 | 05/04/09 | 05/15/09 | 6 |
| 781466 | \$ 18,129 | 5210 | 05/11/09 | 09/30/09 | 99 |
| 782165 | \$ 2,423 | 5617 | 05/19/09 | 07/02/09 | 29 |
| 782547 | \$ 152,010 | 5612 | 06/30/09 | 07/06/09 | 1 |
| 784001 | \$ 19,774 | 5222 | 06/09/09 | 06/17/09 | 3 |
| 784001 | \$ 75,058 | 5605 | 06/09/09 | 06/17/09 | 3 |
| 790225 | \$ 84,000 | 5228 | 06/18/09 | 07/03/09 | 8 |
| 795145 | \$ 64,620 | 5626 | 06/30/09 | 07/13/09 | 6 |
| 795322 | \$ 215,725 | 5626 | 06/30/09 | 08/25/09 | 37 |
| 803503 | \$ 25,133 | 5175 | 07/20/09 | 08/31/09 | 27 |
| 804209 | \$ 27,000 | 5626 | 07/21/09 | 08/17/09 | 16 |
| 810316 | \$ 63,197 | 5626 | 09/11/09 | 10/01/09 | 9 |

Additionally, of the \$5,171,914 drawn related to the 2008 Compact Impact grant, the following items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's account:

| <u>Document Ref. #</u> | <u>Amount</u> | <u>Business Unit</u> | <u>CR Date</u> | <u>Date Check/ Payment Cleared</u> | <u>Elapsed</u> |
|------------------------|---------------|----------------------|----------------|--|----------------|
| PP #10/2009 | \$ 1,055,000 | I09CIG | 01/30/09 | 05/08/09 | 67 |
| PP #10/2009 | \$ 43,024 | I09CIG | 04/08/09 | 05/08/09 | 19 |
| JT09-4228 PSS | \$ 215,451 | I09CIG | 04/08/09 | 05/21/09 | 28 |
| JT09-4312 PSS | \$ 269,025 | I09CIG | 04/08/09 | 08/04/09 | 81 |
| JT09-4343 PSS | \$ 15,995 | I09CIG | 07/28/09 | 08/28/09 | 20 |
| PV 544772/PN 22099181 | \$ 89,675 | I09CIG | 07/28/09 | 09/16/09 | 33 |
| Unpaid | \$ 421,830 | I09CIG | 07/28/09 | 09/30/09 | 43 |
| JT09-4123 NMC | \$ 165,000 | I09CIH | 01/30/09 | 02/27/09 | 17 |
| PV 540830/PN 22099167 | \$ 82,500 | I09CIH | 04/08/09 | 08/13/09 | 88 |
| PV 540830 | \$ 82,500 | I09CIH | 07/28/09 | 08/13/09 | 9 |

Interest for APVs not paid or with checks outstanding was calculated to September 30, 2009. The number of days elapsed is in excess of the clearance pattern of 3 days stipulated in the CNMI Treasury State Agreement.

The results of cash management tests indicated that the terms stipulated in the Cash Management Improvement Act are not being followed.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-31, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects and Fiscal Year 2009 Compact Impact
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1
Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13
Area: Cash Management
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of procedures to ensure cash advanced from the grantor agency is disbursed within a timely manner and in accordance with the requirements of the CMIAA.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$675 exists. However, no questioned costs result as the interest liability to the U.S. Department of the Interior is below \$10,000.

Recommendation: We recommend that the Department of Finance ensure compliance with the clearance pattern specified in the CMIAA.

Prior Year Status: The lack of compliance with grant requirements relating to cash management was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2009) shows receivables from Federal agencies of \$7,291,112 for Federal grants as of September 30, 2009.

We will review our procedures with appropriate staff to minimize the timing differences; however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program

For this finding, the invoices selected all relate to large construction projects where substantial payments are due to the vendor. In several cases the payment was a final contract payment and was not released until the vendor obtained a tax clearance. We also noted that the long outstanding payments were issued shortly after the cash receipt date but did not clear the bank for lengthy periods. Many of the payments selected also include a local share that must be drawn down from our bond trustees. DOI has instructed us not to release the Federal portion of the payment until the local matching bond draw down is received. Advance payment in these cases would disrupt our cash flow for normal payments and payroll. We try to time our disbursement to receipt of the Federal and bond drawdown cash but do wait for the cash to be deposited in the CIP drawdown account before releasing the check

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-31, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects and Fiscal Year 2009 Compact Impact
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1
Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13
Area: Cash Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The section on Compact Impact grant funding should be deleted as funds were received on a reimbursement basis and transferred to PSS and NMC during FY2009.

Proposed Completion Date: Ongoing

Auditor Response: Compact impact funds received were transferred to PSS and NMC after the allowable clearance pattern from the date federal funds were credited to the CNMI's account. Interest liability relating to PSS and NMC transfers were calculated based on the number of days elapsed in excess of the clearance pattern of three days stipulated in the CMIAA.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-32
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2009 Compact Impact
 Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1
 Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

Criteria: Federal regulations provide that procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.

In addition, the CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply (P&S) to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction.

Condition: The Capital Improvements Project (CIP) Office does not maintain complete property listings of equipment and property acquired with DOI grant funds. Property records maintained by the P&S are by agencies/departments; however, P&S is unable to provide records of property and equipment acquired from DOI grant funds. Property and equipment acquisitions from DOI grant funds for the last three years are as follows:

| <u>Account #</u> | <u>Equipment and Property Category</u> | <u>FY 2009</u> | <u>FY 2008</u> | <u>FY 2007</u> |
|------------------|--|-------------------|-------------------|-------------------|
| 64080 | Machinery, tools and equipment | \$ - | \$ 73,480 | \$ 77,520 |
| 64090 | Computer system and equipment | 4,980 | - | 468 |
| 64541 | Medical equipment | 210,569 | - | - |
| 64570 | Office furniture and fixtures | <u>119,376</u> | <u>144,484</u> | <u>258,131</u> |
| | | \$ <u>334,925</u> | \$ <u>217,964</u> | \$ <u>336,119</u> |

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding maintenance of property records.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-32, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects and Fiscal Year 2009 Compact Impact
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1
Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Effect: The effect of the above condition is that the CNMI is not in compliance with federal property standards. No questioned costs result from this finding due to our inability to assess the dollar amount of property and equipment acquired with DOI grant funds.

Recommendation: We recommend that the Program maintain records of property and equipment acquired with grant funds and ensure compliance with applicable federal and local rules and regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of Capital Improvement, Office of the Governor

Corrective Action: The equipment and real property management is being maintained by the CIP Office specifically for those equipment purchased by the CIP Office for the program. The CIP Administrator will ensure that an annual physical inventory is conducted by the assigned personnel to ensure that property is intact for the program including an improvement in the areas of internal control affecting disposition of property purchased. The next physical inventory will be conducted on September 30, 2010.

Proposed Completion Date: September 30, 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-33
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$120,397

Criteria: Grant Number CNMI-CIP -2001 (GR100011) requires that federal funds be matched by local funds at 50%.

Condition: In analyzing the CNMI's accounting records and related Capital Improvement Projects (CIP) financial reports for one project (business unit #5241), we noted improper cost allocations. The 2009 Federal share of expenditures is \$241,113 representing 99.9 % of total expenditures of \$241,432. Per recalculation, 50% of the total charged for this project is \$120,716 resulting in an excess of the federal share allowed by \$120,397. Reconciliation and justification of the differences in the matching ratio were not available.

Cause: The cause of the above condition is improper allocation of federal and local shares.

Effect: The effect of the above condition is a lack of compliance with grant matching requirements. This condition may also have cash management implications. As the federal share is higher than allowed, the excess of \$120,397 is questioned.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure compliance with matching criteria.

Prior Year Status: Improper allocation of federal and local shares when preparing CIP financial reports was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of Capital Improvement, Office of the Governor

Corrective Action: The improper cost allocations were noted; however, the expenditures incurred were to liquidate the federal share first prior to the grant expiration on September 30, 2009, resulting in a greater cost allocation on the first payment made with the federal share. The grantor had no objections and the drawdown was approved. Subsequent payments were directly drawn from the local share. Final cost allocation for BU 5241 is 45/55 instead of 99.9%. The CIP Administrator will ensure that cost allocations are followed prior to making the final payment on the project.

Proposed Completion Date: Immediately

Auditor Response: At September 30, 2009, the matching requirements were not met. Further, relevant supporting documentation evidencing grantor's approval to liquidate federal share first was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-34
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act
 Federal Award Period: Available Until Expended
 Area: Period of Availability
 Questioned Costs: \$-0-

Criteria: Projects should be completed within allowable time frames.

Condition: Of eight grant awards tested, expenditures for three projects were incurred after the grant expiration date for the following:

| <u>Business Unit</u> | <u>Grant Award Ref.</u> | <u>Grant Expiration</u> | <u>Expenditure Incurred After Allowable Time Frame</u> |
|----------------------|-------------------------|-------------------------|--|
| 4980 | CIP-CNMI-2005-2 (1994) | 01/01/08 | \$ 10,533 |
| 5009 | CIP-CNMI-2005-2 (1994) | 01/01/08 | 240 |
| 5426 | INIT-2005-2 | 07/01/06 | <u>12,008</u> |
| | | | \$ <u>22,781</u> |

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that expenditures incurred beyond the period of availability are not recorded under federal accounts.

Effect: The effect of the above condition is the lack of compliance with period of availability requirements. The \$22,781 is not questioned as no drawdown of federal funds for the above occurred items.

Recommendation: We recommend that the CNMI ensure compliance with period of availability requirements.

Prior Year Status: The failure to provide grantor approval for project extensions was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of Capital Improvement, Office of the Governor

Corrective Action: We agree with the finding and internal controls have been established to ensure no transactions are entered after the grant expiration. A journal entry is necessary to transfer expenses incurred to the local share under business units (BU) 4980 and 5009. For BU 5426, the Office of the Attorney General should initiate a journal entry to charge their local BU 1170 removing the expenses incurred after the grant expiration date. A letter will be sent out informing the Department of Finance and the affected agencies of the required journal entries that needs to be processed. The CIP Administrator has included the grant expiration date when a request to establish a business unit is submitted to the Department of Finance. The Department of Finance enters the expiration date of the grant to ensure that no expenditures will be incurred after the grant expires.

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-35
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
 Fiscal Year 2009 Compact Impact
 Federal Award Nos.: CNMI-CI-2009-1
 Federal Award Periods: 01/07/09 through 09/30/13
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$42,253

Criteria: 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.
- When special circumstances require the expedited procurement of goods or services, the expedited procurement shall be as competitive as possible under the circumstances.
- Bidding is not required for procurement under \$2,500
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The official with expenditure authority must obtain price quotations from at least three vendors and base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations obtained must be written, documented, and submitted to the P&S Director for approval.

Condition: Of fifteen nonpayroll expenditures tested, aggregating \$128,522, the following were noted:

1. Price quotations were not obtained for the following items which qualify under small purchase procedures:

| <u>Obligating Document #</u> | <u>Purchase Order Amount</u> | <u>APV #</u> | <u>BU</u> | <u>General Ledger Date</u> | <u>Expenditure Tested</u> | <u>Questioned Costs</u> |
|------------------------------|------------------------------|--------------|-----------|----------------------------|---------------------------|-------------------------|
| 498448 OP | \$ 2,500 | 524927 PV | 1350 | 02/04/09 | \$ 77 | \$ 47 |
| 495628 OP | \$ 2,500 | 520857 PV | 1350 | 12/15/08 | \$ 2,495 | 1,522 |
| 500618 OP | \$ 2,500 | 540188 PV | 1350 | 08/11/09 | \$ 80 | 49 |
| 498526 OP | \$ 10,000 | 525985 PV | 1350 | 02/17/09 | \$ 2,834 | <u>1,729</u> |
| | | | | | | \$ <u>3,347</u> |

2. There was no evidence that price quotations were obtained from an adequate number of qualified sources and supporting travel authorizations were not provided for the following:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-35, Continued
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
 Fiscal Year 2009 Compact Impact
 Federal Award Nos.: CNMI-CI-2009-1
 Federal Award Periods: 01/07/09 through 09/30/13
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$42,253

Condition, Continued:

| <u>Obligating Document #</u> | <u>APV #</u> | <u>BU</u> | <u>General Ledger Date</u> | <u>Expenditure Tested</u> | <u>Questioned Costs</u> |
|------------------------------|--------------|-----------|----------------------------|---------------------------|-------------------------|
| 275681 OT | 772772 PV | 1807 | 01/16/09 | \$ 2,742 | \$ 2,742 |
| 278966 OT | 781454 PV | 1807 | 04/29/09 | \$ 7,600 | 7,600 |
| 279579 OT | 790362 PV | 1807 | 06/15/09 | \$ 5,650 | 5,650 |
| 281373 OT | 808633 PV | 1807 | 08/12/09 | \$ 9,992 | 9,992 |
| 282133 OT | 814480 PV | 1807 | 09/29/09 | \$ 9,948 | 9,948 |
| 279534 OT | 781712 PV | 1807 | 05/01/09 | \$ 2,621 | 2,621 |
| 279747 OT | 533177 PV | 1335 | 05/11/09 | \$ 2,937 | <u>353</u> |
| | | | | | <u>\$ 38,906</u> |

3. One item (Document No. 496034 OP amounting to \$42,409) was procured using expedited procurement. Although justification was provided for the method utilized, the procurement could have been subjected to competitive bidding if proper planning was performed for the related activity/program. No questioned costs arise from this finding since competitive procurement was used despite the lack of formal sealed bidding procedures.

Cause: The cause of the above condition is the failure to enforce adherence to established CNMI procurement regulations and the absence of competitive procurement for items less than \$2,500.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$42,253.

Recommendation: We recommend that the CNMI comply with federal procurement regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman Sablan, Director of Procurement & Supply

Corrective Action: For #1 and #2 we disagree with the findings and questioned costs regarding small purchases and travel. See response to 2009-54. For #3, we will review the procurement to see if general guidelines can be implemented.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-35, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Fiscal Year 2009 Compact Impact
Federal Award Nos.: CNMI-CI-2009-1
Federal Award Periods: 01/07/09 through 09/30/13
Area: Procurement and Suspension and Debarment
Questioned Costs: \$42,253

Auditor Response: Grantees and subgrantees may use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal laws and regulations. We believe that the matter should be specifically addressed in writing with the funding agency and approval should be sought in writing authorizing the practice.

Federal regulations require that procurement transactions be conducted in a manner providing full and open competition. This does not exclude transactions relating to airfares. Since multiple airlines service the CNMI and since multiple travel agents do business within the CNMI, it is incumbent on the CNMI to ensure that travel is undertaken at the lowest reasonable fare. Even though 2 airlines service the CNMI, multiple airlines provide service after reaching Hawaii or other destinations. Procurement procedures relating to travel expenses should be addressed by the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-36
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$288,306

Criteria: Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.

Condition: Of twenty-eight contracts tested, we noted the following:

1. Relevant procurement documents (bid summary, bids received, bid evaluation, etc.) for two contracts were not provided. Details are as follows:

| <u>Contract Reference #</u> | <u>Business Unit</u> | <u>FY 2009 Federal Expenditures</u> |
|-----------------------------|----------------------|-------------------------------------|
| 384-OS | 5175 | \$ 36,973 |
| 481-OS | 5175 | 70,221 |
| | 5222 | 14,398 |
| | 5605 | 164,752 |
| | 5617 | <u>1,962</u> |
| | | \$ <u>288,306</u> |

Cause: The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.

Effect: The effect of the above condition is incomplete procurement files and questioned costs of \$288,306.

Recommendation: We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.

Prior Year Status: The lack of proper and systematic filing of relevant documents supporting procurement was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Herman Sablan, Director of Procurement & Supply and Pedro Sasamoto, Water Task Force Program Manager

Corrective Action: Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. Procurement should have all pertinent documents in file. We are in the process of developing a checklist to be reviewed on contract completion to insure all related documents are included.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-37
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$18,129

Criteria: In accordance with Section 3-106 (2) of the CNMI Procurement Regulations, a written justification for sole source procurement shall be prepared by the official with expenditure authority. The written sole source justification shall contain the following: a) the specific unique capabilities of the contractor selected; b) the specific reasons why such unique capabilities are required for the particular procurement; c) what specific efforts were made to obtain competition and d) what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. Moreover, generalized statements are not adequate and documents to support the statements justifying the sole source procurement are mandatory.

Condition: Of twenty-eight contracts tested, Contract No. 440-OS was procured using sole source procurement. It was noted that this was originally supposed to be a change order for Contract No. 415 OS but since it exceeded the 25% limit for change orders, a new contract had to be issued. As a condition for approval of the emergency procurement, the Department of Health was supposed to use the "detailed scope of work" in their 04/09/07 memo to solicit quotes from three other vendors who originally competed for the work on Contract No. 415 OS. We were not provided the 04/09/07 memo for scope of work and the quotes from the three other vendors. The related fiscal year 2009 costs of \$18,129 (BU 5210) are questioned.

Cause: The cause of the above condition is failure to comply with Sec. 3-106 of the CNMI Procurement Regulations.

Effect: The effect of the above condition is the lack of compliance with Section 3-106 of the CNMI Procurement Regulation and questioned costs of \$18,129.

Recommendation: We recommend that the CNMI adhere to established Procurement Regulations.

Prior Year Status: Failure to comply with Sec. 3-106 of the CNMI Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2006 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Joseph M. Inos, Jr., Director of TSD/DPW

Corrective Action: The sole source procurement used on this particular project was made in accordance with P&S regulations. We will work closely with P&S to guide us in every project issues; and on a case-by-case basis, we request for sole source depending on the situation and what is to the best interest of the CNMI government. Sole source justifications will require consideration of whether competition was available and other contractors existed who could do this job.

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-38
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act
 Federal Award Period: Available Until Expended
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$865,713

Criteria: In accordance with Section 3-103(5) of the CNMI Procurement Regulations, the request for proposals shall state the relative importance of price and other evaluation factors. Price or cost to the government shall be included as an evaluation factor in every solicitation of proposals. The P&S Director must ensure that the above requirements are complied with in any evaluation of proposals. The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (43 CFR Section 12.76(d)(3)(iv(v))) stipulates “that awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; andthe method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort”.

Condition: Of twenty-eight contracts tested, three contracts did not include cost as an evaluating factor in evaluating proposals submitted as follows:

| <u>Contract Reference #</u> | <u>Business Unit</u> | <u>FY 2009 Federal Expenditures</u> |
|-----------------------------|----------------------|-------------------------------------|
| 465-OS | 5222 | \$ 11,429 |
| | 5617 | 18,449 |
| 436-OS | 5618 | 175,432 |
| | 5626 | 614,974 |
| 372-OS | 5218 | 45,429 |
| | | <u>\$ 865,713</u> |

Cause: The cause of the above condition is failure to include cost as an evaluating factor.

Effect: The effect of the above condition is the lack of compliance with Section 3-103(5) of the CNMI Procurement Regulation and questioned costs of \$865,713.

Recommendation: We recommend that the CNMI review evaluating factors to ensure inclusion of cost.

Prior Year Status: The failure to include cost as an evaluating factor was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-38, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$865,713

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Joseph M. Inos, Jr., Director of TSD/DPW

Corrective Action: Every evaluation committees' decision will be reviewed and will be required to demonstrate the effect of the cost factor in its decision. In Contract 372-OS (DPW04-RFP-015) while cost is stated as a factor in the RFP, there is no evidence of what effect it had on the evaluation committee's decision.

Proposed Completion Date: Completed

Name of Contact Person: Pedro Sasamoto, WTF Program Manager

Corrective Action: Contract 436-OS is for Leak Detection and Repairs of existing waterlines. In leak detection and repairs, the location and condition of the existing waterline can only be determined after a leak is pinpointed and excavated, only then can the repair method and cost be determined. Consequently, the RFP addressed cost in two parts: one for the provision of technical services after the initial selection, and the second to negotiate a Schedule of Values of materials. This approach was done in consultation with Procurement and Supply in accordance with Section 3-103(5)(d). Price will be included in the next Leak Detection and Repairs solicitation.

Proposed Completion Date: Immediately

Name of Contact Person: Mr. Joseph M. Inos, Jr., Director of TSD/DPW

Corrective Action: The procurement used on this particular project was made in accordance with Section 4-102 and not Section 3-103 (5) of the CNMI Procurement Regulations. In professional services (like construction management), cost is not used as an evaluating factor. After evaluation is completed and top 3 firms selected, fee proposal is negotiated for a fair and reasonable price to the government.

Proposed Completion Date: Completed

Auditor Response: Relevant supporting documents evidencing that fee was negotiated with the top three firms selected were not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-39
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$226,103

Criteria: In accordance with Section 5-103 (2) of the CNMI Procurement Regulations, before adding significant new work to existing contracts, the agency shall thoroughly assess whether or not it would be more prudent to seek competition. Change orders on construction and A&E contracts, which exceed 25 percent of the cumulative contract price, shall automatically be procured through competitive procedures pursuant to Section 3-101, except when the procurement of the additional work is authorized without using full and open competition under Section 3-104.

Condition: Of twenty-eight contracts tested, we noted change orders (CO) related to one contract (Contract No. 311-OS, CO No. 2 for \$525,000) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement. The fiscal year 2009 expenditures tested relating to these change orders amounted to \$226,103 (BU 5219 for \$54,473, BU 5237 for \$80,000 and BU 5238 for \$91,630).

Cause: The cause of the above condition is the failure to justify sole source procurement.

Effect: The effect of the above condition is the lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation and questioned costs of \$226,103.

Recommendation: We recommend that the Division of Procurement and Supply review contract change orders to ensure justifications are properly documented, filed and maintained.

Prior Year Status: The lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Joseph M. Inos, Jr., Director of TSD/DPW

Corrective Action: DPW complied with Procurement & Supply Regulations over changes exceeding the 25% change order contract amount.

Proposed Completion Date: Completed

Auditor Response: As stated in the condition, we did not note the justification for sole source procurement for contract no. 311-OS, change order no. 2.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-40
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Criteria: Grantee and subgrantee contracts must include, among others, provisions for: 1) termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement; 2) compliance with the Equal Employment Opportunity Act; 3) compliance with the Copeland "Anti-Kickback" Act; 4) compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act; 5) compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act; and 6) federal access to contractor's records.

Condition: Of twenty-eight contracts relating to expenditures of Capital Improvement Projects, we noted the following:

- Seven (7) contracts (Nos. 311-OS, 372-OS, 375-OS, 433-OS, 436-OS, 460-OS and 461-OS) did not contain provisions of compliance under Section 306 of the Clean Air Act.
- Twenty-four (24) contracts (Nos. 311-OS, 372-OS, 375-OS, 416-OS, 420-OS, 431-OS, 433-OS, 436-OS, 440-OS, 460-OS, 461-OS, 464-OS, 468-OS, 472-OS, 474-OS, 477-OS, 478-OS, 479-OS, 480-OS, 482-OS, 484-OS, 487482-OC, 489-OS and 500-OS) did not contain provisions of federal access to contractor's records.
- Six (6) contracts (Nos. 372-OS, 416-OS, 433-OS, 436-OS, 460-OS and 461-OS) did not contain provisions for compliance with Section 103 and 107 of the Contract Hours and Safety Standards Act or its equivalent.
- One (1) contract (Nos. 372-OS) did not contain provisions indicating compliance with requirements of the Equal Employment Opportunity Act (Executive Order 11246).

Cause: The cause of the above condition is the lack of procedures in place to ensure that contracts include required clauses.

Effect: The effect of the above condition is noncompliance with required federal contract provisions.

Recommendation: We recommend that the CNMI ensure that contracts funded by federal awards specify compliance with all applicable federal laws.

Prior Year Status: The lack of compliance with the federal regulations relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-40, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Joseph M. Inos, Jr., Director of TSD/DPW

Corrective Action: Recommendation accepted. We will ensure that all contracts we process which are funded in whole or in part by U.S. Capital Improvement Funds contain provisions of Section 305 of the Clean Air Act, provisions of federal access to the contractor's records, compliance with Sections 103 and 107 of the Contract Hours and Safety Standards Act and EEO/Executive Order 11246. It is recommended that the Office of the Attorney General review the types of contract formats and provisions used in the Government to ensure that the agencies use the proper contract forms when executing contracts. The CIP Program Office under the Office of the Governor is in the process of hiring a Contracting Officer to ensure performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the Government of the Commonwealth of the Northern Mariana Islands in its contractual relationships. A new contract template was issued by Mr. James Stump, AAG (AGO Office) to conform to the recommendations.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-41
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act
Federal Award Periods: Available Until Expended
Area: Reporting
Questioned Costs: \$-0-

Criteria: Total outlays reported to the grantor should correspond to amounts reported in the underlying books and records.

Condition: Of twenty-seven business units for the Capital Projects Fund tested, one business unit (BU 5426) with fiscal year 2009 expenditures incurred, was not reported to the grantor agency as projects related to the grant (Ref. No. INIT-2005-2) were closed in prior years. Fiscal year 2009 expenditures for the above business unit amounted to \$12,008.

Cause: The cause of the above condition is the lack of communication between the CIP office and the Department of Finance to ensure that closed projects are no longer charged.

Effect: The effect of the above condition is lack of compliance with reporting requirements. The \$12,008 is not questioned as no drawdown was made.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure compliance with reporting criteria are met.

Prior Year Status: The lack of updating federal financial reports submitted to the grantor was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We will review the one exception with appropriate staff. There are policies and procedures in place.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-42
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects and Fiscal Year 2009 Compact Impact
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1
Federal Award Periods: Available Until Expended
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Criteria: Pass-through entities must establish and implement subrecipient monitoring policies and procedures. Further, in accordance with OMB Circular A-133, Part III Compliance Requirements - Subrecipient Monitoring, a pass-through entity is responsible for:

- At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year, as provided in OMB Circular A-133, have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Condition: During tests of compliance with subrecipient monitoring requirements, the following were noted:

1. Of \$4,329,048 in nonpayroll expenditure tested under the Fiscal Years 1996-2009 Appropriations Act, \$1,031,506 related to subrecipient expenditures. A subrecipient agreement was not executed for the pass through grants. Further, for one subrecipient tested, the narrative reports evidencing that CNMI obtained and reviewed the project status for three projects (business unit #s 5220, 5228 and 5615) administered by the subrecipient were not provided.
2. Of \$5,171,914 fiscal year 2009 Compact Impact grants, \$2,440,000 were for subrecipients. However, the CNMI did not execute a subrecipient agreement for the pass through grants.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-42, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects and Fiscal Year 2009 Compact Impact
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1
Federal Award Periods: Available Until Expended
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Cause: The cause of the above condition is failure to enforce strict compliance with subrecipient monitoring requirements.

Effect: The effect of the above condition is the lack of compliance with subrecipient monitoring requirements. No questioned costs result from this finding as the related subrecipient costs were allowable under the grant award terms and conditions.

Recommendation: We recommend the CNMI ensure compliance with subrecipient monitoring requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Coordinator

Corrective Action: We will review current procedures regarding subrecipient monitoring and revise where needed. We will begin executing subrecipient agreements. Current subrecipients are component units of the CNMI and are required to have A-133 audits performed annually. Grant funds are not passed through to subrecipients but paid to them upon submission of contracts, invoices, receipts and other supporting documentation.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-43
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act
 Federal Award Period: Available Until Expended
 Area: Special Tests and Provisions
 Questioned Costs: \$1,085,494

Criteria: Grant terms and conditions specified under grant awards/agreements should be complied with. The grant award agreements provide for the following terms and conditions:

- a. The scope of work and project budget shall be certified by an architect or engineer.
- b. Grantee shall present evidence to the Office of Insular Affairs (OIA) that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land upon which new capital improvement projects are to be constructed.
- c. The appointment of personnel and or consultants under grant award, No. CNMI-Water/Wastewater 2006-1, is subject to prior written approval by OIA and the Environmental Protection Agency (EPA; EPA is specified in the grant award).

Condition: Of twenty-seven CIP projects tested, we noted the following:

1. Evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land for eleven projects constructed was not provided. Details are as follows:

| <u>BU #</u> | <u>FY 2009 Federal Expenditures</u> | <u>Costs Questioned in Other Findings</u> | <u>Finding No.</u> | <u>Remaining Costs Questioned</u> |
|-------------|---|---|--------------------|---|
| 5178 | \$ 67,493 | \$ - | - | \$ 67,493 |
| 5210 | 69,723 | 18,129 | 2009-37 | 51,594 |
| 5218 | 294,537 | 45,429 | 2009-38 | 249,108 |
| 5227 | 26,631 | - | - | 26,631 |
| 5237 | 80,000 | 80,000 | 2009-39 | - |
| 5238 | 91,630 | 91,630 | 2009-39 | - |
| 5612 | 304,020 | - | - | 304,020 |
| 5619 | 81,505 | - | - | 81,505 |
| | <u>\$ 1,015,539</u> | <u>\$ 235,188</u> | | <u>\$ 780,351</u> |

Total costs of \$780,351 are questioned in this condition.

2. The written approval from OIA for the appointment of personnel/consultant pursuant to two contracts (Contract Nos. 471-OS and 466-OS), funded under Grant Award No. CNMI-Water/Wastewater-2006-1, was not provided for examination. In addition, EPA's written approval for the appointment of personnel was not provided for one contract (Contract No. 466-OS). The related fiscal year 2009 expenditures incurred under these contracts amounted to \$305,143 (BU No. 5228) and are questioned.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-43, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Special Tests and Provisions
Questioned Costs: \$1,085,494

Cause: The cause of the above condition is the lack of systematic filing of certified project budgets and scope of work, evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land and written approval from the grantor.

Effect: The effect of the above condition is questioned costs of \$1,085,494.

Recommendation: We recommend that the Department of Finance ensure that projects are supported with certified project budgets and scope of work, evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land, required grantor approvals, and other relevant documents.

Prior Year Status: The lack of systematic filing of the Authorization to Proceed, certified project budgets and scope of work, and evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Joseph M. Inos, Jr., Director of TSD/DPW

Corrective Action:

Condition No. 1: DPW needs to research title documents of contracts related to DPW and copies to be provided to your office are forthcoming.

Proposed Completion Date: July 30, 2010

Name of Contact Person: Abe Utu Malae, Acting Executive Director, Commonwealth Utilities Corporation (CUC)

Corrective Action:

Condition No. 2: CUC disagrees with the finding. OIA provided the funding to hire a Deputy Director and a Chief Engineer. They did not involve themselves in the hiring process. We had provided job descriptions and statements of what qualifications an applicant would have to possess, but nothing on the individual applicants. EPA on the other hand was provided with the resumes of all the applicants and participated to a degree in the selection discussions for the hiring of the Deputy Director (466-OS). They did not have formal approval authority and did not make or formally approve the selection.

Proposed Completion Date: Completed

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-43, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act
Federal Award Period: Available Until Expended
Area: Special Tests and Provisions
Questioned Costs: \$1,085,494

Auditor Response: As specified in the grant award (award # CNMI-Water/Wastewater 2006-1), the appointment of personnel and/or consultants is subject to prior written approval by OIA and EPA. Written approvals by OIA and EPA were not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-44
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
Federal Award No.: M-00915609-0
Federal Award Period: 10/01/08 through 09/30/13
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with 40 CFR Section 31.32, a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

The CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction.

Further, property records must be maintained that include the following:

- Description of the property
- Manufacturer's serial and model numbers, federal stock number, national stock number, or other identification
- Acquisition source of the property, including grant or agreement number and method of procurement
- Whether title is vested with the CNMI or U.S. Government
- Percentage (at the end of the budget year) of U.S. participation in the project or program for which the property was acquired
- Location, use, condition, and the date the information was reported
- Unit Acquisition Cost
- Date of disposal and sale price method used to determine fair market value where the CNMI compensates the agency for its share

Condition: The following were noted during our examination of the Division of Environmental Quality (DEQ) and Division of Procurement and Supply (P&S) compliance with the above requirements:

- a. Property records maintained by DEQ have incomplete information as to acquisition cost and percentage of federal share and one item did not have a property number. Further, DEQ's listing did not include the acquisition date or location of the property.
- b. Property records maintained by P&S contain incomplete information as to acquisition cost and did not include the location of the property and the percentage of federal share.
- c. Although an annual inventory was performed, a reconciliation of property records maintained by DEQ and P&S has not been completed. The property records maintained by DEQ are \$166,317 and 264 items less than the property records maintained by P&S.
- d. The P&S property records also include 251 items that cannot be located.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-44, Continued
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
Federal Award No.: M-00915609-0
Federal Award Period: 10/01/08 through 09/30/13
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Condition, Continued:

We are unable to assess the overall cumulative monetary value of the deficiencies above. However, total capital outlays for fiscal years 2009, 2008 and 2007 were \$27,678, \$55,029 and \$72,218, respectively.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding physical inventory of property and equipment and the lack of reconciliation of property records between DEQ and P&S.

Effect: The effect of the above condition is that the CNMI is not in compliance with applicable equipment and real property management requirements.

Recommendation: We recommend that the CNMI ensure compliance with applicable property rules and regulations.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory of property and equipment and the lack of reconciliation of property records between DEQ and P&S was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frank M. Rabauliman, Director, Division of Environmental Quality

Corrective Action: DEQ has tried to maintain complete records on all the property, but DEQ does not have records for many items that are more than ten (10) years old. DEQ's document retention policy is to retain program documents for eight years. DEQ has requested complete information on the property records from Procurement & Supply (P&S), but P&S has not provided the needed information. DEQ is working with P&S to reconcile inconsistencies in property records, and with this in mind, DEQ has requested P&S to determine a reasonable baseline for equipment required to have detailed ownership information. Reconciliation of property records maintained by DEQ and P&S should be completed by August 2010, as part of DEQ's annual inventory.

Proposed Completion Date: August 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-45
 Federal Agency: U.S. Environmental Protection Agency
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
 - Program Support
 Federal Award No.: M-00915609-0
 Federal Award Period: 10/01/08 through 09/30/13
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$9,550

Criteria: In accordance with the CNMI Procurement Regulations Section 3-105 the following requirements exist:

- 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.
- Bidding is not required for procurements under \$2,500.
- Bidding is also 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 Director for approval.

Moreover, administrative conditions of the grant award state that the grantee will follow their own procurement policies and procedures provided that the procedures conform to EPA regulations, namely that all procurement transactions will be conducted in a manner providing full and open completion.

Therefore, for procurement transactions in excess of \$2,500, we will test for compliance with local procurement regulations, and for transactions below \$2,500, we will test for compliance with full and open competition in accordance with EPA administrative conditions.

Condition: Of sixteen non-payroll expenditures tested aggregating \$37,690, there was no evidence that price quotations were obtained from an adequate number of qualified sources, as required under small purchase procedures, for the following:

| <u>Document Type</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>General Ledger Amount</u> |
|----------------------|---------------------|----------------------------|------------------------------|
| PV | 763582 | 10/20/08 | \$ 3,023 |
| PV | 781438 | 04/29/09 | 1,913 |
| PV | 782852 | 05/18/09 | 2,937 |
| PV | 226132 | 06/11/09 | 1,458 |
| PV | 812788 | 09/16/09 | 219 |
| | | | <u>\$ 9,550</u> |

Cause: DEQ management believes it can strictly follow existing applicable local procurement regulations, which do not require any bidding or quotation solicitation for procurements under \$2,500.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-45, Continued
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
Federal Award No.: M-00915609-0
Federal Award Period: 10/01/08 through 09/30/13
Area: Procurement and Suspension and Debarment
Questioned Costs: \$9,550

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$9,550, since the projected questioned costs exceeded \$10,000.

Recommendation: We recommend that the Program comply with applicable procurement regulations related to small purchase procedures.

Prior Year Status: The lack of policies and procedures in place within the requesting departments to ensure compliance with applicable procurement regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frank M. Rabauliman, Director, Division of Environmental Quality

Corrective Action:

Document Nos. 763582, 781438, 782852 and 812788

DEQ ordinarily tries to get multiple quotations for purchases of goods and services. In making the above-referenced purchases, however, DEQ followed the CNMI procurement regulations and policies in place, which do not require obtaining quotations for travel. Transportation is not specifically addressed in the CNMI Procurement Regulations. The CNMI Department of Finance uses established, written, Department of Finance policies when procuring government travel. In accordance with EPA's February 8, 2010 letter, EPA approved all the travel referenced, except # 812788, which was travel with the CNMI. Travel within the CNMI does not require EPA approval.

Document No. 226132

DEQ ordinarily tries to get multiple quotations for its purchases not subject to bid requirements, but in this case DEQ followed the CNMI Procurement Regulations on Small Purchases. The CNMI Procurement Regulations do not require multiple quotations for purchases under \$2,500. In this instance, DEQ needed a laptop immediately and therefore only contacted Saipan Computer Services. DEQ followed the CNMI Procurement Regulations, but did not include its justification for not obtaining multiple quotes in the file, as the purchase was made prior to the agreement between EPA and DEQ that requires a justification for not obtaining multiple quotes, as set forth in EPA's February 8, 2010 letter.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-46
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
Federal Award No.: M-00915609-0
Federal Award Period: 10/01/08 through 09/30/13
Area: Reporting
Questioned Costs: \$-0-

Criteria: 40 CFR Section 31.40 requires grantees to submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports. Annual reports shall be due ninety days after the grant year, quarterly or semi-annual reports shall be due thirty days after the reporting period. In addition, a financial status report (SF-269) is required within ninety days of the end of the budget period and a semi-annual Federal Cash Transaction Report (SF-272) is required fifteen days after the end of the period. Further, total outlays reported to the grantor should correspond to amounts recorded per the general ledger.

Condition: Based on our examination of program reporting requirements, we noted the following:

1. The SF-269 for the year ended September 30, 2009 reported total accumulated expenditures that were \$64,124 more than the total accumulated expenditures recorded in the general ledger.
2. The SF-272 covering the period January 1, 2008 to December 31, 2008 was not submitted to the grantor.

Cause: The cause of the above condition is that the amounts reflected on the SF-269 did not reflect actual accumulated expenditures. Further, the SF-272 was not submitted to the grantor due to turnover in CNMI personnel.

Effect: The effect of the above condition is the lack of compliance with grant reporting requirements.

Recommendation: We recommend that the CNMI Department of Finance adhere to grant reporting requirements.

Prior Year Status: The lack of compliance with reporting requirements was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance and Accounting

Corrective Action: Federal award no. M 00915609-0 has only three business units (P5600B/D/G) assigned. Our SF-425 filed on September 30, 2009 has expenditures totaling \$2,302,872 (base: \$1,876,646, IAG: \$170,000 and IPA: \$256,226) and the general ledger has expenditures totaling \$2,321,880 (base: \$1,895,654, IAG: \$170,000 and IPA: \$256,226). A difference of \$ 19,008 is underreported, which is due to PPE # 22/09 covering period 09/27/09 thru 10/10/09, entered on 10/23/09 and posted on 08/31/09 covering 09/27-30/09 (three days) for the end of the fiscal year 2009. Corrections were made on the federal financial report for the quarter ended 12/31/09.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-47
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
 Federal Award Period: 10/01/08 through 09/30/09
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$2,043

Criteria: Part 3 of the Revised Operation Plan, delineates types of services that are allowed under the Medicaid Program. Part 4 establishes the basis for determining propriety of rates by service providers.

In addition, recorded expenditures should be authorized, be supported by certified accounts payable vouchers, invoices and other relevant documents, and be approved prior to incurrence.

Condition: Of total program expenditures of \$6,184,138 for the year ended September 30, 2009, professional services of \$5,564,722 and other program expenses of \$521,030 were tested. Of seventy-five items tested, forty-five items totaling \$1,435,867 were not completely reviewed for propriety of rates charged and/or accuracy of billings prior to payment. Based on our tests, the eligibility of services was in accordance with Part 3 of the revised Operational Plan; therefore, no questioned costs result from this condition. Details follow:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>General Ledger Amount</u> | <u>Federal Share</u> |
|----------------------------|-------------------------------|----------------------|------------------------------|----------------------|
| 12/19/08 | 22706 | 770456 | \$ 835 | \$ 418 |
| 05/14/09 | 22706 | 782653 | \$ 5,766 | 2,883 |
| 04/02/09 | 22706 | 778982 | \$ 7,277 | 3,639 |
| 05/14/09 | 22706 | 782655 | \$ 8,050 | 4,025 |
| 03/10/09 | 22706 | 777130 | \$ 8,516 | 4,258 |
| 01/16/09 | 22706 | 772771 | \$ 8,934 | 4,467 |
| 09/16/09 | 22706 | 812834 | \$ 9,135 | 4,568 |
| 09/16/09 | 22706 | 812833 | \$ 10,119 | 5,060 |
| 12/29/08 | 22706 | 771158 | \$ 11,017 | 5,508 |
| 05/14/09 | 22706 | 782644 | \$ 21,465 | 10,732 |
| 12/09/08 | 22706 | 769305 | \$ 27,443 | 13,722 |
| 05/14/09 | 22706 | 782649 | \$ 27,917 | 13,958 |
| 01/16/09 | 22706 | 772762 | \$ 28,268 | 14,134 |
| 08/18/09 | 22706 | 809271 | \$ 30,347 | 15,174 |
| 08/03/09 | 22706 | 807014 | \$ 31,352 | 15,676 |
| 04/02/09 | 22706 | 778972 | \$ 31,484 | 15,742 |
| 06/24/09 | 22706 | 796052 | \$ 32,187 | 16,094 |
| 10/28/08 | 22706 | 764659 | \$ 32,589 | 16,294 |
| 06/08/09 | 22706 | 784384 | \$ 33,281 | 16,641 |
| 08/03/09 | 22706 | 807005 | \$ 34,009 | 17,004 |
| 03/10/09 | 22706 | 777128 | \$ 34,842 | 17,421 |
| 03/10/09 | 22706 | 777127 | \$ 35,958 | 17,979 |
| 12/18/08 | 22706 | 770444 | \$ 22,323 | 11,162 |
| 04/30/09 | 22706 | 781578 | \$ 35,647 | 17,823 |
| 07/29/09 | 22706 | 806479 | \$ 38,547 | 19,274 |
| 06/24/09 | 22706 | 796065 | \$ 43,737 | 21,869 |
| 04/30/09 | 22706 | 781573 | \$ 26,746 | 13,373 |
| 06/23/09 | 22706 | 795277 | \$ 29,459 | 14,730 |
| 07/28/09 | 22706 | 806579 | \$ 40,660 | 20,330 |
| 03/04/09 | 22706 | 776614 | \$ 43,042 | 21,521 |
| 08/12/09 | 22706 | 808238 | \$ 60,927 | 30,463 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-47, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
 Federal Award Period: 10/01/08 through 09/30/09
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$2,043

Condition, Continued:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>General Ledger Amount</u> | <u>Federal Share</u> |
|----------------------------|-------------------------------|----------------------|------------------------------|----------------------|
| 04/30/09 | 22706 | 781572 | \$ 66,107 | 33,053 |
| 06/16/09 | 22706 | 790466 | \$ 3,205 | 1,603 |
| 07/28/09 | 22706 | 806469 | \$ 3,537 | 1,769 |
| 07/28/09 | 22706 | 806461 | \$ 4,794 | 2,397 |
| 07/28/09 | 22706 | 806455 | \$ 6,205 | 3,103 |
| 09/08/09 | 22706 | 811701 | \$ 10,441 | 5,221 |
| 09/22/09 | 22706 | 813686 | \$ 14,600 | 7,300 |
| 09/22/09 | 22706 | 813684 | \$ 20,932 | 10,466 |
| 02/24/09 | 22706 | 775837 | \$ 13,579 | 6,790 |
| 02/24/09 | 22706 | 775838 | \$ 5,195 | 2,598 |
| 09/21/09 | 22706 | 813443 | \$ 32,916 | 16,458 |
| 09/30/09 | 62060 | 165434 | \$ 578,575 | 578,575 |
| 09/30/09 | 62060 | 165435 | \$ 140,338 | 140,338 |
| 09/30/09 | 62060 | 165580 | \$ 220,259 | 220,259 |
| | | | | <u>\$ 1,435,872</u> |

Additionally, for some items, the lack of complete rate verification and review of billing accuracy resulted in either double charges or incorrect rates paid. Details are as follows:

- a. For two prescription and pharmacy claims totaling \$15,885, the rate charged and paid by Medicaid exceeded the Estimated Acquisition Cost (EAC) per the service provider agreement. Details are as follow:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>Amount Paid</u> | <u>EAC</u> | <u>Excess</u> |
|----------------------------|-------------------------------|----------------------|--------------------|------------|---------------|
| 05/14/09 | 22706 | 782653 | \$ 218 | \$ 208 | \$ 10 |
| 09/16/09 | 22706 | 812833 | \$ 230 | \$ 220 | 10 |
| | | | | | <u>\$ 20</u> |
| Federal Share (50%) | | | | | <u>\$ 10</u> |

- b. For one expenditure, totaling \$18,133, the rate charged and paid by Medicaid was higher than the established Medicare rate for similar service as follows:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>Amount Paid</u> | <u>Medicare Rate</u> | <u>Excess</u> |
|----------------------------|-------------------------------|----------------------|--------------------|----------------------|---------------|
| 08/28/09 | 22706 | 810353 | \$ 172 | \$ 57 | \$ 115 |
| Federal Share (50%) | | | | | <u>\$ 58</u> |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-47, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
 Federal Award Period: 10/01/08 through 09/30/09
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$2,043

Condition, Continued:

- c. For eleven expenditures, totaling \$206,189, rates could not be verified as the services were not included in the established Medicare rates. We were informed that payment is based upon whatever rates are charged the program. Details are as follow:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>General Ledger Amount</u> | <u>Amount Tested</u> |
|----------------------------|-------------------------------|----------------------|------------------------------|----------------------|
| 04/30/09 | 22706 | 781578 | \$ 35,647 | \$ 139 |
| 04/30/09 | 22706 | 781573 | \$ 26,746 | 466 |
| 06/23/09 | 22706 | 795277 | \$ 29,459 | 302 |
| 09/16/09 | 22706 | 812834 | \$ 9,135 | 187 |
| 08/03/09 | 22706 | 807005 | \$ 34,009 | 857 |
| 02/24/09 | 22706 | 775837 | \$ 13,579 | 602 |
| 11/17/08 | 22706 | 767074 | \$ 6,925 | 250 |
| 06/18/09 | 22706 | 792802 | \$ 7,612 | 300 |
| 03/23/09 | 22706 | 778090 | \$ 9,748 | 205 |
| 02/13/09 | 22706 | 774953 | \$ 15,903 | 300 |
| 04/21/09 | 22706 | 780302 | \$ 17,426 | 248 |
| | | | | <u>\$ 3,856</u> |
| | | | Federal Share (50%) | <u>\$ 1,928</u> |

- d. For four CHC claims totaling \$42,285, the billing amount did not agree with the amount paid by Medicaid. We were informed that there was a misapplication of rates used for one service. Details are as follows:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>Amount Paid</u> | <u>Amount Per Bill</u> | <u>Over (Under) Payment</u> |
|----------------------------|-------------------------------|----------------------|---------------------|------------------------|-----------------------------|
| 09/30/09 | 62060 | 165435 | \$ 15,315 | \$ 15,567 | \$ (252) |
| 09/30/09 | 62060 | 165434 | \$ 10,817 | \$ 10,800 | 17 |
| 09/30/09 | 62060 | 165434 | \$ 8,309 | \$ 8,301 | 8 |
| 09/30/09 | 62060 | 165434 | \$ 7,844 | \$ 7,852 | (8) |
| | | | | | <u>\$ (235)</u> |
| | | | Federal Share (50%) | | <u>\$ (118)</u> |

- e. A medical referral form for off-island care (Reference No. 761952), with a federal share of \$165 was not made available.

Cause: The cause of the above condition is the lack of clearly defined and communicated procedures for verification of billings prior to reimbursement. Further, while the program is required to perform a complete review of claims, only random reviews were performed.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-47, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period: 10/01/08 through 09/30/09
Area: Allowable Costs/Cost Principles
Questioned Costs: \$2,043

Effect: The effect of the above condition is a control weakness over allowable activities and costs reimbursable and possible misuse of federal expenditures, the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of \$2,043.

Recommendation: We recommend that control procedures be clearly defined and communicated over verification of services charged the Program and review of accuracy of billings shall occur prior to payment and that the Medicaid office and Department of Finance obtain all necessary approvals/authorizations prior to payment of expenditures and ensure that supporting documents are on file.

Prior Year Status: The lack of clearly defined and communicated procedures for verification of billings prior to reimbursement was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2008 and failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to have all supporting documents on file was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen C. Sablan, Medicaid Administrator

Corrective Action: We disagree with the finding. Due to a high volume of claims and limited resources, the staff randomly reviews the claims. I have instructed the staff to initial the claims once they have review rates and eligibility date. If the drugs were not included in the list of Average Wholesale Price list that we maintained to compute EAC or any CPT codes for other services that are not available as per what our negotiated rate on our contract that we will only pay 50% of charges.

- a) The pharmacy have an online system where they follow the Estimated Acquisition Cost (EAC) rate and occasionally changes from time to time and what we are using is a print out Estimated Acquisition Cost (EAC) rate where any changes of the rate changes will occur and will have some discrepancies. Therefore, we should follow the online system rate that the Pharmacy uses because that is the most accurate rate that we should follow and once our Medicaid system Phase II is completed, we will be able to follow the online system where the Estimated Acquisition Cost (EAC) will be accurate.
- b) Please see attachment 2 to CNMI Medicaid Provider Agreement Supplemental Payment Agreement we have signed and agreed with the provider.
- c) We disagree with the finding. We have a listing of the Medicare rate that the staff use when verifying the claims. If rates could not be verified in the established Medicare rates that we maintained, we will only pay 50% of charges.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-47, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period: 10/01/08 through 09/30/09
Area: Allowable Costs/Cost Principles
Questioned Costs: \$2,043

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- d) We disagree with this finding. We met with CHC Billing Personnel, the auditor and myself and the CHC Billing Personnel explained what happened. Therefore, they have corrected the billing and so the amount we paid is the corrected amount. Please see attached corrected billing.

Proposed Completion Date: N/A

Auditor Response: Evidence of review of billings accuracy and completeness was not evident in the claims tested and noted in the finding. The Medicaid Revised Operational Plan requires that Medicaid reimbursements are claimed based on established CHC rates or that should not exceed combined payments the provider receives from beneficiaries and carriers or intermediaries for providing services under comparable circumstances under Medicare. Complete rate verifications should be performed on claims to ensure that rates paid are in accordance with CHC or Medicare rates.

The Medicaid Office was able to provide a list of pharmacy rates used to calculate EAC only upon requesting a copy from the service provider. Further, our EAC and Medicare rate calculations for pharmacy claims and optometrist services, respectively, based on the list of rates provided were lower than actual rates paid.

The corrected billings were determined and provided to us only after the discrepancies were noted between the original billings and the amount paid during the audit. The amount paid by Medicaid was based on the original CHC billings from which we determined the discrepancies and was already recorded as program expenditure and included in the amount requested for reimbursement as of September 30, 2009.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-48
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period: 10/01/08 through 09/30/09
Area: Eligibility
Questioned Costs: \$9,433

Criteria: In accordance with Part 2 of the Medicaid Revised Operational Plan, applicants must be eligible based on the criteria set forth in the Revised Operational Plan prior to receiving Medicaid assistance.

Condition: Tests of sixty-two eligibility files noted the following:

- a. Computation of income and resource determination for one recipient (Case File No. 11-10580) indicated no evidence of review by the Program Director. Additionally, the eligibility card of one recipient (Case File No. 15-23303) was not approved by the Program Director. Our tests indicated the recipients were eligible in accordance with Part 2 of the Medicaid Revised Operational Plan. Thus, no questioned costs result from this condition.
- b. Eligibility folders for the following two recipients with amounts paid to service providers were not available:

| <u>Case No.</u> | <u>Service/Visit Date</u> | <u>Cost</u> |
|-----------------|---------------------------|------------------|
| 16-01633 | 03/02/06 | \$ 11,484 |
| 15-19791 | 02/12/06 | <u>7,381</u> |
| | | \$ <u>18,865</u> |
| | Federal Share (50%) | \$ <u>9,433</u> |

Cause: The cause of the above condition is the lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance.

Effect: The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and the possible use of federal funds for ineligible individuals and questioned costs of \$9,433.

Recommendation: We recommend that the CNMI Medicaid Office establish strict procedures to ensure that only eligible individuals receive Medicaid assistance and benefits.

Prior Year Status: The lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-48, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period: 10/01/08 through 09/30/09
Area: Eligibility
Questioned Costs: \$9,433

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen C. Sablan, Medicaid Administrator

Corrective Action: We disagree with the auditor's findings.

- a) Attached are copies of the computation sheets and eligibility card for Case File No. 11-10580 and Case File No. 15-23303. The Acting Secretary of Health, Mr. Pete Untalan signed the eligibility card since I was not available. However, I have reviewed and initial the eligibility card and computations sheets that Mr. Untalan signed.
- b) We did inform the auditor that the files were available for her review.

Proposed Completion Date: N/A

Auditors' Response: Evidence of review for the aforementioned case files was not evident. In addition, a document to support the delegation of authority was not provided.

Eligibility files for two recipients listed in condition b were not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-49
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period: 10/01/08 through 09/30/09
Area: Period of Availability
Questioned Costs: \$82,841

Criteria: Pursuant to grant terms and conditions, program funds are available for obligation over the grant period and any unused funds may be used in the subsequent period.

Condition: At December 31, 2009, the fiscal year 2009 grant had remaining unused funds of \$132,998 but no subsequent expenditures have been incurred or charged. Our tests noted overdrawn amounts as follows:

| <u>Business Unit</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>Excess</u> |
|----------------------|-----------------|---------------------|------------------|
| H9778A | \$ 172,799 | \$ 170,039 | \$ 2,760 |
| H9778B | \$ 4,762,792 | \$4,682,711 | <u>80,081</u> |
| | | | \$ <u>82,841</u> |

Cause: The cause of the above condition is the lack of control procedures to ensure that grant funds are monitored and used in a timely manner.

Effect: The effect of the above condition is the failure to maximize available grant funds and questioned cost of \$82,841.

Recommendation: We recommend that CNMI Medicaid implement adequate control procedures to ensure that available funds are monitored and maximized for program operations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen C. Sablan, Medicaid Administrator

Corrective Action: We disagree with the auditor's finding. We have adequate internal control procedures to ensure that available funds are constantly monitored and maximized for program operations. We even revised our FY09 4th quarter CMS-64 report to include additional MAP expenditures. Attached please find the revised FY09 4th quarter CMS-64 report and an email message from Grantor Agency - Ms. Linda Gee, CMS/San Francisco that she informed us that we have over claimed by \$1 for MAP expenditures and \$273 for ADM expenditures that was over the ceiling.

Proposed Completion Date: N/A

Auditors' Response: The receipts were obtained from the drawdown report provided by the CNMI Finance Office. Likewise, expenditures above were based on the expenditures recorded in the general ledger which was provided by the CNMI Finance Office. The CNMI Finance Office and the Medicaid Office should coordinate on a regular and timely basis to ensure that funds are constantly monitored.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-50
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period: 10/01/08 through 09/30/09
Area: Reporting
Questioned Costs: \$-0-

Criteria: Section 4.4 of the CNMI's Revised Medicaid Operational Plan requires the Medicaid Agency to submit required reports on an accrual basis, based on financial records maintained by the centralized accounting office (Department of Finance).

Condition: Based on total expenditures reported to the grantor for the period ended September 30, 2009 using the CMS 64 Certification, total federal expenditures reported amounted to \$6,587,836. The actual expenditures per the general ledger amounted to \$6,184,138 resulting in a variance of \$403,698.

Cause: The cause of the above condition is adjustments made subsequent to the submission of the CMS 64.

Effect: The effect of the above condition is noncompliance with Section 4.4 of the Medicaid Operational Plan. The funds drawn down, however, correspond with expenditures recorded in the general ledger. Therefore, no questioned costs result from this condition.

Recommendation: We recommend that steps be taken to ensure that information reported to the grantor is based on actual financial records.

Prior Year Status: Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen C. Sablan, Medicaid Administrator

Corrective Action: We disagree with the finding. Every end of each quarter, we request the detail expenditures report from Department of Finance and therefore, the information reported to the Grantor is based on the CNMI's financial records. The auditor should look at that report instead when they are going to conduct the audit since it's based on an accrual basis. We have revised our FY09 4th quarter CMS-64 report to include additional MAP expenditures. Attached please find the revised FY09 4th quarter CMS-64 report and an email message from Grantor Agency - Ms. Linda Gee, CMS/San Francisco that she informed us that we have overclaimed by \$1 for MAP expenditures and \$273 for ADM expenditures that was over the ceiling.

Proposed Completion Date: N/A

Auditors' Response: Expenditures recorded in the general ledger provided by the CNMI Finance Office did not agree with expenditures reported in the CMS-64 submitted by the Medicaid Office to the federal agency. The CNMI Finance Office and the Medicaid Office should coordinate on a regular and timely basis to ensure the accuracy of expenditures recorded in the general ledger and reported to the federal agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-51
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period: 10/01/08 through 09/30/09
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: The Medicaid Program must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems.

Condition: The Medicaid Office performs weekly and quarterly backups of the ADP system; however, regular backups were not performed throughout the fiscal year. The backups were not stored in an off-site location. Further, back up files are stored on flash drives, which have limited capacity. Thus, some back up files were deleted when flash drive memory was no longer sufficient, resulting in incomplete back up files for the fiscal year. Additionally, periodic risk analyses are not performed.

Cause: The cause of the above condition is the lack of required policies and procedures.

Effect: The effect of the above condition is the potential loss of data.

Recommendation: We recommend that policies and procedures be established for system security, which would address and reduce risks involved with the ADP system. We further recommend that periodic risk analyses be performed.

Prior Year Status: Lack of required policies and procedures regarding ADP was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen C. Sablan, Medicaid Administrator

Corrective Action: We disagree with the auditor's findings. Attached are the policies and procedures regarding ADP System and the log sheet of the quarterly backups that proofs that we have stored backups in an off-site location. We do daily, weekly and quarterly backups of the ADP system. We have agreed that only the quarterly backups of the ADP system will be stored in an off-site location. Also, Phase 1 of the Medicaid System was installed on Thursday, June 17, 2010 for our Eligibility Section and therefore, the server (backups) will be stored in an off-site location the first week of July 2010.

Proposed Completion Date: N/A

Auditors' Response: Documentation evidencing that periodic risk analyses are performed on the EDP system is not evident. Further, the weekly and quarterly backups performed in a flash drive were not completely made through the fiscal year and were not stored in an off-site location. The Medicaid Office should consider other backup facilities to ensure that complete backups of program records are stored and maintained for at least three years.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-52
CFDA No.: All Major Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: -0-

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required from employees working for one federal program.

Condition: Our tests of employee activities noted that required certifications are not being obtained for employees working for one federal program. Although employees are signing off on timecards or timesheets evidencing hours worked on a Federal program, the sign off does not indicate if the employee actually performed activities solely for the one Federal program.

Cause: The cause of the above condition is the lack of awareness regarding required employee certifications.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principle requirements. No questioned cost results from the finding due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the CNMI require certifications from employees on a semi-annual basis evidencing that employees' are certifying time charged for federal related activities only.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We will inform our departments and agencies that employee certifications are required for those employees paid by federal grants.

Proposed Completion Date: 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-53
CFDA No.: All Major Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: \$1,336,000

Criteria: In accordance with OMB Circular A-87, costs, to be allowable under federal awards, should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

Condition: On March 11, 2009, Public Law 16-32 was enacted which provided for employer retirement contributions of 11% for all government employees, including autonomous agencies and public corporations.

The CNMI accrued employer contributions at the actuarial rate of 36.7727% for employees under the defined benefit plan. However, salaries and wages funded from the general fund and locally generated revenue sources were remitted to the Northern Mariana Islands Retirement Fund at 11% pursuant to Public Law 16-32. The employer retirement contributions attributable to employees whose salaries and wages are federally funded were charged to the federal awards at 36.7727% except for CFDA 10.551 (Supplemental Nutrition Assistance Program) which was charged at 11%. During fiscal year 2009, the total employer retirement contributions charged federal awards amounted to \$1,970,246. The estimated difference in employer retirement contributions should 11% be charged to federal awards is \$1,336,000. Federal funding was drawn and was paid to the Retirement Fund at the higher rate.

Cause: The cause of the above condition is the enactment of Public Law 16-32 and inadequate cash flow to meet current obligations.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements and questioned costs of \$1,336,000.

Recommendation: We recommend compliance with the criteria.

Prior Year Status: Charging federal awards amounts in excess of remittances and inadequate cash flows to meet current obligations was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Secretary of Finance

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-53, Continued
CFDA No.: All Major Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: \$1,336,000

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We disagree that that the difference between the actuarial rate and the budgetary rate should be questioned costs. The issue is a prospective one as new grant agreements are negotiated. P.L. 16-32 and previous laws that budgeted less than the actuarial rate for locally funded employees have always specified that the difference remains a liability of the CNMI government. The retirement fund has not allowed employees to retire and receive an annuity unless their employer retirement contributions have been paid in full. For employees funded under federal grants, we have expensed, drawn down and paid the retirement fund the employer contributions based on the actuarial rate. We have discussed this issue with our grantor agencies and NAP has been the only agency that has included less than the actuarial rate in their new grant agreements. This means that under the retirement fund's current rules, NAP employees will not be allowed to retire and receive an annuity without the deficient employer contributions being paid. This would transfer the obligation from the Federal agency to local funding. We feel the issue of non uniformity in this case is NAP or other Federal agencies if they choose to go the same route.

Proposed Completion Date: None

Auditor Response: Federal regulations require that costs charged to federal awards should be consistent with policies, regulations and procedures that apply uniformly to both federal awards and other activities of the governmental unit. The difference in retirement contributions paid from federal grants and local funds represents inequality and thus, noncompliance with federal requirements exists.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-54
CFDA No.: All Major Programs
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Criteria: Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Condition: The CNMI Procurement Regulations Section 3-105 states the following:

- 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.
- Bidding is not required for procurements under \$2,500.
- 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 Director for approval.
- Purchase orders may be utilized for small purchases subparagraphs (2) and (3).

It appears that the absence of competitive procurement for items less than \$2,500 does not conform to the federal requirement. Additionally, it does not appear that funding agencies approved such a threshold. As a result, the above requirement does not appear to conform to federal requirements.

Further, the CNMI procurement regulations do not include procurement procedures relating to airfare. Currently, the CNMI's travel policies are based on directives and memorandums, which do not require competitive procurement when acquiring transportation services.

Cause: The cause of the above condition is the lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations.

Effect: The effect of the above condition is lack of full and open competition on federal funded purchases. Expenditures tested that are less than \$2,500 and lack competitive procurement are questioned at Finding Nos. 2009-26 and 2009-45.

Recommendation: We recommend that the CNMI review its current procurement regulations to ensure conformity with applicable federal laws.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-54, Continued
CFDA No.: All Major Programs
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Prior Year Status: The lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman Sablan, Director of Procurement & Supply

Corrective Action: We do not agree with the auditor's finding that CNMI provide for competitive procurements in procurements under \$2,500 in order to comply with Federal regulations. The Common Rule Section .36 "Procurement", Subsection (a) "States" says "When procuring property and services under a grant, States will follow the same policies and procedure it uses for procurement from its non-Federal funds." The Common Rule Section .3 "Definitions" defines "State" as "any of the several states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States....." Clearly the CNMI is a "State" under the Common Rule and should follow its standard procurement policies for procurements under Federal grants.

Even in Federal procurement it is practice to avoid obtaining quotes on procurements under \$2,500 (\$2,000 where the Davis-Bacon Act applies). Such procurements are defined as "Micro-Purchases in the Federal Acquisition Regulations (FAR) Subpart 2.1 "Definitions". A micro-purchase is one that does not exceed these dollar limitations. The purchase guidelines for such purchases at FAR Subpart 13.2 state at Subpart 13.202(a)(2) that "Micro-purchases may be awarded without soliciting competitive quotations if the contracting officer appointed in accordance with 1.603-3(b) considers the price to be reasonable", or (a)(3) "The administrative cost of verifying the reasonableness of the price for purchases may more than offset potential savings from detecting instances of overpricing. Therefore action to verify price reasonableness need only be taken if-

- (i) The Contracting Officer or individual appointed in accordance with 1.603-3(b) suspects that the price may not be reasonable (e.g. comparison with the previous price paid or personal knowledge of the supply or service); or
- (ii) Purchasing a supply or service for which no comparable pricing information is readily available.

The CNMI procurement regulations conform to the FAR in regard to the treatment of procurements of \$2,500 or less.

It is also worth noting that the National Association of State Purchasing Officials (NASPO) in its 4th Edition of "State and Local Government Purchasing Handbook" reported that "The current survey indicates that in 42 of the states, only small purchases over a specified amount require obtaining competitive quotation." See the letter from DEQ's legal counsel in this regard also.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-54, Continued
CFDA No.: All Major Programs
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

We disagree with the auditors that separate travel procurement procedures should be included in the CNMI Procurement Regulations or that the CNMI follow Federal travel regulations. We are unaware of any set of procurement regulations which include provisions expressly dealing with expenditures for airline tickets or lodging. For example, the Federal Acquisition Regulations and Model Procurement Code (used in 23 states) do not. The purchase of airline tickets is a procurement which follows the general rules for methods/types of procurement and is therefore not specifically treated in the CNMI Procurement Regulations. Travel policy and per diem rates are typically addressed under separate policies, rules and regulations such as the Federal Travel Regulations (administered by the General Services Administration) or a State Travel Manual. As noted by the auditors, CNMI does have travel policies in place. It should also be noted that in regard to travel funded by Federal grants, most programs require approval of travel the Federal agency.

The auditors cite the travel policies in place for not requiring competitive procurement. CNMI travel policies are similar to other travel policies we are aware of. CNMI travel policies provide for limits on per diem rates that use Federal per diem rates for the most part and place limits on other types of travel expense (e.g. car rental, ground transportation, etc.). Airfare is limited to economy class tickets and travelers are required to select the lowest airfare that meets their travel requirements. Competition between airlines for ticket prices is very limited for the CNMI as only two U.S. based airlines (Continental and Northwest) provide air service. The CNMI government has negotiated a 15% discount with Northwest Airlines for government travel. U.S. cabotage laws prohibit non U.S. airlines from carrying passengers between two U.S. points. A large percentage of travel procurements are under \$2,500 and would fall under the small purchase requirements as discussed in the previous finding.

Proposed Completion Date: Ongoing

Auditor Response: Grantees and subgrantees may use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal laws and regulations. We have not been able to locate a State that utilizes a \$2,500 threshold for determining when competition should be present in a procurement and believe that the CNMI should change its procurement rules to conform to the federal requirement.

Federal regulations require that procurement transactions be conducted in a manner providing full and open competition. This does not exclude transactions relating to airfares. Since multiple airlines service the CNMI and since multiple travel agents do business within the CNMI, it is incumbent on the CNMI to ensure that travel is undertaken at the lowest reasonable fare. Even though 2 airlines service the CNMI, multiple airlines provide service after reaching Hawaii or other destinations. Procurement procedures relating to travel expenses should be addressed by the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-55
CFDA No.: Nonmajor Program - 93.767 State Children's Health Insurance Program
Area: Period of Availability
Questioned Costs: \$560,880

Criteria: The State Children's Health Insurance Program (SCHIP) was established to provide funds to States to enable them to maintain and expand child health assistance to uninsured, low-income children, and, at a state option, low-income pregnant women and legal immigrants, primarily by three methods, one of which is to expand eligibility for children under the State's Medicaid Program.

The Medicaid Program's Operational Plan states that SCHIP funds are utilized to expand Medicaid coverage. As an extension to the Program, SCHIP funds can only be used when Medicaid funds have been exhausted.

Condition: Our examination of the schedule of expenditures of federal awards indicated SCHIP expenditures of \$1,400,009. However, our test of the Medicaid Program indicated that \$560,880 in program funds remain unspent as of September 30, 2009.

Cause: The cause of the above condition is lack of control procedures to ensure that grant funds are monitored.

Effect: The effect of the above condition is noncompliance with the Operational Plan and questioned costs of \$560,880 corresponding to the amount of unspent funds under the Medicaid Program.

Recommendation: We recommend that CNMI Medicaid implement adequate internal control procedures to ensure that available funds are monitored.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen C. Sablan, Medicaid Administrator

Corrective Action: We disagree with the auditor's finding. We have spent almost all the State Children's Health Insurance Program (SCHIP) funds. We only have a balance of \$121. Attached is a fund status report from Department of Finance for Federal Account No. H9767C that still indicates a balance of \$121 for the SCHIP funds.

Proposed Completion Date: N/A

Auditors' Response: As mentioned in the above criteria, SCHIP funds can only be used when Medicaid funds have been exhausted.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-56
CFDA No.: Nonmajor Program - 15.615 Cooperative Endangered Species Conservation Fund
Area: Procurement and Suspension and Debarment
Questioned Costs: \$152,439

Criteria: Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.

Condition: Of forty-three nonmajor program nonpayroll expenditures tested aggregating \$2,629,604, the relevant procurement documents (i.e., bid invitations, bid summary, bids received, evidence of public notice) supporting the procurement for the following contract procured through competitive sealed bid was not provided:

| <u>CFDA #</u> | <u>Business Unit No.</u> | <u>Contract No.</u> | <u>Document Ref. No.</u> | <u>General Ledger Amount</u> |
|---------------|--------------------------|---------------------|--------------------------|------------------------------|
| 15.615 | 18615D | 438401 OC | 781292 | \$ 152,439 |

Cause: The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.

Effect: The effect of the above condition is incomplete procurement files and questioned costs of \$152,439.

Recommendation: We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.

Prior Year Status: The lack of proper and systematic filing of relevant procurement documents was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman Sablan, Director of Procurement & Supply

Corrective Action: Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. Procurement should have all pertinent documents in file. We are in the process of developing a checklist to be reviewed on contract completion to insure all related documents are included

Proposed Completion Date: 2010

Commonwealth Development Authority

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2008
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 10/14/10 (CDA, NMHC)

Date(s) of response letter(s) received :

See pages 160 to 231 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

DCD Loans Receivable

Finding No. 2008-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis. Further, all receivables should be assessed and monitored for collectability. Balances deemed not collectible should be adequately allowed for. Additionally, calculation of allowance for loan losses and other related receivables should be regularly reviewed for accuracy, completeness and reasonableness. Further, for restructured loans, the allowance should be determined in the same manner as prior to the restructuring until a sufficient time has passed that the borrower can meet the revised debt service requirements.

Condition: Our tests of DCD's loans receivable noted the following:

1. An analysis of DCD's past due loans was performed to determine the propriety of the allowance for doubtful loans as of September 30, 2008. This analysis revealed that loans which are six months or more in arrears amounted to \$28,232,235 or 70.4% of the total loans receivables outstanding of \$40,120,365 as of September 30, 2008. The related accrued interest on loans that are six months or more in arrears amounted to \$14,729,939 or 99.7% of the total accrued interest receivables outstanding of \$14,781,876 as of September 30, 2008.
2. Nine restructured loans (#s AD 70285, AD 70292, CD 70280, CD 70288, CD 70298, CD 70302, RE 70279, RE 70289 and RE 70306), which were past due for more than six months and in arrears prior to the restructuring, were classified as less than six months in arrears in the receivable aging report since the original due dates and past due balances were revised. As such, the related allowance was calculated based on the revised terms. An audit adjustment was proposed to record an additional allowance of \$1,700,996 relating to these nine loans.
3. As of September 30, 2008, CDA has recorded loans receivable miscellaneous charges (GL # 1208-00) of \$498,888 with a related allowance of \$249,444. This receivable was excluded in CDA's calculation of the loan loss reserve at September 30, 2008. Further, CDA did not perform a separate assessment of the collectability of the account balance. This condition was corrected through a proposed audit adjustment for an additional allowance of \$249,268.

Cause: The cause of the above condition is the increase in past due loans and lack of adequate review of the reasonableness of the calculation of the allowance for loan losses and other related receivables.

Effect: The effect of the above condition is an increased possibility of loan losses due to non-payment by borrowers and potential misstatement of loans receivable and related accounts.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-1, Continued

Recommendation: We recommend that CDA continue to follow-up on past due loans, continue to evaluate these loans and develop corrective action plans. We recommend that corrective action plans be documented accordingly. 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. We further recommend CDA review the aging of restructured loans and revisit allowance calculation for these loans. In addition, we recommend CDA perform periodic review of the calculation of allowance for loan losses and other related receivables for accuracy, completeness and reasonableness.

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Stuart Smith, Comptroller

Corrective Action: Ensuring collection of loans is a complex problem exacerbated by difficult financial times in the CNMI. Inadequate levels of staffing in the Loan Department also reduce the ability to monitor and work with clients closely. If loans are monitored more closely perhaps there would be fewer delinquent loans and the valuation of the loans would have less negative impact.

CDA has done a more thorough job in FY09 in making sure loans are valued in a manner consistent with the guidelines set forth by CDA in conjunction with the auditors. Restructured loans that have insufficient time (one year) to establish payment histories based on the restructured status are valued in the same manner as their status dictated prior to restructuring. Miscellaneous charges have been valued in a manner consistent with that of accrued interest valuations.

While the loan portfolio may have improved its delinquency rates, management is beginning to take various actions to work with clients (restructuring with set-aside or write-off of accrued interest and foreclosures when no other viable solutions are available). Most of the restructured loans are maintaining a current-payment status. The Loan Department will have the services of an additional staff member beginning in May 2010 to assist in collections and working with clients. Management is also continuing to explore different ways to assist clients in making their loans more manageable. These steps will likely involve concessions on the part of CDA regarding accrued interest but management feels it is critical to recover loan principal and to give borrowers every chance possible to avoid bankruptcy, foreclosure, and other expensive, painful options.

Proposed Completion Date: Improving the delinquency rate of the loan portfolio is an ongoing process that will never be “completed” but the additional staff will be available in May 2010 and additional borrower-assistance programs will be implemented in the second half of FY 2010.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

DCD Loans Receivable

Finding No. 2008-2

Criteria: Identified adjustments to loan balances arising from loan reclassifications should be recorded in the general ledger in a timely manner.

Condition: Tests of loans receivable noted the following:

1. A summary judgment was ordered during the current fiscal year for one loan (ref. CD 33870); however, a reclassification to judgment loan has not been recorded as of September 30, 2008. The related loan, interest and miscellaneous charges receivable amounted to \$550,285, \$530,036 and \$4,273, respectively, as of September 30, 2008.
2. A summary judgment was ordered prior to the current fiscal year for one loan (ref. CD 70313); however, a reclassification to judgment loan was only recorded during fiscal year 2008. The related loan, interest and miscellaneous charges receivable amounted to \$423,799, \$57,417 and \$5,368, respectively, as of September 30, 2008.
3. A summary judgment was ordered prior to the current fiscal year for one loan (ref. CD 33970); however, a reclassification to judgment loan has not been recorded as of September 30, 2008. The related loan, interest and miscellaneous charges receivable amounted to \$310,320, \$335,307 and \$565, respectively, as of September 30, 2008.

An audit adjustment is not necessary as judgment loans are 100% allowed for.

Cause: The cause of the above condition is the lack of monitoring procedures to ensure that loan reclassifications are recorded in the general ledger.

Effect: The effect of the above condition is incorrect classification of receivables and a potential misstatement of interest income.

Recommendation: We recommend that CDA ensure that adjustments resulting from loan reclassifications are timely recorded.

Prior Year Status: The lack of monitoring procedures to ensure that all loan reclassification adjustments are recorded in the general ledger was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Stuart Smith, Comptroller

Corrective Action: The legal machinations involved with judgments against borrowers are not a black-and-white process. While a summary judgment may be obtained against a borrower as a last resort to recovering a loan, CDA has a high rate of experience with the summary judgment NOT being the final judgment. Often the judgment includes a period where actions by either party may render the judgment void. This is one reason the Loan Department may not ask Accounting to immediately reclassify a judgment loan. The other reason for delays in the past is simply due to understaffing in both the Loan and the Accounting Departments for much of the past two years.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: Beginning in late FY 2009 the Loan and Accounting Departments have been more diligent in booking judgment loans in a timely manner. Beginning in FY 2010 CDA will book loans as judgment loans as soon as there is a court order and if there are any subsequent modifications to the judgment they will be recorded as they occur.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

NMHC Loans Receivable

Finding No. 2008-3

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis. Further, all receivables should be assessed and monitored for collectability. Balances deemed uncollectible should be adequately allowed for. Additionally, calculations of the allowance for loan losses should be regularly reviewed for accuracy, completeness and reasonableness.

Condition: An analysis of NMHC's past due loans was performed to determine the propriety of the allowance for doubtful accounts as of September 30, 2008. This analysis revealed that loans, including interest, which are over one hundred twenty days past due amounted to \$5,974,257 or 66.4% of the total loans with interest receivable of \$8,993,928 as of September 30, 2008.

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

Effect: The effect of the above condition is the increased possibility of loan losses due to borrower nonpayment.

Recommendation: We recommend that follow-up procedures be adhered to. We recommend that evaluations be performed for these loans and a corrective action 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: NMHC's increase in past due loans was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC will perform a detailed review of the adequacy of its reserve for seriously defaulted loans and guaranteed loans for these financial institutions and assess the need to provide additional reserves for defaulted loans which is based on the appraisal value of the property and establish a policy that supports reasonable allowance calculations.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

NMHC Land

Finding No. 2008-4

Criteria: Long-lived assets should be reported at the lower of the carrying amount or fair value. A review of the valuations of real property should be periodically performed by management and adjustments should be made to reflect the lower of the carrying amount or fair market value.

Condition: As of September 30, 2008, NMHC has \$10,271,182 of recorded land. The last appraisal occurred during fiscal year 2003. However, a November 2008 appraisal of two lots with a carrying value of \$256,000 resulted in an \$84,000 decrease in recorded values. Management did not perform an evaluation of the carrying values of the remaining lots. This matter was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of established policies and procedures to periodically review the recorded values of real property and the high cost of obtaining appraisal services.

Effect: The effect of the above condition is a potential misstatement of land.

Recommendation: We recommend that NMHC ensure that long-lived assets are reported at the lower of carrying amount or fair value. Additionally, we recommend that NMHC establish policies and procedures to periodically evaluate the carrying values of long-lived assets.

Prior Year Status: The lack of established policies and procedures of periodic review of recorded values of real property and the high cost of obtaining appraisal services was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC will establish policies and procedures of periodic review of recorded values of real property and obtaining appraisal once every two years.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

NMHC Loan Guarantee Agreements

Finding No. 2008-5

Criteria: An effective system of internal control includes procedures to ensure that contingent liabilities are assessed and reviewed for probable losses.

Condition: NMHC has existing loan guarantee and purchase agreements with certain financial institutions. As of September 30, 2008, NMHC's related loan guarantees amounted to \$16,062,280. Of the total, approximately \$4,550,555 is delinquent and past due. NMHC has received demand notices for \$546,597. NMHC has recorded a related reserve of \$546,597. However, NMHC is unable to determine if an additional reserve should be established due to limited information provided by the financial institutions. NMHC is currently working with the institutions to obtain sufficient information to determine a better estimate of the reserve for loan guarantees.

Cause: The cause of the above condition is the lack of established policies and procedures in assessing the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses.

Effect: The effect of the above condition is the possible misstatement of the reserve for loan guaranty and related accounts.

Recommendation: We recommend that NMHC ensure that the reserve for guaranteed loans is assessed and reviewed for adequacy. Further, we recommend that NMHC establish policies and procedures to assess the adequacy of the reserve for guaranteed loans, both past due and current. Additionally, we recommend that NMHC continue to obtain sufficient information from financial institutions about the status of defaulted loans and determine which of the defaulted loans will likely result in payment or settlement.

Prior Year Status: The lack of established policies and procedures to assess and review the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC will ensure that the reserve for guaranteed loans is assessed and reviewed for adequacy. NMHC will establish internal policies and procedures to assess the value of its properties using comparables of properties sold or leased, or by obtaining information from the Recorder's Office. These assessments and conclusions shall be documented and made readily available. The Accounting Division will work closely with the Loan Division in getting appraisals once every two years as per management recommendations.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

Allowable Costs/Cost Principles

Finding No. 2008-6

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---------------------------|--------------------------|---|---------------------|---|----------|----------|----------|----------|--------|--------|-------|----------|----------|---------|----------|----------|----|----------|----------|---------|----------|----------|---|----------|----------|--------|--------|--------|-----|--|--|--|--|--|---------------|---------|-----------------------|---------------------|----------|--------|--------|----------|--------|-----|----------|----------|-------|----------|--------|-----|----------|--------|-------|----------|--------|-------|--|--|-----------------|-------------------------|---------|---------------------------|---------------------|----------|----------|--------|----------|---------|-----------------------|---------------------|----------|---------|----------|-------------------------|---------|---------------------------|--------------------------|---------------------------------------|----------|----------|----------|--------|--------|-------|-------|--|
| U.S. Department of Housing and Urban Development / Section 8 Housing Choice Vouchers / CFDA #14.871 / Federal Award # TQ901 / Federal Award Period 10/01/07 - 09/30/08 | <p>Criteria: In accordance with 24 CFR Section 982.158 and 982 subpart K, the PHA must pay monthly housing assistance payments (HAP) on behalf of the family that corresponds with the amount on line 12u of the HUD-50058, Family Report. This HAP amount must be reflected on the HAP contract and HAP register.</p> <p>Condition: Of seventy-four HAP rental disbursements and five utility assistance reimbursements tested, we noted the following:</p> <p>1. The HAP disbursement relating to four participants did not correspond with the required HAP indicated in the form HUD-50058 and the HAP contract. Details are as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Certification Effective</th> <th style="text-align: center;">GL Date</th> <th style="text-align: center;">Account/ Household No.</th> <th style="text-align: center;">HAP Disbursement</th> <th style="text-align: center;">HAP per HUD -50058 and HAP Contract</th> <th style="text-align: center;">Variance</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">09/01/07</td> <td style="text-align: center;">11/02/07</td> <td style="text-align: center;">HVC01086</td> <td style="text-align: right;">\$ 719</td> <td style="text-align: right;">\$ 690</td> <td style="text-align: right;">\$ 29</td> </tr> <tr> <td style="text-align: center;">09/01/07</td> <td style="text-align: center;">12/03/07</td> <td style="text-align: center;">HO1143A</td> <td style="text-align: right;">\$ 1,109</td> <td style="text-align: right;">\$ 1,042</td> <td style="text-align: right;">67</td> </tr> <tr> <td style="text-align: center;">12/01/07</td> <td style="text-align: center;">03/03/08</td> <td style="text-align: center;">HO1051A</td> <td style="text-align: right;">\$ 1,041</td> <td style="text-align: right;">\$ 1,032</td> <td style="text-align: right;">9</td> </tr> <tr> <td style="text-align: center;">05/15/08</td> <td style="text-align: center;">09/03/08</td> <td style="text-align: center;">HO1227</td> <td style="text-align: right;">\$ 858</td> <td style="text-align: right;">\$ 712</td> <td style="text-align: right;">146</td> </tr> <tr> <td colspan="5"></td> <td style="text-align: right;"><u>\$ 251</u></td> </tr> </tbody> </table> <p>2. For six HAP disbursements, the supporting HUD-50058 and HAP contract/lease amendment covering the period tested were not on file. Details are as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">GL Date</th> <th style="text-align: center;">Account/Household No.</th> <th style="text-align: center;">HAP Disbursement</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">01/01/08</td> <td style="text-align: center;">HO1212</td> <td style="text-align: right;">\$ 520</td> </tr> <tr> <td style="text-align: center;">07/31/08</td> <td style="text-align: center;">HO1185</td> <td style="text-align: right;">706</td> </tr> <tr> <td style="text-align: center;">09/03/08</td> <td style="text-align: center;">HCV01005</td> <td style="text-align: right;">1,100</td> </tr> <tr> <td style="text-align: center;">09/03/08</td> <td style="text-align: center;">HO1185</td> <td style="text-align: right;">706</td> </tr> <tr> <td style="text-align: center;">05/02/08</td> <td style="text-align: center;">HR009B</td> <td style="text-align: right;">1,100</td> </tr> <tr> <td style="text-align: center;">09/04/08</td> <td style="text-align: center;">HR009B</td> <td style="text-align: right;">1,100</td> </tr> <tr> <td colspan="2"></td> <td style="text-align: right;"><u>\$ 5,232</u></td> </tr> </tbody> </table> <p>3. For one HAP disbursement, the amount paid to the landlord was overstated by \$24 due to an error in calculating pro-rated HAP covering May 2008.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Certification Effective</th> <th style="text-align: center;">GL Date</th> <th style="text-align: center;">Account/ Household No.</th> <th style="text-align: center;">HAP Disbursement</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">05/14/08</td> <td style="text-align: center;">06/02/08</td> <td style="text-align: center;">HO1224</td> <td style="text-align: right;">\$ 1,981</td> </tr> </tbody> </table> <p>4. For one participant under portability, the HUD-50058 from the receiving PHA covering the period tested was not in the tenant's file. However, no questioned costs arise as the HAP was agreed to a billing received from the receiving PHA.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">GL Date</th> <th style="text-align: center;">Account/Household No.</th> <th style="text-align: center;">HAP Disbursement</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">09/08/08</td> <td style="text-align: center;">HO1089A</td> <td style="text-align: right;">\$ 1,445</td> </tr> </tbody> </table> <p>5. The actual utility reimbursement made to one participant did not agree to the utility allowance indicated in HUD-50058 as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Certification Effective</th> <th style="text-align: center;">GL Date</th> <th style="text-align: center;">Account/ Household No.</th> <th style="text-align: center;">Utility Reimbursement</th> <th style="text-align: center;">Utility Allowance Per HUD-50058</th> <th style="text-align: center;">Variance</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">11/01/07</td> <td style="text-align: center;">12/06/07</td> <td style="text-align: center;">H01087</td> <td style="text-align: right;">\$ 142</td> <td style="text-align: right;">\$ 69</td> <td style="text-align: right;">\$ 73</td> </tr> </tbody> </table> | Certification Effective | GL Date | Account/ Household No. | HAP Disbursement | HAP per HUD -50058 and HAP Contract | Variance | 09/01/07 | 11/02/07 | HVC01086 | \$ 719 | \$ 690 | \$ 29 | 09/01/07 | 12/03/07 | HO1143A | \$ 1,109 | \$ 1,042 | 67 | 12/01/07 | 03/03/08 | HO1051A | \$ 1,041 | \$ 1,032 | 9 | 05/15/08 | 09/03/08 | HO1227 | \$ 858 | \$ 712 | 146 | | | | | | <u>\$ 251</u> | GL Date | Account/Household No. | HAP Disbursement | 01/01/08 | HO1212 | \$ 520 | 07/31/08 | HO1185 | 706 | 09/03/08 | HCV01005 | 1,100 | 09/03/08 | HO1185 | 706 | 05/02/08 | HR009B | 1,100 | 09/04/08 | HR009B | 1,100 | | | <u>\$ 5,232</u> | Certification Effective | GL Date | Account/ Household No. | HAP Disbursement | 05/14/08 | 06/02/08 | HO1224 | \$ 1,981 | GL Date | Account/Household No. | HAP Disbursement | 09/08/08 | HO1089A | \$ 1,445 | Certification Effective | GL Date | Account/ Household No. | Utility Reimbursement | Utility Allowance Per HUD-50058 | Variance | 11/01/07 | 12/06/07 | H01087 | \$ 142 | \$ 69 | \$ 73 | <p>\$ 251</p> <p>5,232</p> <p>24</p> <p>73</p> |
| Certification Effective | GL Date | Account/ Household No. | HAP Disbursement | HAP per HUD -50058 and HAP Contract | Variance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 09/01/07 | 11/02/07 | HVC01086 | \$ 719 | \$ 690 | \$ 29 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 09/01/07 | 12/03/07 | HO1143A | \$ 1,109 | \$ 1,042 | 67 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12/01/07 | 03/03/08 | HO1051A | \$ 1,041 | \$ 1,032 | 9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 05/15/08 | 09/03/08 | HO1227 | \$ 858 | \$ 712 | 146 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | <u>\$ 251</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GL Date | Account/Household No. | HAP Disbursement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 01/01/08 | HO1212 | \$ 520 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 07/31/08 | HO1185 | 706 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 09/03/08 | HCV01005 | 1,100 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 09/03/08 | HO1185 | 706 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 05/02/08 | HR009B | 1,100 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 09/04/08 | HR009B | 1,100 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | <u>\$ 5,232</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Certification Effective | GL Date | Account/ Household No. | HAP Disbursement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 05/14/08 | 06/02/08 | HO1224 | \$ 1,981 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| GL Date | Account/Household No. | HAP Disbursement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 09/08/08 | HO1089A | \$ 1,445 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Certification Effective | GL Date | Account/ Household No. | Utility Reimbursement | Utility Allowance Per HUD-50058 | Variance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11/01/07 | 12/06/07 | H01087 | \$ 142 | \$ 69 | \$ 73 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-6, Continued

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | |
|----------------|--|------------------------------|------------------------------|------------------------------|----------|--------|--------|-----|
| | <u>Condition, Continued:</u> | | | | | | | |
| | 6. For one utility reimbursement, the supporting HUD-50058 covering the period tested was not on file. Details are as follows: | | | | | | | |
| | <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>Account/Household No.</u></th> <th style="text-align: center;"><u>Utility Reimbursement</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">07/31/08</td> <td style="text-align: center;">HR009B</td> <td style="text-align: center;">\$ 102</td> </tr> </tbody> </table> | <u>GL Date</u> | <u>Account/Household No.</u> | <u>Utility Reimbursement</u> | 07/31/08 | HR009B | \$ 102 | 102 |
| <u>GL Date</u> | <u>Account/Household No.</u> | <u>Utility Reimbursement</u> | | | | | | |
| 07/31/08 | HR009B | \$ 102 | | | | | | |
| | 7. Complete copies of pre-posting reports for the months of October and November 2007, evidencing verification and review by the Housing Manager prior to HAP disbursement, could not be located. No questioned costs arise as the Housing Manager's initials were evident in the cancelled check copies. | | | | | | | |
| | <u>Cause:</u> The causes of the above condition are lack of adequate monitoring procedures to ensure that HAP amounts are updated and adjusted to the system for any changes resulting from annual and/or interim reexaminations or other related actions taken and lack of internal controls over file maintenance. | | | | | | | |
| | <u>Effect:</u> The effect of the above condition is the misstatement of HAP payments and questioned costs of \$5,682. This matter is reportable as the projected questioned costs exceed \$10,000. | | | | | | | |
| | <u>Recommendation:</u> We recommend NMHC establish adequate monitoring procedures to ensure that changes to HAP amounts are updated and adjusted in the system. Additionally, we recommend that NMHC establish policies and procedures for the timely identification and reconciliation of variances between actual HAP disbursements and HAP per HUD-50058 and the HAP contract. We further recommend that NMHC strengthen internal controls over file maintenance. | | | | | | | |
| | <u>Prior Year Status:</u> The lack of adequate monitoring procedures to ensure that HAP amounts are updated and adjusted to the system for any changes resulting from annual and/or interim reexaminations or other related actions taken and lack of internal controls over file maintenance was reported as a finding in the Single Audit of CDA for fiscal year 2007. | | | | | | | |
| | <u>Auditee Response and Corrective Action Plan:</u> | | | | | | | |
| | Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing | | | | | | | |
| | Corrective Action: NMHC will review and cross-check occupancy rent calculations and Section 8 Tenant and Landlord data before HAP disbursement. The Housing Specialist will follow the link from occupancy and rent calculation to Section 8 Tenant Landlord. Corrective action will be taken by NMHC to ensure that preposting report is printed and verified by the PHD Manager with a copy thereof at the Fiscal Division. | | | | | | | |
| | Proposed Completion Date: Immediately | | | | | | | |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Eligibility

Finding No. 2008-7

| Program | Reason for Questioned Costs | Questioned Costs |
|--|---|------------------|
| <p>U.S. Department of Housing and Urban Development / Section 8 New Construction and Substantial Rehabilitation / CFDA #14.182 / Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001 / Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09</p> | <p>Criteria: Owners must develop a method to maintain documentation of the waiting list composition, application status, and actions taken. Further, owners should periodically analyze their waiting list policies and documentation procedures to determine whether an independent party reviewing the list and its supporting documentation could follow the actions taken, applicable preferences, and reasons why certain individuals may have been selected ahead of others on the waiting list. If not, the owner must make the waiting list format and associated practices more transparent.</p> <p>Condition: During examination of the tenant files for fifty tenants receiving housing assistance in fiscal year 2008, records of the waiting lists from which these tenants were selected were not provided. We were unable to determine if selection of these tenants were in accordance with NMHC's admission policies in its administrative plan. The housing assistance payments for the specific periods examined relating to the fifty tenants amounted to \$52,677.</p> <p>Cause: The cause of the above condition is the lack of established policies and procedures in maintaining documentation of the waiting list.</p> <p>Effect: The effect of the above condition is noncompliance with waiting list management compliance requirements and questioned costs of \$52,677.</p> <p>Recommendation: We recommend NMHC maintain records of waiting lists on a periodic basis and file this information in the tenant file and/or in a central waiting list selection file.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing</p> <p>Corrective Action: The waiting list and selection of applicants is based on the following (1) applicant selected on first-come, first-served basis depending on the unit size available; (2) applicant selected on NMHC discretion like referral victims' families with documentation; (3) applicant selected with notations as to why family is skipped on the waiting list; unable to contact, no security deposit available within time frame given; and (4) upon selection of applicant, Housing Specialist will print a list of applicants for the unit size selected and place the document in the tenant's file for prospective move-in.</p> <p>NMHC will maintain a record of waiting lists and selection. Further, NMHC will file this information in the tenant's file.</p> <p>Proposed Completion Date: Immediately</p> | <p>52,677</p> |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Eligibility

Finding No. 2008-8

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|-------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--|--------------------------------|--|--------------------------------|-----|-----|----------|--------------|----------|----------|----------|----------|----------|-----|-----|----------|--------------|-----------|----------|----------|----------|----------|-------|
| U.S. Department of Housing and Urban Development / Section 8 New Construction and Substantial Rehabilitation / CFDA #14.182 / Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001 / Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09 | <p>Criteria: Assisted tenants must have only one residence and receive assistance only in that unit. Tenants must not receive assistance for two units at the same time. This prohibition does not prevent a person who is currently receiving assistance from applying for an assisted unit in another property. The assisted tenancy in the unit being vacated must end before the subsidy begins in the new unit.</p> <p>Condition: During examination of fifty tenant files, a unit transfer recertification was processed by NMHC. Assistance payments were requested for both the old and the new unit for the same amount and for the same period. As of September 30, 2008, the assistance payments were either unadjusted or not adjusted in subsequent HAP requests.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Old Unit</th> <th style="text-align: center;">New Unit</th> <th style="text-align: center;">Certification Effective</th> <th style="text-align: center;">Period Benefits Received</th> <th style="text-align: center;">Total HAP Per HUD 52670</th> <th style="text-align: center;">Should be HAP</th> <th style="text-align: center;">Overstatement in HAP</th> <th style="text-align: center;">Adjustments During FY 2008 per HUD 52670</th> <th style="text-align: center;">Uncorrected HAP as of 09/30/08</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">M17</td> <td style="text-align: center;">M08</td> <td style="text-align: center;">08/01/07</td> <td style="text-align: center;">12/07 -01/08</td> <td style="text-align: right;">\$ 3,452</td> <td style="text-align: right;">\$ 1,726</td> <td style="text-align: right;">\$ 1,726</td> <td style="text-align: right;">\$ 2,589</td> <td style="text-align: right;">\$ (863)</td> </tr> <tr> <td style="text-align: center;">R20</td> <td style="text-align: center;">R30</td> <td style="text-align: center;">03/01/08</td> <td style="text-align: center;">02/08 -08/08</td> <td style="text-align: right;">\$ 12,334</td> <td style="text-align: right;">\$ 6,167</td> <td style="text-align: right;">\$ 6,167</td> <td style="text-align: right;">\$ 1,762</td> <td style="text-align: right;">\$ 4,405</td> </tr> </tbody> </table> | Old Unit | New Unit | Certification Effective | Period Benefits Received | Total HAP Per HUD 52670 | Should be HAP | Overstatement in HAP | Adjustments During FY 2008 per HUD 52670 | Uncorrected HAP as of 09/30/08 | M17 | M08 | 08/01/07 | 12/07 -01/08 | \$ 3,452 | \$ 1,726 | \$ 1,726 | \$ 2,589 | \$ (863) | R20 | R30 | 03/01/08 | 02/08 -08/08 | \$ 12,334 | \$ 6,167 | \$ 6,167 | \$ 1,762 | \$ 4,405 | 2,661 |
| Old Unit | New Unit | Certification Effective | Period Benefits Received | Total HAP Per HUD 52670 | Should be HAP | Overstatement in HAP | Adjustments During FY 2008 per HUD 52670 | Uncorrected HAP as of 09/30/08 | | | | | | | | | | | | | | | | | | | | | |
| M17 | M08 | 08/01/07 | 12/07 -01/08 | \$ 3,452 | \$ 1,726 | \$ 1,726 | \$ 2,589 | \$ (863) | | | | | | | | | | | | | | | | | | | | | |
| R20 | R30 | 03/01/08 | 02/08 -08/08 | \$ 12,334 | \$ 6,167 | \$ 6,167 | \$ 1,762 | \$ 4,405 | | | | | | | | | | | | | | | | | | | | | |

Total uncorrected overstatements in housing assistance payments amounted to \$3,542. Of the amount, \$881 is already questioned at Finding No. 2008-7.

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that housing assistance in units being vacated is discontinued in a timely manner.

Effect: The effect of the above condition is an overstatement of housing assistance payments and questioned costs of \$2,661. This matter is reportable since the projected questioned costs exceed \$10,000.

Recommendation: We recommend that NMHC establish adequate monitoring procedures to ensure that assisted tenancy in units being vacated is discontinued in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will make necessary adjustments on the March 2010 HAP claims.

Proposed Completion Date: Fiscal year 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Eligibility

Finding No. 2008-9

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---------------------------|---|--|--|--|--|--------------------------------|----------------------------|--------------------|--|--------|----------|---|-----------|-----------|------------|--------|--------|-------|-----|--------|----------|---|----------|----------|------------|--------|--------|-------|-----|--------|----------|---|----------|----------|------------|----------|----------|-------|-----|--------|----------|---|------------|------------|----------|--------|--------|-------|-----|---------------------------|----------------------------|-------------|-----------|--|----------|----------|----------|----------|--|--------|----------|--------|----------|--|--------|----------|--------|----------|--|-------|--|--|--------|--|-------------------------------------|--|--|---------|--|-------------------------------|--|--|----------|-------|---------------------------|----------------------------|-------------|-----------|--|----------|----------|--------|----------|--|--------|----------|--------|----------|--|---------|----------|----------|----------|--|--|--|--|-----------|--------|---------------------------|------------------|-------------|-----------|--|--------|----------|----------|----------|--|-------------------------------------|--|--|---------|--|-------------------------------|--|--|----------|-------|--|
| U.S. Department of Housing and Urban Development / Section 8 Housing Choice Vouchers / CFDA #14.871 / Federal Award # TQ901 / Federal Award Period 10/01/07 - 09/30/08 | <p><u>Criteria:</u> Pursuant to Section 7 of Section 8 Administrative Plan for Rental Housing Assistance, HAP are based on annual or total income (monetary or not) a family is anticipated to receive from a source outside the family in the 12 months following admission or reexamination minus allowable exclusions and mandatory allowances and deductions. Income from all sources of each member of the household who is eighteen (18) years or older shall be accounted.</p> <p><u>Condition:</u> During examination of sixty-six tenant files, the following were noted:</p> <p>1. For four items, the recalculated HAP was lower than the HAP calculated and paid by NMHC as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Account/ Household No.</th> <th>Certification Effective</th> <th>Unit Size</th> <th>Should be Income (Allow- ance)</th> <th>Income (Allow- ance) per NMHC</th> <th>Variance in Income or Allow- ance</th> <th>Should be Monthly HAP</th> <th>Monthly HAP per NMHC</th> <th>Variance in HAP</th> <th></th> </tr> </thead> <tbody> <tr> <td>HO1116</td> <td>04/01/08</td> <td>3</td> <td>\$ 15,550</td> <td>\$ 14,321</td> <td>\$ (1,229)</td> <td>\$ 953</td> <td>\$ 983</td> <td>\$ 30</td> <td style="text-align: right;">180</td> </tr> <tr> <td>HO1187</td> <td>06/01/08</td> <td>2</td> <td>\$ 8,046</td> <td>\$ 5,907</td> <td>\$ (2,139)</td> <td>\$ 677</td> <td>\$ 725</td> <td>\$ 48</td> <td style="text-align: right;">192</td> </tr> <tr> <td>HO1213</td> <td>10/15/07</td> <td>3</td> <td>\$ 8,722</td> <td>\$ 7,384</td> <td>\$ (1,338)</td> <td>\$ 1,045</td> <td>\$ 1,078</td> <td>\$ 33</td> <td style="text-align: right;">380</td> </tr> <tr> <td>HO1171</td> <td>01/01/08</td> <td>3</td> <td>\$ (1,440)</td> <td>\$ (1,920)</td> <td>\$ (480)</td> <td>\$ 769</td> <td>\$ 781</td> <td>\$ 12</td> <td style="text-align: right;">108</td> </tr> </tbody> </table> <p>2. For three tenants, eligibility determination could not be completed as the HUD Form 50058 could not be located in file. Details are as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Account/ Household No.</th> <th>Certification Effective</th> <th>Monthly HAP</th> <th>Total HAP</th> <th></th> </tr> </thead> <tbody> <tr> <td>HCV01005</td> <td>09/01/08</td> <td>\$ 1,100</td> <td>\$ 1,100</td> <td></td> </tr> <tr> <td>HO1185</td> <td>06/01/08</td> <td>\$ 706</td> <td>\$ 2,824</td> <td></td> </tr> <tr> <td>HO1212</td> <td>10/01/07</td> <td>\$ 520</td> <td>\$ 6,240</td> <td></td> </tr> <tr> <td>Total</td> <td></td> <td></td> <td>10,164</td> <td></td> </tr> <tr> <td>Amount already questioned at 2008-6</td> <td></td> <td></td> <td>(3,032)</td> <td></td> </tr> <tr> <td>Questioned costs this finding</td> <td></td> <td></td> <td>\$ 7,132</td> <td style="text-align: right;">7,132</td> </tr> </tbody> </table> <p>3. For three tenants, income eligibility determination could not be performed as the requested documents supporting tenant income and assets and third party verifications could not be located in file. Details are as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Account/ Household No.</th> <th>Certification Effective</th> <th>Monthly HAP</th> <th>Total HAP</th> <th></th> </tr> </thead> <tbody> <tr> <td>HCV01144</td> <td>12/01/06</td> <td>\$ 585</td> <td>\$ 1,170</td> <td></td> </tr> <tr> <td>HO1216</td> <td>11/01/07</td> <td>\$ 682</td> <td>\$ 7,502</td> <td></td> </tr> <tr> <td>HO1402A</td> <td>07/01/07</td> <td>\$ 1,100</td> <td>\$ 9,900</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>\$ 18,572</td> <td style="text-align: right;">18,572</td> </tr> </tbody> </table> <p>4. For one tenant, an income eligibility determination could not be performed as the HUD Form 50058, quality control review worksheet and documents supporting the tenant's income and assets and third party verifications could not be located in the tenant file.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Account/ Household No.</th> <th>Period Tested</th> <th>Monthly HAP</th> <th>Total HAP</th> <th></th> </tr> </thead> <tbody> <tr> <td>HR009B</td> <td>05/01/08</td> <td>\$ 1,100</td> <td>\$ 5,500</td> <td></td> </tr> <tr> <td>Amount already questioned at 2008-6</td> <td></td> <td></td> <td>(2,200)</td> <td></td> </tr> <tr> <td>Questioned costs this finding</td> <td></td> <td></td> <td>\$ 3,300</td> <td style="text-align: right;">3,300</td> </tr> </tbody> </table> | Account/ Household No. | Certification Effective | Unit Size | Should be Income (Allow- ance) | Income (Allow- ance) per NMHC | Variance in Income or Allow- ance | Should be Monthly HAP | Monthly HAP per NMHC | Variance in HAP | | HO1116 | 04/01/08 | 3 | \$ 15,550 | \$ 14,321 | \$ (1,229) | \$ 953 | \$ 983 | \$ 30 | 180 | HO1187 | 06/01/08 | 2 | \$ 8,046 | \$ 5,907 | \$ (2,139) | \$ 677 | \$ 725 | \$ 48 | 192 | HO1213 | 10/15/07 | 3 | \$ 8,722 | \$ 7,384 | \$ (1,338) | \$ 1,045 | \$ 1,078 | \$ 33 | 380 | HO1171 | 01/01/08 | 3 | \$ (1,440) | \$ (1,920) | \$ (480) | \$ 769 | \$ 781 | \$ 12 | 108 | Account/ Household No. | Certification Effective | Monthly HAP | Total HAP | | HCV01005 | 09/01/08 | \$ 1,100 | \$ 1,100 | | HO1185 | 06/01/08 | \$ 706 | \$ 2,824 | | HO1212 | 10/01/07 | \$ 520 | \$ 6,240 | | Total | | | 10,164 | | Amount already questioned at 2008-6 | | | (3,032) | | Questioned costs this finding | | | \$ 7,132 | 7,132 | Account/ Household No. | Certification Effective | Monthly HAP | Total HAP | | HCV01144 | 12/01/06 | \$ 585 | \$ 1,170 | | HO1216 | 11/01/07 | \$ 682 | \$ 7,502 | | HO1402A | 07/01/07 | \$ 1,100 | \$ 9,900 | | | | | \$ 18,572 | 18,572 | Account/ Household No. | Period Tested | Monthly HAP | Total HAP | | HR009B | 05/01/08 | \$ 1,100 | \$ 5,500 | | Amount already questioned at 2008-6 | | | (2,200) | | Questioned costs this finding | | | \$ 3,300 | 3,300 | |
| Account/ Household No. | Certification Effective | Unit Size | Should be Income (Allow- ance) | Income (Allow- ance) per NMHC | Variance in Income or Allow- ance | Should be Monthly HAP | Monthly HAP per NMHC | Variance in HAP | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HO1116 | 04/01/08 | 3 | \$ 15,550 | \$ 14,321 | \$ (1,229) | \$ 953 | \$ 983 | \$ 30 | 180 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HO1187 | 06/01/08 | 2 | \$ 8,046 | \$ 5,907 | \$ (2,139) | \$ 677 | \$ 725 | \$ 48 | 192 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HO1213 | 10/15/07 | 3 | \$ 8,722 | \$ 7,384 | \$ (1,338) | \$ 1,045 | \$ 1,078 | \$ 33 | 380 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HO1171 | 01/01/08 | 3 | \$ (1,440) | \$ (1,920) | \$ (480) | \$ 769 | \$ 781 | \$ 12 | 108 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Account/ Household No. | Certification Effective | Monthly HAP | Total HAP | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HCV01005 | 09/01/08 | \$ 1,100 | \$ 1,100 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HO1185 | 06/01/08 | \$ 706 | \$ 2,824 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HO1212 | 10/01/07 | \$ 520 | \$ 6,240 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | | 10,164 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Amount already questioned at 2008-6 | | | (3,032) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Questioned costs this finding | | | \$ 7,132 | 7,132 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Account/ Household No. | Certification Effective | Monthly HAP | Total HAP | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HCV01144 | 12/01/06 | \$ 585 | \$ 1,170 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HO1216 | 11/01/07 | \$ 682 | \$ 7,502 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HO1402A | 07/01/07 | \$ 1,100 | \$ 9,900 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | \$ 18,572 | 18,572 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Account/ Household No. | Period Tested | Monthly HAP | Total HAP | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HR009B | 05/01/08 | \$ 1,100 | \$ 5,500 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Amount already questioned at 2008-6 | | | (2,200) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Questioned costs this finding | | | \$ 3,300 | 3,300 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-9, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|--|------------------|
| | <p><u>Cause:</u> The cause of the above conditions is lack of adequate policies and procedures in the calculation and review of family income determination supporting eligibility.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$29,864.</p> <p><u>Recommendation:</u> We recommend that NMHC strengthen policies and procedures in the calculation and review of family income determination supporting eligibility.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing</p> <p>Corrective Action: NMHC ensures that its policies regarding eligibility documentation requirements will be complied with.</p> <p>Proposed Completion Date: Immediately</p> | |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Procurement and Suspension and Debarment

Finding No. 2008-10

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | |
|--|---|-------------------|----------------|-------------------|----------|------|----------|----------|------|-------|----------|------|--------------|--|--|-----------------|---|
| U.S. Department of Housing and Urban Development / Community Development Block Grants/ Special Purpose Grants/ Insular Areas / CFDA #14.225 / Federal Award # B-05-ST-69-0001 / Federal Award Period 10/01/06 - 09/30/11 | <p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Further, brand names should not be indicated in the request of proposals or solicitations so as not to limit competition. Specifically, the CNMI's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Price quotations should be obtained from at least three vendors for purchases between \$2,500 and \$9,999.99. Any price quotations obtained must be written, documented and submitted for approval. Bidding is not required for procurement under \$2,500. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. The invitation for bids shall be publicized in order to increase competition and broaden industry participation. A bidding period of at least thirty days shall be provided unless a shorter period is determined to be reasonable and necessary, but shall never be less than fifteen days. • For procurement methods that permit contracting without using full and open competition, a written justification memo should be prepared and submitted by the expenditure authority and approved by the Procurement and Supply Director. • For change orders, the agency shall thoroughly assess whether or not it would be more prudent to seek competition before adding significant new work to existing contracts. Change orders on construction and A&E contracts, which exceed 25% of the cumulative contract price, shall automatically be procured through competitive procedures, except when the procurement of the additional work to be performed is authorized without using full and open competition. <p><u>Condition:</u> Of \$2,345,446 program expenses, fifty-four items, totaling \$1,765,262 were tested. Tests of expenses noted the following:</p> <ol style="list-style-type: none"> 1. The CNMI Procurement Regulations do not require bidding or solicitations for purchases below \$2,500. For three disbursements, price quotations or documentation evidencing competitive procurement could not be provided. <table border="1" style="margin-left: 40px; margin-top: 10px;"> <thead> <tr> <th style="text-align: center;"><u>G/L Date</u></th> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>G/L Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">06/17/08</td> <td style="text-align: center;">2695</td> <td style="text-align: right;">\$ 2,179</td> </tr> <tr> <td style="text-align: center;">10/26/07</td> <td style="text-align: center;">1038</td> <td style="text-align: right;">1,613</td> </tr> <tr> <td style="text-align: center;">05/22/08</td> <td style="text-align: center;">2493</td> <td style="text-align: right;"><u>2,486</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>\$ 6,278</u></td> </tr> </tbody> </table> 2. For one contract (NMHC-2008-007), we noted two change orders (CO #1 for \$61,239 and CO #3 for \$67,076) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although there was documentation of additional work to be performed, the justification documenting that the additional work could not be foreseen at the time of the original contract was procured or that an emergency situation existed was not evident. Total expenditures incurred related to this contract for the period ended September 30, 2008 amounted to \$143,384. | <u>G/L Date</u> | <u>Check #</u> | <u>G/L Amount</u> | 06/17/08 | 2695 | \$ 2,179 | 10/26/07 | 1038 | 1,613 | 05/22/08 | 2493 | <u>2,486</u> | | | <u>\$ 6,278</u> | <p style="text-align: right;">6,278</p> <p style="text-align: right;">143,384</p> |
| <u>G/L Date</u> | <u>Check #</u> | <u>G/L Amount</u> | | | | | | | | | | | | | | | |
| 06/17/08 | 2695 | \$ 2,179 | | | | | | | | | | | | | | | |
| 10/26/07 | 1038 | 1,613 | | | | | | | | | | | | | | | |
| 05/22/08 | 2493 | <u>2,486</u> | | | | | | | | | | | | | | | |
| | | <u>\$ 6,278</u> | | | | | | | | | | | | | | | |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-10, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|---|------------------|
| | <p><u>Condition, Continued:</u></p> <p>3. For one contract (# 2008-005), the scope of work included in the invitation to bid specified a brand name. No questioned cost exists because NMHC received acceptance from the grantor in an email dated March 27, 2008.</p> <p>4. For one disbursement (check no. 2705), the procurement documents evidencing competitive procurement were not made available. The total expenditures charged to the program for the year ended September 30, 2008 amounted to \$6,710.</p> <p><u>Cause:</u> The causes of the above conditions are inadequate documentation of purchases and weak controls over ensuring that all procurement policies and procedures are implemented.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$156,372.</p> <p><u>Recommendation:</u> We recommend that NMHC strengthen internal controls over procurement to maximize competition. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file. We further recommend that NMHC strengthen procedures on procurement file maintenance. Finally, we recommend that NMHC follow federal procurement regulations that prohibit specifying brand names in order to provide full and open competition.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Edith Fejeran, Office Manager</p> <p>Corrective Action:</p> <p>1) \$6,278 - NMHC ensures that solicitation from travel agencies will again be done as part of its procedures to obtain quotations for airfares and services to maximize competition.</p> <p>Proposed Completion Date: Ongoing</p> <p>Name of Contact Persons: Edith Fejeran, Office Manager & Zenie Mafnas, Grant Writer/Planner</p> <p>Corrective Action:</p> <p>2) \$143,384 - documentation outlining unforeseen emergency situation submitted by WTF Program Manager and resubmitted here - the owner and operator of the reservoir, CUC, requested for CO #1 the day after NTP was issued to bypass the connection so 1,027 customers would not be without water for five months. Supporting attachments were also previously submitted to the auditors along with the letter explaining such. Please see these for a comprehensive explanation. Change order #3 was also necessitated by unforeseen circumstances and the funding utilized were CIP funds unrelated to NMHC.</p> <p>Proposed Completion Date: Immediately</p> | 6,710 |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Subrecipient Monitoring

Finding No. 2008-11

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | |
|---|--|-------------------------|------------------------------------|---|---|---|---|---|-------------------|---------|
| U.S. Department of Housing and Urban Development / Community Development Block Grants / Special Purpose Grants / Insular Areas / CFDA #14.225 / Federal Award # B-06ST-69-0001 / Federal Award Period 10/01/06 - 09/30/11 | <p><u>Criteria:</u> Pursuant to 24 CFR Part 570.503, before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements under 24 CFR section 570.503. Further, pass-through entities must establish and implement subrecipient monitoring policies and procedures.</p> <p><u>Condition:</u> For three subrecipients tested, progress reports and documentation of site visits evidencing that subrecipient monitoring policies and procedures are implemented could not be provided. A complete list of subrecipients is also not maintained and updated on a regular basis. Details are as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Subrecipient No.</u></th> <th style="text-align: center;"><u>Contract/Purchase Order No.</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">NMHC-PSS-2008-009 NMHC-PSS-2008-011 NMHC-2008-008</td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">2007-004-01 2008-002 PO123981 PO123664</td> </tr> <tr> <td style="text-align: center;">3</td> <td style="text-align: center;">NMHC-PSS-2008-010</td> </tr> </tbody> </table> | <u>Subrecipient No.</u> | <u>Contract/Purchase Order No.</u> | 1 | NMHC-PSS-2008-009 NMHC-PSS-2008-011 NMHC-2008-008 | 2 | 2007-004-01 2008-002 PO123981 PO123664 | 3 | NMHC-PSS-2008-010 | 197,124 |
| <u>Subrecipient No.</u> | <u>Contract/Purchase Order No.</u> | | | | | | | | | |
| 1 | NMHC-PSS-2008-009 NMHC-PSS-2008-011 NMHC-2008-008 | | | | | | | | | |
| 2 | 2007-004-01 2008-002 PO123981 PO123664 | | | | | | | | | |
| 3 | NMHC-PSS-2008-010 | | | | | | | | | |

Cause: The cause of the above condition is failure to implement established monitoring policies and procedures and lack of documentation of monitoring procedures performed.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements and questioned costs of \$197,124.

Recommendation: We recommend that NMHC implement established subrecipient monitoring policies and procedures. We further recommend that NMHC maintain and update a listing of all subrecipients on a regular basis.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Zenie P. Mafnas, Grant Writer/Planner and Clemente Sablan, Technical Coordinator

Corrective Action: An assessment was performed by responsible staff of the entire site upon completion of the facility (Marianas High School Building J) on April 17, 2009. They visited all (8) classrooms in the building to ensure that the classrooms were equipped with the equipment listed under contracts 2008-09 and 2008-11. These personnel noted that contractors complied with the scope of work under the (2) contracts. As with contract 2008-10, they have not been able to perform physical monitoring in the classrooms for the chairs/desks ordered for Tinian Elementary School on the island of Tinian. NMHC will ensure that monitoring is conducted as soon as possible and record evidence of such monitoring. On several occasions, NMHC has been in contact with Julian Hofschneider, Principal of TES, at that time, and he has assured these personnel that chairs/desks were delivered in good condition and are being utilized by the students and faculty.

Proposed Completion Date: November 30, 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Special Tests and Provisions

Finding No. 2008-12

| Program | Reason for Questioned Costs | | | | | | | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|--|---|--|--------------------------------|--|--|------------------|---------------------------|--|---|--|--------------------------------|--|--|-------------|----------|------------|------------|------------|------------|-----------|--------|-------------|----------|------------|------------|------------|------------|-----------|--------|-------------|----------|------------|------------|------------|------------|-----------|--------|-------------|----------|------------|------------|------------|------------|-----------|--------|--------------------------------------|
| U.S. Department of Housing and Urban Development / Section 8 New Construction and Substantial Rehabilitation / CFDA #14.182 / Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001 / Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09 | <p>Criteria: In accordance with federal regulations, the initial renewal rent applicable to NMHC projects is determined at the lesser of (a) the annual adjusted rent potential of expiring contracts and (b) the section 8 contract rent potential from the budget-based rent determination.</p> <p>Condition: The budgets reported by NMHC in the budget worksheet attached to the contract renewal request forms for the projects below are higher compared to the historical results of NMHC's actual expenses from prior fiscal years and are inconsistent with established budgets for the related fiscal year.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Project No.</th> <th style="text-align: center;">NMHC's Certification Date</th> <th style="text-align: center;">Budget Reported in the Contract Renewal Request Form</th> <th style="text-align: center;">Per NMHC's Budget Schedule for Fiscal Year 2007</th> <th style="text-align: center;">Average Actual Expenses (from Fiscal Years 2005 thru 2007)</th> <th style="text-align: center;">Total Rent Approved by Grantor</th> <th style="text-align: center;">Excess of Approved Rent over Average Actual Expenditures</th> <th style="text-align: center;">Estimated Project Occupancy Rate during Fiscal Year 2008</th> </tr> </thead> <tbody> <tr> <td>TQ100011005</td> <td>04/19/07</td> <td>\$ 502,964</td> <td>\$ 470,328</td> <td>\$ 464,554</td> <td>\$ 488,088</td> <td>\$ 23,534</td> <td>93.73%</td> </tr> <tr> <td>TQ100016004</td> <td>06/05/08</td> <td>\$ 517,263</td> <td>\$ 246,204</td> <td>\$ 258,673</td> <td>\$ 274,680</td> <td>\$ 16,007</td> <td>91.09%</td> </tr> <tr> <td>TQ100006004</td> <td>04/19/07</td> <td>\$ 305,800</td> <td>\$ 273,840</td> <td>\$ 211,088</td> <td>\$ 286,680</td> <td>\$ 75,592</td> <td>40.31%</td> </tr> <tr> <td>TQ100011001</td> <td>04/19/07</td> <td>\$ 215,500</td> <td>\$ 188,004</td> <td>\$ 180,639</td> <td>\$ 198,456</td> <td>\$ 17,817</td> <td>91.91%</td> </tr> </tbody> </table> | | | | | | | Project No. | NMHC's Certification Date | Budget Reported in the Contract Renewal Request Form | Per NMHC's Budget Schedule for Fiscal Year 2007 | Average Actual Expenses (from Fiscal Years 2005 thru 2007) | Total Rent Approved by Grantor | Excess of Approved Rent over Average Actual Expenditures | Estimated Project Occupancy Rate during Fiscal Year 2008 | TQ100011005 | 04/19/07 | \$ 502,964 | \$ 470,328 | \$ 464,554 | \$ 488,088 | \$ 23,534 | 93.73% | TQ100016004 | 06/05/08 | \$ 517,263 | \$ 246,204 | \$ 258,673 | \$ 274,680 | \$ 16,007 | 91.09% | TQ100006004 | 04/19/07 | \$ 305,800 | \$ 273,840 | \$ 211,088 | \$ 286,680 | \$ 75,592 | 40.31% | TQ100011001 | 04/19/07 | \$ 215,500 | \$ 188,004 | \$ 180,639 | \$ 198,456 | \$ 17,817 | 91.91% | 22,060 14,580 30,470 16,380 |
| Project No. | NMHC's Certification Date | Budget Reported in the Contract Renewal Request Form | Per NMHC's Budget Schedule for Fiscal Year 2007 | Average Actual Expenses (from Fiscal Years 2005 thru 2007) | Total Rent Approved by Grantor | Excess of Approved Rent over Average Actual Expenditures | Estimated Project Occupancy Rate during Fiscal Year 2008 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TQ100011005 | 04/19/07 | \$ 502,964 | \$ 470,328 | \$ 464,554 | \$ 488,088 | \$ 23,534 | 93.73% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TQ100016004 | 06/05/08 | \$ 517,263 | \$ 246,204 | \$ 258,673 | \$ 274,680 | \$ 16,007 | 91.09% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TQ100006004 | 04/19/07 | \$ 305,800 | \$ 273,840 | \$ 211,088 | \$ 286,680 | \$ 75,592 | 40.31% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| TQ100011001 | 04/19/07 | \$ 215,500 | \$ 188,004 | \$ 180,639 | \$ 198,456 | \$ 17,817 | 91.91% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

The estimated project occupancy rate during fiscal year 2008 represents the percentage of actual housing assistance payments (excluding utility reimbursements) over total contract rent approved by the grantor.

Cause: The cause of the above condition is the lack of established policies and procedures in determining reasonableness of budgets reported.

Effect: The effect of the above condition is the incorrect determination of contract rents and questioned costs of \$83,490.

Recommendation: We recommend the NMHC ensure that reported budgets are reviewed for reasonableness.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant & Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure that reported budgets are approved by the grantor on time by submitting (OCAF) Operating Cost Adjustment Factor FORM 9624 and 9625, Rent Schedule 92458, Budget Worksheet 92547-A and Operating Cost Adjustment Factor posted on the Federal Register for the particular year. The Auditor should follow the timing principle by using the same fiscal year for the total rent approved by the grantor and actual HAP claims received for the same fiscal year.

Proposed Completion Date: Immediately

Auditor Response: The issue is the need for NMHC to ensure that reported budgets are reasonable. As indicated in the criteria, rent is determined at the lesser of (a) the annual adjustment rent potential of expiring contracts and (b) the Section 8 contract rent potential from the budget-based rent determination. The budget reported by NMHC supporting rent determination appears to be overstated as compared to budgets provided for examination and to actual program expenses in prior years.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Special Tests and Provisions

Finding No. 2008-13

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|------------------------------|-----------------|-----------|----|----------|---------|------|----|----------|---------|-----|----|----------|---------|-------|----|----------|---------|-------|----|----------|---------|-----|----|----------|----------|-------|--|--|--|------------------|---------------|
| U.S. Department of Housing and Urban Development / Section 8 Housing Choice Vouchers / CFDA #14.871 / Federal Award # TQ901 / Federal Award Period 10/01/07 - 09/30/08 | <p><u>Criteria:</u> In accordance with 24 CFR Part 982.204(a), except for special admissions, participants must be selected from the Public Housing Agency (PHA) waiting list. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan.</p> <p><u>Condition:</u> For six of seven tenants tested, we are unable to determine if the participant was selected from the waiting list as the waiting list as of the selection date was not available.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Tenant # Per New Admission and Transfer/Change in Unit Cost</th> <th style="text-align: center;">Date Admitted to the Program</th> <th style="text-align: center;">Type of Voucher</th> <th style="text-align: center;">Total HAP</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">23</td> <td style="text-align: center;">09/11/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">\$ -</td> </tr> <tr> <td style="text-align: center;">06</td> <td style="text-align: center;">08/27/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">746</td> </tr> <tr> <td style="text-align: center;">03</td> <td style="text-align: center;">06/13/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">3,874</td> </tr> <tr> <td style="text-align: center;">08</td> <td style="text-align: center;">08/01/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">2,200</td> </tr> <tr> <td style="text-align: center;">02</td> <td style="text-align: center;">09/08/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">575</td> </tr> <tr> <td style="text-align: center;">04</td> <td style="text-align: center;">05/14/08</td> <td style="text-align: center;">disaster</td> <td style="text-align: right;">4,043</td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 11,438</u></td> </tr> </tbody> </table> | Tenant # Per New Admission and Transfer/Change in Unit Cost | Date Admitted to the Program | Type of Voucher | Total HAP | 23 | 09/11/08 | regular | \$ - | 06 | 08/27/08 | regular | 746 | 03 | 06/13/08 | regular | 3,874 | 08 | 08/01/08 | regular | 2,200 | 02 | 09/08/08 | regular | 575 | 04 | 05/14/08 | disaster | 4,043 | | | | <u>\$ 11,438</u> | <u>11,438</u> |
| Tenant # Per New Admission and Transfer/Change in Unit Cost | Date Admitted to the Program | Type of Voucher | Total HAP | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 23 | 09/11/08 | regular | \$ - | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 06 | 08/27/08 | regular | 746 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 03 | 06/13/08 | regular | 3,874 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 08 | 08/01/08 | regular | 2,200 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 02 | 09/08/08 | regular | 575 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 04 | 05/14/08 | disaster | 4,043 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | <u>\$ 11,438</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Cause: The cause of the above condition is lack of adherence to established policies and procedures to ensure that the selection of participants is completely documented.

Effect: The effect of the above condition is noncompliance with the waiting list requirements and questioned costs of \$11,438.

Recommendation: We recommend that NMHC ensure that the selection of applicants from the waiting list are properly documented and maintained in the files.

Prior Year Status: The lack of adherence to established policies and procedures to ensure that the selection of participants is completely documented was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant & Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: Supporting documents should be found in both SEMAP Indicator No. 01 (Selection of Applicants) and Tenant Files - NMHC will ensure that its SEMAP policies are adhered to. HS is responsible for documentation and is further reinforced by the PHD Manager who is in charge of the oversight responsibility.

Proposed Completion Date: Immediately

Auditor Response: The waiting lists filed in NMHC's files do not include the waiting lists at the time the above tenants were admitted to the program.

Total Questioned Costs \$ 539,308

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Cash Management - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-
0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-14

Criteria: In accordance with applicable cash management requirements, when funds are advanced, recipients must use and follow procedures to minimize the time elapsing between the transfer of grant funds from the U.S. Treasury and disbursement for program activities. The recipient shall be liable for interest on federal funds from the date the federal funds are credited to the recipient's bank account until those funds are paid out and are deducted from that bank account for program purposes.

Additionally, HUD Handbook 4350.3 Chapter 9-13 specifies that the owner must provide the utility reimbursement to the tenant or utility provider within 5 business days of receipt of the assistance payment from HUD.

Condition: Twenty-four of thirty-eight utility reimbursements tested relating to the program cleared between 6 to 259 days after the allowable clearance pattern from the date federal funds were credited to NMHC's account.

Further, NMHC disburses tenant utility reimbursements in accordance with the utility provider's billing schedule which is not consistent with the 5 day requirement indicated in Chapter 9-13 of the HUD Handbook 4350.3 Chapter 9-13.

Cause: The cause of the above condition is payee failure to present checks within the allowable clearance pattern and NMHC's policies relating to disbursements of utility reimbursements not being in accordance with Handbook 4350.3 Chapter 9-13.

Effect: The effect of the above condition is a possible interest liability of \$61. However, no questioned costs result from the condition as the estimated interest liability to the Federal Government is less than \$10,000.

Recommendation: We recommend that NMHC review existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern and ensure that procedures are in line with federal regulations. Further, we recommend that NMHC develop procedures to monitor interest earned on advances and to remit interest in excess of \$100 annually.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC reviews existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Corrective action will be applied by mailing all checks issued from CDBG, HOME and ESG funds via certified mail to maintain the check register in compliance to this finding.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Cash Management - Community Development Block Grants/Special Purpose Grants/Insular Areas
CFDA #14.225, Federal Award # B-06ST-69-0001
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2008-15

Criteria: In accordance with applicable cash management requirements, when funds are advanced, recipients must use and follow procedures to minimize the time elapsing between the transfer of grant funds from the U.S. Treasury and disbursement for program activities. The allowable clearance pattern is three days. The recipient shall be liable for interest on federal funds from the date the federal funds are credited to the recipient's bank account until those funds are paid out and are deducted from that bank account for program purposes.

Condition: For twenty of fifty-five disbursements tested relating to the CDBG program, the following were cleared between one to fifty-six days after the allowable clearance pattern from the date federal funds were credited to NMHC's account. Details are as follows:

| <u>Check #</u> | <u>G/L Amount</u> | <u>Check Clearance Date</u> | <u>Funds Receipt Date</u> | <u>Days Elapsed After 3 Day Clearance Pattern</u> |
|----------------|-------------------|-----------------------------|---------------------------|---|
| 2114 | \$ 30,000 | 04/10/08 | 03/20/08 | 12 |
| 3012 | \$ 42,984 | 08/08/08 | 08/04/08 | 1 |
| 1035 | \$ 53,187 | 01/16/08 | 10/25/07 | 56 |
| 1037 | \$ 44,417 | 10/31/07 | 10/25/07 | 1 |
| 2710 | \$ 99,361 | 07/02/08 | 06/23/08 | 4 |
| 3327 | \$ 58,918 | 10/02/08 | 09/22/08 | 5 |
| 2270 | \$ 16,830 | 04/30/08 | 04/21/08 | 4 |
| 2790 | \$ 17,331 | 07/11/08 | 07/03/08 | 3 |
| 2929 | \$ 26,442 | 08/08/08 | 07/24/08 | 8 |
| 2505 | \$ 26,200 | 06/05/08 | 05/23/08 | 6 |
| 1779 | \$ 22,877 | 02/15/08 | 02/07/08 | 3 |
| 1983 | \$ 18,029 | 03/20/08 | 03/13/08 | 2 |
| 2187 | \$ 26,745 | 04/14/08 | 04/07/08 | 2 |
| 2615 | \$ 18,902 | 06/13/08 | 06/09/08 | 1 |
| 3234 | \$ 8,913 | 09/16/08 | 09/05/08 | 4 |
| 2493 | \$ 2,486 | 05/28/08 | 05/22/08 | 1 |
| 2756 | \$ 7,228 | 07/02/08 | 06/26/08 | 1 |
| 1814 | \$ 27,392 | 04/18/08 | 02/14/08 | 43 |
| 2793 | \$ 13,790 | 07/09/08 | 07/03/08 | 1 |
| 1038 | \$ 1,613 | 11/06/07 | 10/25/07 | 5 |

Cause: The cause of the above condition is weak controls to ensure that checks are disbursed within the allowable clearance pattern.

Effect: The effect of the above condition is a possible interest liability of \$375. However, no questioned costs result from the condition, as the estimated interest liability to the U.S. Department of Housing and Urban Development is less than \$10,000.

Recommendation: We recommend that NMHC review existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Further, we recommend that NMHC develop procedures to monitor interest earned on advances and remit interest in excess of \$100 annually.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-15, Continued

Prior Year Status: The failure of payees to present the checks to the bank within the allowable three day clearance pattern was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC reviews existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Corrective action will be applied by mailing all checks issued from CDBG, HOME and ESG funds via certified mail to maintain the check register in compliance to this finding.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Cash Management - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-16

Criteria: In accordance with applicable cash management requirements, when funds are advanced, recipients must use and follow procedures to minimize the time elapsing between the transfer of grant funds from the U.S. Treasury and disbursement for program activities. The allowable clearance pattern is three days. The recipient shall be liable for interest on federal funds from the date the federal funds are credited to the recipient's bank account until those funds are paid out and are deducted from that bank account for program purposes.

Condition: For forty-six of seventy-nine disbursements tested relating to the Section 8 Voucher program, the following cleared between one to twenty-three days after the allowable clearance pattern from the date federal funds were credited to NMHC's account. Details are as follows:

| <u>Check #</u> | <u>G/L Amount</u> | <u>Check Clearance Date</u> | <u>Funds Receipt Date</u> | <u>Days Elapsed After 3 Day Clearance Pattern</u> |
|----------------|-------------------|-----------------------------|---------------------------|---|
| 3963 | \$ 585 | 10/05/07 | 10/01/07 | 1 |
| 3841 | \$ 600 | 10/09/07 | 10/01/07 | 3 |
| 3872 | \$ 750 | 10/09/07 | 10/01/07 | 3 |
| 3896 | \$ 743 | 10/09/07 | 10/01/07 | 3 |
| 3962 | \$ 1,200 | 10/05/07 | 10/01/07 | 1 |
| 4150 | \$ 750 | 11/07/07 | 11/01/07 | 1 |
| 4175 | \$ 793 | 11/07/07 | 11/01/07 | 1 |
| 4231 | \$ 605 | 11/07/07 | 11/01/07 | 1 |
| 4249 | \$ 650 | 11/08/07 | 11/01/07 | 2 |
| 4495 | \$ 1,300 | 12/07/07 | 12/03/07 | 1 |
| 4784 | \$ 485 | 01/16/08 | 01/02/08 | 7 |
| 4863 | \$ 950 | 01/08/08 | 01/02/08 | 1 |
| 5026 | \$ 12,350 | 01/29/08 | 01/02/08 | 16 |
| 5060 | \$ 750 | 02/07/08 | 02/01/08 | 1 |
| 5090 | \$ 1,300 | 02/11/08 | 02/01/08 | 3 |
| 5121 | \$ 1,078 | 02/11/08 | 02/01/08 | 3 |
| 5693 | \$ 822 | 04/07/08 | 04/01/08 | 1 |
| 5865 | \$ 800 | 04/07/08 | 04/01/08 | 1 |
| 5750 | \$ 850 | 04/07/08 | 04/01/08 | 1 |
| 5913 | \$ 1,100 | 05/07/08 | 05/01/08 | 1 |
| 5938 | \$ 2,167 | 05/07/08 | 05/01/08 | 1 |
| 5992 | \$ 850 | 05/08/08 | 05/01/08 | 2 |
| 6014 | \$ 850 | 05/07/08 | 05/01/08 | 1 |
| 6230 | \$ 1,981 | 06/10/08 | 06/02/08 | 3 |
| 6280 | \$ 650 | 06/10/08 | 06/02/08 | 3 |
| 6336 | \$ 750 | 06/06/08 | 06/02/08 | 1 |
| 6357 | \$ 983 | 06/06/08 | 06/02/08 | 1 |
| 6515 | \$ 950 | 07/16/08 | 07/01/08 | 8 |
| 6540 | \$ 1,100 | 07/07/08 | 07/01/08 | 1 |
| 6782 | \$ 650 | 07/11/08 | 07/01/08 | 5 |
| 6593 | \$ 750 | 07/08/08 | 07/01/08 | 2 |
| 6634 | \$ 900 | 07/08/08 | 07/01/08 | 2 |
| 7179 | \$ 682 | 09/08/08 | 08/01/08 | 23 |
| 7156 | \$ 750 | 08/11/08 | 08/01/08 | 3 |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-16, Continued

Condition, Continued:

| <u>Check #</u> | <u>G/L Amount</u> | <u>Check Clearance Date</u> | <u>Funds Receipt Date</u> | <u>Days Elapsed After 3 Day Clearance Pattern</u> |
|----------------|-------------------|-----------------------------|---------------------------|---|
| 7200 | \$ 879 | 09/08/08 | 09/02/08 | 1 |
| 7228 | \$ 1,300 | 09/08/08 | 09/02/08 | 1 |
| 7255 | \$ 1,100 | 09/08/08 | 09/02/08 | 1 |
| 7276 | \$ 1,300 | 09/08/08 | 09/02/08 | 1 |
| 7349 | \$ 858 | 09/08/08 | 09/02/08 | 1 |
| 7565 | \$ 1,445 | 09/11/08 | 09/02/08 | 4 |
| 3943 | \$ 750 | 10/09/07 | 10/01/07 | 3 |
| 5595 | \$ 498 | 04/07/08 | 04/01/08 | 1 |
| 4011 | \$ 90 | 10/09/07 | 10/01/07 | 3 |
| 5816 | \$ 90 | 04/14/08 | 04/01/08 | 6 |
| 6743 | \$ 90 | 07/08/08 | 07/01/08 | 2 |
| 6833 | \$ 102 | 08/13/08 | 08/01/08 | 5 |

Cause: The cause of the above condition is the failure of payees to present the checks to the bank within the allowable three day clearance pattern.

Effect: The effect of the above condition is a possible interest liability of \$23. However, no questioned costs resulted from the condition, as the estimated interest liability to the U.S. Department of Housing and Urban Development is less than \$10,000.

Recommendation: We recommend that NMHC review existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Further, we recommend that NMHC develop procedures to monitor interest earned on advances and remit interest in excess of \$100 annually.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC reviews existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Corrective action will be applied by mailing all checks issued from CDBG, HOME and ESG funds via certified mail to maintain the check register in compliance to this finding.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Davis-Bacon Act - Community Development Block Grants/Special Purpose Grants/Insular Areas
CFDA #14.225, Federal Award # B-04-ST-69-0001
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2008-17

Criteria: As part of NMHC's control procedures in monitoring compliance with the requirements of the Davis-Bacon Act, interviews of contractor workers at job sites is to be performed.

Condition: Tests of compliance with the Davis-Bacon Act noted that records of employee interviews, to support job site interviews of contractor's employees, were not available for seven CDBG funded projects (contract #s 2008-007, 2007-003, 2007-010, 2008-013, 2008-004, 2008-008 and 2008-015).

Cause: The cause of the above condition is the lack of established monitoring procedures to ensure that job site interviews are performed and documented.

Effect: The effect of the above condition is noncompliance with NMHC's control procedures to ensure that requirements of the Davis-Bacon Act are complied with. No questioned costs result as the related progress billings tested were supported with certified payrolls.

Recommendation: We recommend that NMHC establish monitoring controls to ensure that required procedures relating to job site interviews are performed and documented.

Prior Year Status: The lack of established monitoring procedures to ensure that job site interviews are performed and are properly documented was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Edith C. Fejeran, Office Manager and Clemente S. Sablan, Technical Coordinator

Corrective Action: Employee interviews at the job sites are done and NMHC will ensure compliance with the requirements of the Davis-Bacon Act. The Office Manager will receive job interview sheets and coordinate with field staff accountable for interviewing and documenting worker interviews at CDBG-funded jobsites. Interviews of workers for projects on Saipan will be coordinated between the Office Manager and the Technical Coordinator who conducts all field site visits and inspections. Travel authorizations for off-island projects will not be approved until interviews with prior travels are submitted and filed by the Technical Coordinator with the Accounting Office.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-18

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: During examination of tenant files for fifty tenants receiving housing assistance, the following were noted:

1. Deductions claimed include allowance for dependents which are not legal children of the household head/co-head. The household head and/or co-head are in a guardian/caretaker capacity based on a General/Special Power of Attorney (GPA/SPA) executed by the legal/biological parents of the dependent. We were unable to determine if NMHC performed further verification in addition to obtaining GPA/SPA to ensure that such are valid dependents. Details are as follows:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Dependents Claimed that are not legal children (Household Member Ref. #)</u> | <u>Allowance Claimed</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--------------------------------|---|--------------------------|-------------------|
| K11 | 04/08 | 05/09/07 | 5 | \$ 480 | \$ 838 |
| K23 | 09/08 | 06/01/08 | 5, 6 | \$ 960 | 673 |
| M01 | 06/08 | 10/01/07 | 3, 4, 5, 6, 7, 8, 9 | \$ 3,360 | 1,025 |
| M14 | 10/07 | 02/01/07 | 2 | \$ 480 | 729 |
| M24 | 09/08 | 10/01/07 | 4 | \$ 480 | 751 |
| R05 | 10/07 and 06/08 | 10/01/06 | 2, 3 | \$ 960 | 1,285 |
| R25 | 03/08 | 11/01/07 | 3, 4 | \$ 960 | 775 |
| | | | | | <u>\$ 6,076</u> |

2. Deductions claimed include an allowance for dependent(s). The relationship of the household head/co-head with the dependent is not evident to conclude whether the deduction claimed is for a valid dependent. Details are as follows:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Effective Period of HAP based on HUD-50059</u> | <u>Certification Effective</u> | <u>Household Member Ref.#</u> | <u>Allowance Claimed</u> | <u>HAP Amount</u> |
|-----------------|----------------------|---|--------------------------------|-------------------------------|--------------------------|-------------------|
| R21 | 04/08 | 07/01/07 | 07/01/07 | 3 | \$ 480 | \$ 835 |
| R21 | 08/08 | 07/01/08 | 07/01/08 | 3 | \$ 480 | 832 |
| | | | | | | <u>\$ 1,667</u> |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-18, Continued

Condition, Continued:

3. Deductions claimed include an allowance for a full-time student. The third party verification document obtained during the verification period only stated that the dependent will be returning to school. There is no documentation on file evidencing subsequent verification that the student actually returned to the school and is a full-time student during the period the tenant was receiving housing assistance. Details are as follows:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification/ Recertification Effective Date</u> | <u>HUD-50059 Effective Date</u> | <u>Household Member Ref.#</u> | <u>Allowance Claimed</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--|---|---------------------------------------|------------------------------|-------------------|
| M12 | January 2008 | 12/01/07 | 12/01/07 | 3 | \$ 480 | \$ 915 |

4. Deductions claimed include an allowance for a full-time student. There was no third party verification in file evidencing the dependent is a full-time student. Details are as follows:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Effective Period of HAP based on HUD-50059</u> | <u>Certification Effective Date</u> | <u>Household Member Ref.#</u> | <u>Allowance Claimed</u> | <u>HAP Amount</u> |
|-----------------|----------------------|---|---|---------------------------------------|------------------------------|-------------------|
| K20 | April 2008 | 11/01/07 | 11/01/07 | 6 | \$ 480 | \$ 848 |

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that deductions claimed by the tenant/applicant are verified.

Effect: The effect of the above condition is noncompliance with eligibility requirements. Related housing assistance payments are already questioned at Finding No. 2008-7.

Recommendation: We recommend that NMHC ensure that deductions claimed are verified and agree to relevant supporting documentation.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: 1. and 2. - NMHC will ensure that all General Power of Attorney (GPA) should be coming from the Court and NMHC will no longer accept signed/notarized verification from the biological parent or household member. For families reporting “zero income”, NMHC will coordinate with the Division of Revenue & Taxation to acquire tax documentation and will suspend the acceptance of document(s) signed by tenants relevant to income.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-18, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

3. M12 - NMHC obtained a certification of attendance on 10/29/09. NMHC is waiting for school certification to support necessary adjustments.
4. K20 - A certification of attendance for school year 2006-2007 was obtained; Household #6 is eligible for allowance. Effective 11/08, the tenant is no longer entitled for dependent allowance for #6.

Proposed Completion Date: Immediately

Auditor Response: K20 - NMHC should ensure that documentation supporting the allowance for full-time students is obtained during eligibility determination.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-19

Criteria: Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification. These are, in order of acceptability, third party verification, review of documents, and family certification. When third party verification is not available, owners must document, in the file, efforts made to obtain the required verification and the reason if the verification was not obtained. The owner must include the following documents in the applicant's or tenant's file:

1. A written note to file explaining why third party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party;
3. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
4. A written note to the file indicating that the request has been outstanding without a response from the third party.

Condition: During examination of fifty tenant files, the following were noted:

1. The following tenant/applicant reported other income. No third party verification documentations were in file. However, we did note an affidavit/notarized statements signed by the tenant/applicant. Further, documentation as to why a third party verification is not possible or documentation indicating that efforts were made to obtain third party verifications was not evident in file. Details are as follows:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective Date</u> | <u>HUD-50059 Effective Date</u> | <u>Household Member #</u> | <u>Other Income Reported (Monthly Income)</u> | <u>HAP Amount</u> |
|-----------------|----------------------|-------------------------------------|---------------------------------|---------------------------|---|-------------------|
| M01 | 06/08 | 10/01/07 | 10/01/07 | Head | \$ 50 | \$ 1,025 |
| M09 | 11/07 | 09/01/07 | 09/01/07 | Head | \$ 120 | 1,025 |
| M22 | 06/08 | 05/01/08 | 05/01/08 | Head | \$ 20 | 1,025 |
| M35 | 01/08 | 07/01/07 | 07/01/07 | Head | \$ 23 | 938 |
| R14 | 10/07 and 11/07 | 12/18/06 | 12/18/06 | Head | \$ 160 | <u>1,743</u> |
| | | | | | | <u>\$ 5,756</u> |

2. The following tenant/applicant reported zero income; however, based on the description of work performed by the household member(s), as stated in the statement of unemployment, there may be sources of other income which NMHC did not appear to have verified. Details are as follows:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-19, Continued

Condition, Continued:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Household Member #</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--------------------------------|---------------------------|-------------------|
| M47 | 09/08 | 11/01/07 | Head | \$ 1,025 |

3. For the following reported income, the third party verification obtained could not be located in file:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Household Member #</u> | <u>Income Type</u> | <u>Income Reported (Monthly Income)</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--------------------------------|---------------------------|--------------------|---|-------------------|
| R21 | 04/08 | 07/01/07 | Head | SSI | \$ 391 | \$ 835 |

4. For the following income reported by the applicant/tenant, income included on HUD-50059 did not agree to the related third party verification obtained:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Income Included in Form HUD-50059</u> | <u>Income Per Third Party Verification</u> | <u>Variance</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--------------------------------|--|--|-----------------|-------------------|
| R05 | 06/08 | 11/01/07 | \$ 11,508 | \$ 11,748 | \$ 240 | \$ 652 |

5. For the following, assets were reported by the applicant/tenant; however, a third party verification obtained could not be located in file:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Household Member #</u> | <u>Asset Type</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--------------------------------|---------------------------|-------------------|-------------------|
| M16 | 02/08 | 11/01/07 | Head, 2 | Bank Account | \$ 905 |

Cause: The cause of the above condition is failure to obtain adequate third party verification and failure to document instances when third party verification cannot be obtained.

Effect: The effect of the above condition is noncompliance with eligibility requirements. Related housing assistance payments are questioned at Finding No. 2008-7.

Recommendation: We recommend that NMHC ensure that adequate third party verification is obtained and, when third party verification cannot be obtained, NMHC should ensure that efforts to obtain the required documentation and the reason the verification was not obtained are documented in the tenant file or equivalent.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-19, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. M01, M09, M22, M35 and R14 - We believe that a signed and notarized statement from the tenant constitutes sufficient documentation declaring the true and correct statement of in-kind contribution received.
2. M47 - A verification supporting a full-time volunteer as a pastor with no pay was obtained on 09/02/09.
3. R21 - SSI income is based on the interview that was conducted. NMHC attempted to verify and send a confirmation but no verification was received.
4. R05 - Annual recertification income is based on the interview conducted. HAP should be \$646 based on third party determination. NMHC will make necessary adjustments.
5. M16 - A verification of account was not obtained. Tenant cannot afford to pay the fee of \$25 for bank inquiry.

Further, NMHC will ensure that it will follow its eligibility documentation requirements.

Proposed Completion Date: Fiscal year 2009

Auditor Response: Efforts should be made to obtain third party verification. When third party verification cannot be obtained, such should be evident in the files.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-20

Criteria: Owners must include verification documentation in the tenant file. Further, NMHC accepts the following notarized statements or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household.

1. Affidavit as to assets
2. Statement of unemployment
3. Affidavit of zero income of adult member
4. Affidavit of child support

Condition: During examination of fifty tenant files, the following was noted:

| Unit No. | Month Tested | Recertification (Annual/Interim) Effective | Household Member # | Documents not Found in Tenant File | HAP Amount |
|----------|-----------------|--|-----------------------|---|-----------------|
| K19A | 08/08 | 06/01/08 | Head | Statement of unemployment, affidavit of child support, Affidavit of zero income, Affidavit as to assets, Certification of asset disposition | \$ 717 |
| K20 | 03/08 and 04/08 | 11/01/07 | 3 | Statement of unemployment, Affidavit of zero income | 1,696 |
| K20 | 03/08 and 04/08 | 11/01/07 | 6 | Affidavit as to assets | - |
| M09 | 11/07 | 09/01/07 | 2 | Statement of unemployment, Affidavit of zero income, Affidavit as to assets | 1,025 |
| M09 | 11/07 | 09/01/07 | - | Updated verification of land obtained in February 2002 | - |
| M12 | 01/08 | 12/01/07 | 3 | Statement of unemployment, Affidavit of zero income, Affidavit as to assets | 915 |
| M12 | 01/08 | 12/01/07 | Head | Affidavit as to assets | - |
| M12 | 01/08 | 12/01/07 | - | Verification from NAP of Food Stamps benefits of \$309 | - |
| | | | | | <u>\$ 4,353</u> |

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that required documentation is obtained and filed.

Effect: The effect of the above condition is inadequate documentation of the eligibility determination. Related housing assistance payments are already questioned at Finding No. 2008-7.

Recommendation: We recommend NMHC ensure that all relevant documentation supporting eligibility determinations are obtained and included in file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-20, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. K19A - Head of Household was not on island due to medical referral. Further, annual recertification was conducted and processed. It is beyond NMHC's control to hold the certification process and penalize the family.
2. K20 during the interview for annual re-exam effective 11/07 household #3 signed a verification of employment dated 09/18/09 and verified, received 10/15/09 and unemployed effective 10/31/09.
3. K20 during the interview for annual re-exam #6 was not available at the time in school. Verification of assets was never submitted. This was corrected in November 2008.
4. M09 interview July 12, 2007 household number 2 was a minor not required to sign documents date of contract process 08/03/07 for annual recertification effective 09/01/08. This was corrected in the next reexamination 09/01/08.
5. M09 Quitclaim Deed of Homestead received and verified family does not reside unit size does not accommodate the household member.
6. M12 annual recertification effective 12/07 statement of unemployment/affidavit as to assets and affidavit of zero income signed/dated July 2007.
7. M12 annual recertification effective 12/07 Affidavit as to Assets signed by all adult member dated 07/07.
8. M12 during the certification effective 12/07 NAP income should be \$319.

Further, NMHC will establish a policy with respect to unavoidable circumstances that are beyond NMHC's or the tenant's control such as medical referral reasons and will ensure that the tenant's status is updated upon recertification. In addition, a policy will be established for tenants who become adults on or after recertification.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-21

Criteria: Adult members of a family must sign consent forms as required verification documents, so the owner can verify sources of family income and family size. The owner must consider a family ineligible if adult members refuse to sign applicable consent and verification forms. Consent forms must be signed by:

1. The head of household (regardless of age);
2. The spouse or co-head of household (regardless of age); and
3. Any other family member who is 18 years old or older.

NMHC's uses the "Document Package for Applicant's/Tenant's Consent to the Release of Information" (the Document Package) form to document compliance with this requirement.

Condition: During examination of fifty tenant files, the following were noted:

1. The "Document Package" was not signed by one or more adult members of the applicant/tenant. Details are as follows:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Not signed by Household Member #</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--------------------------------|---|-------------------|
| K19A | 08/08 | 06/01/08 | Head | \$ 717 |
| M09 | 11/07 | 09/01/07 | 2 | 1,025 |
| M16 | 02/08 | 11/01/07 | 2 | 905 |
| T20 | 11/08 | 11/01/07 | Head | 842 |
| | | | | <u>\$ 3,489</u> |

2. The following "Document Package" could not be located:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--------------------------------|-------------------|
| K02A | 02/08 and 07/08 | 12/01/07 | \$ 1,250 |

3. The "Document Package" was signed by an individual not listed in HUD-50059 effective for the period examined:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>HUD-50059 Effective</u> | <u>HAP Amount</u> |
|-----------------|----------------------|--------------------------------|----------------------------|-------------------|
| T20 | 01/08 | 11/01/07 | 08/01/07 | \$ 842 |

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that relevant documentation is obtained and filed.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-21, Continued

Effect: The effect of the above condition is inadequate documentation supporting eligibility determination and requirements. Related housing assistance payments are already questioned at Finding No. 2008-7.

Recommendation: We recommend NMHC ensure that relevant documentation supporting eligibility determination is obtained and included in file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action:

1. M09 - Household member is not an adult member on the interview date; K19A - head of household not available off-island for medical reasons, adult member signed; M16 - spouse was not available to sign package document during the interview; and T20 - enclosed copy signed on date of the interview effective 11/07
2. Form 9887 "Document Package" not seen in file on date of interview 08/28/07.
3. T20 effective 11/07 certification change of head of household and move-out of household member.

Further, NMHC will ensure that its documents regarding eligibility requirements are met.

Proposed Completion Date: September 30, 2009 - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-22

Criteria: Owners must conduct a certification/recertification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual recertifications. Owners must then recompute tenant rents and assistance payments, if applicable, based on information gathered.

NMHC uses a "Certification/Re-certification Interview Sheet" to document certifications and recertifications performed.

Condition: During examination of fifty tenant files, the following were noted:

1. The following annual recertification was not performed in a timely manner:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Previous Annual Certification</u> | | <u>Current Annual Certification</u> | |
|-----------------|----------------------|--------------------------------------|-----------------------|-------------------------------------|-----------------------|
| | | <u>Effective Date</u> | <u>Date Performed</u> | <u>Effective Date</u> | <u>Date Performed</u> |
| K25 | June 2008 | 01/01/07 | December 2006 | 01/01/08 | August 2008 |

2. The following certification/recertification interview sheet was either (a) not completed; (b) incomplete; or (c) not properly filled out:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Effective Date of Certification per Certification/Recertification Interview Sheet</u> | <u>Sections of the Interview Sheet that are Incomplete/Not Completed</u> |
|-----------------|----------------------|--|--|
| K20 | April 2008 | 11/01/07 | 4 |
| K25 | June 2008 | 01/01/08 | 1, 2, 3 |
| R05 | October 2007 | 11/01/06 | 6 |
| R21 | August 2008 | 07/01/08 | 4, 5, 6 |
| T04 | August 2008 | 07/01/08 | 2, 3 |
| T05 | February 2008 | 12/27/07 | 2, 3 |
| T08 | February 2008 | 08/01/07 | 2, 3, 6 |
| T09 | March 2008 | 03/01/08 | 2, 3 |
| T15 | July 2008 | 06/01/08 | 2, 3, 6 |
| T16 | February 2008 | 04/01/07 | 2, 3, 6 |
| T17 | January 2008 | 12/01/07 | 2, 3, 6 |
| T18 | May 2008 | 03/01/08 | 2, 3, 6 |
| T20 | January 2008 | 11/01/07 | 2 |

3. The following certification/recertification interview sheet could not be located in file:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Effective Date of Certification per Form HUD-50059</u> | <u>Certification Type per Form HUD-50059</u> |
|-----------------|----------------------|---|--|
| M08 | December 2007 | 10/29/07 | IR - UT |
| T15 | December 2007 | 06/27/07 | MI |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-22, Continued

Condition, Continued:

4. For the following, evidence of previous or current certification/recertification performed could not be located in file. We were unable to determine if required certifications/recertifications were performed and/or performed within the required timeframe. Details are as follows:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Previous Certification/Recertification</u> | <u>Current Certification/Recertification</u> | |
|-----------------|----------------------|---|--|-----------------------------|
| | | <u>Effective Date</u> | <u>Effective Date</u> | <u>Month/Year Performed</u> |
| R21 | April 2008 | Unknown | 07/01/07 | June 2007 |
| M06 | November 2007 | 01/01/06 | 01/01/07 | Unknown |
| M43 | October 2007 | 01/01/07 | 07/01/07 | Unknown |

5. For the following, housing assistance was discontinued during fiscal year 2008; however, there was no documentation in file indicating why and when housing assistance was discontinued. Further, we were unable to verify if an annual recertification is required.

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Latest HUD-50059 in Tenant File</u> | <u>Period HAP was Discontinued per HUD 52670</u> |
|-----------------|------------------------|--------------------------------|--|--|
| R14 | October 2007, November | 12/18/06 | 12/18/06 | December 2007 |

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that required certification/recertification is performed in a timely manner and documented.

Effect: The effect of the above condition is noncompliance with program eligibility requirements.

Recommendation: We recommend NMHC establish adequate monitoring procedures to ensure that required certification/recertification is timely performed and is documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will adhere to its documentation requirements for eligibility determination and will ensure such is filed.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-23

Criteria: Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing required verifications so that if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

Condition: During examination of fifty tenant files, the assigned unit for the following did not appear reasonable based on the size of the household/family:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>HUD-50059 Effective Date</u> | <u>Unit Size</u> | <u>No. of Household</u> | <u>HAP Amount</u> |
|-----------------|------------------------|---------------------------------|------------------|-------------------------|-------------------|
| K25 | 06/08 | 01/01/08 | 4 BR | 1 | \$ 838 |
| M45 | 11/07, 04/08 and 05/08 | 09/01/07 and 04/01/08 | 4 BR | 2 | 2,555 |
| R21 | 04/08 and 08/08 | 08/01/07 and 08/01/08 | 4 BR | 3 | 1,667 |
| T05 | 02/08 | 12/27/07 | 4 BR | 3 | 947 |
| T20 | 01/08 | 08/01/07 | 3 BR | 1 | 842 |
| | | | | | <u>\$ 6,849</u> |

Justification for the larger unit size assigned was not noted in file.

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that units assigned are in accordance with established occupancy standards.

Effect: The effect of the above condition is noncompliance with program eligibility requirements. Related housing assistance payments are already questioned at Finding No. 2008-7.

Recommendation: We recommend NMHC ensure strict adherence to established program occupancy standards.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-23, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. K25 prior certifications household member meets the unit size, effective 10/08 interim certification includes additional household member of (6) which complies with the reasonable household size.
2. M45 initially move in with large family composition now downsize household member, prospective unit transfer when unit size becomes available.
3. R21 initially moved in with large family composition now downsize household member.
4. T05 tenant already moved out. The unit is currently occupied by another family member.
5. T20 initial move in family composition of 3, household member downsize to one, under process for unit transfer to 2 BR accordingly to TIQ representative.

NMHC will process unit transfers accordingly when unit size is available or if applicant list for prospective move-in needed unit or a transfer is required.

NMHC will explore ways to assist families who are financially burdened with meeting expenses relevant to occupancy standards.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-24

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a "Declaration of 214 Status" form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in the tenant's files.

Condition: During examination of fifty tenant files, the following were noted:

1. The completed and signed "Declaration of Section 214 Status" form for the following household members could not be located:

| <u>Unit No.</u> | <u>Form HUD-50059 Effective Date</u> | <u>Household Member #</u> | <u>HAP Amount</u> |
|-----------------|--------------------------------------|---------------------------|-------------------|
| M01 | 10/01/07 | 9 | \$ 1,025 |
| M14 | 02/01/07 | 2 | 729 |
| M24 | 10/01/07 | 6 | 751 |
| M27 | 10/01/07 | 8 | 1,025 |
| R21 | 08/01/07 and 07/01/08 | Head, 2 | 1,667 |
| R30 | 03/01/08 | 2, 4 | 881 |
| | | | <u>\$ 6,078</u> |

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting social security numbers and citizenship.

Effect: The effect of the above condition is noncompliance with eligibility requirements. Housing assistance payments for the specific periods examined are already questioned at Finding No. 2008-7.

Recommendation: We recommend NMHC ensure that relevant documentation supporting citizenship is included in file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: Declaration of Section 214 Status were obtained for M01, M14, M24 M27, R30 and R21 and provided to the auditors.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-24, Continued

Auditor Response: The Declaration of Section 214 Status provided was obtained by NMHC subsequent to September 30, 2008. NMHC should ensure that such documents are obtained during eligibility determination.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-25

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: During examination of sixty-six tenant files, the following were noted:

1. For six tenants, deductions claimed included an allowance for dependent(s) which is (are) not biological or legal children of the household head/co-head. The household head/co-head are in a guardian/caretaker capacity based on either a general power of attorney, a notarized affidavit or an appointment of guardianship executed by the biological or legal parents of the dependent (s). We were unable to determine if NMHC performed further verification to ensure that such are valid dependents. Details are as follows:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Allowance Claimed</u> |
|------------------------------|----------------------|--------------------------------|--------------------------|
| HO1037A | Jul-08 | 12/01/07 | \$ 480 |
| HO1222 | Sep-08 | 05/14/08 | \$ 480 |
| HCV01086 | Nov-07 | 06/01/07 | \$ 480 |
| HO1068 | Jul-08 | 02/01/08 | \$ 480 |
| HO1087 | Dec-07 | 11/01/07 | \$ 960 |
| HO1107 | May-08 | 01/01/08 | \$ 960 |

2. For three tenants, deductions claimed included an allowance for a full-time student; however, there was no third party verification noted in file evidencing that the dependent was a full-time student. Details are as follows:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Allowance Claimed</u> |
|------------------------------|----------------------|--------------------------------|--------------------------|
| HCV01117 | Jan-08 | 06/01/07 | \$ 480 |
| H01055 | Oct-07 | 06/01/07 | \$ 480 |
| 12728 | Feb-08 | 01/01/08 | \$ 480 |

3. For one tenant, deductions claimed included a medical allowance but we were not able to agree medical allowance claimed to documentation in file.

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Allowance Claimed</u> |
|------------------------------|----------------------|--------------------------------|--------------------------|
| HO1176 | Aug-08 | 12/01/07 | \$ 1,068 |

Cause: The cause of the above conditions is a lack of adequate policies and procedures to ensure that claimed deductions are verified and documented.

Effect: The effect of the above condition is noncompliance with eligibility requirements and possible miscalculation of HAP. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-25, Continued

Recommendation: We recommend that NMHC strengthen policies and procedures in verifying claimed deductions and that such verification be documented in the tenant file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure adequate policies and procedures are in place and documentation will be obtained to ascertain compliance with eligibility requirements.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-26

Criteria: Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification. These are, in order of acceptability, third-party verification, review of documents, and family certification. When third-party verification is not available, owners must document, in the file, efforts made to obtain the required verification and the reason if the verification was not obtained. The owner must include the following documents in the applicant's or tenant's file:

1. A written note to the file explaining why third-party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party;
3. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
4. A written note to the file indicating that the request has been outstanding without a response from the third party.

Condition: During examination of sixty-six tenant files, the following were noted:

1. For three tenants, there was a notarized affidavit as to assets declaring accounts with certain banks; however, there was no documentation on file evidencing that verification was requested from the bank. Further, for all tenants who did not declare a bank account, land or other assets, a third party verification was not performed.

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Asset Type</u> |
|------------------------------|----------------------|--------------------------------|-------------------|
| HO1037A | Jul-08 | 12/01/07 | Bank Account |
| HO1008 | May-08 | 02/01/08 | Bank Account |
| HO1155A | May-08 | 04/11/08 | Bank Account |

2. For the following fifteen tenants, third party verification documentation as to the validity of income reported by the tenant was not evident in file.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-26, Continued

Condition, Continued:

| <u>Account/ Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Income Type</u> |
|-----------------------------------|--------------------------|------------------------------------|---|
| HCV01005 | Sep-08 | 09/01/08 | Food stamps |
| HO1222 | Sep-08 | 05/14/08 | Food stamps, Social Security benefit and written verification from employer (only pay stubs on file) |
| HO1168 | Jul-08 | 10/01/07 | Food stamps |
| HO1019A | Sep-08 | 09/01/08 | Food stamps and other income |
| HO1143A | Dec-07 | 09/01/07 | Written verification from employer (only pay stubs on file) |
| HO1187 | Jun-08 | 06/01/08 | Written verification from employer (only pay stubs on file) |
| HO1001 | Nov-07 | 09/01/07 | Food stamps |
| HO1039 | Apr-08 | 07/01/07 | Written verification from employer (only pay stubs on file and 2 stubs were not within 60 days from recertification date) |
| HO1060A | Mar-08 | 03/01/08 | Other income |
| HO1213 | Feb-08 | 10/15/07 | Food stamps and Written verification from employer (only pay stubs on file) |
| HO1212 | Jan-08 | 10/01/07 | Food stamps |
| HO1051A | Mar-08 | 09/01/07 | Written verification from employer or pay stubs |
| HCV01093 | Nov-07 | 08/01/07 | Other income |
| HO1008 | May-08 | 02/01/08 | Written verification from employer (only pay stubs on file) |
| HO1107 | May-08 | 01/01/08 | Other income |

3. For three tenants, income reported in HUD Form 50058 did not agree with the third party verification, and there was no documentation on file supporting the variance. Details are as follows:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Income Type</u> | <u>Income per HUD Form 50058</u> | <u>Income per Third Party Verification</u> | <u>Income per Third Party Verification</u> |
|------------------------------|--------------------------|------------------------------------|---------------------------|--|--|--|
| HO1141 | Feb-08 | 12/01/07 | Other income | \$ 900 | \$ 1,800 | \$ 900 |
| HO1155A | May-08 | 04/11/08 | Food assistance and wages | \$ 10,424 | \$ 11,752 | \$ 1,328 |
| HO1204 | Dec-07 | 10/01/07 | Other income | \$ 720 | not specified | unknown |

4. For one tenant, the food stamp certification on file was in the name of a person not included as a household member per HUD Form 50058. We noted that the household head was married to the person in May 2007 but was not included in the reported household. Further, the notarized affidavit as to assets and affidavit of child support were signed and notarized after the effective date of recertification. Details are as follows:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Date Signed and Notarized</u> |
|------------------------------|----------------------|--------------------------------|--------------------------------------|
| HO1034 | Nov-07 | 11/01/07 | 11/15/07 |

5. For one tenant, the food stamp certification was dated 01/03/07 covering the eligibility period from 02/01/07-03/31/07 and the next eligibility determination was scheduled for 03/05/07. Thus, the verification document on file was not dated within 60 days of the recertification date. Details are as follows:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Recertification Date</u> |
|------------------------------|----------------------|--------------------------------|-----------------------------|
| HCV9101 | May-08 | 07/01/07 | 07/25/07 |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-26, Continued

Cause: The cause of the condition is the lack of adequate policies and procedures to ensure that third party verifications are performed and documented for reported income and assets.

Effect: The effect of the above condition is noncompliance with eligibility requirements and a possible miscalculation of HAP. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMHC strengthen policies and procedures in performing and documenting third party verifications on income and assets declared by tenants/applicants.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure adequate policies and procedures are in place and documentation will be obtained to ascertain compliance with eligibility requirements. PHD will ensure that all information is correct and updated before finalizing certifications. NMHC will continue to locate files when found.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-27

Criteria: Owners must include verification documentation in file. Further, NMHC accepts the following notarized statements or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household.

1. Affidavit as to assets
2. Statement of unemployment
3. Affidavit of zero income of adult member
4. Affidavit of child support
5. Zero income in-kind contribution checklist

Condition: During examination of sixty-six tenant files, the following were noted:

1. For twenty tenants that reported zero income, the zero income in-kind contribution checklist was either (1) not signed and not completed; (2) signed and partially completed; or (3) signed and not completed.

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> |
|------------------------------|----------------------|--------------------------------|
| HO1089A | Apr-08 | 08/01/07 |
| HCV01117 | Jan-08 | 06/01/07 |
| HCV01029 | Oct-07 | 09/01/07 |
| HO1050 | Jul-08 | 03/01/08 |
| HO1055 | Oct-07 | 06/01/07 |
| HCV01022 | Sep-08 | 08/01/08 |
| HO1215 | Oct-07 | 08/01/07 |
| HO1211 | Jun-08 | 10/01/07 |
| HO1068 | Jul-08 | 02/01/08 |
| HO1019A | Sep-08 | 09/01/08 |
| HO1204 | Dec-07 | 10/01/07 |
| 14961 | May-08 | 11/01/07 |
| HO1060A | Mar-08 | 03/01/08 |
| HO1141 | Feb-08 | 12/01/07 |
| HO1192 | Aug-08 | 07/01/08 |
| HO1174 | Apr-08 | 12/01/07 |
| HO1053 | Dec-07 | 05/01/07 |
| HCV01093 | Nov-07 | 08/01/07 |
| HO1107 | May-08 | 01/01/08 |
| HO1104A | Jun-08 | 11/01/07 |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-27, Continued

Condition, Continued:

2. For twenty-three tenants tested, documents supporting income and assets for all adult members of the household could not be located in the tenant file. Specific documents that could not be located are as follows:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Documents not Found in Tenant File</u> |
|------------------------------|----------------------|--------------------------------|---|
| HCV01117 | Jan-08 | 06/01/07 | Statement of unemployment, affidavit of zero income |
| HR0019A | Feb-08 | 07/01/07 | Certificate of asset disposition of household head, notarized affidavit of child support for one dependent |
| HO1050 | Jul-08 | 03/01/08 | Affidavit of zero income of one adult member |
| HR0003 | Dec-07 | 06/01/07 | Zero income in-kind contribution checklist |
| HO1072 | Jun-08 | 04/01/08 | Affidavit as to assets for both household head and co-head not signed and notarized |
| HO1088B | Oct-07 | 07/01/07 | Zero income in-kind contribution checklist |
| HCV01005 | Sep-08 | 09/01/08 | Zero income in-kind contribution checklist, certificate of asset disposition |
| HO1227 | Sep-08 | 05/15/08 | Affidavit of zero income of adult member for household head |
| HO1222 | Sep-08 | 05/14/08 | Notarized affidavit as to assets, notarized affidavit of child support |
| HCV01086 | Nov-07 | 06/01/07 | Statement of unemployment and affidavit as to assets not notarized not signed by the other adult member |
| HO1052 | Apr-08 | 09/01/07 | Affidavit of zero income for other adult member |
| HO1211 | Jun-08 | 10/01/07 | Affidavit as to assets for spouse not signed and not notarized |
| HO1096 | Nov-07 | 07/01/07 | Affidavit of zero income of adult member for household head |
| HO1023 | Aug-08 | 04/22/08 | Notarized affidavit as to assets for other adult member, zero income in-kind contribution |
| HO1116 | Jun-08 | 04/01/08 | Statement of unemployment and affidavit of zero income for the mother |
| HO1001 | Nov-07 | 09/01/07 | Zero income in-kind contribution checklist, notarized affidavit as to assets, notarized affidavit of child support |
| HO1213 | Feb-08 | 10/15/07 | Statement of unemployment, affidavit of zero income for the spouse |
| HO1063A | Apr-08 | 07/01/07 | Affidavit as to assets for both household head and co-head not notarized |
| HO1051A | Mar-08 | 09/01/07 | Notarized affidavit as to assets and affidavit of zero income for both household head and co-head, zero income in-kind contribution checklist |
| HCV01093 | Nov-07 | 08/01/07 | Affidavit as to assets for other adult member not signed and not notarized |
| HO1014A | Jul-08 | 04/14/08 | Affidavit of zero income of adult member, zero income in-kind contribution |
| HCV9101 | May-08 | 07/01/07 | Notarized affidavit as to assets for household head and zero income in-kind contribution checklist |
| HO1104A | Jun-08 | 11/01/07 | Notarized affidavit of child support, notarized affidavit as to assets |

Cause: The cause of the above conditions is the lack of adequate policies and procedures to ensure documentation supporting income and assets are prepared and maintained in the tenant file.

Effect: The effect of the above condition is noncompliance with eligibility requirements and a possible miscalculation of HAP. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMHC strengthen policies and procedures to ensure declared income and assets are supported and documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure that the HS completes the zero-income checklist and follow-up and compliance will be reinforced by the PHD Manager. PHD was informed by HUD official, Darlene Kaholokua in March, 2009 that ALL HoH who are not employed or receiving income from benefits such as trusts, pensions, Social Security benefits, etc. must complete a Zero Income In-Kind Contribution Checklist. PHD will ensure evidence of an attempt to obtain third party by sending out verifications to employers. NMHC will continue to locate files when found.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-28

Criteria: Owners must conduct a certification/recertification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual recertifications. Owners must then recalculate tenant rents and assistance payments, if applicable, based on the information gathered.

NMHC uses a “Certification/Re-certification Interview Sheet” to document certifications and recertifications performed.

Condition: During examination of sixty-six tenant files, the following were noted:

1. For four tenants tested, the quality control review sheet, certification/recertification interview sheet and all related documents (i.e. income and asset third party verification, required notarized affidavit as to assets and affidavit for income exclusions, etc.) supporting eligibility determination could not be located in file. Details are as follows:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> |
|------------------------------|----------------------|--------------------------------|
| HCV01144 | Oct-07 | 12/01/06 |
| HO1216 | Aug-08 | 11/01/07 |
| HO1402A | Dec-07 | 07/01/07 |
| HR009B | May-08 | unknown |

2. For fifty-eight items tested, the quality control worksheet was not signed by the Housing Manager, while for one tenant, there was no quality control worksheet on file. Thus, there was no evidence of review of the eligibility determination or re-determination performed by the housing specialist prior to commencement of the housing assistance.
3. For one new admission, the application form was not signed by both the household head and co-head. Further, for one recertification, the certification/recertification interview sheet was not signed by the tenant. Details are as follows:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> |
|------------------------------|----------------------|--------------------------------|
| HO1089A | Apr-08 | 08/01/07 |
| HO1213 | Feb-08 | 10/15/07 |

4. For six tenants tested, the annual recertification was not performed in a timely manner as the recertification was performed later than the certification effective date. Details as follows:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-28, Continued

Condition, Continued:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Re-certification Date Performed</u> |
|------------------------------|----------------------|--------------------------------|--|
| HCV01086 | Nov-07 | 06/01/07 | 06/04/07 |
| HO1215 | Oct-07 | 08/01/07 | 08/16/07 |
| HO1211 | Jun-08 | 10/01/07 | 10/04/07 |
| HO1204 | Dec-07 | 10/01/07 | 10/04/07 |
| HO1087 | Dec-07 | 11/01/07 | 11/07/07 |
| HCV9101 | May-08 | 07/01/07 | 07/25/07 |

Cause: The causes of the above conditions are lack of adequate procedures to ensure certifications and recertifications are performed, reviewed and documented and poor file maintenance.

Effect: The effect of the above conditions is noncompliance with eligibility requirements. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMC strengthen procedures to ensure certifications and recertifications are performed, reviewed and documented. We further recommend that NMHC improve file maintenance supporting eligibility determination.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: Continuing efforts will be made by NMHC to locate files and provide to the auditor.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-29

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Applicants must disclose social security numbers for all family members at least 6 years of age and older and provide documentation of social security numbers (SSN). Adequate documentation means a social security card issued by the Social Security Administration or other acceptable evidence of the SSN.
2. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a "Declaration of 214 Status" form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in file.

Condition: During examination of sixty-six tenant files, the following were noted:

1. A copy of the birth certificate (or equivalent documentation) for the following household member(s) could not be located.

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Member</u> |
|------------------------------|----------------------|--------------------------------|---------------|
| HO1050 | Jul-08 | 03/01/08 | One dependent |
| HCV0438A | Nov-07 | 01/01/07 | Spouse |

2. For one tenant, copies of the birth certificate (or equivalent documentation) and social security cards for two household members could not be located.

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> |
|------------------------------|----------------------|--------------------------------|
| HO1055 | Oct-07 | 06/01/07 |

3. For fourteen tenants, the household member name per HUD Form 50058 and/or birth certificate for the following household member(s) did not agree with the social security card copy.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-29, Continued

Condition, Continued:

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Member</u> |
|------------------------------|----------------------|--------------------------------|-------------------------------------|
| HO1088B | Oct-07 | 07/01/07 | Household head |
| HO1222 | Sep-08 | 05/14/08 | Household head and one dependent |
| HO1096 | Nov-07 | 07/01/07 | Household head |
| HO1017A | Dec-07 | 07/01/07 | One disabled adult member |
| HO1143A | Dec-07 | 09/01/07 | One dependent |
| HO1001 | Nov-07 | 09/01/07 | Household head |
| HO1060A | Mar-08 | 03/01/08 | Household head |
| HO1034 | Nov-07 | 11/01/07 | Household head |
| HO1063A | Apr-08 | 07/01/07 | Spouse |
| HO1174 | Apr-08 | 12/01/07 | Spouse and one dependent |
| HCV01093 | Nov-07 | 08/01/07 | One adult member |
| HO1107 | May-08 | 01/01/08 | Household head and one adult member |
| HO1014A | Jul-08 | 04/14/08 | Household head |
| HCV0438A | Nov-07 | 01/01/07 | Household head and one dependent |

4. For four tenants, the birthdates stated in the HUD Form 50058 for the following household members did not agree with birthdates specified in the supporting birth certificate.

| <u>Account/Household No.</u> | <u>Period Tested</u> | <u>Certification Effective</u> | <u>Member</u> |
|------------------------------|----------------------|--------------------------------|-----------------------------------|
| 12728 | Feb-08 | 01/01/08 | Spouse |
| HO1174 | Apr-08 | 12/01/07 | Household head and two dependents |
| HO1107 | May-08 | 01/01/08 | Household head |
| HO1155A | May-08 | 04/11/08 | Household head and one dependent |

Cause: The cause of the above conditions is the lack of adequate procedures supporting tenant citizenship and social security number verification.

Effect: The effect of the above conditions is noncompliance with eligibility requirements. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMHC strengthen procedures over the verification of tenant citizenship and social security numbers.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure that the appropriate documents pertaining to SS, birth certificates and citizenship status are received from tenants, copied and placed in the files. Continuing efforts will be made to ensure compliance and copies will be provided to the auditor.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-30

Criteria: Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing all of the required verifications so that if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

Condition: During examination of sixty-six tenant files, the assigned unit for the following did not appear reasonable considering the household size.

| <u>Account/Household No.</u> | <u>Certification Effective</u> | <u>Unit Size</u> | <u>Household Size</u> |
|------------------------------|--------------------------------|------------------|-----------------------|
| HCV01022 | 08/01/08 | 2 BR | 1 |
| HO1187 | 06/01/08 | 2 BR | 1 |

No documentation or justification supporting the larger unit size was noted in file.

Cause: The cause of the above condition is the lack of procedures to ensure adherence to occupancy standards.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMHC implement strict policies to adhere with occupancy standards. Any exceptions should be approved and documented in the tenant file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will review its policies on occupancy standards and implement strict procedures to ensure compliance. Any exceptions will be approved and documented in the tenant file.

Proposed Completion Date: Fiscal year 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Reporting - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-31

Criteria: A paper copy of form HUD-52670, Housing Owner's Certification and Application for Housing Assistance Payments, generated by the owner's TRACS software, bearing an original signature and consistent with the corresponding electronic transmission, must be kept on file by the owner for each monthly subsidy period that the owner receives assistance payments. The file must also include a signed copy of form HUD-52670-A part 1, Schedule of Tenant Assistance Payments Due and forms HUD-52671-A through D, Special Claims Worksheets (if applicable), generated by the owner's TRACS software, as supporting documentation.

Additionally, housing assistance payments requested per form HUD 52670 must be consistent with housing assistance payments per form HUD-50059 submitted electronically.

Condition: During examination of form HUD 52670 for assistance payments requested during fiscal year 2008, the following were noted:

1. Copies (October 2007 through September 2008) of HUD-52670 filed by NMHC are not signed.
2. The HAP requested per HUD-52670 did not agree to the HAP per HUD-50059 for the following:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>HAP per HUD-50059</u> | <u>HUD-50059 Effective Date</u> | <u>HAP per HUD 52670</u> | <u>Variance</u> |
|-----------------|----------------------|--------------------------|---------------------------------|--------------------------|-----------------|
| R05 | October 2007 | \$ 652 | 08/01/07 | \$ 633 | \$ (19) |
| R14 | November 2007 | \$ 862 | 12/18/06 | \$ 881 | \$ (19) |

Cause: The cause of the above condition is the lack of awareness of the above program requirements.

Effect: The effect of the above condition is noncompliance with program reporting requirements.

Recommendation: We recommend NMHC ensure that program reporting requirements are followed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-31, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. NMHC will ensure that HUD 5670 copies filed are signed.
2. NMHC made necessary adjustments on the HAP claim effective 11/08.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Reporting - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-32

Criteria: The form HUD-50059 must be submitted electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, move-in, or other change of unit for a family, among others. The signed HUD-50059 should be filed in the tenant file. Additionally, information reported in form HUD-50059 must be consistent with underlying records or supporting documentation.

The owner must sign and obtain the signature of the head, spouse, co-head, and all adult family members on the copy of the HUD-50059 certifying to the information that is transmitted to HUD or the Contract Administrator, whether the HUD-50059 was produced on site or received from a service provider. The signed HUD-50059 should be filed in the tenant file. In all cases, the computer generated HUD-50059 must include the required tenant signatures and owner signatures prior to submitting the data to the Contract Administrator or HUD. The owner may consider extenuating circumstances when an adult family member is not available to sign the HUD-50059, for example, an adult serving in the military, students away at college, adults who are hospitalized for an extended period of time, or a family member who is permanently confined to a nursing home or hospital. The owner must document in the file why the signature(s) was not obtained and, if applicable, when the signature(s) will be obtained.

Condition: During examination of form HUD-50059 for fifty tenants, the following were noted:

1. The HUD-50059 for the following was not signed by one or more adult household members:

| <u>Unit No.</u> | <u>Form HUD-50059 Effective Date</u> | <u>Not Signed by Tenant (Household Member #)</u> |
|-----------------|--|--|
| K19A | 08/01/08 | Head |
| K20 | 11/01/07 | 3, 4, 5, 6 |
| K23 | 08/01/07 | 3 |
| K23 | 08/01/08 | Head, 2, 3 |
| K24 | 02/01/08 | 2, 3, 8 |
| M09 | 09/01/07 | 2 |
| M27 | 10/01/07 | Head |
| M42 | 09/01/07 | 2, 3, 4 |
| T18 | 03/01/08 | Head, 2 |
| T20 | 11/01/07 | Head |
| T09 | 03/01/08 | Head, 2 |

2. Copies of HUD-50059 effective for the selected period were not signed by NMHC for all fifty tenant files.
3. The form HUD-50059 for the following could not be located in file:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-32, Continued

Condition, Continued:

| <u>Unit No.</u> | <u>Period Tested</u> | <u>Certification Effective Date</u> | <u>HAP Requested per Form HUD 52670</u> |
|-----------------|----------------------|-------------------------------------|---|
| T17 | January 2008 | 12/01/07 | \$ 955 |

4. For “Section C. Household Information” of form HUD-50059, there were instances noted where the household member birth date indicated in form HUD-50059 did not agree to the date reflected in the birth certificates. Details are as follows:

| <u>Unit No.</u> | <u>Form HUD-50059 Effective Date</u> | <u>Household Member #</u> |
|-----------------|--------------------------------------|---------------------------|
| K11 | 05/09/07 | 5 |
| M10 | 11/01/07 | 3 |

5. For “Section C. Household Information” of form HUD-50059, the following instance was noted wherein the household member’s name did not agree to the name reflected on the social security card.

| <u>Unit No.</u> | <u>Form HUD-50059 Effective Date</u> | <u>Household Member #</u> | <u>Inconsistent Information</u> |
|-----------------|--------------------------------------|---------------------------|---------------------------------|
| M01 | 10/01/07 | 2 | First Name |

Cause: The cause of the above condition is oversight by NMHC personnel when preparing form HUD-50059.

Effect: The effect of the above condition is noncompliance with program reporting requirements.

Recommendation: We recommend NMHC ensure that program reporting requirements are adhered to. Further, we recommend NMHC ensure that a signed final copy of the form HUD-50059 is on file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure that program reporting requirements are adhered to. HS will obtain a signed HUD 50059 with the appropriate signature and place document in tenant’s file. Continuing efforts will be made to provide copies when found. However, new 50059A (applies to Gross Rent Change and Move-Out Tenants) does not require the signature for other adult household members.

Proposed Completion Date: Immediately - Fiscal year 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Reporting - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-
0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-33

Criteria: All applicable federal reporting requirements must be adhered to.

Condition: The March 2008 compliance supplement for CFDA 14.182 provided for the following reporting requirements for the program:

1. HUD-52663, *Requisition for Partial Payment of Annual Contributions (OMB No. 2577-0169)*
2. HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)*
3. HUD-52595, *Balance Sheet for Section 8 and Public Housing (OMB No. 2577-0169)*
4. HUD-50058, *Family Report (OMB No.2577-0083)*

The above reports were not prepared by NMHC during fiscal year 2008. NMHC believes that the above reports do not apply to the program. However, relevant documentation or correspondence supporting non-applicability of the above reporting requirements was not provided.

Cause: The cause of the above condition is the lack of awareness by NMHC of all reporting requirements of the program.

Effect: The effect of the above condition is noncompliance with federal reporting requirements.

Recommendation: We recommend the NMHC identify all applicable federal reporting requirements and ensure that these are adhered to. Further, we recommend NMHC ensure that relevant documentation supporting non-applicability of certain reporting requirements are obtained and maintained accordingly.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will comply with all applicable federal reporting requirements and ensure that relevant documentation supporting non-applicability of certain reporting requirements are obtained and maintained accordingly.

Proposed Completion Date: Immediately - Fiscal year 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Reporting - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-34

Criteria: In accordance with 24 CFR part 908 and 24 CFR section 982.158, the PHA is required to submit form HUD-50058, Family Report (OMB No. 2577-0083) electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

Condition: For three of sixty-six tenants tested, there was no evidence that the related HUD Form 50058 for the period selected was submitted electronically. Details are as follows:

| <u>Account/Household No.</u> | <u>Type of Change</u> | <u>Effective Date</u> |
|------------------------------|-----------------------|-----------------------|
| HO1039 | Interim reexamination | 09/01/07 |
| HO1189 | Interim reexamination | 05/29/08 |
| HO1104A | Annual reexamination | 11/01/07 |

Cause: The cause of the above condition is the lack of adequate review procedures to ensure that all grant reporting requirements are completely submitted.

Effect: The effect of the above condition is noncompliance with federal reporting requirements. No questioned costs arise as the participants were eligible.

Recommendation: We recommend that NMHC establish and implement review procedures to ensure that all grant reporting requirements are completely submitted, supported and documented.

Prior Year Status: The lack of adequate review procedures to ensure that all grant reporting requirements are completely submitted was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will establish and implement procedures to ensure that all grant reporting requirements are submitted and properly supported with documentation. PHD will ensure that all certifications are completely submitted and reported electronically.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Reporting - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-35

Criteria: The Uniform Financial Reporting Standards (24 CFR section 5.801) require PHAs to submit timely GAAP-based unaudited and audited financial information electronically to HUD through the Financial Assessment Sub-system (FASS-PH). The FASS-PH system is one of HUD's main monitoring and oversight systems for the HCV program.

Condition: NMHC's unaudited financial information for the year ended September 30, 2008 has not been submitted.

Cause: The cause of the above condition is lack of adequate control procedures over the submission of required financial reports to the grantor.

Effect: The effect of the above condition is noncompliance with the federal reporting requirements. No questioned costs arise as the total expenditures reported in quarterly HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement, submitted electronically agreed to the expenditures recorded in the general ledger.

Recommendation: We recommend that NMHC take reasonable steps to comply with the program's reporting requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC will take reasonable steps to comply with the program's reporting requirements and has advertised (RFP) request for proposal for FY 2009 and FY 2010 audited financial statements which includes the audit submission of FY 2006, FY 2007 and FY 2008.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-36

Criteria: The PHA or owner must provide housing that is decent, safe, and sanitary. To achieve this end, the PHA must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe, and sanitary. Owners must document these inspections, as well as actions taken to address deficiencies, if any, noted during inspections.

Condition: During tests of NMHC's compliance with the housing quality standards requirement, the following were noted:

1. The completed unit inspection form, if any, evidencing unit inspections performed during fiscal year 2008 could not be located for three units (ref. unit #s M30, R05 and R14). We are unable to determine if the required housing quality inspections were performed.
2. The housing quality inspections performed during fiscal year 2008 for the following were not conducted within twelve months from the previous housing quality inspections:

| <u>Unit No.</u> | <u>HQS Inspections</u> | |
|-----------------|---------------------------------|----------------------------------|
| | <u>Performed during FY 2008</u> | <u>Prior HQS Inspection Date</u> |
| M14 | August 2008 | October 2005 |
| M12 | August 2008 | June 2007 |
| M06 | November 2007 | October 2005 |
| M19 | April 2008 | March 2007 |
| M43 | December 2007 | October 2005 |
| M35 | June 2008 | May 2007 |
| K23 | April 2008 | March 2007 |
| K27 | August 2008 | July 2007 |
| K19A | April 2008 | March 2007 |
| K02A | October 2007 | October 2005 |
| T16 | March 2008 | January 2007 |
| T04 | March 2008 | May 2006 |
| T09 | February 2008 | May 2006 |
| T20 | April 2008 | November 2006 |
| T17 | July 2008 | June 2007 |

3. The NMHC inspector reports for the following indicated deficiencies. However, relevant documentation indicating whether the deficiencies were addressed and/or whether needed repairs were timely completed could not be located in file:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-36, Continued

Condition, Continued:

| <u>Unit No.</u> | <u>Date of HQS Inspection</u> | <u>Overall Inspection Results</u> |
|-----------------|-------------------------------|-----------------------------------|
| M42 | April 2008 | Inconclusive |
| M15 | June 2008 | Inconclusive |
| M24 | July 2008 | Inconclusive |
| M21 | July 2008 | Inconclusive |
| M12 | August 2008 | Not indicated |
| M10 | July 2008 | Inconclusive |
| M26 | November 2008 | Inconclusive |
| M09 | May 2008 | Not indicated |
| M46 | March 2008 | Not indicated |
| M41 | January 2008 | Not indicated |
| M23 | June 2008 | Not indicated |
| M22 | March 2008 | Not indicated |
| M06 | November 2007 | Not indicated |
| M45 | January 2008 | Inconclusive |
| M16 | July 2008 | Inconclusive |
| M08 | June 2008 | Inconclusive |
| M01 | July 2008 | Inconclusive |
| M19 | April 2008 | Not indicated |
| M47 | July 2008 | Inconclusive |
| M43 | December 2007 | Not indicated |
| M35 | June 2008 | Inconclusive |
| M27 | July 2008 | Inconclusive |
| K23 | April 2008 | Not indicated |
| K27 | August 2008 | Not indicated |
| K19A | April 2008 | Not indicated |
| K09A | August 2008 | Not indicated |
| K25 | November 2007 | Inconclusive |
| K20 | July 2008 | Inconclusive |
| K02A | October 2007 | Not indicated |
| K11 | March 2008 | Inconclusive |
| K06 | December 2007 | Not indicated |
| R07 | February 2008 | Not indicated |
| T18 | December 2007 | Pass |
| T16 | March 2008 | Pass |
| T04 | March 2008 | Pass |
| T05 | March 2008 | Pass |
| T09 | February 2008 | Pass |
| T15 | June 2008 | Pass |
| T08 | June 2008 | Pass |
| T20 | April 2008 | Pass |
| T17 | July 2008 | Pass |

4. The inspection reports for the following did not indicate a deficiency; however, the NMHC inspector did not complete the overall inspection results/summary decision section of the inspection report:

| <u>Unit No.</u> | <u>Date of HQS Inspection</u> |
|-----------------|-------------------------------|
| K07B | January 2008 |
| R21 | May 2008 |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-36, Continued

Condition, Continued:

5. The inspection report for one item (ref. unit #T04, inspection performed in March 2008) indicated deficiencies; however, the NMHC inspector did not classify whether the deficiency/damage is due to tenant negligence or due to wear/tear.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to unit inspections.

Effect: The effect of the above condition is noncompliance with housing quality standards requirements.

Recommendation: We recommend NMHC adhere to its policies and procedures relating to unit inspections. Additionally, we recommend that HQS procedures performed, as well as actions taken to address deficiencies noted during inspections, be documented in file.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will adhere to policies and procedures relating to unit inspections and will follow Housing Quality Standards (HQS) procedures by documenting in the tenant's files, the inspections as well as actions taken to address deficiencies. Needed repairs that have been identified as a result of the inspection must be verified that the repairs have actually been addressed and completed and documented in the tenant's file. NMHC will further ensure that the inspection reports are completed by inspectors, charges, if any, are documented for tenants' assessment and placed in the tenant's files. Negligent damages must be assessed so that Fiscal Division will bill tenants accordingly.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-
0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-37

Criteria: In accordance with federal regulations, the PHA or owner must (a) establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units, structure types, and fuel types, (b) make an annual review of tenant utility allowances to determine their reasonableness, and (c) adjust the allowances, when appropriate.

Condition: During fiscal year 2008, the utility allowance was based on the fiscal year 2005 utility allowance schedule. The utility allowance schedule was revised subsequent to fiscal year 2008 and is effective 07/01/09. An annual review of the utility allowance schedule between fiscal year 2006 to fiscal year 2008 was not performed.

Cause: The cause of the above condition is lack of strict monitoring to ensure that the required annual review of the utility allowance schedule is being performed.

Effect: The effect of the above condition is noncompliance with federal regulations. Since an updated utility schedule is not available, the amount of questioned costs is not determinable.

Recommendation: We recommend NMHC implement monitoring procedures to perform the required annual review of the utility allowance schedule.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: Utility allowance has not changed since April 01, 1990. Housing Choice Voucher utility allowance changed in July 2009 and was implemented effective August 2009. NMHC will conduct periodic review of utility allowances to determine their reasonableness and such action will be documented in the file.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-38

Criteria: In accordance with 24 CFR Part 982.503(a)(1), the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each fair market rent (FMR) area in the PHA jurisdiction. Under NMHC's Section 8 Administrative Plan for Rental Assistance Program Section 10.1, NMHC currently administers a payment standard that is at 90% of the published FMR set for Guam and the Pacific Islands.

Condition: For forty-four of sixty-six tenants tested with effective dates covering fiscal years 2007 and 2008, the payment standard was calculated based on the published FMR schedule applicable for fiscal year 2006. In addition, for seven new admissions, one unit change and one rent increase in 2008, the 2006 FMR schedule was used during the determination of rent reasonableness.

Cause: The cause of the above condition is the lack of monitoring procedures to ensure that payment standard schedules are updated.

Effect: The effect of the above condition is the potential misstatement of payment standard amounts. However, no questioned cost was raised as the correct rate that should have been used to pay the rent was in excess of the rate utilized.

Recommendation: We recommend NMHC ensure that payment standard schedules are updated to reflect current fair market rents published by HUD.

Prior Year Status: The lack of monitoring procedures to ensure that payment standard schedules are updated was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: PHD is currently using updated 2009 payment standard schedules that reflect current fair market rents published by HUD. However, NMHC will ensure that future rates are at par with updated FMR.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-39

Criteria: Under 24 CFR Part 982.405(a), the Public Housing Agency (PHA) must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards (HQS). Further, under 24 CFR Part 982.158(d), the PHA must prepare a unit inspection report.

Condition: Of sixty-six items tested for HQS inspections, the following were noted:

1. The inspection checklist forms for the annual HQS inspection reports for two items were not available. Details are as follow:

| <u>Account/Household No.</u> | <u>Effective Date</u> | <u>Date of HQS Inspection per HUD Form</u> |
|------------------------------|-----------------------|--|
| HCV01144 | 12/01/06 | 10/27/06 |
| HO1213 | 10/15/07 | 10/15/07 |

2. For one failed annual HQS inspection conducted on 1/25/2008 (Account/Household No.: HO1068), there was no evidence of reinspection in file.
3. For three tenants, the completed HQS inspection checklist form within fiscal year 2008 could not be located.

| <u>Account/Household No.</u> | <u>Effective Date</u> | <u>Date of HQS Inspection per HUD Form</u> |
|------------------------------|-----------------------|--|
| HR0019A | 07/01/07 | 05/15/07 |
| HR0049 | 07/01/07 | 05/17/07 |
| HCV9101 | 07/01/07 | 05/16/07 |

4. For eight tenants, the inspection checklist form was not completely filled out as only the tenant's general information was noted.

| <u>Account/Household No.</u> | <u>Effective Date</u> | <u>Date of HQS Inspection per HUD Form</u> |
|------------------------------|-----------------------|--|
| HO1050 | 03/01/08 | 02/15/08 |
| HO1176 | 12/01/07 | 10/22/07 |
| HO1211 | 10/01/07 | 10/04/07 |
| HO1141 | 12/01/07 | 10/26/07 |
| HO1087 | 11/01/07 | 10/09/07 |
| HO1174 | 12/01/07 | 10/23/07 |
| HO1008 | 02/01/08 | 01/28/08 |
| HCV9101 | 07/01/07 | 05/16/07 |

5. For twenty-two inspection checklist forms tested, the decision on the unit inspected was not evident in the completed form.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-39, Continued

Condition, Continued:

| <u>Account/Household No.</u> | <u>Effective Date</u> | <u>Date of HQS Inspection per HUD Form</u> |
|------------------------------|-----------------------|--|
| HO1050 | 03/01/08 | 02/15/08 |
| HO1037A | 12/01/07 | 10/14/07 |
| HCV01036A | 10/01/07 | 10/14/07 |
| HO1168 | 10/01/07 | 09/26/07 |
| HO1215 | 08/01/07 | 04/24/07 |
| HO1176 | 12/01/07 | 10/22/07 |
| HO1211 | 10/01/07 | 10/04/07 |
| HO1216 | 11/01/07 | 10/11/07 |
| HO1204 | 10/01/07 | 10/14/07 |
| HO1224 | 05/14/08 | 05/12/08 |
| 14961 | 11/01/07 | 10/18/07 |
| HO1060A | 03/01/08 | 02/15/08 |
| HO1141 | 12/01/07 | 10/26/07 |
| HO1087 | 11/01/07 | 10/09/07 |
| 12728 | 01/01/08 | 10/29/07 |
| HO1174 | 12/01/07 | 10/23/07 |
| HO1008 | 02/01/08 | 01/28/08 |
| HO1107 | 01/01/08 | 10/29/07 |
| HCV9101 | 07/01/07 | 05/16/07 |
| HO1189 | 12/01/07 | 12/21/07 |
| HO1104A | 11/01/07 | 10/11/07 |
| HO1155A | 04/11/08 | 04/04/08 |

6. For three failed HQS inspections, the tenant was not listed in the Failed HQS Inspection Report.

| <u>Account/Household No.</u> | <u>Effective Date</u> | <u>Date of HQS Inspection per HUD Form</u> |
|------------------------------|-----------------------|--|
| HO1055 | 06/01/07 | 03/30/07 |
| HO1068 | 02/01/08 | 01/25/08 |
| 12407 | 10/01/07 | 08/15/07 |

Cause: The cause of the above condition is the lack of systematic filing of HQS inspection reports and the lack of monitoring to ensure that HQS inspections are timely performed.

Effect: The effect of the above condition is possible noncompliance with the HQS inspection requirement.

Recommendation: We recommend that NMHC ensure that all HQS inspections are supported with HQS inspection reports and are at least performed annually. Additionally, we recommend that NMHC ensure that all HQS inspection reports are maintained in participant files.

Prior Year Status: The lack of systematic filing of HQS inspection reports and the lack of monitoring to ensure that all HQS inspections are performed on a timely manner was reported as a finding in the Single Audit of CDA for fiscal year 2007.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-39, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Melinda P. Babauta, Acting Manager, Program & Housing, Herman Lieto, Housing Preservation Technician and Mitch Aaron, Housing Inspector

Corrective Action: Unit inspection reports were either not in file or not fully completed. PHD did not have a full-time inspector at the time. NMHC will ensure that housing inspectors adequately complete the inspection reports and make follow-ups to ensure that all deficiencies are addressed, what kind of repairs were done and thoroughly documented in the tenant's files. PHD Manager will monitor to ensure compliance to the inspection requirements and that inspections are performed at least annually.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-40

Criteria: As provided under 24 CFR Part 982.404, for units under Housing Assistance Payment (HAP) contracts that fail to meet Housing Quality Standards (HQS), the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract.

Condition: Of eight unit re-inspections tested, we noted the following:

1. For seven tenants, there was no inspection deficiency report or any equivalent written documentation evidencing that NMHC notified the owner or tenant of the unit requiring correction of any cited life threatening HQS deficiencies within 24 hours of the inspection and of all other HQS deficiencies within 30 calendar days of the inspection or within a specified extension approved by NMHC.

| <u>Tenant # Per Failed HQS Inspection Logsheet</u> | <u>Inspection Date</u> |
|--|------------------------|
| 1 | 10/14/07 |
| 2 | 10/18/07 |
| 4 | 12/21/07 |
| 8 | 06/13/08 |
| 13 | 07/08/08 |
| 14 | 07/08/08 |
| 16 | 07/07/08 |

2. For two tenants, there was no documentation evidencing that all deficiencies noted have been addressed or corrected within the allowed period.

| <u>Tenant # Per Failed HQS Inspection Logsheet</u> | <u>Inspection Date</u> |
|--|------------------------|
| 1 | 10/14/07 |
| 4 | 12/21/07 |

3. For one tenant (Tenant No. Per Failed HQS Inspection Logsheet: 2), the re-inspection was scheduled for 11/27/07 which is 40 days from the annual inspection date of 10/18/07. However, the related approval extending the correction period to more than 30 days was not evident.

Cause: The cause of the above condition is the lack of documentation of re-inspections performed and the lack of monitoring to ensure that deficiencies are timely addressed.

Effect: The effect of the above condition is noncompliance with the HQS enforcement requirement.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-40, Continued

Recommendation: We recommend NMHC ensure that results of HQS enforcements are documented in the deficiency reports and re-inspections are timely performed.

Prior Year Status: The lack of documentation of the results of re-inspections performed and the lack of monitoring to ensure that deficiencies are timely addressed was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Melinda P. Babauta, Acting Manager, Program & Housing, Herman Lieto, Housing Preservation Technician and Mitch Aaron, Housing Inspector

Corrective Action: NMHC will ensure that the results of HQS enforcements are properly documented in the deficiency reports and re-inspections are performed on a timely manner. PHD Manager will monitor to ensure compliance to the inspection requirements and that inspections are performed at least annually.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-41

Criteria: In accordance with 24 CFR Part 982.517 (c)(1), a PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

Condition: During fiscal year 2008, the utility allowance was based on the fiscal year 2005 utility schedule. The utility allowance schedule that was revised during fiscal year 2008 was implemented subsequent to fiscal year 2008. Therefore, the required annual review of the utility allowance schedule was not evident from fiscal years 2006 to 2008.

Cause: The cause of the above condition is the lack of monitoring to ensure performance of the required annual review of the utility allowance schedule.

Effect: The effect of the above condition is noncompliance with the provisions of CFR Part 24 Section 982.517(c)(1). Since updated utility schedules are not available, the amount of questioned costs is not determinable.

Recommendation: We recommend that NMHC implement monitoring procedures to ensure that the required annual review of the utility allowance schedule is performed.

Prior Year Status: The lack of monitoring to ensure that the required annual review of the utility allowance schedule is performed was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager

Corrective Action: NMHC will implement monitoring procedures to ensure that the required annual review of the utility allowance schedule is being performed and will be followed through by the PHD manager.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - HOME Investment Partnerships Program (Nonmajor Program)
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2008-42

Criteria: HOME loans extended to eligible participants should be monitored and accounted for.

Condition: Beginning in fiscal year 2006, NMHC has recorded receivables for HOME loans under a deferment agreement. Prior to fiscal year 2006, NMHC had not recorded receivables for loans under a deferment agreement. At September 30, 2008, NMHC is in the process of determining the cumulative amount of loans under the deferment agreement prior to fiscal year 2006.

Cause: The cause of the above condition is that NMHC understood that loans under deferment agreements should not be recorded since repayment of these deferred loans is not expected.

Effect: The effect of the above condition is that loans under deferment agreements may not be properly accounted for or presented in the financial reports.

Recommendation: We recommend that NMHC determine with the grantor agency whether NMHC should record deferred HOME loans under a deferment agreement.

Prior Year Status: Lack of monitoring of loans under deferment agreement was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesse S. Palacios, Manager, Mortgage & Credit Division and Roger A. Dris, Chief Accountant

Corrective Action: NMHC will take reasonable steps to record deferred HOME loan receivables and monitor HOME loans under a deferment agreement by recording all deferred home loan receivables every end of the month and that the loan accountant will reconcile for check and balance with the loan specialist.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - HOME Investment Partnerships Program (Nonmajor Program)
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2008-43

Criteria: Under NMHC's policies and procedures for Homeowner Rehabilitation, HOME loan applicants that have been determined eligible for financial assistance and have proven a lack of financial resources for repayment of their direct loan may have monthly loan payments deferred for a period of up to fifteen years. Further, borrowers with a deferment agreement shall be required to be annually re-certified as eligible to continue receiving a deferment during any potential deferment period.

Condition: NMHC did not perform the required annual recertification for borrowers with deferment agreements.

Cause: The cause of the above condition is an oversight by NMHC management in ensuring compliance with established policies and procedures for Homeowner Rehabilitation.

Effect: The effect of the above condition is noncompliance with established policies and procedures for Homeowner Rehabilitation.

Recommendation: We recommend NMHC management ensure that the annual recertification of borrowers with deferment agreements is performed.

Prior Year Status: Failure to perform annual recertifications of borrowers with deferment agreements was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesse S. Palacios, Manager, Mortgage & Credit Division

Corrective Action: The Mortgage & Credit Division will place all deferred loan clients on a separate ledger to ensure effective annual recertification and monitoring. The ledger will include the name of the client, address, contact number(s), effective date of the deferred loan agreement, amount of the deferment, and the recertification compliance date. A separate report will then be shared with the Fiscal Division upon completion of the recertification process.

Proposed Completion Date: November 30, 2009

Commonwealth Government Employees' Credit Union

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Year Ended December 31, 2007 and 2008
Conducted By: Burger & Comer, P.C.**

Date(s) of follow-up letter(s) sent : 11/25/09, 5/12/10, 10/14/10

Date(s) of response letter(s) received :

See pages 233 to 239 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

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 reconciliation 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 (Section5 .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 (Section5 .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 as 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

Commonwealth Ports Authority

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2009
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 10/14/10

Date(s) of response letter(s) received :

See pages 241 to 248 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditor's Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Internal Controls

Finding No. 2009-1

Criteria: Proper internal controls are established to mitigate risks associated with the processing and recording of information in the general ledger.

Condition: During the year ended September 30, 2009, the following were noted:

Cash

- The Airport general checking account (GL No. 1010-000) was not reconciled during the fiscal year. At September 30, 2009, the general ledger account balance was (\$16,095) and the bank balance was \$21,263.
- Reconciliations of the Airport (GL No. 1020-000) and Seaport (GL No. 1040-000) payroll accounts were not performed during the fiscal year ended September 30, 2009.
- Management reviews of bank reconciliations prepared are not evidenced.

Receivables from Grantor Agencies

The Airport and Seaport Divisions recorded receivables from grantor agencies of \$3,001,123 and \$58,103, respectively, as of September 30, 2009. Our tests determined that the account balances were not reconciled, monitored or maintained during the fiscal year. Management did not consider variances noted to be material enough to warrant adjustment.

Construction in Progress

Construction in progress accounts (CIP) for the Airport and Seaport Divisions were not properly maintained or reconciled during the year. As a result, numerous audit adjustments were proposed to reconcile the general ledger to the subledger. Although CIP schedules were provided, not all project totals agreed to the general ledger.

Contracts Payable

The Airport Division recorded preliminary contracts payable (GL #2021-000) amounting to \$3,377,311 as of September 30, 2009. The supporting detailed schedule amounted to \$2,594,503, a difference of \$782,808. Proposed audit adjustments resulting from our tests of grant expenses affected contract payable by \$658,364, reducing the variance to \$124,444. Management did not consider the remaining variance material enough to warrant adjustment.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-1, Continued

Condition, Continued:

Accrued Vacation

During the year ended September 30, 2009, accrued vacation payable for both the Airport and Seaport Divisions were not adjusted or reconciled. Upon our request, the accounts were subsequently reconciled and audit adjustments were proposed. The accrued annual leave schedule is maintained manually and requires an update each payperiod.

Payroll

- Of twenty-one payroll items tested, thirteen items had unreconciled variances between the payroll register and general ledger account as follows:

| <u>PP #</u> | <u>PPE</u> | <u>Location</u> | <u>Department</u> | <u>Per G/L (Date Posted)</u> | <u>G/L Account No.</u> | <u>Per Register</u> | <u>Per G/L (Amount)</u> | <u>Variance</u> |
|-------------|------------|-----------------|-------------------|----------------------------------|----------------------------|-------------------------|-----------------------------|-----------------|
| 14 | 03/28/09 | Saipan | ARFF | 04/07/09 | 6751-100 | \$ 38,951 | \$ 40,588 | \$ (1,637) |
| 3 | 10/25/08 | Saipan | Administration | 11/03/08 | 6851-101 | \$ 7,655 | \$ 7,128 | 527 |
| 8 | 01/03/09 | Saipan | ARFF | 01/14/09 | 6751-100 | \$ 42,013 | \$ 43,650 | (1,637) |
| 14 | 03/28/09 | Saipan | ARFF | 04/07/09 | 6751-100 | \$ 38,951 | \$ 40,588 | (1,637) |
| 14 | 03/28/09 | Saipan | Custodial | 04/07/09 | 6251-100 | \$ 14,545 | \$ 13,176 | 1,369 |
| 2 | 10/11/08 | Saipan | ARFF | 10/21/08 | 6751-100 | \$ 38,734 | \$ 40,371 | (1,637) |
| 15 | 04/11/09 | Tinian | Ports Police | 04/27/09 | 6951-200 | \$ 5,511 | \$ 6,671 | (1,160) |
| 19 | 06/06/09 | Saipan | Administration | 06/15/09 | 6851-101 | \$ 11,734 | \$ 9,811 | 1,923 |
| 12 | 02/28/09 | Saipan | Operations | 03/11/09 | 6152-103 | \$ 15,379 | \$ 15,589 | (210) |
| 18 | 05/23/09 | Tinian | ARFF | 06/02/09 | 6751-200 | \$ 3,482 | \$ 4,932 | (1,450) |
| 17 | 05/09/09 | Tinian | Ports Police | 05/20/09 | 6951-200 | \$ 4,193 | \$ 6,157 | (1,964) |
| 15 | 04/11/09 | Saipan | Custodial | 04/27/09 | 6251-100 | \$ 14,495 | \$ 13,126 | 1,369 |
| 5 | 11/22/08 | Rota | Custodial | 12/02/08 | 6251-300 | \$ 2,052 | \$ 3,583 | (1,531) |
| | | | | | | | | \$ (7,675) |

- CPA has been assessed a penalty of \$176,378 related to the non-filing of Form 941 Employer's Quarterly Federal Tax Return for fiscal year 2008 and the first and second quarters of fiscal year 2009. CPA received various notices from the Internal Revenue Service but did not act on these notices in a timely manner.

Journal Entries

Our tests of journal entries for the Airport and Seaport Divisions noted the following:

- Many journal entries relate to reclassifications and reversals of posting errors.
- Voided journal entries are not numerically accounted for, resulting in a break in numerical sequence.
- Journal entries are not posted in a timely manner.
- During fiscal year 2009, three individuals were authorized to post journal entries, each utilizing his/her own journal number sequence.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-1, Continued

Condition, Continued:

Grant Expenses

- Variances were noted between expenses reported on the preliminary schedule of expenditures of federal awards (SEFA) and supporting detailed schedules. Numerous audit adjustments were proposed to reconcile the supporting detailed schedules, general ledger and the SEFA.
- Expenses were incurred for one project (CPA-SA-001-08) that was not included in the approved project listing from the U.S. Department of the Interior.

Cause: The cause of the above condition is the lack of adherence to established internal controls related to the processing and recording of information in the general ledger.

Effect: The effect of the above condition is the misstatement of account balances.

Recommendation: We recommend the following:

- All general ledger accounts be reconciled, reviewed and monitored on a timely and monthly basis.
- All accounts recorded in the general ledger are properly reconciled in a timely manner.
- Supporting journal vouchers, disbursement vouchers, invoices, and reconciliations be properly maintained.
- An analysis of the current system's capabilities to alleviate and/or minimize manual journal entries and the use of spreadsheets should be undertaken.
- Journal entry review should be evidenced.
- Journal entries should be utilized in numerical sequence.
- Policies and procedures be established to ensure all payroll related reporting requirements are addressed and penalties avoided.

Prior Year Status: Control weaknesses over cash, receivables from grantor agencies, construction in progress, contracts payable, accrued vacation, payroll, journal entries and grant expenses were reported as a finding in the Single Audit of CPA for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-1, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: CPA has been working towards reconciling general ledger accounts on a monthly basis in fiscal year 2010. In fact, CPA's financial consultant was tasked to assist CPA accounting staff with the proper methods and procedures for reconciling accounts. Progress is slowly coming forth. However, CPA is committed to continue to reach its goal of reconciling accounts on a monthly basis. CPA's financial consultant will continue to assist in this regard.

In terms of maintaining supporting documents, CPA has been addressing this issue in FY 2010 by examining its filing system and ensuring that it is maintained accurately (by proper fiscal year for example) and properly. During the FY 09 audit, efforts were made to correct and update files that were maintained erroneously. These actions prompted further review to determine whether more corrections and updating were needed. Efforts are being made to ensure that all document files are complete (e.g., all documents that require a signature and date, are signed and dated).

CPA is making efforts in FY 2010 to reduce the use of manual journal entries. Moreover, CPA will take steps to reduce the use of external spreadsheets. This will require training from an outside source as most CPA accounting staff are not familiar with every aspect/function of the current accounting system (MAS 90).

Currently, all journal entries must be stamped with evidence (signature/initials) as to who prepared, reviewed and approved the journal voucher. Further, the user who inputs the entry into MAS 90 must be indicated on the journal entry document.

To maintain the sequential issuance of journal vouchers CPA assigns the task to one individual. This individual maintains the numerical sequence used to avoid confusion and duplication, as might happen if multiple individuals had the responsibility. Moreover, only one individual has the responsibility to access and update journal entries in the system.

For payroll reporting requirements, CPA hired a professional firm to assist with the task of preparing required reports, ensuring accuracy, and proper submission. This firm is tasked to ensure that CPA is current in FY 2010. Moreover, CPA management has asked the firm for guidance and training of appropriate CPA staff in order to ensure that all reporting requirements are maintained and complied with in the future.

Proposed Completion Date: All the above-mentioned steps are to be implemented before this fiscal year is over (September 30, 2010).

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-2
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: AIP Nos. 3-69-0002-57 and 3-69-0002-59
Federal Award Periods
Ended: 06/12/10 and 09/01/13
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Criteria: Construction projects funded by federal grants are required to include the Buy American clause within the contract.

Condition: Our tests of project specifications and notice to bidders for the Emergency Generator project did not note the inclusion of the Buy American clause.

Cause: The cause of the above condition is the lack of controls to ensure compliance with federal contract requirements.

Effect: The effect of the above condition is lack of compliance with grant requirements. No questioned costs result as the contractor adhered to requirements of the Buy American clause.

Recommendation: We recommend management ensure all provisions required by federal grant awards are included in contracts and/or project specifications.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: CPA will ensure that all announcements/solicitations and contracts funded by federal funds contain the Buy American clause, as required.

Corrective action will be taken immediately, and completion will be achieved before the end of FY 2010. CPA will ensure this clause is applied consistently as required.

Proposed Completion Date: Before the end of FY 2010

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-3
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with 49 CFR, Section 18.31(4)(d)(1)(2)(3)(4), equipment procedures (including replacement equipment), whether acquired in whole or in part with grant funds, are required to meet the following criteria:

- (1) Property records must include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property;
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years;
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated;
- (4) Adequate maintenance procedures must be developed to keep the property in good condition; and
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Condition: CPA has not conducted a physical inventory of its fixed assets in the last three years. In addition, a log indicating the location of equipment is not being maintained. Total fixed asset additions related to CPA's major program amounted to \$11,051,139, \$9,826,975 and \$22,986,600 during fiscal years 2009, 2008 and 2007, respectively. Of the total additions, \$10,734,776, \$9,778,502 and \$22,022,560 represent additions to construction in progress during the fiscal years ended September 30, 2009, 2008 and 2007, respectively.

Cause: The cause of the above condition is the lack of controls to ensure compliance with equipment requirements.

Effect: The effect of the above condition is noncompliance with 49 CFR, Section 18.31(4)(d)(1)(2)(3)(4).

Recommendation: We recommend that management ensure a physical inventory of equipment is conducted at least once every two years. We also recommend that documentation procedures be established to ensure fixed asset records are maintained.

Prior Year Status: The lack of compliance with 49, CFR Section 18.31(4)(d)(1)(2)(3)(4) was reported as a finding in the Single Audit of CPA for fiscal year 2008.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-3, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: In FY 2010, CPA made efforts to conduct physical inventories of its department property. A significant effort is needed as inventories have not been performed for some time. CPA's goal is to eventually account for all equipment and property. An inventory log has been created tracking purchases, existing equipment, location, funding source, disposition, condition, purchasing source (PO number for example), date acquired, etc. CPA will increase its effort and ensure that all property (purchases through federal funds and local funds) is accounted for. CPA will follow the recommendation and conduct a physical inventory at least once every two years.

CPA intends to complete the inventory by the end of FY 2010. CPA will then maintain inventory records in the future.

Proposed Completion Date: By the end of FY 2010

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-4
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.106 Airport Improvement Program
Federal Award Nos.: All AIP Grants
Area: Reporting
Questioned Costs: \$-0-

Criteria: The expenses reported on the Outlay Report and Request for Reimbursement (SF-271) should be based on the general ledger.

Condition: Based on our examination of the general ledger, we noted that grant expenses for the year were not recorded on a regular and monthly basis.

Cause: The cause of the above condition is that spreadsheets are being used to keep track of expenses and for reporting purposes.

Effect: The effect of the above condition is that the SF-271 does not reflect the expenses recorded in the general ledger at the time of submission.

Recommendation: We recommend management ensure all expenses are properly recorded in a monthly and timely basis.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek T. Sasamoto, Comptroller

Corrective Action: Currently, CPA is recording all general ledger entries as transactions occur. CPA is ensuring that submitted progress billings are entered into the general ledger as they are received. Moreover, all outlays and corresponding reimbursement requests are being recorded in the general ledger as they occur. CPA is reducing the use of manual journal vouchers for recording these transactions (Accounting is no longer processing journal vouchers for recording these transactions). Finally, general ledger entries are reconciled to actual expenditures claimed on the request for reimbursement.

CPA considers this corrective action to be completed. However, CPA will ensure that it is enforced and continues throughout this fiscal year and all future fiscal years.

Proposed Completion Date: Ongoing

**Report on Compliance & Internal Control over
Compliance with Requirements Applicable to the
Passenger Facility Charge Program
Year Ended September 30, 2006
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/12/09, 9/3/09 (Deloitte re: CPA response), 11/25/09,
5/12/10, 10/14/10

Date(s) of response letter(s) received : 8/31/09

See pages 250 to 254 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditor's Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings
Year Ended September 30, 2006

Passenger Facility Charge Expenditures/Reimbursements

Finding No. 2006-1

Criteria: Passenger Facility Charge (PFC) reimbursements should be applied to qualifying expenditures and approved projects. In addition, the Airport Improvement Program grant funded projects are not eligible for PFC reimbursements.

Condition: Of total PFC's collected of \$2,315,891 during the year ended September 30, 2006, disbursements/reimbursements of \$2,304,540 were tested and the following exceptions were noted:

- A PFC reimbursement of \$93,682 was applied to two projects, Radio Communication Upgrade and Flight Information Display, for which funding was subsequently reprogrammed to fund other projects. At September 30, 2006, cumulative PFC reimbursements on the two projects amounted to \$187,364.
- The Rota Runway/Taxiway/Apron project, totaling \$3,158,632 at September 30, 2006 was initially budgeted to be financed with the proceeds of the 1998 Senior Series A Bonds. The project subsequently received 100% funding from two grantors and the local government. The related interest cost and amount of PFC reimbursement applied during the year amounted to \$184,747 and \$129,575, respectively. The amount of PFC applied during the year exceeded the eligible amount by \$74,403. The total PFC approved for reimbursement totaled \$2,591,500.

Cause: The causes of the above conditions are as follows:

- Projects originally budgeted and planned have been cancelled and the related funding reprogrammed to other projects.
- The inclusion of a grantor funded project in the initial PFC application.
- Project costs are not closely monitored.

Effect: The effect of the above conditions is the application of PFC reimbursements to cancelled projects and the misstatement of project expenditures. In addition, a PFC reimbursement was applied to a project in excess of the eligible amount.

Recommendation: We recommend CPA review the approved PFC projects to ensure all PFC reimbursements are applied to valid qualifying project expenditures. We also recommend CPA review its PFC approved projects to ensure the exclusion of projects that are 100% funded by a grantor and amend its PFC application in the event such projects are included.

Prior Year Status: The application of PFC reimbursement to cancelled projects and the misstatement of expenditures was reported as a finding in the PFC audit for fiscal year 2005.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2006

Finding No. 2006-1, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. Due to the financial condition of CPA, the Radio Communication and Flight Information Display has been deferred to future projects.

Proposed Completion Date: FY 2009

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-2

Criteria: In accordance with Section 158.65 of 14 CFR Part 158, each carrier collecting Passenger Facility Charges (PFC's) for a public agency shall file quarterly reports to the public agency providing an accounting of funds collected and funds remitted. The report shall be filed on or before the last day of the calendar month following the calendar quarter or other period agreed by the collecting carrier and public agency for which funds were collected.

Condition: During the year ended September 30, 2006, the following number of carriers either submitted an incomplete quarterly report or did not submit a report:

| <u>Airport</u> | <u>No. of Carriers</u> | <u>Incomplete</u> | <u>No Report</u> |
|----------------|------------------------|-------------------|------------------|
| Saipan | 23 | 11 | 9 |
| Rota | 6 | 1 | 5 |
| Tinian | <u>2</u> | <u>-</u> | <u>2</u> |
| | <u>31</u> | <u>12</u> | <u>16</u> |

Cause: The cause of the above condition is the lack of follow-up by CPA.

Effect: The effect of the above condition is noncompliance with Section 158.65 of 14 CFR Part 158.

Recommendation: We recommend CPA follow-up with air carriers to ensure quarterly reports are received in accordance with Section 158.65 of 14 CFR Part 158.

Prior Year Status: Noncompliance with Section 158.65 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2005.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will ensure that all air carriers submit a quarterly report as per section 158.65 of 14 CFR Part 158. CPA will also include this section in CPA's quarterly (PFC) report to the airlines.

Proposed Completion Date: FY 2009

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-3

Criteria: In accordance with Section 158.51 of 14 CFR Part 158, PFC collected by the carrier shall be remitted to the public agency no later than the last day of the calendar month following the month in which the PFC was collected.

Condition: During the year ended September 30, 2006, twenty-one air carriers remitted collections to CPA one or more months following the month in which the PFC collections were collected. In addition, PFC remitted by ten carriers did not include a description/information as to what period the collections relate to. A summary is as follows:

| <u>Airport</u> | <u>No. of Carriers</u> | <u>Time Lag in Collections</u> | <u>Information Not Available</u> |
|----------------|------------------------|------------------------------------|--------------------------------------|
| Saipan | 23 | 19 | 4 |
| Rota | 6 | 1 | 5 |
| Tinian | <u>2</u> | <u>1</u> | <u>1</u> |
| | <u>31</u> | <u>21</u> | <u>10</u> |

Cause: The cause of the above condition is the lack of follow-up by CPA.

Effect: The effect of the above condition is noncompliance with Section 158.51 of 14 CFR Part 158.

Recommendation: We recommend CPA establish follow-up procedures with air carriers to ensure PFC collections are remitted on a timely basis and ensure compliance with Section 158.51 of 14 CFR Part 158.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will ensure that all air carrier submit a full description on their payment to include collection period as per section 158.51 of 14 CFR Part 158.

Proposed Completion Date: FY 2009

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-4

Criteria: In accordance with Section 158.63 of 14 CFR Part 158, the public agency shall provide quarterly reports to carriers collecting PFC's for the public agency with a copy to the appropriate FAA Airports office. The quarterly report shall include PFC's received from collecting carriers, interest earned, and expenditures for the quarter; cumulative PFC's received, interest earned, expenditures, and the amount committed for use on currently approved projects, including the quarter; the PFC level for each project; and the current project schedule.

Condition: The expenditures reported on the quarterly reports submitted by CPA represent the allocation of PFC's received and applied to approved projects.

Cause: The cause of the above condition is a lack of understanding of PFC reporting requirements.

Effect: The effect of the above condition is noncompliance with the requirements of Section 158.63 of 14 CFR Part 158.

Recommendation: We recommend CPA ensure that the reporting requirements of Section 158.63 of 14 CFR Part 158 are adhered to.

Prior Year Status: Noncompliance with Section 158.63 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2005.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will revise the expenditure report to comply with PFC Section 158.63 of 14 CFR Part 158.

Proposed Completion Date: FY 2009

Commonwealth Utilities Corporation

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2008
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 10/14/10

Date(s) of response letter(s) received :

See pages 256 to 284 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

Timely Financial and Management Reporting

Finding No. 2008-1

Criteria:

Pursuant to 4 CMC 8141, the Executive Director shall manage the Corporation in a business-like manner so as to provide the most efficient delivery of services at the most reasonable cost to its customers.

Condition:

Monthly financial statements are not prepared timely. The September 30, 2008 trial balance was only provided to the auditor on May 27, 2009.

Cause:

There is lack of established internal controls and monitoring procedures to ensure that the financial statements are prepared in a timely manner. Additionally, CUC experienced personnel turnover in key finance positions.

Effect:

CUC is not able to complete its Single Audit reporting requirements within nine months from close of the fiscal year in accordance with OMB Circular A-133.

Without a complete set of financial statements and management analysis, management decisions could be made based on incomplete or inaccurate information. Furthermore, it would be difficult for management to identify irregularities or possible fraud without these reports.

Recommendation:

Part of a sound internal control environment is regular and timely reporting. CUC should establish deadlines for regular financial and management reports. At present, the primary current information produced by CUC's closing process is a balance sheet and an income statement. Although these statements are very important, other management reports, such as performance measures, are also important for effective management of CUC. Performance measures are indices developed by function or position that management can use to properly understand the results of operations and gauge the improvement in performance over time. Performance measures are developed by reviewing the time, quality, and quantity of a function. For example, performance measures in the power generation function would include the analysis of fuel efficiency, line loss, etc. By comparing monthly fuel efficiency, management may note of significant fluctuations and identify what went wrong or what was done differently during the month when these occurred and be able to use this information to improve fuel efficiency in the future. This will also help explain fluctuation in fuel expenses. CUC should consider developing performance measures for each

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

major function and periodically report the key measures to provide positive feedback to employees and management tools for supervisors and managers.

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Timely Financial and Management Reporting, Continued

Finding No. 2008-1, Continued

Prior Year Status:

The same condition was cited as Finding 2007-2 in prior year audit.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Payroll

Finding No. 2008-2

Criteria:

Employees should be paid in accordance with an approved employment contract or personnel action form (PAF) and any changes in rates should be accompanied by approved personnel action form.

Condition:

A non-statistical sample of 60 payroll payments was selected for test of controls over payroll disbursements and noted the following:

- a. For 4 or 7% of 60 employees selected for testing, I noted that the actual payroll rate used does not agree with the latest approved PAF on file.

| <u>Employee Number</u> | <u>Payment Date</u> | <u>Findings</u> |
|------------------------|---------------------|--|
| 4607 | 3/28/08 | Employee rate per PAF is \$25.166 per hour whereas actual payroll is \$26.424 per hour. Last PAF on file was for fiscal year 2004. |
| 10073 | 3/28/08 | Employee rate per PAF is \$8.308 per hour whereas actual payroll is \$11.034 per hour. No updated PAF on file. Last PAF on file was for fiscal year 2006. |
| 756 | 3/28/08 | Employee rate per PAF is \$10.137 per hour whereas actual payroll is \$11.154 per hour. Last PAF on file was for fiscal year 2001. |
| 10054 | 3/28/08 | Employee rate PAF is \$8.309 per hour whereas actual payroll is \$8.724 per hour. Employee appears overpaid for this PPE. No updated PAF on file. Last PAF was for fiscal year 2004. |

- b. The employee files for 5 or 8% of the 60 employees selected for testing were not made available for audit.

Cause:

There is poor implementation of internal control policies and procedures and lack of monitoring controls. An edit check of changes in payroll rates is not regularly generated from the payroll system and the payroll department does not compare these changes to supporting documentation from Human Resources Department.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Payroll, Continued

Finding No. 2008-2, Continued

Effect:

Some employees could have been improperly paid as a result of these differences. Furthermore, fraud could be perpetrated and not be detected in a timely manner.

Recommendation:

The variances listed above should be investigated by Human Resources and Payroll personnel and properly corrected. To ensure that all changes made to the personnel file in the payroll system are authorized, the Human Resources Department should only make changes based on approved contract or PAF. A copy of such contract should be provided timely to the Payroll Department for independent verification. To ensure completeness of documents submitted by the Human Resources Department to the Payroll Department, the Information Technology Department should generate a monthly edit list of all the changes made in the payroll system. All such changes should be verified against duly authorized documentation provided by the Human Resources Department.

Prior Year Status:

Prior year Finding 2007-4 also included several employees selected for testing where actual payroll rate used does not agree with latest approved PAF on file.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Cash and Cash Equivalents

Finding No. 2008-3

Criteria:

Pursuant to 4 CMC §8155, all funds received by CUC must be deposited into insured or fully collateralized accounts.

Condition:

For the year ended September 30, 2008, CUC has \$5,259 in non-insured financial institution.

Cause:

CUC maintains an account with this non-insured financial institution since this financial institution also acts as one of the collecting agent of CUC.

Effect:

CUC is in violation of the law. Furthermore, the amount of cash in this institution has high custodial risk.

Recommendation:

CUC should obtain collateralization from the financial institution to comply with the requirements of 4 CMC §8155.

Prior Year Status:

The same condition was noted as Finding 2007-5 in prior year audit.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Customer Deposits - Minimum Deposit

Finding No. 2008-4

Criteria:

Based on a Memorandum issued by the Executive Director on September 29, 2005 to all Division Managers by the Executive Director regarding "Assessing Electric Security Deposits":

- a. New customers who apply for service at a location where no prior service was provided, the electric security deposit will be \$200 for residential and \$365 for commercial. This was amended by Public Law 15-80, which reduce the initial deposit to one month consumption instead of the fixed amounts of \$200 and \$365 for residential and commercial customers, respectively.
- b. Customers whose security deposits are to be calculated based on actual or estimated usage stated in kilowatt-hours, depending on the applicable circumstances (i.e. certified load calculations provided by the electrical engineer, the 2 highest monthly usage during the past 12-month period, or average monthly usage for the last 6 months for the prior customer), the number of kilowatt-hours shall be multiplied by the applicable electric rate plus the current fuel surcharge fee.

Additional criteria for computation of required deposits from Part 6.4 of the Electric Service Regulations states that "after one year of established use and annually thereafter, CUC may also recalculate security deposit".

Condition:

The minimum required deposits was recalculated for 40 customers and noted that 16 or 40% and 26 or 65% of 40 customers selected for testing had security deposits that are insufficient to the highest usage for the past 12-month period and average monthly usage for the past 6 months, respectively.

Cause:

CUC lacks sufficient manpower to conduct the required review of the deposit accounts pursuant to Memorandum for assessing electric security deposits and Part 6.4 of the Electric Service Regulations.

Effect:

In case certain cases where customers default on payment of its utility bills, CUC does not have enough security deposits from these customers to recover its receivable due from customers for nonpayment. This may result to potentially high uncollectible accounts.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Customer Deposits - Minimum Deposit, Continued

Finding No. 2008-4, Continued

Recommendation:

CUC should ensure that the monitoring controls are properly implemented, to ensure that customers deposit are adequate to cover at least one month consumption, is properly implemented. CUC could utilize its Information Technology Department to facilitate the computation of required minimum deposits and comparison against actual deposit. The variance report should then be reviewed by the Controller or designated personnel for appropriate action such as pursuing deposit increase as stated in CUC's regulations.

Prior Year Status:

Lack of established policies and procedures for the review and monitoring of customers' deposits was reported as a finding in the audits of CUC for fiscal years 2006 through 2007 as Findings 2007-6 and 2006-16.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Customer Deposits - Liability

Finding No. 2008-5

Criteria:

Pursuant to Public Law 15-80, deposits shall be placed in an interest-earning trust fund to be established by the Executive Director of the corporation. Such funds shall not be used for any other purpose. All residential security deposit refunds shall be paid within 30 days after disconnection of such utilities and with earned interest.

Conditions:

The following were noted during the audit of customer deposits:

- a. Although annual interest owed on deposits received from customers are calculated annually, CUC did not recognized the liability for such interest in its financial statements.
- b. Of the customer deposits received, \$7,500,000 placed in various time certificates of deposit are held as security pursuant to a letter of credit obtained from a financial institution to secure a \$7,500,000 credit limit for fuel purchases.
- c. A portion of the customer deposits received is co-mingled in CUC's general fund and may have already been expended for purposes not allowed by the law.

| | <u>2008</u> | <u>2007</u> |
|--|----------------------|----------------------|
| Restricted cash | \$ 7,681,378 | \$ 7,860,736 |
| Total customer deposits (including accumulated accrued interest) | <u>(10,587,963)</u> | <u>(10,647,420)</u> |
| Restricted net asset deficiency | <u>\$(2,906,585)</u> | <u>\$(2,786,684)</u> |

- d. Upon disconnection of customer accounts, customer deposits are refunded or applied to outstanding balance without regard to accrued interest earned.

Cause:

CUC has not established and implemented procedures to allocate interest earned to individual customer deposits. Additionally, the above condition may be due to confusion caused by several amendments made to the statutes affecting CUC regulations.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Customer Deposits - Liability, Continued

Finding No. 2008-5, Continued

Effect:

The liabilities and restricted net asset deficiency in financial statements of CUC is understated by the amount of the compounded interest earned on customer deposits.

Recommendation:

CUC should comply with statutes pertaining to customer deposits.

The liability for interest on customer deposits should be recognized by reclassifying all interest earned from customer deposits placed in time certificates of deposit to liability to customers instead of its current recognition as other income of CUC. Furthermore, interest earned on customer deposits not placed in restricted interest bearing accounts should be accrued and the corresponding expense should be recognized by CUC as a result of non-compliance with the statute.

CUC should ensure that all customer deposits are placed in restricted interest earning fund and that interest on such fund shall be rolled-over to that fund instead of the current practice of transferring interest to the general fund.

Prior Year Status:

The same condition was noted as Findings 2007-7 and 2006-15 in prior year audits.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Revenue/Receipts

Finding No. 2008-6

Criteria:

All recorded revenues and receivables should reflect collectible balances.

Condition:

There were twenty-one (21) long outstanding disputed accounts totaling \$1,809,362 that were not disconnected. Management asserts that these delinquent customers represent landowners which CUC placed water wells, utility poles, pumps, etc., on their property. In-lieu of CUC making rental payments for use of the property, customers are not paying for utility usage; however, no formal contractual agreement exists between these customers and CUC. Correspondingly, no cost analysis study has been performed to determine the fair value of the property rental versus the property owner's utility consumption.

Cause:

CUC is not implementing its formal policy for its use of private property in-lieu of payment to CUC for utility usage. A formal policy was only drafted in fiscal year 2007 and approved by management.

Effect:

The above delinquent accounts may be uncollectible. Additionally, there could be inequalities in the amount paid for certain parcels of land depending on the value of utilities used.

Recommendation:

CUC should consider conducting cost analysis to determine the fair value of the property rental versus the property owner's utility consumption for which CUC has placed its water wells, utility poles, pumps and related equipment.

CUC should execute formal agreements with all landowners for the use of land and ensure compliance with established policies and procedures. Furthermore, depending on the agreed monthly rate to recognize as rental expense, it may be necessary for CUC to make prior period adjustments to record rent expense and reduce the related outstanding receivable.

Prior Year Status:

Lack of formal agreements with landowners for the use of land was reported as a finding in the audits of CUC for fiscal years 1996 through 2007. During 2007, CUC adopted a policy requiring all agreements to be prepared prior to using private properties. CUC also established procedures for easement claims.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Accounts Receivable/Disconnection

Finding No. 2008-7

Criteria:

Pursuant to CUC Electric Service Regulation, Part 17, CUC may disconnect past due accounts 14 calendar days after of second disconnection notice, which is sent 45 days after the first disconnection notice. The customer may seek remedy against disconnection by filing a formal dispute or execute a promissory note subject to CUC approval.

Condition:

The active accounts with overdue amounts from the aging of receivables were summarized. The listing of active accounts with overdue amounts was compared with the listing of accounts with dispute and accounts with promissory notes. There were 247 customer accounts whose aggregate overdue balance was \$431,322, and none of which had disputes or promissory notes and were not disconnected.

Cause:

There is a lack of monitoring to ensure that all accounts 90-days past due are disconnected pursuant to Part 17 of CUC's Electric Service Regulation.

Effect:

The collectibility of the above-mentioned past due customer accounts are doubtful may represent bad debts. Furthermore fraud could be committed on these accounts and not be detected in a timely manner.

Recommendation:

The above-mentioned past due customer accounts should be investigated pursuant to Part 17 of CUC's Electric Service Regulation and evaluated for collectability. CUC should adhere to its established policies and procedures for termination/disconnection of service. Furthermore, internal control monitoring should be performed to ensure that all accounts 90-days past due are timely disconnected, unless supported by promissory notes or formal customer dispute.

Prior Year Status:

Similar condition was noted as Findings 2007-9 and 2006-5 in prior year audits.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Inventory

Finding No. 2008-8

Criteria:

Perpetual inventory records should, at all times reflect the total inventory quantity on-hand.

Condition:

The inventory valuation report as of September 30, 2008 included several inventory items with negative quantities on-hand. Although the ending inventory was adjusted to the actual physical count, the adjustment may be overstated by these items with credit balances (See Finding No. 2008-9).

Cause:

CUC's computer system records inventory when Accounts Payable personnel post vendor invoices into the system. Receiving reports prepared and posted by CUC's warehouse personnel are matched by the system with the corresponding vendor invoices posted. Consequently, if corresponding invoices have not been posted by the Accounting Department or cannot be identified, inventory per subsidiary ledger is not adjusted for warehouse receipts. As a result, the inventory subsidiary ledger account may be zero even though there may be actual inventory on-hand. Since the computer system allows for issuance even when there is insufficient inventory quantities on-hand per the subsidiary ledger, inventory issuances by warehouse personnel may result in negative inventory quantities per book.

Effect:

There is a potential for material misstatement of inventory balances and thus resulting in an opinion qualification on the account balance and related expenses. There is also the potential for theft and misappropriation of assets due to a lack of internal control and inventory variances may simply be written without adequate investigation and resolution.

Furthermore, inaccurate inventory valuation report is not useful to management in making inventory purchase decisions.

Recommendation:

CUC should ensure that all inventory transactions are properly posted and in a timely manner. A properly functioning perpetual inventory system will help generate more accurate interim financial statements and minimize the likelihood of making large physical inventory adjustments.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

Prior Year Status:

Similar condition was noted as Finding 2007-10 and 2006-6 in prior year audits.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Inventory Reconciliation

Finding No. 2008-9

Criteria:

A reconciliation of inventory balances between the general ledger and subsidiary ledgers should be performed regularly and discrepancies, if any, should be investigated.

Condition:

For fiscal year ending September 30, 2008, CUC adjusted \$536,202 as additional production fuel expenses, for the net overstatement of the inventory general ledger balance control account against adjusted inventory valuation report. The variance was not investigated.

Cause:

CUC has not implemented a plan of corrective action for the above condition as this control deficiency has existed since fiscal year 2002. There is a lack of responsible personnel assigned to perform the established inventory controls and there are no monitoring procedures in place to ensure that established policies and procedures are adhered. Internal controls are ineffective for safeguarding CUC's inventories to prevent and detect discrepancies and potential waste, fraud and abuse.

Effect:

There is a potential for material misstatement of inventory balances and thus resulting in an opinion qualification on the account balance and related expenses. There is also the potential for theft and misappropriation of assets due to a lack of internal control and inventory variances may simply be written without adequate investigation and resolution.

Recommendation:

The adjustment should only be made by a responsible person after a thorough investigation and a reasonable explanation for the discrepancies have been obtained. Thus, before making the adjustment, someone with no access to the inventory should investigate the discrepancies between the inventory valuation report (subsidiary ledger) and physical count and attempt to determine whether such variances are due to clerical or counting errors, improper purchase and issuance cutoff during the physical count, theft, intentional misstatement of the records or count, etc. Steps should then be taken to address the causes so that they do not recur.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Inventory Reconciliation, Continued

Finding No. 2008-9, Continued

Recommendation, Continued:

To ensure that the purchase and issuance cutoffs are proper, someone should control purchase and sales invoices issued/received shortly before and after the physical count. This person should determine that the subsidiary ledger as of the physical inventory date include purchase invoices for all goods received before, but not after, the physical count and should exclude issuances for all goods used/transferred before, but not after, the count.

Monthly inventory reconciliations should be prepared in a timely manner to identify reconciling items between the general ledger and subsidiary ledgers in order to test the accuracy of both systems and, therefore, provide more accurate financial information.

CUC should also consider performing periodic cycle counts of the fast moving inventory items and compare the results with the perpetual records. This will enable CUC to identify inventory shortages and errors on a timely basis.

Prior Year Status:

Lack of established policies and procedures over inventory reconciliations was reported as a finding in the audits of CUC for fiscal years 2002 through 2007.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Inventory Valuation

Finding No. 2008-10

Criteria:

When the moving average unit cost method of inventory costing is utilized, unit cost is updated for new purchases and issuances are valued based on the most recent average unit cost.

Condition:

Certain inventory items have negative unit costs and related issuances have negative values as of September 30, 2008. Furthermore, costs of inventory adjustments were not based on the most recent average unit costs.

Cause:

CUC has not implemented a plan of corrective action for the above condition as this control deficiency has existed since fiscal year 2002. The cause of the above condition is attributable to the following:

- Untimely posting of inventory purchases, receipts and issuances;
- Lack of coordination between accounts payable and warehouse personnel for input of purchases and issuances; and
- Lack of monitoring and review of inventory adjustments.

Effect:

The effect of the above condition is a possible misstatement of inventory resulting in an opinion qualification on the account balance and related expenses.

Recommendation:

CUC should establish policies and procedures to ensure timely posting of inventory purchases, receipts and issuances; establish a formal review process and monitoring procedures for inventory adjustments; ensure coordination between responsible personnel; and ensure that these policies and procedures are strictly adhered. Even with CUC's planned implementation of a bar-coding, coordination between Warehouse and Accounts Payable accountant would still be necessary. Although the bar-coding system may facilitate the warehouse receiving and issuance functions, if the accounts payable section does not timely record the purchases, issuances will still result in credit balances in the inventory valuation report.

Prior Year Status:

Similar findings were cited in the audit of CUC for fiscal years 2002 through 2007.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Inventory Obsolescence

Finding No. 2008-11

Criteria:

Inventories should be reviewed regularly for possible obsolescence and generally accepted accounting principles in the United States of America requires inventory to be recorded at lower of cost or net realizable values.

Condition:

Inventory review to determine or identify old, obsolete or overstock was not performed until after fiscal year end.

Cause:

The cause of the above condition is the lack of established policies and procedures for reviewing and monitoring of obsolete and non-moving inventories. CUC has not implemented a plan of corrective action for the above condition as this control deficiency has existed since fiscal year 2002.

Effect:

The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance.

Recommendation:

A periodic inventory turnover analysis or formal obsolescence evaluation throughout the year should be performed to identify slow moving and obsolete items. The timely disposal of these items will eliminate the additional carrying costs associated with inventory.

Carrying costs of slow-moving and obsolete items should be compared with their net realizable value. Should the carrying value exceed net realizable values, CUC should adjust the valuation to reflect the lower of cost or net realizable value.

Prior Year Status:

Lack of established policies and procedures for the review and monitoring of obsolete and non-moving inventories was reported as a finding in the audits of CUC for fiscal years 2002 through 2007.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Review Inventory Requirements

Finding No. 2008-12

Criteria:

Inventory should be kept at a reasonable level to support operations.

Condition:

An analysis of materials and supplies inventory (except fuels and lubes) was performed as follows:

| | |
|----------------------------|---------------------|
| Average inventory | <u>\$ 7,461,547</u> |
| Issuances: | |
| Repairs and maintenance | \$ 5,273,032 |
| Supplies | <u>464,058</u> |
| | <u>\$ 5,737,090</u> |
| Average inventory turnover | <u>1.3 years</u> |

Based on the above analysis, CUC has inventory value equivalent to 1.3 years consumption. However, this does not indicate that materials may be readily available. Individual inventory levels are not regularly reviewed and the majority of the inventory on-hand is slow-moving.

Cause:

There is a lack of monitoring of inventory levels.

Effect:

The effect of the above condition is that CUC sometimes faces unanticipated and undesirable stock-out situations, while levels of other inventory items are too high. Furthermore, the limited financial resources of CUC are tied in to this non-moving inventory instead of being available to finance current operations.

Recommendation:

CUC should evaluate its inventory levels and consider disposing of certain obsolete and slow-moving items.

Prior Year Status:

Similar conditions were cited as Findings 2007-14 and 2006-10 in prior year audits.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Utility Plant

Finding No. 2008-13

Criteria:

Adequate presentation and control of fixed assets are essential in preparing accurate financial statements. Unless all fixed assets are recorded, depreciation used in determining utility rates could be misstated.

Condition:

CUC has not conducted physical count of capital assets in over 5 years and has no basis to determine if the carrying value of its capital assets is accurate. In accordance with generally accepted accounting principles in the United States of America, long-lived assets should be evaluated for impairment. Since a physical count has not been conducted, the asset listing may still include assets that have been retired, broken, destroyed or stolen.

Cause:

There is a lack of management oversight on the significance of accounting for and conducting physical count of capital assets and monitoring controls to ensure that asset listing is updated not only for additions but also for deletions. CUC has not implemented a plan of corrective action for the above condition as this control deficiency has existed since fiscal year 1988.

Effect:

The effect of the above condition is a possible misstatement of capital assets. Additionally, a control deficiency exists over the safeguarding of capital assets. Capital assets may be misappropriated and not be detected in a timely manner.

Recommendation:

CUC should perform a physical inventory of all fixed assets on-hand, agree the count with its records and make necessary adjustments. CUC should also consider evaluating capital assets for impairments and recoverability of carrying values. An asset should be tested for recoverability if events or changes in circumstances, such as the following among others, indicate that its carrying amount may not be fully recoverable:

- a. Significant adverse change in the asset's use or in its physical condition;
- b. Significant adverse changes in legal factors or business climate, including an adverse action or assessment by a regulator; and
- c. Costs to acquire or construct an asset that significantly exceed original expectations.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Utility Plant, Continued

Finding No. 2008-13, Continued

Recommendation, Continued:

When long-lived assets are tested for recoverability, a review of depreciation or amortization estimates may be required. Any revision to the remaining useful life should then be considered in developing estimates of future cash flows used to test the asset's recoverability.

Prior Year Status:

The lack of control over capital assets was reported as a finding in the audits of CUC for fiscal years 1988 through 2007.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Insurance Coverage

Finding No. 2008-14

Criteria:

Insurance coverage should be maintained to protect an organization and mitigate risks from potential perils and material loss.

Condition:

CUC is uninsured for its capital assets and has not had any coverage since 1988.

Cause:

The CNMI Government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI Government does not maintain any insurance on its buildings or its employees. CUC management tried to solicit quotation to insure its assets; however, no domestic liability insurance company is willing to insure CUC. CUC has not implemented a plan of corrective action for the above condition as this control deficiency has existed since fiscal year 1989.

Effect:

The effect of the above condition is the possibility of material losses.

Recommendation:

CUC should evaluate and quantify the risk of loss associated with its capital assets and implement a policy with respect to required insurance coverage levels. Should CUC remain self-insured, it should establish a self-insurance fund at levels sufficient to cover potential losses.

Prior Year Status:

The lack of insurance coverage was reported as a finding in the audits of CUC for fiscal years 1989 through 2007.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Debt

Finding No. 2008-15

Criteria:

Section 7.2 of a loan agreement with a contractor requires CUC to establish and maintain an escrow account of not less than \$360,000 as part of its security agreement.

Condition:

As of September 30, 2008, CUC did not have an escrow fund account pursuant to the loan agreement.

Cause:

The cause of the above condition is a lack of sufficient funds and a tight cash flow position.

Effect:

CUC is not in compliance with Section 7.2 of its loan agreement with a contractor.

Recommendation:

CUC should re-establish the escrow account to ensure compliance with debt requirements.

Prior Year Status:

The lack of escrow fund account was noted as finding for fiscal years 2005 through 2007.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Accrued Annual Leave

Finding No. 2008-16

Criteria:

CUC's annual leave policy states that the Section Head or Division Manager may approve advance annual leave of up to 40 hours per calendar year with the approval of the Executive Director or his/her designee.

Condition:

Advance annual leave over 40 hours per the calendar year was approved for 30 employees that totaled \$36,730.95 as of September 30, 2008.

Cause:

There is a lack of timely review of accrued annual leave.

Effect:

CUC is not in compliance with its annual leave policies and procedures.

Recommendation:

CUC should ensure that advance leave approved for an employee does not exceed 40 hours on any calendar year.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS, CONTINUED

Purchases/Disbursements

Finding No. 2008-17

Criteria:

Pursuant to § 70-30.3-220 of the Northern Mariana Islands Administrative Code (NMIAC), purchase orders may be utilized for small purchases below \$10,000. Disbursements should be properly supported with an approved purchase order as evidence that the purchase of goods or performance of services is authorized.

Condition:

- a. For 16 or 27% of the 60 purchase order files tested, the purchase invoices show dates that were prior to the date of the purchase order as follows:

| <u>No.</u> | <u>Purchase Order Number</u> | <u>Date of Purchase Order</u> | <u>Invoice Number</u> | <u>Date of Invoice</u> | <u>Amount</u> |
|------------|------------------------------|-------------------------------|-----------------------|------------------------|--------------------|
| 1 | 08-0006 | 10/10/07 | TGI 0622-07 | 8/7/07 | \$ 6,342.50 |
| 2 | 08-0078 | 11/1/07 | VCOT-010 | 10/10/07 | 4,500.00 |
| 3 | 08-0174 | 11/20/07 | 7/2/2002 | 11/1/07 | 1,600.00 |
| 4 | 08-0228 | 12/4/07 | 3814 | 6/26/07 | 869.00 |
| 5 | 08-0235 | 12/4/07 | 1616 | 11/16/07 | 1,000.00 |
| 6 | 08-0241 | 12/5/07 | 01482 | 10/22/07 | 64.00 |
| 7 | 08-0326 | 1/14/08 | BI LL. 120307 | 12/3/07 | 2,262.50 |
| 8 | 08-0441 | 3/18/08 | 1067932 | 3/1/08 | 654.50 |
| 9 | 08-0467 | 4/4/08 | 4089 | 3/30/08 | 677.60 |
| 10 | 08-0520 | 5/2/08 | 5040108 | 1/28/08 | 2,400.00 |
| 11 | 08-0523 | 5/5/08 | 11958 | 2/18/08 | 266.08 |
| 12 | 08-0528 | 5/5/08 | 11900 | 1/22/08 | 171.00 |
| 13 | 08-0531 | 5/5/08 | 11886 | 1/15/08 | 793.13 |
| 14 | 08-0581 | 5/30/08 | 23368 | 4/7/08 | 1,050.00 |
| 15 | 08-0643 | 7/10/08 | 3362 | 6/2/08 | 130.00 |
| 16 | 08-0671 | 8/6/08 | 1025 | 1/3/08 | 100.00 |
| | | | | | <u>\$22,880.31</u> |

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

Section II - Financial Statement Findings, Continued

Purchases/Disbursements, Continued

Finding No. 2008-17, Continued

b. For 5 or 8.3% of the 60 purchase orders selected for testing, the purchase order files were not provided for examination as follows:

| <u>Purchase Order Number</u> |
|--------------------------------------|
| 08 0485 |
| 08 0494 |
| 08 0588 |
| 08 0627 |
| 08 0681 |

Cause:

There is a lack of internal control monitoring to ensure strict compliance with established procurement policies and procedures. CUC failed to ensure the completeness of relevant supporting documentation prior to processing its purchase orders and to ensure that such completed purchase orders are systematically filed for retrieval.

Effect:

The potential exists for unauthorized/invalid expenditures and waste, fraud and abuse and not be prevented or detected in a timely manner.

Recommendation:

CUC should establish monitoring procedures to ensure that all small purchases below \$10,000 are approved and documented pursuant to § 70-30.3-220 of the NMIAC. Payments should only be made to purchases or vendor invoices with reference to an approved purchase order, contract, or other justification as allowed by the procurement policies of CUC and the NMIAC. Administrative procedures should be implemented to ensure all procurements are properly filed for easy retrieval and independent inspection.

Prior year status:

Similar findings were noted in prior year audits reported as Findings 2007-3 and 2006-3.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

Section II - Financial Statement Findings, Continued

Accounting Department - Timely Reconciliation of Accounts

Finding No. 2008-18

Criteria:

Generally accepted accounting principles require the reconciliation of the general ledger cash accounts to the bank statement balances on a monthly basis. Any differences should be investigated and resolved as soon as possible.

Condition:

The cash clearing and accounts receivable clearing accounts were not zeroed out and reconciled as of September 30, 2008, as follows:

| <u>GL No.</u> | <u>Account description</u> | <u>Amount Per</u> <u>General Ledger</u> | <u>Should be</u> |
|---------------|--|--|------------------|
| 1716.00 | Cash Clearing Account | \$ (861,169.26) | \$ - |
| 1716.10 | Cash Clearing Account - Electric | 631,750.25 | - |
| 1716.20 | Cash Clearing Account - Water | 45,154.36 | - |
| 1716.30 | Cash Clearing Account - Sewer | 42,833.11 | - |
| 1740.00 | Accounts Receivable Clearing Account | 4,354,296.42 | - |
| 1740.20 | Accounts Receivable Water Clearing Account | (777,471.55) | - |
| 1740.30 | Accounts Receivable Sewer Clearing Account | 275,318.97 | - |
| 1740.40 | Accounts Receivable Other Clearing Account | <u>(3,852,143.84)</u> | <u>-</u> |
| | | <u>\$ (141,431.54)</u> | <u>\$ -</u> |

Cause:

The preparer of the bank reconciliation does not perform detailed analysis and investigation of reconciling differences. There is lack of supervisory internal control monitoring procedures over bank reconciliation procedures.

Effect:

Misstatements existed in various accounts in the financial statements. The adjustment to correct the above misstatements resulted in a decrease in Bank of Guam-Operations account of \$141,431.54.

Recommendation:

Monthly bank reconciliations are the primary internal control procedure relating to CUC's cash accounts. Detailed analysis and investigation of all reconciling differences is of utmost importance.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

Periodic reviews should be performed to ensure that policies and procedures for bank reconciliation are adhered to and that the reconciliations are being performed accurately and in a timely manner.

Section II - Financial Statement Findings, Continued

Prepayments

Finding No. 2008-19

Criteria:

Recorded prepayments should represent valid assets of an entity. Additionally, a good internal control provides for timely identification and reversal of prepayments upon receipt of goods and or when services are performed.

Condition:

Of the 30 advance payments to vendors tested, 13 or 43% totaling \$291,667, pertain to prior year disbursements made as far back as 2004 for future receipt of goods and/or services. Such goods and/or services may have been received already and/or contracts or purchase orders are cancelled entirely; however, no documentation was provided to determine such. Consequently, the prepaid asset accounts and related expense accounts are understated.

Cause:

The cause of the above condition is the lack of established policies and procedures on strict monitoring of prepayments.

Effect:

The effect of the above condition is the misstatement of prepayments and expenses. Goods or services could have been paid for but not received. Due to lack internal control, fraud could exist and not be prevented or detected in a timely manner.

Recommendation:

CUC should investigate its prepaid expense accounts and determine the goods were received or services were performed, then adjust the prepaid asset and related expense accounts accordingly. Internal control policies and procedures should also be implemented to properly monitor all prepayments.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reporting - Construction Grants for Wastewater Treatment Works

Finding No. 2008-20

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|--|-----------------------------|
| 66.418 | <p><u>Criteria:</u> Pursuant to the U.S. Environmental Protection Agency Administrative Conditions, CUC shall complete and submit an EPA Form 5700-52A, "MBE/WBE Utilization Under Federal Grants, Cooperative Agreements and Interagency Agreements" to the EPA Project officer by October 30 of each year.</p> <p><u>Condition:</u> The EPA Forms 5700-52A for fiscal year 2008 was not provided for my review.</p> <p><u>Effect:</u> CUC is in non-compliance with federal award reporting requirements and certain expenditures reported on these forms may be un-allowed by the grantor due to non-compliance with grant requirements and regulations.</p> <p><u>Cause:</u> There is a lack of monitoring of compliance with grant requirements.</p> <p><u>Recommendation:</u> CUC should establish and implement internal controls and monitoring procedures to ensure that federal award reporting requirements are strictly adhered.</p> | \$ - |

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Reporting - Construction Grants for Wastewater Treatment Works, Continued

Finding No. 2008-21

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-------------------------------|---|-----------------------------|
| 66.418 | <p><u>Criteria:</u> Pursuant to the U.S. Environmental Protection Agency Administrative Conditions, CUC shall provide timely reporting of cash disbursements and balances through semi-annual submission of a Federal Cash Transactions Report (SF 272/SF272A). The reports must be submitted to the Las Vegas Finance Center within 15 working days following the end of the semi-annual periods ending June 30th and December 31st of each year.</p> <p><u>Condition:</u> The SF 272/SF272A report for the period January 1, 2008 to June 30, 2008 and July 1, 2008 to December 31, 2008 was not provided for my review.</p> <p><u>Effect:</u> CUC is in non-compliance with grant reporting condition and certain expenditure reported on these forms may be un-allowed by the grantor due to non-compliance with the grant condition.</p> <p><u>Cause:</u> Lack of monitoring of compliance with grant requirements.</p> <p><u>Recommendation:</u> CUC should establish and implement internal controls and monitoring procedures to ensure that federal award reporting requirements are strictly adhered.</p> | \$ - |
| Total Questioned Costs | | <u><u>\$ -</u></u> |

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2002
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 9/21/04, 2/15/05, 8/9/05, 3/13/06, 9/29/06, 2/6/07, 8/28/07,
3/17/08, 8/25/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10,
10/14/10

Date(s) of response letter(s) received :

See pages 286 to 288 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

MARIANAS PUBLIC LANDS AUTHORITY
(A Private-Purpose Trust Fund)

Schedule of Findings
Year Ended September 30, 2002

Fund Balance

Finding No. 2002-1

Criteria: Expenditures should be recorded in the period the fund liability is incurred.

Condition: Specific reviews of nine contracts (nos. HSTDENG 2002-06T, HSTDENG 2002-01S, HSTDENG 2002-04S, HSTDENG 2002-02, HSTDENG L002-5R, 91-OS, 157-OS, 163-OS and 174-OS) disclosed the following matters:

- Billings are not reviewed to ensure that expenditures are recorded in the proper period. An audit adjustment was proposed to record \$93,600 in expenditures related to fiscal year 2002 for a program billing received and paid subsequent to September 30, 2002.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the misstatement of liabilities, fund balance and expenditures.

Recommendation: We recommend that transactions be recorded in the proper period.

Prior Year Status: Improper recording of transactions and encumbrances was reported as a finding in the audit of MPLA for fiscal year 2001.

Auditee Response and Corrective Action Plan: We agreed with this finding. Controls and procedures have been implemented in the accounting system to detect and prevent any unrecorded liability at the end of the fiscal year.

MARIANAS PUBLIC LANDS AUTHORITY
(A Private-Purpose Trust Fund)

Schedule of Findings, Continued
Year Ended September 30, 2002

Receivables

Finding No. 2002-2

Criteria: Receivables should be monitored on a regular basis to determine collectibility.

Condition: As of September 30, 2002, recorded receivables were as follows:

| | |
|--------------------|----------------------|
| Leases | \$ 3,406,106 |
| Late fees | 7,223,174 |
| Royalties | 3,002,241 |
| Commercial permits | 251,520 |
| Temporary | 268,926 |
| Other | <u>553,353</u> |
| | \$ <u>14,705,320</u> |

Our audit included an analysis of MPLA's past due receivables to determine the propriety of the allowance for doubtful accounts. MPLA's allowance account amounted to \$12,979,209 or 88% of total receivables. Based on our tests of collectibility, an audit adjustment was proposed to increase the allowance account by \$931,641. The significant increase in the allowance relates to late fees assessed for unpaid balances from terminated leases and slow to non-moving accounts.

Cause: The cause of the above condition is the lack of policies and procedures requiring the review and monitoring of overdue accounts on a monthly basis and the preparation of an aged accounts receivable report.

Effect: The effect of the above condition is the possibility of a misstatement of receivable balances.

Recommendation: We recommend that the Marianas Public Lands Authority review receivable balances and forward overdue accounts to legal counsel for collection in a timely manner, and consider a policy of not accruing late fees on terminated or non-moving account balances for external reporting purposes while continue doing so, if deemed necessary, for internal reporting purposes.

Prior Year Status: Lack of monitoring procedures requiring review and monitoring of overdue accounts was reported as a finding in the Single Audits of the CNMI for fiscal years 1998 through 2000 and in the audit of MPLA for fiscal year 2001.

Auditee Response and Corrective Action Plan: We agreed with this finding. Controls and procedures have been implemented in the accounting system to minimize the level of outstanding accounts receivable.

MARIANAS PUBLIC LANDS AUTHORITY
(A Private-Purpose Trust Fund)

Schedule of Findings, Continued
Year Ended September 30, 2002

Local Noncompliance

Finding No. 2002-3

Criteria: Public Law No. 11-64 imposes a landing fee on passengers who disembark on Managaha Island. In accordance with the enabling legislation, these funds are to be made available for appropriation by the Saipan and Northern Islands legislative delegation without limitation.

Condition: As of September 30, 2002, MPLA has recorded a liability relating to landing fees collected, totaling \$1,162,892, which have not yet been remitted to the Secretary of Finance for deposit into a special subaccount.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with Public Law No. 11-64.

Recommendation: We recommend that MPLA obtain a legal counsel opinion on the disposition of such fees.

Prior Year Status: Noncompliance as set forth in the condition was reported as a finding in the Single Audit of the CNMI for fiscal year 2000 and in the audit of MPLA for fiscal year 2001.

Auditee Response and Corrective Action Plan: We agreed with this finding. As soon as we determine the nature of the disposition of funds, the issue of ownership to the funds would immediately clear this audit finding.

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2009
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 10/14/10

Date(s) of response letter(s) received :

See page 290 for recommendation issued by the Independent Auditor. This page was included in the Independent Auditors Report. For audit tracking purposes, OPA assigned a new page number to this page and therefore it does not correspond with the page number in the original report.

MARIANAS PUBLIC LAND TRUST

Schedule of Findings and Responses Year Ended September 30, 2009

Board Minutes

Finding No. 2009-1

Criteria: Minutes of board and executive meetings should be appropriately and promptly documented and maintained.

Condition: During the year ended September 30, 2009, the Board of Trustees' minutes of meetings were not all readily available. Notes and summaries were provided for meetings in which board minutes were not available. Of six board minutes provided, only one (December 10, 2008) was officially adopted.

Cause: The cause of the above condition is the lack of timely transcription of the minutes of meetings.

Effect: The effect of the above condition is an incomplete and inaccurate record of management and board of directors' actions and decisions.

Recommendation: We recommend that management ensure that all board of trustees and executive meetings be appropriately and promptly documented.

Prior Year Status: This matter was included in our previous management letter dated June 15, 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bruce M. MacMillan, Consultant

Corrective Action: The Trustees agrees with this finding and have been struggling with this issue for most of 2009. MPLT has instituted administrative changes to include additional or new staffing; converting to a digital recording format; and the Trustees have moved to monitor the presentation of minutes consistent with the requirements of the Open Government Act. Further, in May 2010, a new employee was hired and tasked to maintain the minutes in a timely manner. No corrective action is deemed necessary as additional staff have been hired.

Proposed Completion Date: May 1, 2010

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2009
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 10/14/10

Date(s) of response letter(s) received :

See pages 292 to 318 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Receivables

Finding No. 2009-1

Criteria: Receivables should be periodically assessed for validity and collectability. Additionally, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: Our tests of the College's receivables noted the following:

- a. The College migrated to a new student accounts system during fiscal year 2008. Such migration resulted in improper aged receivables. Further, the aging schedule indicated various credit balances, which made it difficult to assess current and past due accounts.
- b. The College's Bookstore migrated to a new accounting software during fiscal year 2009. Such migration also resulted in improper aged receivables.
- c. An analysis of the allowance for doubtful accounts was not performed during fiscal year 2009. An audit adjustment was proposed to increase the allowance to reflect doubtful accounts.

Cause: The cause of the above condition is the lack of procedures to monitor and analyze receivables and inefficiencies with the new accounting systems.

Effect: The effect of the above condition is the misstatement of receivables.

Recommendation: We recommend that the College implement procedures to monitor and analyze receivables and address inefficiencies in its accounting systems.

Prior Year Status: Lack of monitoring and analysis of receivables for validity and collectability was reported as a finding in the Single Audits of the College for fiscal years 2001 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. While the College recognizes that there were some issues during the migration of its receivables from its general accounting system to the student registration based system, the College conducted a detailed review of the accounts receivable balances at September 30, 2009 and found such to be accurate. The College further disagrees with the auditors' assertion that it did not conduct an analysis of doubtful accounts at September 30, 2009. The College did conduct an analysis of doubtful accounts and determined that it has adequately reserved for any doubtful receivables at September 30, 2009. The College accepts the auditors finding that there were issues in the migration. On the issue noted regarding discrepancies occurring as a result of the migration to the new system, the College will effectuate adjustments to remove any unsupported balances from its financial statements.

Proposed Completion Date: September 30, 2010

Auditor Response: An analysis of the allowance for doubtful accounts was requested from the College but was not provided for examination.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Property, Plant and Equipment

Finding No. 2009-2

Criteria: The College's Property Management and Accountability Manual requires that an annual physical inventory of fixed assets be taken. The fixed asset physical inventory records should be reconciled with the general ledger fixed asset balances. Additionally, all properties of the College should be identified by a property control number which shall be permanently affixed to each individual property in such a manner as to be readily observable.

Condition: Our tests of fixed assets noted the following:

- a. A physical inventory of property and equipment was not performed in 2009.
- b. The College did not update its fixed asset records during the year and additions and depreciation expense were recorded through proposed audit adjustments of \$571,249 and \$495,481, respectively.
- c. Of seventeen items tested for existence, one item (Reference No. FED113068-001) did not have a property control number attached, and the location indicated in the fixed asset register for four items (Reference No. FED110721-002, FED110721-002, RED011903, RED011904) did not match the actual location of the asset.

Cause: The cause of the above condition is weak control over property, plant and equipment.

Effect: The effect of the above condition is the misstatement of property, plant and equipment balances.

Recommendation: We recommend that the College strengthen control procedures to ensure that a physical inventory is completed and is reconciled to fixed asset records. Further, we recommend that property, plant and equipment activities be recorded in the plant fund accounts.

Prior Year Status: Weak control procedures over property, plant and equipment was reported as a finding in the Single Audit of the College for fiscal year 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. The auditors' assertion that a physical inventory of fixed assets was not conducted in FY2009 is incorrect. As noted in our response to a similar finding in FY2008, the College did conduct a physical inventory in FY2009. The College has further amended its Policies and Procedures to mirror the Federal expectations that physical inventories of fixed assets be conducted at least once every two years.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

While the College did not routinely update its fixed asset ledgers during the year, at the end of the year the College conducted a comprehensive review of its fixed assets and internally proposed the adjustments necessary for additions/deletions of assets and for recording depreciation. As the majority of the fixed asset purchases are from federal programs the College elected to do this at year end so as to not complicate the federal reporting process which expects that expenditures from the general ledger mirror federal financial reports and such would include expenditures for items which meet our financial thresholds for capitalization.

Further, the only reason the College elected to have the adjustments recorded as part of the audit process was to ensure that any changes to the trial balances after such were provided to the auditors be coordinated through them. It appears now that compliance with the auditors' request is now an audit issue. The College expects that if the auditor insists on the current language in the finding, the facts discussed above also be reflected.

The College concurs with the auditors' finding noted in item c.

The College will ensure that all fixed assets listed in its fixed assets register are properly tagged. Further, the register will be updated to accurately reflect the location of the asset.

Proposed Completion Date: September 30, 2010

Auditor Response: The College's last physical inventory was done in December 2008 for the Saipan Campus only. While the College has amended its Policies and Procedures to mirror the Federal expectations that physical inventories of fixed assets be conducted at least once every two years, such amended Policies and Procedures were not effective in FY2009.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Encumbrances

Finding No. 2009-3

Criteria: Proper budgetary control provides for a adequate monitoring and tracking of commitments related to open purchase orders and unfulfilled contracts. Amounts reserved for encumbrances should be reconciled and adjusted for balances that are no longer valid.

Condition: Our tests of the College's encumbrances at September 30, 2009 noted the following:

- a. Encumbrances of \$1,084,949 relate to commitments made between 1999 and 2008.
- b. Encumbrances of \$79,539 have negative balances.

Cause: The cause of the above condition is the lack of established policies and procedures to reconcile and monitor recorded encumbrances.

Effect: The effect of the above condition is the potential misstatement of encumbrances.

Recommendation: We recommend that the College ensure that all encumbrances be supported by encumbering documents and be reduced when actual expenses are incurred. Further, we recommend that long outstanding encumbrances and debit balances be examined to ensure validity.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Solita Barnes, Chief Accountant and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College concurs with this finding. The Chief Financial and Administrative Officer will immediately issue a directive through the Office of the President establishing the expectation that encumbrances are reviewed periodically and cleared if they are no longer valid.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Local Noncompliance - Procurement

Finding No. 2009-4

Criteria: The College's Procurement Regulations require the following:

- a. Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding.
- b. Purchase orders shall be used for expenditures of less than \$10,000.
- c. Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000.
- d. Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days.
- e. For independent contract services, the program or department should first determine whether their requirements may be met with available in-house resources, or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures.
- f. All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance and Administrative Services, the President, the Chairperson of the Board of Regents (if contract amount exceeds \$25,000), and the Contractor.

Condition: Our tests of operating expenses noted the following:

- a. For three items (Check Nos. 25197, 25198, 25559) the contract for professional services was not signed by the contractor or vendor.
- b. For one item (Document No. PO-113671), amounting to \$7,910, the purchase order was not approved prior to incurrence of expenses.
- c. For one item (Document No. 09-002), amounting to \$4,000, documentation of the determination that the service was not available in-house and of the vendor selection could not be provided.
- d. For one item obtained through sole source procurement (Document No. C-3042), amounting to \$8,600, there was no evidence that other available sources were considered prior to using sole source procurement.
- e. For one item obtained through sole source procurement relating to a construction project (Document No. C-090001), amounting to \$53,352, documentation of efforts made to contact other available sources was not provided. Further, there was no documentation why competitive sealed bidding was not utilized.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No. 2009-4, Continued

Condition, Continued:

- f. For one item obtained through sole source procurement (Document No. C-3061), amounting to \$10,000, justification of the procurement method used does not appear sufficient and reasonable.
- g. For one item (Document No. C-3059 SEPT09), amounting to \$7,500, with a total contract price of \$25,000, the contract was not signed by the Board of Regents Chairperson. Further, the voucher for independent service contract was not signed by the Chief Finance and Administrative Officer to certify approval of payment.

Cause: The cause of the above condition is weak control procedures over procurement.

Effect: The effect of the above condition is noncompliance with the College's procurement regulations.

Recommendation: We recommend that the College strengthen controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in procurement files.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College partially concurs with this finding. On some of the items noted by the auditor, the College is only learning of the issues now. Documentation for several of the items exist and the College is looking through the files for such for presentation to the auditors. It expects that some of the items noted herein will be cleared as a result. For items which the College is not able to provide satisfactory documentation, corrective actions are proposed. The College has updated its Procurement Policies and Procedures to be more consistent with federal expectations. It is expected that such will resolve some of the issues noted in this finding.

The College will also be issuing specific guidance on the documentation expectations when procurement sources other than those specifically prescribed based on thresholds are utilized by expenditure authorities which meet the expectations of the auditors. The College is concerned however that the auditors seem to be interpreting policy versus testing the College's compliance with such.

The policy changes noted earlier will also ensure that the expectations are clearer so that the auditors role will be to verify compliance not determine the intent or interpret internal policies for us.

Proposed Completion Date: September 30, 2010

Auditor Response: The criteria used in our testing were the College's Procurement Regulations and no additional documentation was provided.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Independent Contract Services

Finding No. 2009-5

Criteria: The College's Procurement Regulations state that for independent contract services, programs should first determine whether the requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures.

Condition: Our tests of expenses for independent contract services noted that the determination of whether the requirements may be met by available in-house resources or through other employment options was not documented. The existing policies do not explicitly state whether the determination should be in writing or whether evidence of the internal attempts should be kept on file.

Cause: The cause of the above condition is weak controls to ensure that existing policies and regulations are clear and documented.

Effect: The effect of the above condition is potential noncompliance with the above criteria.

Recommendation: We recommend that the College revisit its existing policies and regulations to ensure that a clarification is made on whether evidence of internal attempts should be in writing and be kept on file.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College disagrees with the finding. The auditor again is misinterpreting the intent of the College's policy. These independent contracts are to the most part renewal of existing service contracts which were competitively procured. When such contracts are competitively procured all are welcome to compete for the work, including College employees. The fact that the College competitively procured for the service is evidence in itself that expertise if not available internally. Further, College policy prohibits an employee from holding two positions (regular employment) within the College. CNMI policy also prohibits the same. The College however allows employees to enter into independent contracts for services or teach in an adjunct capacity if such does not conflict with the employees' primary job responsibilities. Given this, the fact that the services were independently contract through a competitive process not only complies with College policy but provides ample opportunity for employees to also submit their proposals for providing the requested services for consideration. Yet again, the auditor is literally interpreting policy for the College.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

Finding No.: 2009-6
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.203 Payments to Agricultural Experiment Stations Under the Hatch Act
 Federal Award Nos.: 2009-3110006095 and 2008-3110006095
 Federal Award Periods: 10/01/08 - 09/30/09 and 10/01/07 - 09/30/08
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$7,083

Criteria: Expenditures should be authorized prior to incurrance, supported with documentation evidencing receipt of goods or services and recorded in the correct period.

Condition: Of \$470,147 nonpayroll expenditures, thirty items totaling \$130,258 were tested. Further, of \$258,726 payroll expenditures, seventeen items totaling \$12,313 were tested. Our tests noted the following:

- For one disbursement, the supporting receiving report, certificate of completion or any equivalent documentation evidencing receipt of items or services purchased were not made available as follow:

| <u>Check No.</u> | <u>Document No.</u> | <u>GL Date</u> | <u>Amount</u> |
|------------------|---------------------|----------------|---------------|
| 31859 | PO-113122 | 03/09/09 | \$ 6,921 |

- For one employee, 50% of hours were charged to the program although only 25% of hours were allocated to the program per the timesheet.

| <u>Payroll Period No.</u> | <u>Payment Reference No.</u> | <u>Payment Date</u> | <u>Questioned Cost</u> |
|---------------------------|------------------------------|---------------------|------------------------|
| PP # 07/09 | VO26719 | 03/27/09 | \$ 162 |

Cause: The causes of the above conditions are weak control procedures to ensure that goods and services purchased are received and that salary charges are based on actual hours worked.

Effect: The effects of the above conditions are the use of federal funds for unsupported expenditures and questioned costs of \$7,083. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.

Recommendation: We recommend that the College strengthen control procedures to ensure that goods and services purchased are received and that salaries charged are based on actual time spent on the program.

Prior Year Status: Weak control procedures over the receipt of goods and services purchased and that salary charges are based on actual hours worked were reported as findings in the Single Audits of the College for fiscal years 2007 and 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-6, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.203 Payments to Agricultural Experiment Stations Under the Hatch Act
Federal Award Nos.: 2009-3110006095 and 2008-3110006095
Federal Award Periods: 10/01/08 - 09/30/09 and 10/01/07 - 09/30/08
Area: Allowable Costs/Cost Principles
Questioned Costs: \$7,083

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College partially concurs with this finding. We are unable to determine, based on the information provided in the finding, how the auditor concluded that the \$162 cited as a payroll questioned cost could not be substantiated as an allowable cost. Effective immediately, the College procurement office will ensure that all goods are verified against purchase orders and certified for receipt as evidenced by a procurement stamp.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-7
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.203 Payments to Agricultural Experiment Stations Under the Hatch Act
Federal Award Nos.: 2009-3110006095 and 2008-3110006095
Federal Award Periods: 10/01/08 - 09/30/09 and 10/01/07 - 09/30/08
Area: Procurement and Suspension and Debarment
Questioned Costs: \$60,607

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement restricts full and open competition. Specifically, the College's Procurement Regulations state the following:

- a. Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding.
- b. Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000.
- c. Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days.
- d. All contracts must be signed by the Legal Counsel, a College official with expenditure authority, the Chief Financial and Administrative Officer, the President, the Chairperson of the Board of Regents (if the contract amount exceeds \$25,000) and the Contractor.

Condition: Of \$470,147 nonpayroll expenditures, our tests of thirty items totaling \$130,258 noted the following:

1. One purchase in excess of \$10,000 was divided into three purchase orders and was procured through a sole source method after three price quotes were obtained from known vendors. However, documentation of the efforts made to contact other available vendors was not evident. In addition, as stated in the criteria above, purchases of \$10,000 and above should be procured through competitive bidding; however, there was no documentation as to why competitive bidding was not utilized. Therefore, the College is not in compliance with its stated procurement policies.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-7, Continued
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.203 Payments to Agricultural Experiment Stations Under the Hatch Act
 Federal Award Nos.: 2009-3110006095 and 2008-3110006095
 Federal Award Periods: 10/01/08 - 09/30/09 and 10/01/07 - 09/30/08
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$60,607

Condition, Continued:

| <u>Check No.</u> | <u>Document No.</u> | <u>GL Date</u> | <u>Amount</u> |
|------------------|---------------------|----------------|------------------|
| 37372 | PO-113758 | 08/25/09 | \$ 10,904 |
| 37372 | PO-113768 | 08/25/09 | 16,410 |
| 37372 | PO-113766 | 08/25/09 | <u>8,742</u> |
| | | | \$ <u>36,056</u> |

2. One purchase in excess of \$10,000 was procured through a sole source method after three price quotes were obtained from known vendors. However, documentation of the efforts made to contact other available vendors was not evident. In addition, as stated in the criteria above, purchases of \$10,000 and above are to be procured through competitive bidding; however, there was no justification memo in file documenting why competitive bidding was not utilized and why the College chose not to be in compliance with its stated policies. Therefore, the College does not appear to be in compliance with its stated procurement policies.

| <u>Check No.</u> | <u>Document No.</u> | <u>GL Date</u> | <u>Amount</u> |
|------------------|---------------------|----------------|------------------|
| 37450 | PO-113767 | 08/31/09 | \$ 10,000 |
| 37450 | PO-113767 | 08/31/09 | <u>11,752</u> |
| | | | \$ <u>21,752</u> |

3. For one purchase, three price quotations were obtained but all requested a specific brand name. Documentation as to why a specific brand name was requested could not be provided and the College's stated procurement policy indicates that this procurement restricted open competition.

| <u>Check No.</u> | <u>Document No.</u> | <u>GL Date</u> | <u>Amount</u> |
|------------------|---------------------|----------------|-----------------|
| 31018 | 52077 | 12/09/08 | \$ <u>2,799</u> |

Cause: The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$60,607.

Recommendation: We recommend that the College strengthen controls over procurement to maximize competition while maintaining the best interests of the College.

Prior Year Status: Noncompliance with applicable procurement policies was reported as a finding in the Single Audits of the College for fiscal years 2007 and 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-7, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.203 Payments to Agricultural Experiment Stations Under the Hatch Act
Federal Award Nos.: 2009-3110006095 and 2008-3110006095
Federal Award Periods: 10/01/08 - 09/30/09 and 10/01/07 - 09/30/08
Area: Procurement and Suspension and Debarment
Questioned Costs: \$60,607

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer, Ms. Solita Barnes, Chief Accountant, Mr. Ross Manglona, Director, NMC CSREES, and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action:

For the items under “1.”, the College concurs with the auditor.

For the items noted under “2.”, the College disagrees with the auditor. If the College is expected to document consideration of local vendors when it chooses to sole source, an allowable procurement option under policy with acceptable documentation (a procurement form and/or a memo) duly reviewed and approved by the appropriate College officials, why have the ability to sole source a service in our policy? The College is concerned that the auditor is interpreting the intent of the College’s policy and not simply testing its compliance. The sole source option is allowed by College policy provided the reasoning is noted and accepted by authorized officials of the institution (the Procurement Officer) as evidenced by the sole source form from procurement or a justification memo in lieu of the form. The College is of the opinion it is in compliance with policy on this.

For the item under “3.”, the College concurs with the finding. When brand name products are requested, the College will ensure that the reasoning for such is clearly documented.

The College has updated its Procurement Policies and Procedures to be more consistent with federal expectations. It is expected that such will resolve some of the issues noted in this finding. The policy changes noted earlier will also ensure that the expectations are clearer so that the auditors role will be to verify compliance not determine the intent or interpret internal policies for us.

Corrective action plans for items which the College concurs with are noted above.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-8
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.500 Cooperative Extension Service
 Federal Award Nos.: 2009-41100-05700, 2009 -41510-05700, 2009 -48024-05700 and 2009 - 41520-04315
 Federal Award Period: 10/01/08 - 09/30/09
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$5,202

Criteria: Expenditures should be authorized, supported and approved prior to incurrance and recorded in the proper period. Further, travel costs should be allocated to programs that benefit from the travel.

Condition: Of \$518,396 nonpayroll expenditures, thirty-one items totaling \$55,095 were tested. Further, of \$439,657 payroll expenditures, twenty-four items totaling \$18,260 were tested. Our tests noted the following:

1. Airfare for one traveler who did not attend or complete the travel was charged to the program.

| <u>Check No.</u> | <u>Document No.</u> | <u>GL Date</u> | <u>Amount</u> |
|------------------|---------------------|----------------|---------------|
| 36214 | TW-104345 | 04/28/09 | \$ <u>234</u> |

2. Total travel costs for two travelers was charged to the program; however, the related conference benefited two programs.

| <u>Document No.</u> | <u>GL Date</u> | <u>Total Amount Charged</u> | <u>Amount Charged at 50%</u> |
|---------------------|----------------|-----------------------------|------------------------------|
| TA-104343 | 04/14/09 | \$ 2,702 | \$ 1,351 |
| TA-104343A | 04/14/09 | \$ 2,250 | 1,125 |
| TA-104344 | 04/14/09 | \$ 2,702 | 1,351 |
| TA-104344A | 04/14/09 | \$ 2,000 | <u>1,000</u> |
| | | | \$ <u>4,827</u> |

3. For one employee, 25% hours worked were charged to the program although zero hours were worked on the program per the timesheet.

| <u>Payroll Period No.</u> | <u>Payment Reference No.</u> | <u>Payment Date</u> | <u>Questioned Cost</u> |
|---------------------------|------------------------------|---------------------|------------------------|
| PP # 22/08 | V024937 | 10/24/08 | \$ 141 |

Cause: The causes of the above conditions are weak control procedures over program cost allocation and that salary charges are based on actual hours worked.

Effect: The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$5,202. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-8, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.500 Cooperative Extension Service
Federal Award Nos.: 2009-41100-05700, 2009 -41510-05700, 2009 -48024-05700 a nd 2009 -
41520-04315
Federal Award Period: 10/01/08 - 09/30/09
Area: Allowable Costs/Cost Principles
Questioned Costs: \$5,202

Recommendation: We recommend that the College strengthen control procedures to ensure that travel costs are properly allocated and that salaries charged are based on actual time spent on the program.

Prior Year Status: Weak control procedures over program cost allocation and that salary charges are based on actual hours worked was reported as a finding in the Single Audits of the College for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer, Ms. Solita Barnes, Chief Accountant, Mr. Ross Manglona, Director, NMC C SREES, and Mr. Henry Hofsneider, Chief Financial and Administrative Officer

Corrective Action: The College partially concurs with this finding.

For the item under "1.", the College concurs with the finding and prefers to move such cost to general fund operations and requests that the questioned cost be removed.

For the items under "2.", the College disagrees with the finding. The AREERA Act 1998 calls for increased levels of integrated and multistate activities. This Act provides an exception to CNMI and other territories from meeting the minimum percentage expectations required therein for the activities however it encourages participation by all land grant institutions in such. The conference in question is USDA sponsored activity and participation by personnel on either side of the land grant mission are encouraged to participate. Further the auditors understanding of the two funding sources the College receives as a result of its land grant status appears cursory and our attempts to explain this were not well received. Based on such we request that the finding and related questioned costs be removed.

For the item noted under "3.", we are unable to determine, based on the information provided in the finding, how the auditor concluded that the \$141 cited as a payroll questioned cost could not be substantiated as an allowable cost.

Corrective action plans for items which the College concurs with are noted above.

Proposed Completion Date: September 30, 2010

Auditor Response: Items specified in condition #1 had been reimbursed by the grantor agency.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-9
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.500 Cooperative Extension Service
 Federal Award Nos.: 2009-41100-05700, 2009 -41510-05700, 2009 -48024-05700 a nd 2009-41520-04315
 Federal Award Period: 10/01/08 - 09/30/09
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$2,549

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifically, the College's Procurement Regulations state the following:

- a. Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding.
- b. Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000.
- c. Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days.
- d. All contracts must be signed by the Legal Counsel, a College official with expenditure authority, the Chief Financial and Administrative Officer, the President, the Chairperson of the Board of Regents (if contract amount exceeds \$25,000) and the Contractor.

Condition: Of \$518,396 nonpayroll expenditures, our tests of thirty-one items totaling \$55,095 noted that for one travel there was documentation comparing quotes from three travel agents; however, copies of price quotes were not evident and the price comparisons did not include quotes for all available airlines.

| <u>Check No.</u> | <u>Document No.</u> | <u>GL Date</u> | <u>Amount</u> |
|------------------|---------------------|----------------|-----------------|
| 36573 | TA-104375 | 05/29/09 | \$ <u>2,549</u> |

Cause: The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$2,549. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-9, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.500 Cooperative Extension Service
Federal Award Nos.: 2009-41100-05700, 2009 -41510-05700, 2009 -48024-05700 a nd 2009 -
41520-04315
Federal Award Period: 10/01/08 - 09/30/09
Area: Procurement and Suspension and Debarment
Questioned Costs: \$2,549

Recommendation: We recommend that the College strengthen controls over procurement to maximize competition while maintaining the best interests of the College.

Prior Year Status: Noncompliance with applicable procurement policies was reported as a finding in the Single Audits of the College for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer, Ms. Solita Barnes, Chief Accountant, Mr. Ross Manglona, Director, NMC CSREES, and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College partially concurs with this finding.

The College maintains that the auditors' expectations go above and beyond the expectations of the applicable sections of the CFR and NMC policies governing such. At the recommendation of federal agencies contacted regarding such, the College has updated its Procurement Policies and Procedures to be more consistent with federal expectations. It is expected that such will resolve some of the issue noted in this finding. In the interim, we have also implemented additional internal procedures in an effort to avoid such audit findings.

Corrective action plans for items which the College concurs with are noted above.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-10
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.002 Adult Education- Basic Grants to States
 Federal Award Nos.: V002A080055, V002A070055, V002A060055
 Federal Award Period: 07/01/08 - 9/30/09, 07/01/07 - 9/30/08, 07/01/06 - 9/30/07
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$22,584

Criteria: The Adult Education and Family Literacy Act (the Act) requires the following:

1. An eligible agency may receive funds for any fiscal year if the Secretary finds that the fiscal effort per student or the aggregate expenditures of such eligible agency for adult education and literacy activities, in the second preceding fiscal year, was not less than 90 percent of the fiscal effort per student or the aggregate expenditures of the eligible agency for adult education and literacy activities, in the third preceding fiscal year.
2. Grants and contracts for eligible providers shall not be less than 82.5 percent of the eligible agency's grant funds. Such earmarking requirement is for each yearly grant award and must be met within the period of its availability (generally 27 months).

Furthermore, in Program Memorandum - OVAE - 99-10 from the U.S. Department of Education, Office of Vocational Adult Education, Patricia McNeil provided non-regulatory guidance to identify options available to address ambiguous provisions in the Act relating to the maximum amount that may be available for administrative costs. For those grantees who wish to use the full \$65,000 in funds available for administrative costs, there are two options, as follows: (1) use funds made available for State leadership activities, or (2) use funds on a proportionate basis made available for State leadership activities and for Program grants and contracts. Also provided was a condition that if a grantee wishes to utilize either of the two options identified, the choice should be included as part of the State plan.

Condition:

1. The College's fiscal effort per student or the aggregate expenditures for adult education and literacy activities in fiscal year 2007, the second preceding fiscal year, was less than 90% of the fiscal effort per student or the aggregate expenditures of the eligible agency for adult education and literacy activities in 2006, calculated as follows:

| | |
|-------------------------------|------------------|
| Local effort in 2006 | \$ 101,234 |
| Level of effort rate | <u>90%</u> |
| Required local effort in 2007 | 91,111 |
| Actual local effort in 2007 | <u>71,614</u> |
| Deficient level of effort | \$ <u>19,497</u> |

2. The College desired to make use of the full \$65,000 in funds available for administrative costs; however the specific option applied from Program Memorandum 99 -10 was not included as part of the State plan, and no calculation was provided to demonstrate which option the College applied to maintain compliance with applicable earmarking requirements. Based on the more favorable option (i.e., Option 2 described above), the College's grants and contracts for eligible providers in fiscal years 2009 and 2008 was less than 82.5% of the eligible agency's grant funds in fiscal years 2009 and 2008, calculated as follows:

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-10, Continued
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.002 Adult Education- Basic Grants to States
 Federal Award Nos.: V002A080055, V002A070055, V002A060055
 Federal Award Period: 07/01/08 - 9/30/09, 07/01/07 - 9/30/08, 07/01/06 - 9/30/07
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$22,584

Condition, Continued:

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|-------------------|
| Grant award | \$ 274,609 | \$ 277,791 |
| Less administrative costs allowable | <u>(65,000)</u> | <u>(65,000)</u> |
| Award available for earmarking | \$ <u>209,609</u> | \$ <u>212,791</u> |
| Adjusted earmarking levels: | | |
| 82.5% earmark level | \$ 226,552 | \$ 229,178 |
| 12.5% earmark level | <u>34,326</u> | <u>34,724</u> |
| Adjusted earmark base | \$ <u>260,878</u> | \$ <u>263,902</u> |
| Required 82.5% earmark level, as adjusted | \$ 182,029 | \$ 184,792 |
| Less actual earmark | <u>(181,942)</u> | <u>(181,792)</u> |
| Deficient earmark | \$ <u>87</u> | \$ <u>3,000</u> |

Subsequently, for the F Y 2010 grant, the College's selected option and calculations were documented.

Cause: The cause of the above conditions is the lack of monitoring controls in place to ensure compliance with the above criteria.

Effect: The effect of the above conditions is noncompliance with the criteria and questioned costs of \$22,584.

Recommendation: We recommend that the Program implement control policies and procedures to ensure compliance with the criteria. Furthermore, the option utilized by NMC to comply with the Act, namely the earmarking requirements, should be included as part of its State plan.

Prior Year Status: Noncompliance with earmarking requirements was reported as a finding in the Single Audits of the College for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. On "Condition 1", the College will review its processes and ensure compliance with this provision of the grant. The College will seek the U.S. Department of Education's review of this deficiency of \$19,497 and will determine the appropriate disposition of the amount based on their guidance.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-10, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.002 Adult Education- Basic Grants to States
Federal Award Nos.: V002A080055, V002A070055, V002A060055
Federal Award Period: 07/01/08 - 9/30/09, 07/01/07 - 9/30/08, 07/01/06 - 9/30/07
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$22,584

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

On "Condition 2", NMC strongly disagrees with this finding. Adult Education and Family Literacy Act of 1998 or the Workforce Investment Act of 1998, provides two methods for determination of the amount of funds which can be used for administrative expenses. This provision is in place to recognize the fact that certain States and territories' allocation of funding is significantly lower and as such the 5% provision may not provide a dequate funding to properly administer the program. The alternative option to such would allow for up to \$65,000 to be used for administrative expenses. Further a policy memo issued by the U S D epartment of E ducation D ivision O ffice of A dult Education and Literacy confirms these options (memo attached).

NMC applies this provision and as such is in compliance with the earmarking provisions as confirmed by the Senior Program Advisor for the US Department of Education, Division of Adult Education and Literacy, Ms. Sarah Newcomb.

NMC is of the opinion that this effectively resolves this finding for FY2009 and all prior years and it is our expectation that this finding and questioned costs and similar prior year findings and questioned costs will also be removed from the FY2009 audit report.

Proposed Completion Date: September 30, 2010

Auditor Response: A program de termination letter related to the 2008 finding has not be en produced.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-11
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.002 Adult Education - Basic Grants to States
 Federal Award Nos.: V002A080055 and V002A080059
 Federal Award Periods: 07/01/08 - 09/30/09 and 09/01/08 - 08/31/09
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$2,272

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifying a brand name product instead of allowing an equal product to be offered and describing the performance of other relevant requirements of the procurement restricts full and open competition. Specifically, the College's Procurement Regulations state the following:

- a. Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding.
- b. Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000.
- c. Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days.

Condition: Of \$388,938 nonpayroll expenditures, our tests of twenty-one items totaling \$84,520 noted the following:

- a. Price quotations from travel agents to support the price analysis were not provided for the following:

| <u>Document No.</u> | <u>Fund Code</u> | <u>GL Date</u> | <u>Check No.</u> | <u>Amount</u> |
|---------------------|------------------|----------------|------------------|-----------------|
| TA-104244 | EA209 | 06/04/09 | 36651 | \$ <u>2,272</u> |

- b. For one pooled purchase (Document No. PO-111178), the procurement was made through competitive sealed proposals instead of competitive sealed bidding but the supporting justification was not on file. No questioned cost is raised as the lower bidder was selected and the solicitation was advertised.

Cause: The cause of the above condition is inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$2,272 since the projected costs exceeded \$10,000.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-11, Continued
Federal Agency: U.S. Department of Education
CFDA Program: 84.002 Adult Education - Basic Grants to States
Federal Award Nos.: V002A080055 and V002A080059
Federal Award Periods: 07/01/08 - 09/30/09 and 09/01/08 - 08/31/09
Area: Procurement and Suspension and Debarment
Questioned Costs: \$2,272

Recommendation: We recommend that the College strengthen controls over procurement to maximize competition while maintaining the best interests of the College.

Prior Year Status: Noncompliance with applicable procurement policies was reported as a finding in the Single Audits of the College for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer, Ms. Solita Barnes, Chief Accountant, and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College disagrees with this finding.

The College has maintains that the auditors expectations' go above and beyond the expectations of the applicable sections of the CFR and NMC policies governing travel. At the recommendation of federal agencies contacted regarding this, the College has updated its Procurement Policies and Procedures to be more consistent with federal expectations. It is expected that such will resolve some of the issue noted in this finding. In the interim, we have also implemented additional internal procedures in an effort to avoid such audit findings.

Corrective action plans for items which the College concurs with are noted above.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-12
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.002 Adult Education - Basic Grants to States
 Federal Award Nos.: V002A080059
 Federal Award Periods: 09/01/08 - 08/31/09
 Area: Subrecipient Monitoring
 Questioned Costs: \$-0-

Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements Subrecipient Monitoring, a pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition: Price quotations to evidence subrecipient monitoring performed by the College were not provided:

| <u>Subrecipient</u> | <u>Document No.</u> | <u>Fund Code</u> | <u>GL Date</u> | <u>Check No.</u> | <u>Amount</u> |
|---------------------|---------------------|------------------|----------------|------------------|---------------|
| ASCC | C-3058 | ETR09 | 08/10/09 | 37308 | \$ 13,821 |

Cause: The cause of the above condition is lack of compliance with subrecipient monitoring requirements.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements. No questioned costs result from this finding as the related subrecipient costs were allowable under the grant.

Recommendation: We recommend that the Program ensure compliance with subrecipient monitoring requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College concurs with this finding. The College will contact American Samoa Community College (ASCC) and request that they provide the necessary information regarding their compliance with the A-133 audit provisions to determine their compliance with applicable procurement regulations. This will be documented on file for future reference.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-13
Federal Agency: U.S. Department of Education
CFDA Program: 84.378 College Access Challenge Grant Program
Federal Award No.: P378A080051
Federal Award Period: 08/14/08 - 08/13/09
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Criteria: A grantee may use not more than 6 percent of the total amount of the sum of the federal share provided and nonfederal share required for administrative purposes.

Condition: There is no separate account code to identify expenditures for administrative purposes, hence we could not verify if the administrative costs do not exceed the 6% ceiling.

Cause: The cause of the above condition is the lack of a separate account code to monitor charges to administrative costs.

Effect: The effect of the above condition is potential noncompliance with the grant requirement. No questioned costs is raised since we cannot determine the amount of administrative costs in excess of the maximum allowed.

Recommendation: We recommend that the College assign a separate account code to monitor charges to administrative costs.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. While the auditor is correct in that there is no specific account code set up for charging of administrative costs, the College elected not to charge any costs directly to the program during fiscal year 2009. As such, there are no administrative costs incurred against this grant. Should the College elect to charge administrative costs in subsequent grant years, it will ensure that those are accumulated under a specific account code to ensure compliance with the 6% ceiling.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-14
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.612 Native American Programs
Federal Award No.: 90NA786203
Federal Award Period: 09/30/08 - 09/29/09
Area: Procurement and Suspension and Debarment
Questioned Costs: \$16,776

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifically, the College's Procurement Regulations state the following:

- a. Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding.
- b. Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000.
- c. Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days.
- d. All contracts must be signed by the Legal Counsel, a College official with expenditure authority, the Chief Financial and Administrative Officer, the President, the Chairperson of the Board of Regents (if contract amount exceeds \$25,000) and the Contractor.

Condition: Of \$181,038 nonpayroll program expenditures, our tests of ten items amounting to \$71,878 noted the following:

- a. For one disbursement (Check Number 36513) amounting to \$8,370, the purchase was made through the sole source method but there was no evidence that other available sources were considered.
- b. For two disbursements (Check Numbers 38071 and 36803) amounting to \$8,406, the determination of the vendor/contractor selection was not documented.

Cause: The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$16,776.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-14, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.612 Native American Programs
Federal Award No.: 90NA786203
Federal Award Period: 09/30/08 - 09/29/09
Area: Procurement and Suspension and Debarment
Questioned Costs: \$16,776

Recommendation: We recommend that the College strengthen controls over procurement to maximize competition while maintaining the best interests of the College.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer and Mr. Henry Hofschneider, Chief Financial and Administrative Officer

Corrective Action: The College partially concurs with this finding.

For the item noted under “a.”, the College disagrees with the auditors’ conclusion. If the College is expected to document consideration of local vendors when it chooses to sole source, an allowable procurement option under policy, with acceptable documentation (a procurement form and/or a memo) duly reviewed and approved by the appropriate College officials, why have the ability to sole source a service in our policy? The College is concerned again that the auditor is interpreting the intent of the College’s policy and not simply testing its compliance. The sole source option is allowed by College policy provided the reasoning is noted and accepted by authorized officials of the institution (the Procurement Officer) as evidenced by the sole source form from procurement or a justification memo in lieu of the form. The College is of the opinion it is in compliance with policy on this.

For the items noted under “b.”, the College concurs with this finding under the assumption that no sole source procurement documentation is on file.

For purchases which do not have documentation which support sole sourcing of the good or services, the College will ensure that procurement documentation is on file to support the selection criteria for the vendor/contractor.

Proposed Completion Date: September 30, 2010

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-15
CFDA No.: All Major Programs
Area: Equipment and Real Property Management
Questioned Costs: -0-

Criteria: In accordance with applicable equipment management requirements, procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, of a minimum, meet the following requirements:

- Equipment records shall be maintained accurately and shall include a description of the property, manufacturer's serial number or other identification number, the source of the equipment, including the award number, whether title vests in the recipient or the Federal Government, the acquisition date and cost of the property, percentage of Federal participation in the cost of the equipment, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- A physical inventory of equipment must be taken and the results reconciled with the equipment records at least once every two years.

In addition, the College's Property Management and Accountability Manual require that an annual physical inventory of fixed assets be taken.

Condition: The College's property records lack of information as to source of the property, whether title vests to the recipient or the Federal government, information from which one can calculate the percentage of Federal participation in the cost of the property, and condition of the property. In addition, a physical inventory was not performed annually as required by the College's Property Management and Accountability Manual.

Property and equipment acquisitions of the College from federal funds for the last three years are as follows:

| <u>CFDA Number</u> | <u>FY2009</u> | <u>FY2008</u> | <u>FY2007</u> |
|--------------------|-------------------|-------------------|-------------------|
| 10.203 | \$ 95,377 | \$ 210,047 | \$ 152,293 |
| 10.500 | 12,065 | 10,707 | 25,292 |
| 15.875 | - | - | 398,881 |
| 84.002 | 8,096 | 11,653 | 19,306 |
| 84.042 | - | 18,829 | 22,132 |
| 84.044 | 13,598 | 14,023 | 5,014 |
| 84.047 | - | 29,574 | 7,990 |
| 84.315 | 20,075 | - | - |
| 84.378 | - | - | 28,116 |
| 93.612 | - | - | 31,235 |
| Totals | \$ <u>149,211</u> | \$ <u>294,833</u> | \$ <u>690,259</u> |

Cause: The cause of the above condition is lack of information required by federal regulations and the lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2009

Finding No.: 2009-15, Continued
CFDA No.: All Major Programs
Area: Equipment and Real Property Management
Questioned Costs: -0-

Effect: The effect of the above condition is that the College is not in compliance with federal property standards and the Property Management and Accountability Manual. No questioned costs result from this finding due to our inability to assess the dollar amount of property and equipment acquired with federal funds over the years.

Recommendation: We recommend that the College to take necessary actions to comply with applicable federal property rules and regulations and the Property Management and Accountability Manual.

Prior Year Status: Lack of policies and procedures to comply with federal property management standards was reported as a finding in the Single Audits of the College for fiscal years 2005 through 2008.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Ms. Anita Camacho, Procurement Officer and Mr. Henry Hofschneider, Chief Financial & Administrative Officer.

Corrective Action: The College partially agrees with this finding.

The College procured a new fixed asset accounting software and is still in the process of updating such for the information required under the applicable CFR regarding accounting of federal assets. The College however disagrees with the auditors' assertion that no physical inventory of assets was conducted in FY2009. As noted in our response to a similar finding in FY2008, the College did conduct a physical inventory in FY2009. The College has further amended its Policies and Procedures to mirror the Federal expectations that physical inventories of fixed assets be conducted at least once every two years.

Proposed Completion Date: September 30, 2010

Northern Mariana Islands Retirement Fund

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2009
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 10/14/10

Date(s) of response letter(s) received : 09/01/10

See pages 320 to 327 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2009-01 Reconciliation of Employers Contributions Receivable

Criteria:

Periodic reconciliation of Receivable from Employers should be performed to ascertain reasonableness of receivable balances.

Context:

Audit of employers contributions receivables balances.

Condition:

The confirmation received from a plan sponsor showed significant difference with the employer contributions receivable. NMIRF have not performed account reconciliation with the plan sponsor. Furthermore, the audit proposed a significant audit adjustment to reconcile the NMIRF receivable balance and the payable recognized by the plan sponsor.

Cause:

The NMIRF only uploads the payroll information provided by the plan sponsors, agrees the remittance to the reported contributions and does not perform an independent verification of the correctness of employer contribution receivable.

Effect:

Although, the difference was reconciled during the audit, the weakness in NMIRF's internal control over its receivable balances could result to misstatement in the account balances that may not be detected timely.

Recommendation:

NMIRF should establish and document a reconciliation procedure, wherein the plan sponsor's payable balances are reconciled periodically with NMIRF's receivable balances.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2009-01 Reconciliation of Employers Contributions Receivable, Continued

Auditee Response:

NMIRF agrees with the finding. The NMIRF has been performing detailed reconciliation of the employer contributions particularly in light of the ongoing litigation between the NMIRF and the CNMI government. Although bulk of the reconciliation id focused on the CNMI central government's employer contribution, the NMIRF had also recently completed a reconciliation of its employer contributions receivables from Tinian Municipal Treasurer and is currently reconciling with the Northern Marianas College and will commence reconciliation with the Public School System and the Marianas Visitors Authority.

To address the audit finding, the Comptroller will develop and implement a process where the Accounting Section will routinely and regularly reconcile employer contribution throughout the fiscal year as follows:

1. On a quarterly basis, verify the payroll records to the actual remittances and periodically reconcile the employer contributions receivable.
2. Once complete, issue quarterly statement to the agencies and establish a process wherein the agencies will reconcile their payables with the receivables recorded by NMIRF.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2009-02 Reconciliation of Subsidiary Ledgers to General Ledger Balances

Criteria:

Periodic reconciliation of general ledger and subsidiary ledgers should be performed to ascertain reasonableness of account balances.

Context:

Audit of subsidiary ledgers.

Condition:

The subsidiary ledgers and general ledger balances of the following accounts are not reconciled:

| | <u>Per General Ledger</u> | <u>Per Subsidiary Ledgers</u> | <u>Difference</u> |
|---------------------------|-------------------------------|-----------------------------------|-------------------|
| Mortgage Loan Receivables | \$ 5,636,855 | \$ 5,920,998 | \$ (284,143) |
| Buy Back Receivable | 458,911 | 412,951 | 45,960 |
| Accounts Payable | 1,423,718 | 1,502,389 | 78,671 |

Cause:

The above condition is due to the improper utilization of the subsidiary ledger module of the accounting system used by NMIRF.

Effect:

Although, the difference was reconciled during the audit, the weakness in NMIRF's internal control over subsidiary ledgers could result to misstatement in the account balances that may not be detected timely.

Recommendation:

NMIRF should properly utilize the subsidiary ledger module of its accounting system. All changes of accounts with subsidiary ledgers should be posted using the proper module and not through direct adjustments in the general ledger balance.

Furthermore, regular reconciliation should be performed to ensure that the balances agree.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2009-02 Reconciliation of Subsidiary Ledgers to General Ledger Balances, Continued

Auditee Response:

NMIRF agrees with the finding. The NMIRF performs infrequent reconciliations of the Mortgage Loan Receivables, Buy Back Receivable and accounts payable subsidiary ledgers to the general ledger. To address this audit finding, the Comptroller will develop and implement accounting procedures that will require monthly reconciliation of the subsidiary ledgers and the general ledger.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2009-03 Overpayment of Refund

Criteria:

Pursuant to Public Law 15-98, qualified members may refund their contributions plus interest.

Condition:

I noted that the refund made to a member exceeded his actual contributions plus interest. The disbursement made included the buyback balance that were uncollected.

Effect:

The above condition results in overpayment of refund that may not be collectible.

Cause:

The NMIRF database software does not address the consolidation of buyback payment information and contributions received, hence upon receipt of a request for refund the NMIRF has to manually calculate the refund balance when the requesting member have buyback payments.

Recommendation:

NMIRF should develop and implement monitoring controls, policies and procedures to ensure that there are no overpayments of benefits.

Auditee Response:

NMIRF disagrees with the finding. The NMIRF's internal auditor reviewed this finding. The member's refund consisted of the total consisted of the total contributions that he made during his employment with the CNMI Government from 1996 through 2001 with corresponding interest for each fiscal year and a refund of all the payments that he made towards the Buy Back for prior year service credit.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2009-03 Overpayment of Refund, Continued

Auditee Response, continued:

The discrepancy between the external auditor's computation and the NMIRF's is attributed to the Buy Back amount. In external auditor's computation subtracted the principal balance from the total buyback to arrive at the amount of total payments made to the buyback. NMIRF believes that this computation is incorrect because it did not account for the need to refund the portion of payments made that were applied to the interest assessment at 12.60, which in effect understated the actual payments that the member made toward the Buy Back. Upon complete separation from the CNMI Government employment and on submission of an application for refund, the NMIRF is mandated to refund all contributions paid into the Fund by the member. Accordingly, the Fund was correct in processing the refund for this member for the amount of employee contributions and the total payments made for the buy back.

Auditor Comment:

NMIRF is mandated to refund all contributions, including all contributions made to obtain credit. In 1996, the member signed a buyback agreement wherein the member agreed to pay in 182 bi-weekly payments of \$350.71, including interest of 12.60% the prior service contribution of \$42,347.66.

Since the buyback agreement is a loan agreement, interest payments are income to the NMIRF and should not be treated as payments of contribution for refund computation. Summarized below is the difference between the refund calculated and paid by the NMIRF against the refund calculated per audit.

| | <u>Per NMIRF</u> | <u>Per Audit</u> | |
|---------------------------|-------------------|---------------------|--|
| Buyback repayment | \$ 44,189.62 | \$ 44,189.62 | Total payments, \$350.71 x 126 by-weekly |
| Applied to interest | - | (18,926.36) | Obtained from NMIRF Buyback ledger |
| Buyback payment | 44,189.62 | 25,263.26 | |
| Interest on Buyback | - | 1,738.83 | 3.5% compounded annually (estimated) |
| Contributions | 48,206.25 | 48,206.25 | Obtained from Member Ledger |
| Interest on Contributions | 20,762.57 | 20,762.57 | 3.5% compounded annually |
| Withholding tax | (4,152.51) | (4,152.51) | |
| Refund | <u>109,005.93</u> | <u>91,818.40</u> | |
| Overpayment | | <u>\$ 17,187.53</u> | |

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2009-04 Review of Contract with Third-party Systems Developer

Criteria:

The NMIRF, being fiduciary in nature should ensure that the funds of the NMIRF are expended for reasonable and necessary expenditures.

Context:

Review of contracts.

Condition:

In my 2008 letter to those in-charge with governance we noted that the third-party systems developer may be in violation of the terms of the contract. The contract states that the project should be completed and successfully rolled-out by September 30, 2008. As of audit date, May 28, 2010, the database software has not been fully implemented.

Effect:

The vendor is in violation of the terms of the contract and NMIRF may be in violation of its fiduciary responsibility for not claiming remuneration from the vendor for the delay in the implementation of the database system as it is 90% paid for already.

Cause:

The lack of oversight on the contractor.

Recommendation:

The NMIRF should ensure that the terms of contracts are adhered to not only by NMIRF but also by the contractor.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2009-04 Review of Contract with Third-party Systems Developer, Continued

Auditee Response:

The original completion date of the automated pension system was September 19, 2008. The contract has no provision for liquidating damages and the NMIRF had chosen to withhold the final payment and acceptance of the system. The NMIRF had been working with the Contractor to resolve the outstanding programming and implementation issues so that the NMIRF can finally migrate entirely to the new system.

To the end, the NMIRF will engage the service of an independent evaluator to assess the system; assist the staff in systematically testing the system; and develop an implementation schedule top include parallel operation, if necessary to ensure a smooth transition to the new system. The NMIRF will work closely with the independent evaluators to take the necessary steps toward the finalizing the implementation of the new system.

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2009
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 10/14/10

Date(s) of response letter(s) received :

See pages 329 to 352 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-01, Travel Authorization

Criteria:

Pursuant to PSS Regulation 3430, section C (8), within CNMI travel requests shall be submitted to the Commissioner no later than 5 working days prior to the travel date. Travel requests for outside of the CNMI shall be submitted to the Commissioner or the Chairperson of the Board of Education, as appropriate, no later than 10 working days prior to commencement of travel, except for extenuating circumstances.

Context:

Based on the risk assessment made and the planning materiality computed, testing of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. A non-statistical sample of twenty-five (25) individuals was selected and supporting documents were examined in accordance with the travel policies of PSS. These individuals made an aggregate of 415 travels during the fiscal year with aggregate travel advances of \$226,690.

Condition:

The following were noted:

- a. Nineteen (19) or 76% of twenty-five (25) of travelers tested submitted travel authorizations (TA) after the prescribed period, or
- b. Ninety-four (94) or 23% of the 415 TA's submitted by the selected travelers were after the prescribed period.

Cause:

PSS did not adhere to its established policies and procedures on travel authorization and travel authorizations were not properly filed. PSS does not have internal control monitoring procedures in place to ensure that all TA's are submitted in accordance with its existing travel policies.

Effect:

Failure to adhere to the travel policies may result in unauthorized travel, disallowed costs, significant bad debts and non-compliance with the applicable state laws and federal regulations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-01, Travel Authorization, Continued

Recommendation:

PSS should implement internal control monitoring procedures to ensure timely submission of all travel authorizations.

With the large volume of travel authorizations processed, PSS should explore the option of electronic filing and approval of travel authorizations. This option may also reduce the lead time it takes for the TA's to get from the requester to the Travel Section of PSS Accounting and reduce the paperwork for filing at the Travel Section.

Prior Year Status:

The above condition was cited as a finding in the Single Audits for fiscal years 2005 through 2008.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-02, Travel Authorization Supporting Documents

Criteria:

Pursuant to PSS Regulation 3420, section C (7), the following information must be attached to the TA prior to being submitted to the Chairperson of the Board and to the Commissioner as appropriate:

- a. Justification memorandum for the travel
- b. Document of invitation and/or agenda
- c. Specific purpose
- d. Itinerary (schedule or departure, arrival and destinations)
- e. Estimated Cost

Context:

Based on the risk assessment made and the planning materiality computed, testing of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. A non-statistically sample of twenty-five (25) individuals was selected and supporting documents were examined in accordance with the travel policies of PSS. These individuals made an aggregate of 415 travels during the fiscal year with aggregate travel advances of \$226,690.

Condition:

- a. Eight (8) or 32% of twenty-five (25) of travelers tested did not comply with the requirements of PSS Regulation 3420, section C (7). Deficiencies noted are summarized as follows:

| Traveller No./ Employee No. | Travel Authorization | Remarks |
|--------------------------------|-------------------------|---|
| 2208 | 59493 | Documentation of invitation or agenda not on file |
| | 62755 | Documentation of invitation or agenda not on file |
| 2515 | 58922 | Justification memorandum for travel is not signed |
| 2746 | 63748 | Travel Authorization and supporting documents not on file |
| 2817 | 58458 | Travel Authorization and supporting documents not on file |
| | 59318 | Travel Authorization and supporting documents not on file |
| | 63302 | Travel Authorization and supporting documents not on file |
| | 63631 | Travel Authorization and supporting documents not on file |
| | 64578 | Travel Authorization and supporting documents not on file |
| 12716 | 62685 | No documentation of meeting invitation or confirmation of meeting |
| 8452 | 58325 | Travel Authorization and supporting documents not on file |
| | 58623 | Travel Authorization and supporting documents not on file |
| 2858 | 60974 | No documentation of meeting invitation or confirmation of meeting |
| 8685 | PV 155784 | Repatriation expense of \$10,338 based on quotation was disbursed using travel authorization. |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-02, Travel Authorization Supporting Documents, Continued

Cause:

PSS did not adhere to its established internal control policies and procedures for travel authorization.

Effect:

Failure to adhere to the travel policies could result in high outstanding advances balance and potential bad debts.

Recommendation:

PSS should strictly enforce its travel policies and procedures and establish internal control monitoring procedures to ensure that all travels made using PSS local and federal funds are both necessary and reasonable.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-03, Travel Liquidation

Criteria:

Pursuant to PSS Regulation 3420, section G (1), travelers must file a travel voucher with supporting documentation within fifteen (15) working days upon completion of travel. Travelers who fail to meet this deadline will forfeit the remaining ten percent of the cost of travel. Travelers who fail to submit travel vouchers and supporting documentation will be subject to payroll deduction of the entire amount of the advance.

Context:

Based on the risk assessment made and the planning materiality computed, testing of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. A non-statistical sample of twenty-five (25) individuals was selected and supporting documents were examined in accordance with the travel policies of PSS. These individuals made an aggregate of 415 travels during the fiscal year with aggregate travel advances of \$226,690.

Conditions:

- a. Twelve (12) or 48% of twenty five (25) of travelers tested did not submit the travel voucher/liquidation within the prescribed period. These deficiencies are summarized as follows:

| <u>Traveller No./ Employee No.</u> | <u>Travel Authorization</u> | <u>Last day of Travel</u> | <u>Date Submitted</u> | <u>No. of Workdays Late</u> |
|--|---------------------------------|-------------------------------|---------------------------|---------------------------------|
| 2238 | 57427 | 10/24/08 | 11/20/08 | 5 |
| | 58309 | 12/29/08 | 02/03/09 | 12 |
| 2405 | 58265 | 12/15/08 | 04/15/09 | 73 |
| | 59525 | 03/04/09 | 04/15/09 | 16 |
| | 59642 | 03/05/09 | 04/15/09 | 15 |
| | 59979 | 03/21/09 | 04/15/09 | 3 |
| | 60025 | 03/27/09 | 06/24/09 | 49 |
| | 60793 | 05/10/09 | 06/18/09 | 14 |
| | 60884 | 05/01/09 | 06/18/09 | 20 |
| | 62360 | 07/01/09 | 07/28/09 | 5 |
| 2515 | 58659 | 01/30/09 | 03/10/09 | 13 |
| | 58922 | 02/06/09 | 03/10/09 | 8 |

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-03, Travel Liquidation, Continued

Conditions:

| <u>Traveller No./ Employee No.</u> | <u>Travel Authorization</u> | <u>Last day of Travel</u> | <u>Date Submitted</u> | <u>No. of Workdays Late</u> |
|--|---------------------------------|-------------------------------|---------------------------|---------------------------------|
| 2606 | 57785 | 11/23/08 | 12/15/08 | 1 |
| | 60124 | 02/02/09 | 04/03/09 | 30 |
| | 61980 | 05/05/09 | 06/11/09 | 13 |
| 2746 | 58321 | 01/12/09 | 02/10/09 | 7 |
| | 60955 | 05/05/09 | 06/20/09 | 19 |
| | 60959 | 05/03/09 | 06/20/09 | 20 |
| | 60121 | 04/02/09 | 06/20/09 | 42 |
| | 60120 | 03/31/09 | 06/20/09 | 44 |
| 2817 | 58006 | 12/17/08 | 02/09/09 | 24 |
| | 58397 | 01/08/09 | 02/04/09 | 5 |
| | 58458 | 01/16/09 | 02/09/09 | 2 |
| | 59697 | 03/13/09 | 05/13/09 | 29 |
| 8685 | 57522 | 11/20/08 | 12/15/08 | 3 |
| 12716 | 59275 | 02/28/09 | 04/01/09 | 8 |
| 9981 | 58329 | 12/31/08 | 02/25/09 | 26 |
| | 59983 | 03/20/09 | 07/21/09 | 73 |
| | 61547 | 05/30/09 | 07/21/09 | 22 |
| | 61724-1 | 06/19/09 | 07/21/09 | 8 |
| 10186 | 61163 | 05/09/09 | 07/10/09 | 30 |
| | 62269 | 07/06/09 | 08/04/09 | 7 |
| 5263 | 58661 | 01/29/09 | 02/20/09 | 2 |
| 8452 | 57700 | 11/26/08 | 12/17/08 | 1 |
| | 58325 | 01/12/09 | 02/04/09 | 3 |
| | 58623 | 02/17/09 | 03/11/09 | 2 |

- b. Two (2) or 8% of twenty five (25) of travelers tested received travel advances for travel that were subsequently cancelled. The travelers did not return the entire travel advance received; instead they signed allotment authorization for fixed semi-monthly installments.

Cause:

PSS did not adhere to its established policies and procedures for monitoring and liquidating travel advances in a timely manner.

Effect:

Failure to adhere to the travel policies could result in high outstanding advances balance and potential bad debts.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-03, Travel Liquidation, Continued

Recommendation:

PSS should strictly adhere to its travel liquidation policies and procedures. A report should be prepared and provided to the Commissioner for corrective action.

Prior Year Status:

The above condition was cited as a finding in the Single Audit of fiscal years 2005 through 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-04, Use of Preauthorized Trip Report

Criteria:

Pursuant to PSS Regulation 3420, Section G (3), travelers using per diem rate should submit an approved detailed trip report explaining the purpose of the travel, the event or meeting attended (if appropriate) and the benefit to the traveler and PSS. All trip reports must be submitted to the traveler's supervisor for approval before submission to the Fiscal office. The sufficiency of the trip report shall be determined by the traveler's supervisor, who shall approve the report and return to traveler for submission to the Fiscal office if the report is sufficient. If insufficient and not approved, the supervisor shall return the trip report to the traveler and request more information from the traveler for resubmission to the supervisor.

Context:

Based on the risk assessment made and the planning materiality computed, testing of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. A non-statistical sample of twenty-five (25) individuals was selected and supporting documents were examined in accordance with the travel policies of PSS. These individuals made an aggregate of 415 travels during the fiscal year with aggregate travel advances of \$226,690.

Condition:

Trip report was not on file for the following travel authorizations:

| <u>Traveller No./</u> <u>Employee No.</u> | <u>Travel</u> <u>Authorization</u> | <u>Destination</u> |
|--|---------------------------------------|--------------------|
| 2469 | 58037 | Washington DC |
| | 58322 | Washington DC |
| 2606 | 60772 | Honolulu HI |
| | 60961 | Guam |
| 2858 | 62447 | Guam |

Furthermore, most of the trip reports examined did not provide a detailed description of what was obtained during the trip and how these could help improve PSS.

Cause:

The Commissioner authorized the use of preauthorized trip report to be submitted with the travel authorization before the actual travel, in lieu of submitting a trip report together with the Travel Voucher after the travel.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-04, Use of Preauthorized Trip Report, Continued

Effect:

PSS is not in compliance with its travel policies and procedures. Furthermore, without a complete trip report, PSS may not have a tool to measure the effectiveness or to conduct a performance audit of the travel.

Recommendation:

PSS should strictly implement the use of trip report to summarize the results of all off-island travels. A preauthorized trip report may be utilized for inter-island travels; however, the policies and procedure for the use of preauthorized trip reports should be approved by the PSS Board of Education.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-05, Use of Organization Credit Card

Criteria:

Pursuant to PSS' policies and procedures, all disbursements shall be through issuance of checks. PSS' credit card may only be used for on-line purchases or other purchases as approved following PSS procurement policies and procedures.

Context:

Test of travel advances and liquidation.

Condition:

Four (4) of the 25 or 16% of travelers selected for testing of travel advances used PSS credit card on several trips to pay for accommodations and registrations.

Although some have promptly returned the cash advance upon return from the trip, some travelers did not inform the fiscal and budget officer about the use of credit card. The uses of the credit card were only noted by the fiscal and budget officer upon preparation of the reconciliation of the credit card account.

Cause:

There is a weakness in internal control over the monitoring and review of travel advances and the use of credit cards which could result in fraud, misuse and abuse.

Effect:

Unrecorded or unauthorized disbursements could be incurred and not be detected in a timely manner. Furthermore, abuse and misuse of funds could be perpetrated if employees other than the treasurer have access to the organization's credit card.

Recommendation:

PSS should review its policies and procedures over the use of its credit card and should implement more stringent internal control monitoring procedures to ensure that assets susceptible to fraud and misuse are safeguarded.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-06, Compliance with Appropriations Budget

Criteria:

Pursuant to Public Law 16-32 or the 2009 Appropriations Act, Section 604 (c), all government salaries, except for classroom teachers are frozen as of the first pay period following the effective date of the Appropriation Act, which is March 11, 2009.

Also, pursuant to Public Law 16-32 Section 720 (d)(2), no parts of the funds appropriated for PSS operations shall be used to pay for any expenses, including but not limited to travel or reimbursement, of the Board of Education, board members or staff.

Context:

Review of Minutes of Board Meetings and compliance with laws.

Conditions:

- a. The PSS Board of Education, adopted certain salary adjustments during its August 27, 2009 Board Meeting, as follows:
 - Commissioner's salary to increase from \$70,000 per annum to \$80,000 per annum retroactively to the date of hiring, August 20, 2008.
 - Legal Counsel's salary from \$55,000 to \$70,000, effective retroactively to October 30, 2008.
 - Increase Board Secretary's salary by 20%, effective retroactively to October 30, 2008.
- b. PSS made renovations to the office of the Board of Education amounting to \$9,590 and purchased controlled assets. These expenditures were funded by PSS Operations Appropriations.

Cause:

- a. The Board of Education increased the salary of the Commissioner and the Legal Counsel to the legal limit set by the CNMI Law, notwithstanding the restriction on salary increases on PL 16-32.

Furthermore, for the salary increase of the Legal Counsel and the Board of Education's Secretary, PSS believes that the increase does not violate the provision of PL 16-32 because the Board had already approved the increase during its October 30, 2008 meeting.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

- b. PSS believes that the renovations and the equipment purchased for the office of the Board of Education were for the common use and benefit of PSS Operations, and therefore allowable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-06, Compliance with Appropriations Budget, Continued

Effect:

It appears that PSS may be in violation of PL 16-32.

Recommendation:

PSS should evaluate the legality of its actions taken to increase salaries, office renovations and equipment purchases to ensure compliance with Sections 604 (c) and 720 (d)(2) of Public Law 16-32 or the 2009 Appropriations Act.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-07, Employment Contracts

Criteria:

PSS Regulation for Employment of Non-Certified Personnel §1404 and PSS Regulation for Employment of Certified Personnel §1304, states that in no event shall any applicant commence working without the Human Resource Office (HRO) first having a fully-executed employment contract.

PSS Regulation for Employment of Non-Certified Personnel §1601 and PSS Regulation for Employment of Certified Personnel §1501, states that the decision whether to extend and offer for further employment is wholly within the discretion of the Public School System. No tenure of any nature, expressed or implied, is granted to any employee.

Context:

Non-statistically selected 60 contracts from the listing of new and renewed contracts for fiscal year ending September 30, 2009.

Conditions:

- a. For 14 of the 60 or 23% of employment contracts selected for testing of controls over recruitment and hiring, the effective date of contracts were before the contract was fully executed.

| <u>Employee</u> <u>Number</u> | <u>Effective</u> <u>Date</u> | <u>Date</u> <u>Contract</u> <u>was Signed</u> | <u>No</u> <u>Workdays</u> <u>Late</u> | <u>Rate</u> | <u>Amount</u> |
|----------------------------------|---------------------------------|---|---|-------------|---------------------|
| 9458 | 10/14/2008 | 10/28/2008 | 11 | \$14.893 | \$ 1,310.58 |
| 12659 | 10/15/2008 | 11/1/2008 | 13 | 5.636 | 586.14 |
| 12591 | 11/15/2008 | 12/29/2008 | 31 | 12.331 | 3,058.09 |
| 12826 | 2/10/2009 | 2/17/2009 | 6 | 14.542 | 698.02 |
| 12963 | 3/16/2009 | 3/31/2009 | 12 | 7.262 | 697.15 |
| 12960 | 3/16/2009 | 3/30/2009 | 11 | 14.893 | 1,310.58 |
| 12549 | 8/31/2009 | 9/17/2009 | 14 | 14.893 | 1,668.02 |
| 13297 | 8/31/2009 | 9/9/2009 | 8 | 14.893 | 953.15 |
| 13319 | 9/8/2009 | 9/25/2009 | 14 | 100/day | 1,400.00 |
| 5526 | 9/8/2009 | 9/21/2009 | 10 | 100/day | 1,000.00 |
| 13332 | 9/8/2009 | 9/24/2009 | 13 | 9.292 | 966.37 |
| 2771 | 9/8/2009 | 11/5/2009 | 43 | 13.419 | 4,616.14 |
| 8693 | 9/8/2009 | 9/24/2009 | 13 | 100/day | 1,300.00 |
| 9302 | 9/14/2009 | 9/18/2009 | 5 | 6.062 | 500.00 |
| | | | | | <u>\$ 20,064.24</u> |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-07, Employment Contracts, Continued

Conditions, Continued:

b. Employment contract of Employee No. 9013 was not on-file for SY 2008-2009. Subsequent year's contract was on-file.

Cause:

Due to the need for the School Year to open on-time, certain principals, as authorized by the Commissioner, allowed teachers to report for work before the contract was signed and properly executed.

Effect:

PSS is not in compliance with its policies and procedures. Furthermore, any payments made before the contract is signed may be un-allowed costs because employment contracts are not effective until signed by all contracting parties.

Recommendation:

PSS should strengthen existing policies and procedures for monitoring of all employment contracts and ensure that all contracts are properly signed and executed before its effective date.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-08, Medical Examination at the Start of Contract for New Employees

Criteria:

PSS Regulation for Employment of Non-Certified Personnel §2103 and PSS Regulation for Employment of Certified Personnel §3103, requires employees to undergo physical examination at a health care provider acceptable to the HRO prior to the commencement of the contract term.

Context:

Non-statistically selected 60 contracts from the listing of new and renewed contracts for fiscal year ending September 30, 2009.

Condition:

51 of the 60 or 85% of the contracts selected were for new employees. Of the 51 new employee contracts tested, 27 or 53% did not have the physical examination record on-file for independent review and inspection.

Cause:

There is a lack of monitoring controls to ensure that all requirements for hiring are completed and on-file prior to the effective date of employment contract.

Effect:

PSS is not in compliance with its Human Resources policies and procedures. Furthermore, health and safety of students and personnel may be compromised and at risk.

Recommendation:

PSS should strengthen its Human Resources policies and procedures to ensure that all requirements for hiring are completed and on-file prior to the effective date of employment contract. Furthermore, document retention and filing should be improved to facilitate ease of file retrieval.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 09-09, Sole Sources Contracts

Criteria:

Pursuant to Education Department General Administrative Regulations § 80.36 Procurement (d)(4)(f)(f) Contract cost and price, grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications. A cost analysis will be necessary when adequate price competition is lacking, and for sole source procurements, including contract modifications or change orders, unless price reasonableness can be established on the basis of a catalog or market price of a commercial product sold in substantial quantities to the general public or based on prices set by law or regulation. A price analysis will be used in all other instances to determine the reasonableness of the proposed contract price.

Context:

Based on auditor's judgment, selected 9 individually significant contracts and non-statistically selected 25 contracts for examination of compliance with PSS procurement regulations.

Condition:

No Cost and Price Analysis documentation for the contract award of the following sole-sourced contract:

| <u>Contract Number</u> | <u>Purpose</u> | <u>Amount</u> |
|------------------------|-----------------------------------|---------------|
| 58991 | Honorarium for Training | \$ 9,000 |
| 58167 | Financial Management Consultant | 60,000 |
| 61879 | To procure software for 9 schools | 204,176 |
| 52262 | Training and Technical Assistance | 89,541 |

Cause:

PSS did not adhere to Education Department General Administrative Regulations § 80.36 for sole source procurements.

Effect:

PSS procurement policies and procedures are not in compliance with the U.S. Department Education procurement regulations for grantees. Over pricing of sole source procurements may occur and not be detected in a timely manner.

Recommendation:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

The Procurement policies and procedures of PSS should be revised to incorporate federal procurement regulations.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Allowed Cost and Cost Principles - Special Education and Consolidated Grants

Finding No. 09-10

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|-------------------------------|-----------------------------|
| 84.027 | | |
| 84.922 | | \$ 293,717 |

Criteria:

All accounting entries should be properly supported and approved.

Context:

Audit of accounting journal entries.

Condition:

PSS provided a post trial balance adjusting journal entry to reclassify federal expenditure of \$204,176 to local funds and vice versa. The adjustment was made only after the auditor presented Finding 09-09. Board approval was not obtained. The reclassification involved the transferring of personnel cost of highly qualified teacher from local funds to federal funds and a transferring of the following federally funded expenditures to local funds:

| <u>Contract Number</u> | <u>Purpose</u> | <u>Amount</u> | <u>CFDA</u> |
|----------------------------|-----------------------------------|---------------|-------------|
| 61879 | To procure software for 9 schools | \$ 204,176 | 84.922 |
| 52262 | Training and Technical Assistance | 89,541 | 84.027 |

Cause:

PSS did not obtain Board approval.

Effect:

The adjustment was not properly authorized. Therefore, a questioned costs exists totaling \$293,717.

Recommendation:

PSS should ensure that all adjusting journal entries are properly supported by corroborating

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

evidential documentation and are properly approved
prior to posting in the general ledger.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Special Education

Finding No. 09-11

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|--|-----------------------------|
| 84.027 | <p><u>Criteria:</u></p> <p>Pursuant to CNMI Special Education Guidelines, Summary of Eligibility should be prepared every three years of all children eligible under the Special Education Grant.</p> <p><u>Context:</u></p> <p>Based on risk assessment, non-statistically selected 60 student's folders for examination.</p> <p><u>Condition:</u></p> <p>For four or 7% of 60 student folders tested, the last eligibility summary was conducted more than 3 years after last evaluation/reevaluation.</p> <p><u>Cause:</u></p> <p>There is a lack of monitoring internal controls, especially for children moving from one school to another.</p> <p><u>Effect:</u></p> <p>PSS is not in compliance with its policies and procedures on eligibility of children with special needs. Furthermore, if the eligibility summary is conducted late, the children's special needs may not be addressed in a timely manner.</p> <p><u>Recommendation:</u></p> <p>PSS should ensure that monitoring controls are in place to timely update the special needs of students. Coordination should be made by the schools for children with special needs who transfer or move from one school to another.</p> | \$ - |

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Allowed Cost and Cost Principles - Special Education

Finding No. 09-12

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|--|-----------------------------|
| 84.027 | <p><u>Criteria:</u></p> <p>Pursuant to PSS Procurement policies, purchases should not be artificially divided to preclude proper procurement policies and procedures.</p> <p><u>Condition:</u></p> <p>The following small purchase orders appear to be artificially divided:</p> | \$ - |

| <u>Date</u> | <u>Check No.</u> | <u>Particulars</u> | <u>PO Number</u> | <u>PO Date</u> | <u>Vendor Inv. No.</u> | <u>Invoice Date</u> | <u>Amount</u> |
|-------------|------------------|---|------------------|----------------|----------------------------|-------------------------|--------------------|
| 09/03/09 | 109476 | Calendar book Blue background | 63214 | 08/19/09 | 9924 | 08/17/09 | \$ 1,606.25 |
| | | Calendar book Black background | 63128 | 08/12/09 | 9904 | 08/17/09 | <u>1,606.25</u> |
| | | | | | | | <u>\$ 3,212.50</u> |
| 10/20/08 | 99358 | SPED professional development 9/5/09 | 51147 | 09/23/08 | 0908-08 | 09/05/08 | \$ 2,844.00 |
| | | SPED professional development 9/4/09 | 57146 | 09/23/08 | 0908-07 | 09/04/08 | <u>2,628.00</u> |
| | | | | | | | <u>\$ 5,472.00</u> |

Cause:

The Procurement Officer based the purchases on the requisition prepared by the requesting department and overlooked that the nature of the services is the same.

Effect:

PSS is not in compliance with its procurement policies and procedures.

Recommendation:

PSS should adhere to its established policies and procedures and should strengthen internal control monitoring procedures over its procurement activities to prevent and detect potential circumvention of such policies and procedures.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Earmarking - Enrollment of Children with Disabilities - Head Start

Finding No. 09-13

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|---|-----------------------------|
| 93.600 | <p><u>Criteria:</u></p> <p>Pursuant to ACF-PI-HS-09-04, under the Head Start program, at least 10% of actual enrollment must serve children with disabilities.</p> <p>The Head Start Act requires Human Health Services to provide Head Start agencies, in appropriate circumstances, with waivers of this 10 percent enrollment requirement.</p> <p><u>Context:</u></p> <p>Non-statistically selected 3 months and obtained the Monthly Director's Report for these months.</p> <p>From the Monthly Director's Report, obtained the enrollment information and compared requirements of the Head Start Act.</p> <p><u>Condition:</u></p> <p>The Head Start Program does not meet the required enrollment level and did not obtain the required waiver.</p> | \$ - |

| | Total Enrollment | Children with Disabilities | Disability determined prior to Program year |
|--------|-----------------------------|---|--|
| Oct-08 | 462 | 39 | 4 |
| | | 8% | 1% |
| Apr-09 | 462 | 33 | 1 |
| | | 7% | 0% |
| Sep-09 | 462 | 40 | 1 |
| | | 9% | 0% |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2009

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Earmarking - Enrollment of Children with Disabilities - Head Start, Continued

Finding No. 09-13, Continued

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-------------------------------|---|-----------------------------|
| 93.600 | <p><u>Cause:</u></p> <p>PSS asserts that it has exerted efforts to recruit children with disability but enrollment levels of children with disability remains low since the CNMI has improved its health and awareness programs for pregnant women and children, thereby reducing the number of children with disability in the CNMI.</p> <p><u>Effect:</u></p> <p>PSS is not in compliance with the program requirement of the Head Start Act.</p> <p><u>Recommendation:</u></p> <p>PSS should obtain a waiver from the grantor pursuant to ACF-PI-HS-09-04.</p> | \$ - |
| Total Questioned Costs | | <u>\$ 293,717</u> |

Workers' Compensation Commission

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2009
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 10/14/10

Date(s) of response letter(s) received :

See page 354 and 355 for the recommendation issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore it does not correspond with the page numbers in the original report.

CNMI WORKERS' COMPENSATION COMMISSION
(A Component Unit of the CNMI Government)

Schedule of Finding
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDING

Finding No. 2009-01 Collectability of Outstanding Notice of Assessments

Criteria:

Generally Accepted Accounting Principles require that receivables should be evaluated for collectability.

Context:

Audit of outstanding assessments, deferred revenues and related income account.

Condition:

As of September 30, 2009, there were 544 employers with outstanding assessments amounting to \$800,007.

Summarized as follows are the changes in outstanding assessments:

| | <u>2009</u> | <u>2008</u> |
|----------------------------|-------------------|-------------------|
| Beginning balance | \$ 820,046 | \$ 914,252 |
| Current year transactions: | | |
| Assessments | 45,900 | 83,260 |
| Waived assessments | (56,074) | (164,173) |
| Collections | <u>(9,865)</u> | <u>(13,293)</u> |
| Ending balance | <u>\$ 800,007</u> | <u>\$ 820,046</u> |

Collections accounted for only 15% of total deductions for the fiscal year 2009 while waived assessments constitute 85%. This indicates that the majority of the assessments are being waived rather than being collected. Furthermore, aging of outstanding assessments shows \$784,232 or 98% were over 90 days overdue.

Effect:

Fraud could occur and not be detected in a timely manner.

Cause:

There are no monitoring policies and procedures in place to prevent fraud and misstatement from occurring and be detected in a timely manner.

CNMI WORKERS' COMPENSATION COMMISSION
(A Component Unit of the CNMI Government)

Schedule of Finding
September 30, 2009

SECTION II - FINANCIAL STATEMENTS FINDING

**Finding No. 2009-01 Collectability of Outstanding Notice of Assessments,
Continued**

Recommendation:

Although the write-off of these receivables would not have any impact on WCC's net assets because revenues are deferred until collected, I recommend that management review collectability of these receivables and write-off uncollectible amounts so the assets and liabilities are not overstated.

Acronyms Used

| | |
|---------|--|
| AAL | Actuarial Accrued Liability |
| ADP | Automated Data Processing |
| AGIU | Attorney General's Investigative Unit |
| AGO | Office of the Attorney General |
| APV | Accounts Payable Voucher |
| AR | Audit Report |
| AREERA | Agricultural Research, Extension and Education Reform Act |
| ARRA | American Recovery and Reinvestment Act |
| ASCC | American Samoa Community College |
| AWOL | Absent Without Leave |
| BMS | Boarder Management System |
| BOR | Board of Regents |
| BOT | Board of Trustees |
| BU | Business Unit |
| CALEA | Commission on Accreditation for Law Enforcement Agencies, Incorporated |
| CDA | Commonwealth Development Authority |
| CDBG | Community Development Block Grant |
| CDRSR | Cashier Deposit Reconciliation Summary Report |
| CFDA | Catalog of Federal Domestic Assistance |
| CGECU | Commonwealth Government Employees Credit Union |
| CHC | Commonwealth Health Center |
| CI Fund | Confidential Informant Fund |
| CIB | Criminal Investigations Bureau |
| CIG | Compact Impact Grant |
| CIP | Capital Improvement Projects |
| CMC | Commonwealth Code |
| CMIAA | Cash Management Improvement Act Agreement |
| CMS-64 | Quarterly Statement of Expenditures for the Medical Assistance Program |
| CNMI | Commonwealth of the Northern Mariana Islands |
| CNMI-PR | Commonwealth of the Northern Mariana Islands Procurement Regulations |
| CO | Change Orders |
| COC | Chain of Custody |
| CPA | Certified Public Accountant |
| CPA | Commonwealth Ports Authority |
| CSC | Civil Service Commission |
| CSI | Crime Scene Investigation |
| CST | Crime Scene Technician |
| CUC | Commonwealth Utilities Corporation |
| DCP | Defined Contribution Retirement Plan |
| DEQ | Division of Environmental Quality |
| DOF | Department of Finance |
| DOI | Department of the Interior |
| DOLI | Department of Labor and Immigration |
| DPH | Department of Public Health |
| DPL | Division of Public Lands |
| DPS | Department of Public Safety |
| DPW | Department of Public Works |
| DRT | Division of Revenue & Taxation |

| | |
|---------|--|
| EAC | Estimated Acquisition Cost |
| ECU | Evidence Custodial Unit |
| EDMS | Electronic Document Management System |
| EDP | Electronic Data Processing |
| EEO | Equal Employment Opportunity |
| EITF | Emerging Issues Task Force |
| EPA | Environmental Protection Agency |
| FAA | Federal Aviation Administration |
| FAR | Federal Acquisition Regulations |
| FASB | Financial Accounting Standards Board |
| FASS-PH | Financial Assessment Sub-System |
| FBI | Federal Bureau of Investigations |
| FDIC | Federal Deposit Insurance Corporation |
| FEMA | Federal Emergency Management Agency |
| FLSA | Fair Labor Standards Act |
| FMR | Fair Market Rent |
| FMS | Financial Management System |
| FNS | Food & Nutrition Services |
| FTE | Full Time Employment |
| FY | Fiscal Year |
| GASB | Government Accounting Standards Board |
| GHI | Government Health Insurance |
| GHLITF | Group Health and Life Insurance Trust Fund |
| GL | General Ledger |
| GM | General Manager |
| GOV | Office of the Governor |
| GPA | General Power of Attorney |
| GPD | Guam Police Department |
| HAP | Housing Assistance Payments |
| HPD | Honolulu Police Department |
| HQS | Housing Quality Standards |
| HRO | Human Resources Officer |
| HRPP | Human Resources Policies and Procedures |
| HUD | U.S. Department of Housing and Urban Development |
| IT | Information Technology |
| ITB | Invitation to Bid |
| JE | Journal Entry |
| LT | Letter Report |
| MAP | Medical Assistance Program |
| MCD | Mortgage Credit Division |
| MHLO | Marianas Hawaii Liaison Office |
| MOU | Memorandum of Understanding |
| MPLA | Marianas Public Lands Authority |
| MPLC | Marianas Public Land Corporation |
| MPLT | Marianas Public Land Trust |
| MRO | Marianas Referral Office |
| NAP | Nutrition Assistance Program |
| NASPO | National Association of State Purchasing Officials |
| NEG | National Emergency Grant |
| NIMO | Northern Islands Mayor's Office |
| NMC | Northern Marianas College |
| NMHC | Northern Marianas Housing Corporation |
| NMIRF | Northern Mariana Islands Retirement Fund |
| NSA | Nutrition Services Administration |

| | |
|-------|---|
| OCAF | Operating Cost Adjustment Factor |
| OIA | Office of Insular Affairs |
| OMB | Office of Management and Budget |
| OPA | Office of the Public Auditor |
| OPL | Office of Public Lands |
| OVAE | Office of Vocational Adult Education |
| PAF | Personnel Action Form |
| P.L. | Public Law |
| P&S | Procurement & Supply |
| PAO | Public Assistance Office |
| PFC | Passenger Facility Charge |
| PHA | Public Housing Agency |
| PIEI | Pacific Islands Education Initiative |
| PO | Purchase Order |
| PPE | Pay Period Ended |
| PPR | Procurement & Personnel Regulations |
| PR | Purchase Requisition |
| PSS | Public School System |
| PSSPR | Public School System Procurement Regulation |
| PSSRR | Personnel Service System Rules and Regulations |
| PV | Payment Voucher |
| RFP | Request for Proposals |
| RMO | Rota Mayor's Office |
| RRU | Retail and Redemption Unit |
| SCHIP | State Children's Health Insurance Program |
| SF | Standard Form |
| SEFA | Schedule of Expenditures of Federal Awards |
| SNAP | Supplemental Nutrition Assistance Program |
| SOP | Standard Operating Procedures |
| SPA | Special Power of Attorney |
| SSN | Social Security Number |
| STAR | System for Time and Attendance Reporting |
| TA | Travel Authorization |
| TB | Technical Bulletin |
| TCGCC | Tinian Casino Gaming Control Commission |
| TIQ | Tinian |
| TRIO | Educational Opportunity for Low-Income and Disabled Americans |
| TSD | Department of Public Works, Transfer Station Division |
| TSR | Tobacco Settlement Resources |
| TV | Travel Voucher |
| US | United States |
| USDA | United States Department of Agriculture |
| VENA | Value Enhanced Nutrition Assessment |
| WASC | Western Association for Schools and Colleges |
| WCC | Workers' Compensation Commission |
| WIA | Workforce Investment Agency |
| WIC | Women, Infant, & Children |
| WRO | Washington Representative's Office |
| WTF | Water Task Force |

This page was intentionally left blank.

