

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2016

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

Honorable Ralph DLG. Torres
Governor
Commonwealth of the Northern Mariana Islands:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated July 27, 2017. Our report includes explanatory paragraphs concerning the implementation of new accounting standards, the correction of errors and going concern, and contained adverse opinions due to the lack of adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* and the financial statements of the Commonwealth Development Authority, the Commonwealth Utilities Corporation, the Commonwealth Healthcare Corporation and the Northern Mariana Islands Settlement Fund not being included in the financial statements. Our report includes a reference to other auditors who audited the financial statements of the Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority, as described in our report on the CNMI's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Commonwealth Ports Authority and the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund) which were audited by us. We have issued a separate report on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the entities that were audited by us. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CNMI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 through 2016-003, 2016-006, 2016-007, 2016-008, 2016-010 and 2016-011 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2016-004, 2016-005, 2016-009 and 2016-012 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CNMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2016-013.

The CNMI's Responses to Findings

The CNMI's responses to the findings identified in our audit are described in the corrective action plan. The CNMI's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

July 27, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

Honorable Ralph DLG. Torres
Governor
Commonwealth of the Northern Mariana Islands:

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands' (the CNMI's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the CNMI's major federal programs for the year ended September 30, 2016. The CNMI's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3b to the Schedule of Expenditures of Federal Awards, the CNMI's financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2016. Our audit, described below, did not include the operations of the entities identified in Note 3b as these entities conducted separate audits in accordance with the Uniform Guidance, if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the CNMI's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the CNMI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal CNMI program. However, our audit does not provide a legal determination of the CNMI's compliance.

Basis for Qualified Opinion on CFDA Programs 11.419, 11.482, 15.875, 93.767, 93.778, and 97.036

As described in items 2016-016 through 2016-021, 2016-025, 2016-027, and 2016-029 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program Name</i>	<i>Compliance Requirement</i>
2016-016	11.419	Coastal Zone Management Administration Awards	Equipment and Real Property Management
2016-017	11.419	Coastal Zone Management Administration Awards	Procurement and Suspension and Debarment
2016-018	11.419	Coastal Zone Management Administration Awards	Reporting
2016-019	11.482	Coral Reef Conservation Program	Matching, Level of Effort, Earmarking
2016-020	11.482	Coral Reef Conservation Program	Reporting
2016-021	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Procurement and Suspension and Debarment
2016-025	93.767	Children's Health Insurance Program	Eligibility
2016-025	93.778	Medical Assistance Program	Eligibility
2016-027	93.778	Medical Assistance Program	Special Tests and Provisions
2016-029	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Procurement and Suspension and Debarment

Compliance with such requirements is necessary, in our opinion, for the CNMI to comply with the requirements applicable to each program.

Qualified Opinion on CFDA Programs 11.419, 11.482, 15.875, 93.767, 93.778, and 97.036

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the CNMI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA programs 11.419 Coastal Zone Management Administration Awards, 11.482 Coral Reef Conservation Program, 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects, 93.767 Children's Health Insurance Program, 93.778 Medical Assistance Program, and 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) for the year ended September 30, 2016.

Unmodified Opinion on CFDA Program 10.551

In our opinion, CNMI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA Program 10.551 Supplemental Nutrition Assistance Program for the year ended September 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-014, 2016-015, 2016-022 through 2016-024, 2016-026, 2016-028, 2016-030 and 2016-031 regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2016-014	10.551	Supplemental Nutrition Assistance Program	Allowable Costs/Cost Principles
2016-015	10.551	Supplemental Nutrition Assistance Program	Reporting
2016-031	10.551	Supplemental Nutrition Assistance Program	Equipment and Real Property Management
2016-022	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Subrecipient Monitoring
2016-031	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Equipment and Real Property Management
2016-023	93.767	Children's Health Insurance Program	Allowable Costs/Cost Principles
2016-024	93.778	Medical Assistance Program	Activities Allowed or Unallowed
2016-026	93.778	Medical Assistance Program	Reporting
2016-028	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Cash Management
2016-030	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Reporting

Our opinion on each major federal program is not modified with respect to these matters.

The CNMI's response to the noncompliance findings identified in our audit are described in the corrective action plan. The CNMI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the CNMI is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the CNMI's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-016 through 2016-021, 2016-025, 2016-027, and 2016-029 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2016-014, 2016-015, 2016-022 through 2016-024, 2016-026, 2016-028, 2016-030 and 2016-031 to be significant deficiencies.

The CNMI's responses to the internal control over compliance findings identified in our audit are described in the corrective action plan. The CNMI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CNMI as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements. We issued our report thereon dated July 27, 2017, which contained explanatory paragraphs concerning the implementation of new accounting standards, the correction of errors and going concern, and contained adverse opinions due to the lack of adoption of GASB Statements No. 68 and No. 71 and the financial statements of the Commonwealth Development Authority, the Commonwealth Utilities Corporation, the Commonwealth Healthcare Corporation and the Northern Mariana Islands Settlement Fund not being included in the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Because of the significance of the matters discussed above, it is inappropriate to, and we do not, express an opinion on the Schedule of Expenditures of Federal Awards.

Deloitte & Touche LLC

July 27, 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor
Year Ended September 30, 2016

Federal Grantor	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture	\$ -	\$ 11,840,159
U.S. Department of Commerce	-	2,804,230
U.S. Department of Defense	-	26,311
U.S. Department of the Interior	1,039,110	5,973,712
U.S. Department of Justice	373,555	1,507,577
U.S. Department of Labor	-	2,191,785
U.S. Department of Transportation	-	1,822,900
Institute of Museum and Library Services	-	128,039
U.S. Environmental Protection Agency	-	2,260,549
U.S. Department of Energy	-	467,260
U.S. Department of Education	-	952,032
U.S. Department of Health and Human Services	-	26,062,765
U.S. Department of Homeland Security	9,017,701	13,955,092
TOTAL FEDERAL GRANTS FUND	10,430,366	69,992,411
TOTAL CAPITAL PROJECTS FUND	-	29,247,896
TOTAL PUBLIC WORKS FUND	-	2,993,598
TOTAL EXPENDITURES OF FEDERAL AWARDS	<u>\$ 10,430,366</u>	<u>\$ 102,233,905</u>

Note: All awards are received direct from the Federal agency.

Reconciliation:

Expenditures per above	\$ 102,233,905
Local match	5,895,910
Public Works Grants (CFDA 20.205 in Other Governmental Fund)	(2,993,598)
Transfers Out (Compact Impact Grants)	(1,396,636)
Unreconciled difference	(4,827)
	<u>\$ 103,734,754</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

Federal CFDA Number	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
10.170	Specialty Crop Block Grant Program - Farm Bill	\$ -	\$ 73,508
10.551	Supplemental Nutrition Assistance Program	-	11,479,269
10.664	Cooperative Forestry Assistance	-	200,031
10.676	Forest Legacy Program	-	28,313
10.766	Community Facilities Loans and Grants	-	48,272
10.890	Rural Development Cooperative Agreement	-	10,766
	TOTAL U.S. DEPARTMENT OF AGRICULTURE	-	11,840,159
U.S. DEPARTMENT OF COMMERCE			
11.YA132309CN0062	2010 Census	-	2,592
11.300	Investments for Public Works and Economic Development Facilities	-	188,536
11.307	Economic Adjustment Assistance	-	689,763
11.407	Interjurisdictional Fisheries Act of 1986	-	5,087
11.419	Coastal Zone Management Administration Awards	-	1,138,569
11.437	Pacific Fisheries Data Program	-	302,683
11.452	Unallied Industry Projects	-	6,188
11.454	Unallied Management Projects	-	78,183
11.482	Coral Reef Conservation Program	-	392,629
	TOTAL U.S. DEPARTMENT OF COMMERCE	-	2,804,230
U.S. DEPARTMENT OF DEFENSE			
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	-	2,672
12.617	Economic Adjustment Assistance for State Governments	-	23,639
	TOTAL U.S. DEPARTMENT OF DEFENSE	-	26,311
U.S. DEPARTMENT OF THE INTERIOR			
Fish and Wildlife Cluster:			
15.605	Sport Fish Restoration Program	-	1,027,443
15.611	Wildlife Restoration and Basic Hunter Education	-	878,269
	Subtotal Fish and Wildlife Cluster	-	1,905,712
15.615	Cooperative Endangered Species Conservation Fund	-	335,812
15.634	State Wildlife Grants	-	89,575
15.657	Endangered Species Conservation Recovery Implementation Funds	-	818
15.663	National Fish and Wildlife Foundation	-	1,106
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands	-	991,877
	Compact Impact	1,039,110	2,435,746
15.904	Historic Preservation Fund Grants-In-Aid	-	213,066
	TOTAL U.S. DEPARTMENT OF THE INTERIOR	1,039,110	5,973,712
U.S. DEPARTMENT OF JUSTICE			
16.017	Sexual Assault Services Formula Program	32,673	34,844
16.523	Juvenile Accountability Block Grants	-	13,438
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	-	40,366
16.550	State Justice Statistics Program for Statistical Analysis Centers	-	19,547
16.575	Crime Victim Assistance	191,953	304,128
16.582	Crime Victim Assistance/Discretionary Grants	-	77,199
16.588	Violence Against Women Formula Grants	148,929	538,672
16.710	Public Safety Partnership and Community Policing Grants	-	121,144
16.727	Enforcing Underage Drinking Laws Program	-	9,559
16.738	Edward Byrne Memorial Justice Assistance Grant Program	-	235,580
16.750	Support for Adam Walsh Act Implementation Grant Program	-	113,100
	TOTAL U.S. DEPARTMENT OF JUSTICE	373,555	1,507,577
U.S. DEPARTMENT OF LABOR			
WIA Cluster:			
17.258	WIA/WIOA Adult Program	-	418,249
17.259	WIA/WIOA Youth Activities	-	318,779
17.278	WIA/WIOA Dislocated Worker Formula Grants	-	357,467
	Subtotal WIA Cluster	-	1,094,495
17.225	Unemployment Insurance	-	226,418
17.235	Senior Community Service Employment Program	-	273,221
17.273	Temporary Labor Certification for Foreign Workers	-	46,322

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2016

Federal CFDA Number	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF LABOR, CONTINUED			
17.277	WIOA National Dislocated Worker Grants/WIA National Emergency Grants	-	367,775
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	-	7,796
17.504	Consultation Agreements	-	175,758
	TOTAL U.S. DEPARTMENT OF LABOR	-	2,191,785
U.S. DEPARTMENT OF TRANSPORTATION			
20.218	Motor Carrier Safety Assistance	-	78,475
20.500	Federal Transit_Capital Investment Grants	-	16,824
20.509	Formula Grants for Rural Areas	-	595,961
20.514	Public Transportation Research, Technical Assistance, and Training	-	4,663
20.600	State and Community Highway Safety	-	1,052,493
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	-	74,484
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION	-	1,822,900
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
45.310	Grants to States	-	128,039
U.S. ENVIRONMENTAL PROTECTION AGENCY			
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	-	2,233,959
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	-	26,590
	TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY	-	2,260,549
U.S. DEPARTMENT OF ENERGY			
81.041	State Energy Program	-	353,910
81.042	Weatherization Assistance for Low-Income Persons	-	110,625
81.042	ARRA - Weatherization Assistance for Low-Income Persons	-	2,725
	TOTAL U.S. DEPARTMENT OF ENERGY	-	467,260
U.S. DEPARTMENT OF EDUCATION			
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	-	872,378
84.169	Independent Living_State Grants	-	525
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	-	44,729
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	-	33,872
84.224	Assistive Technology	-	528
	TOTAL U.S. DEPARTMENT OF EDUCATION	-	952,032
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Aging Cluster:			
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	-	236,513
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	-	315,176
93.053	Nutrition Services Incentive Program	-	85,371
	Subtotal Aging Cluster	-	637,060
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	-	10,880
93.052	National Family Caregiver Support, Title III, Part E	-	110,999
93.127	Emergency Medical Services for Children	-	111,898
93.136	Injury Prevention and Control Research and State and Community Based Programs	-	20,715
93.369	ACL Independent Living State Grants	-	26,460
93.464	ACL Assistive Technology	-	121,410
93.556	Promoting Safe and Stable Families	-	138,105
93.568	Low-Income Home Energy Assistance	-	173,968
93.569	Community Services Block Grant	-	540,600
93.575	Child Care and Development Block Grant	-	1,891,638
93.590	Community-Based Child Abuse Prevention Grants	-	221,057
93.630	Developmental Disabilities Basic Support and Advocacy Grants	-	240,479
93.643	Children's Justice Grants to States	-	52,710
93.645	Stephanie Tubbs Jones Child Welfare Services Program	-	131,823
93.667	Social Services Block Grant	-	46,374
93.669	Child Abuse and Neglect State Grants	-	33,121

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2016

Federal CFDA Number	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED			
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	-	95,384
93.767	Children's Health Insurance Program	-	3,328,962
93.778	Medical Assistance Program	-	18,129,122
		<u>-</u>	<u>25,425,705</u>
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	<u>-</u>	<u>26,062,765</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
97.012	Boating Safety Financial Assistance	-	513,030
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	9,017,701	11,253,100
97.042	Emergency Management Performance Grants	-	1,251,528
97.052	Emergency Operations Center	-	(30,937)
97.067	Homeland Security Grant Program	-	721,157
97.089	Driver's License Security Grant Program	-	247,214
		<u>9,017,701</u>	<u>13,955,092</u>
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY	<u>9,017,701</u>	<u>13,955,092</u>
	TOTAL FEDERAL GRANTS FUND	<u>10,430,366</u>	<u>69,992,411</u>
U.S. DEPARTMENT OF THE INTERIOR			
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects:		
	FY96 - FY02 Appropriations Act Grant	-	228,239
	FY04 Appropriations Act Grant	-	29,019,657
		<u>-</u>	<u>29,247,896</u>
	TOTAL CAPITAL PROJECTS FUND	<u>-</u>	<u>29,247,896</u>
U.S. DEPARTMENT OF TRANSPORTATION			
20.205	Highway Planning and Construction	-	2,993,598
		<u>-</u>	<u>2,993,598</u>
	TOTAL PUBLIC WORKS GRANT FUND	<u>-</u>	<u>2,993,598</u>
	TOTAL EXPENDITURES OF FEDERAL AWARDS	<u>\$ 10,430,366</u>	<u>\$ 102,233,905</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

(1) Scope of Audit

The Commonwealth of the Northern Mariana Islands (CNMI) is a governmental entity governed by its own Constitution. All significant operations of the CNMI are included in the scope of the Uniform Guidance audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the CNMI's cognizant agency for the Single Audit.

(2) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the CNMI under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the CNMI, it is not intended to and does not present the financial position or changes in financial position of the CNMI.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

Expenditures reported on the accompanying Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. All expenditures and capital outlays are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of operations to amounts reported as expenditures in prior years.

b. Reporting Entity

The CNMI, for purposes of the financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the CNMI's reporting entity is defined in Note 1A to its September 30, 2016 basic financial statements; except that the Northern Mariana Islands Settlement Fund, the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the CNMI, as defined above, for the year ended September 30, 2016.

Federal award totals for the excluded departments and component units as of September 30, 2016, are as follows:

<u>Agency or Component Unit</u>	<u>Federal Award Total</u>
Commonwealth Ports Authority	\$ 7,514,377
Northern Marianas College	\$ 8,284,254
Public School System	\$ 34,217,753

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

(3) Summary of Significant Accounting Policies, Continued

c. Amounts Passed-Through to Subrecipients

The Schedule of Expenditures of Federal Awards includes amounts passed through to subrecipients during the year which were identified for each program; however, the Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients, outside of the CNMI's control, utilized the funds. The CNMI is considered to have responsibility for any questioned costs which could result from Single Audits of these entities.

d. Indirect Cost Allocation

The CNMI did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. For fiscal year 2016, the CNMI has the following approved indirect cost rates:

Programs which directly charged utilities	4.37%
Programs not directly charging utilities	10.64%
ARRA programs which directly charged utilities	No rate
ARRA programs not directly charging utilities	No rate

e. Matching Costs

The non-Federal shares of programs are not included in the accompanying Schedule of Expenditures of Federal Awards.

f. CFDA #15.875

CFDA # 15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands, which is an agreement, and is not a federal program. Additionally, each funding component of the agreement is governed by varying rules and regulations, depending on the reason for the designated aid. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA # 15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified and Adverse

Internal control over financial reporting:

2. Material weakness(es) identified? Yes
 3. Significant deficiency(ies) identified? Yes
 4. Noncompliance material to financial statements noted? Yes

Federal Awards

Internal control over major federal programs:

5. Material weakness(es) identified? Yes
 6. Significant deficiency(ies) identified? Yes

7. Type of auditor's report issued on compliance for major federal programs:

CFDA 10.551 Unmodified
 All other major programs Qualified

8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

9. Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.551	Supplemental Nutrition Assistance Program
11.419	Coastal Zone Management Administration Awards
11.482	Coral Reef Conservation Program
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects
93.767	Children's Health Insurance Program
93.778	Medical Assistance Program
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

10. Dollar threshold used to distinguish between type A and type B Programs: \$3,000,000

11. Auditee qualified as low-risk auditee? No

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Section II - Financial Statement Findings

Reference Number	Findings
2016-001-002	External Financial Reporting
2016-003	Cash and Cash Equivalents
2016-004-005	Receivables
2016-006	Interfund Receivables and Payables
2016-007	Tax Rebates Payable
2016-008	Notes Payable - Judicial Building Loan
2016-009	Compensated Absences
2016-010	Fund Balance - Encumbrances
2016-011	Commonwealth Healthcare Corporation
2016-012	CNMI Workers' Compensation Commission
2016-013	CNMI Local Noncompliance

Section III - Federal Award Findings and Questioned Costs

Reference Number	CFDA Number	Findings	Questioned Costs
2016-014	10.551	Allowable Costs/Cost Principles	\$ -
2016-015	10.551	Reporting	\$ 43,552
2016-031	10.551	Equipment and Real Property Management	\$ -
2016-016	11.419	Equipment and Real Property Management	\$ 9,498
2016-017	11.419	Procurement and Suspension and Debarment	\$ 69,865
2016-018	11.419	Reporting	\$ -
2016-019	11.482	Matching, Level of Effort, Earmarking	\$ 33,454
2016-020	11.482	Reporting	\$ -
2016-021	15.875	Procurement and Suspension and Debarment	\$ 15,275,668
2016-022	15.875	Subrecipient Monitoring	\$ -
2016-031	15.875	Equipment and Real Property Management	\$ -
2016-023	93.767	Allowable Costs/Cost Principles	\$ 8,300
2016-025	93.767	Eligibility	\$ -
2016-024	93.778	Activities Allowed or Unallowed	\$ -
2016-025	93.778	Eligibility	\$ 18,592
2016-026	93.778	Reporting	\$ -
2016-027	93.778	Special Tests and Provisions	\$ -
2016-028	97.036	Cash Management	\$ -
2016-029	97.036	Procurement and Suspension and Debarment	\$ 608,343
2016-030	97.036	Reporting	\$ -

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

External Financial Reporting

Finding No. 2016-001

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 61, *the Financial Reporting Entity: Omnibus*, requires the financial statements of the reporting entity to include financial statements of component units for which the primary government is financially accountable or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: The CNMI's financial statements do not include the financial statements of the following component units:

1. Northern Mariana Islands Settlement Fund (NMISF)
2. Commonwealth Development Authority
3. Commonwealth Utilities Corporation
4. Commonwealth Healthcare Corporation

Cause: The CNMI lacks audited financial statements from the aforementioned component units.

Effect: The CNMI is in noncompliance with GASB Statement No. 61, and the CNMI's financial statements contain an adverse opinion.

Recommendation: The CNMI should obtain audited financial statements of the aforementioned component units for inclusion in the CNMI's financial statements.

Identification as a Repeat Finding: Finding No. 2015-001.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

External Financial Reporting

Finding No. 2016-002

Criteria: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, revise and establish new financial reporting requirements for governments that provide their employees with pension benefits through plans that are administered through trusts. GASB Statements No. 68 and No. 71 require the recognition of net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources, as applicable to the financial statements.

Condition: The CNMI contributed to the Northern Mariana Islands Retirement Fund's (NMIRF's) defined benefit plan (DB Plan), a cost-sharing, multi-employer plan established and administered by the CNMI. On September 30, 2013, the DB plan was transferred to NMISF, and the CNMI now contributes to NMISF. Audited GASB Statement No. 68 required schedules and actuarial valuation reports of NMISF could not be provided. Accordingly, the CNMI was unable to record the net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources, as applicable, in the financial statements as of September 30, 2016.

Cause: The CNMI lacks audited NMISF GASB Statement No. 68 required schedules and the actuarial valuation.

Effect: The CNMI is in noncompliance with GASB Statement No. 68, and the CNMI financial statements contain an adverse opinion.

Recommendation: The CNMI should obtain audited NMISF GASB Statement No. 68 required schedules and actuarial valuations and should determine the net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources, as applicable as of September 30, 2016.

Identification as a Repeat Finding: Finding No. 2015-002.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Cash and Cash Equivalents

Finding No. 2016-003

Criteria: Bank reconciliations should be timely performed, and reconciling items should be timely adjusted.

Condition: Tests of bank reconciliations noted the following:

1. Bank reconciliations for the following accounts were prepared two to four months after fiscal year end.

<u>Bank Code</u>	<u>Account Name</u>
11130	LNO Hawaii - Medical Referral
11140	Washington Rep. Imprest Fund - Chase
11150	Superior Court NMI Imprest Fund
11170	Guam Medical Referral Imprest Fund
11200	Tinian Imprest Fund
11210	Rota Imprest Fund
11220	Supreme Court Imprest Fund
11310	CHC Medical Referral
11401	Recovery Rebate Stimulus Fund
11410	Special Disability Imprest Fund
11420	Payroll Account - General
11430	General Fund
11480	CNMI Lottery Commission Imprest Fund
11520	Credit Card Depository
11540	Capital Improvement Projects
11572	Federal Payroll

2. A bank reconciliation for one account (bank code 11411) was not provided.
3. Bank reconciling items for the following accounts were not recorded in the general ledger at September 30, 2016:

<u>Bank Code</u>	<u>Account Name</u>	<u>Amount of Reconciling Items</u>
11430	General Fund	\$ 1,599,661
11641	CNMI Treasurer - Rebate Trust Fund	\$ 249,138

The above condition was corrected through a proposed audit adjustment.

4. Bank reconciliations for the following accounts did not indicate evidence of preparer and/or reviewer approval:

Account Name

Judiciary Legal Services Revolving Fund
Office of the Clerk of Court
CNMI Superior Court R & T Fiduciary
Office of the Clerk of Court Civil
Office of the Clerk of Court Criminal
Office Clerk Court Superior Court

5. At September 30, 2016, a \$65,050 security deposit was comprised of a one-time certificate of deposit (bank code 15050); however, we were not able to verify the validity of the account as the bank confirmation or the related bank statement was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-003, Continued

Condition, Continued:

6. At September 30, 2016, the CNMI recorded cash clearing accounts of \$230,555. These accounts are expected to be zero at fiscal year-end. An audit adjustment was proposed to correct \$208,837 of the amount; however, correcting entries for the remaining \$21,718 could not be determined. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.
7. At September 30, 2016, the CNMI recorded non-CNMI cash accounts of \$11,848 (bank code 11340) and \$(28,988,323) (bank code 11431). An audit adjustment was proposed for bank code 11431 to zero out the account; however, correcting entries for bank code 11340 could not be determined. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.

Cause: The CNMI did not adhere to policies and procedures related to timely preparing bank reconciliations, to updating bank account authorized signatories, to recording bank reconciling items in the general ledger, and to reconciling cash clearing accounts for adjustment at fiscal year end.

Effect: Cash balances could be misstated throughout the year.

Recommendation: The CNMI should adhere to established policies and procedures over the timely reconciliation and adjustment of bank accounts and cash clearing accounts and over the updating of bank account authorized signatories.

Identification as a Repeat Finding: Finding No. 2015-004.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Receivables

Finding No. 2016-004

Criteria: Receivables should be identified, recorded, and reconciled. Further, transfers of assets from component units should be documented.

Condition: Section 8.1 of the Settlement Agreement for Civil Case No. 09-000023 assigns the CNMI rights to collect deficient employer defined benefit contributions and related costs as of August 6, 2013 from autonomous agencies. As of September 30, 2016, NMIRF confirmed the transfer of receivables from autonomous agencies of \$46,051,656 to the CNMI. The CNMI has not obtained details of these receivables and has not assessed collectability. In addition, no written document supported the transfer. The transfer has not been recorded as of September 30, 2016. No audit adjustment was proposed due to the uncertainty of collection.

Cause: The CNMI lacks policies and procedures to identify, record, and reconcile valid receivables and lacks written documentation to substantiate the transfer of receivables.

Effect: Receivables could be understated.

Recommendation: The CNMI should establish policies and procedures to identify, record, and reconcile valid receivables. Furthermore, responsible personnel should coordinate with NMIRF to document the transfer.

Identification as a Repeat Finding: Finding No. 2015-005.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Receivables

Finding No. 2016-005

Criteria: Receivables should be reconciled, assessed, and monitored for collectability.

Condition: Public Law 9-66 requires public corporations or other autonomous agencies to pay to the CNMI Treasurer an amount no less than one percent of their total operations budget, and such funds will be deposited into a special account within the CNMI general fund to be solely used for the operations and activities of the Office of the Public Auditor (OPA). Receivables related to one percent of OPA fees recorded in the general ledger and reported in a schedule obtained from OPA did not agree to payables recorded in corresponding component units' financial statements. Further, collectability of these receivables was not assessed at year-end. Additionally, consideration of the application of the statute of limitations to these receivables has not occurred.

<u>Component Unit (CU)</u>	<u>Receivables Per OPA Schedule</u>	<u>Payables Reported in CU's Financial Statements</u>	<u>Difference</u>	<u>Comments</u>
Commonwealth Development Authority	\$ 12,739	Unknown	Unknown	lack of CU's financial statements
Commonwealth Healthcare Corporation	\$ 1,745,597	Unknown	Unknown	lack of CU's financial statements
Commonwealth Ports Authority	\$ 3,292,259	\$ 1,859,873	\$ 1,432,386	unreconciled differences
Commonwealth Utilities Corporation	\$ 12,914,671	Unknown	Unknown	lack of CU's financial statements
Marianas Public Land Trust	\$ 151,016	\$ -	\$ 151,016	not reported in CU's financial statements
Northern Marianas College	\$ 1,416,464	\$ -	\$ 1,416,464	not reported in CU's financial statements
Public School System	\$ 1,843,754	\$ -	\$ 1,843,754	not reported in CU's financial statements

As of September 30, 2016, receivables related to OPA fees are fully allowed for.

Cause: The CNMI lacks policies and procedures to reconcile receivables and to assess collectability.

Effect: Receivables and related revenue could be misstated.

Recommendation: The CNMI should record receivables based on the updated calculation and should reconcile amounts to payable balances recorded by component units.

Identification as a Repeat Finding: Finding No. 2015-006.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Interfund Receivables and Payables

Finding No. 2016-006

Criteria: GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, 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, 2016, 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>
Infrastructure Tax Fund	2041	\$ 4,943,903	\$ 2,941,885
Tobacco Control Fund	2070	\$ 1,804,033	\$ 1,804,033
Solid Waste Revolving Fund	2080	\$ 3,190,015	\$ 3,190,015
Zoning Board Fund	6070	\$ 206,604	\$ 206,604
Fish and Game Revolving Fund	6075	\$ 664,105	\$ 664,105
Saipan Amusement Fund	6079	\$ 34,548,817	\$ 6,126,659

This condition was corrected through proposed audit adjustments.

Cause: The CNMI failed to track specific funds received, lacks a plan to repay such funds, and lacks available cash to fund repayments.

Effect: Interfund balances could be misstated.

Recommendation: The CNMI should assess collectability of interfund balances on a regular basis and comply with the requirements of GASB Statement No. 34, paragraph 112a(1).

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Tax Rebates Payable

Finding No. 2016-007

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, 2016, tax rebates payable aggregated \$46,424,098. The balance consists of the following:

Estimated 2016 liability based on fiscal year 2016 collections	\$ 2,156,904
Additional Child Tax Credit (ACTC)	6,579,059
2015 and prior rebates unpaid as of September 30, 2016	<u>37,688,135</u>
	<u>\$ 46,424,098</u>

Tests of tax rebates payable noted the following:

1. For unpaid tax year 2015 and prior rebates, we noted the following:
 - a. Of nineteen unmatched filings relating to individual and corporate tax rebate payables of \$3,298,034, the following were noted:
 - i. Four totaling \$710,648 did not agree to tax returns by \$14,419. The variances were substantially due to miscalculation of rebate taxes, incorrect tax forms used and data entry errors.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C-00975	2011	\$ 521,512	\$ 539,960	\$ (18,448)
C-01035	2013	75,454	71,881	3,573
I-37774	2010	27,023	26,985	38
I-40439	2013	<u>86,659</u>	<u>86,241</u>	<u>418</u>
		<u>\$ 710,648</u>	<u>\$ 725,067</u>	<u>\$ (14,419)</u>

- ii. Tax returns were not provided for four totaling \$4,325:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
I-25341	2002	\$ 1,855
I-28651	2004	394
I-33761	2006	57
I-41297	2014	<u>2,019</u>
		<u>\$ 4,325</u>

- b. Of fifteen assessed filings tested relating to individual and corporate tax rebate payables of \$10,248,723, the following were noted:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-007, Continued

Condition, Continued:

- i. Tax returns were not provided for three totaling \$956:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
I-01956	2003	\$ 301
I-03597	2004	528
I-07969	2004	<u>127</u>
		\$ <u>956</u>

- ii. The rebate amounts on the tax returns were left blank for three totaling \$7,332,147. Further, the related tax returns were filed incomplete, a different tax form was used and/or the taxpayer did not submit relevant documentation to calculate taxes.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-00003	2000	\$ 96,889
C-22083	2014	3,677,788
C-22084	2014	<u>3,557,470</u>
		\$ <u>7,322,147</u>

2. Further, no interest is calculated or paid on overpayments.

Cause: The CNMI lacks periodic reviews of rebate payable reports to determine accuracy and completeness and lacks policies and procedures to assess the reasonableness of estimated rebates payable. Further, the CNMI lacks compliance with Public Law 9-22 relating to interest calculations on tax overpayments.

Effect: Tax rebates payable could be misstated; however, since the CNMI calculates an estimated tax liability based on current information, the amount recorded as tax rebate payable is a best estimate. In addition, the CNMI has taken the approach of recording unmatched return variances as liabilities until the items listed above are resolved. The effect is also mitigated by a corresponding permanent tax reserve to offset disputes or claims.

Recommendation: The CNMI should establish policies and procedures requiring periodic review of tax rebate payable reports to assess the accuracy and completeness. Also, the CNMI should establish policies and procedures to assess the reasonableness of estimated rebates payable. Additionally, the Division of Revenue and Taxation should properly file and maintain tax forms. Moreover, the CNMI should reconcile recorded rebates payable with the liability indicated on the tax forms, and significant variances, if any, should be investigated, monitored, documented and timely addressed.

Identification as a Repeat Finding: Finding No. 2015-007.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Notes Payable - Judicial Building Loan

Finding No. 2016-008

Criteria: Public Law 9-3 authorized the CNMI to secure a loan from NMIRF as a general obligation, for the purpose of funding the construction of a Judicial Complex on Saipan. On February 28, 1995, the CNMI entered into a \$15,000,000 loan agreement with NMIRF. The loan was initially for a period of fifteen years and is due on February 28, 2010 with interest at 7.50% per annum. On July 15, 1999, the loan was amended to extend the term to twenty years and to increase the interest rate to 7.75% per annum. Repayment of the loan is based on an assignment of future receipts from the CNMI courts; however, the CNMI is required to pay any shortfall through the budgetary process. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement for Civil Case No. 09-00023.

Condition: At September 30, 2016, principal and interest payable to NMISF amounted to \$4,281,095 and \$22,119, respectively, which are due on March 1, 2015. On September 27, 2016, Public Law 19-67 authorized the CNMI to enter into a \$15,000,000 loan with the U.S. Department of Agriculture (USDA) to pay its loan payable to NMISF and for the expansion and improvement of projects related to building facilities of the Judiciary, the Office of the Attorney General and the Public Defender's Office. The CNMI has not provided the status of the loan agreement with USDA or determined necessary modifications to the loan agreement with NMISF.

Cause: The CNMI lacks a formal plan to pay the CNMI's current obligation.

Effect: The CNMI is in noncompliance with Public Law 9-3 and the loan agreement.

Recommendation: The CNMI should develop and implement a formal plan to pay its current obligation.

Identification as a Repeat Finding: Finding No. 2015-008.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Compensated Absences

Finding No. 2016-009

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 be identified and reviewed for validity. The payroll records should be timely updated for annual leave balances that do not represent valid obligations.

Condition: At September 30, 2016, compensated absences payable per the subsidiary ledger aggregated \$9,135,903. Of this amount, \$1,114,269 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$662,598 represents accrued leave in excess of the 45 days/360 hours limit. The balance at September 30, 2016 is net of individual debit balances of \$174,255.

The above condition was corrected through a proposed audit adjustment.

Cause: The CNMI lacks adequate procedures and controls to determine that accrued annual leave is reviewed for validity and lacks timely updates of payroll records.

Effect: Compensated absences payable and related expenditures could be misstated.

Recommendation: Responsible Department of Finance (DOF) personnel should record valid charges in compensated absences payable.

Identification as a Repeat Finding: Finding No. 2015-009.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Fund Balance - Encumbrances

Finding No. 2016-010

Criteria: A system of internal control provides for adequate monitoring and tracking of commitments related to open purchase orders and unfulfilled contracts. Encumbrances should be reviewed and adjusted for balances that are no longer valid.

Condition: Tests of encumbrances noted the following:

General Fund

Encumbrances in the subsidiary ledger of \$4,456,103 differed from the general ledger of \$6,605,407 at September 30, 2016. The difference of \$2,149,304 was corrected through a proposed audit reclassification.

Grants Assistance Funds

1. Encumbrances in the subsidiary ledger of \$43,586,681 are net of debit balances of \$288,079 at September 30, 2016. Debit balances result from expenditures recorded when related encumbrances were not established, encumbrances were cancelled, and/or contract change orders occurred. The subsidiary ledger balance was corrected for debit balances, resulting in a general ledger amount which was \$4,952,228 lower than the corrected subsidiary ledger balance. This condition was corrected through a proposed audit reclassification.
2. The encumbrance aging includes a balance of \$4,353,603, which has been outstanding for more than five years. There was no evidence of DOF review of outstanding encumbrances.

<u>Fund</u>	<u>CFDA No.</u>	<u>Amount</u>
2020	16.582	\$ 42,583
2020	66.600	37,417
2020	93.243	4,102
2020	93.251	5,280
2020	93.505	1,988
2020	97.044	1,315
2020	Unknown	77,854
2022	16.803	12,100
4044	15.875	26,450
4045	15.875	121,419
4049	15.875	104,770
4052	15.875	200,238
4058	15.875	<u>3,718,087</u>
Total		<u>\$ 4,353,603</u>

3. Of twenty-two encumbrances tested, aggregating \$21,773,741, the following were noted:
 - a. Two encumbrances totaling \$1,635,077 did not indicate activity for more than three years:

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4058	15.875	5648	543 OS	\$ 1,385,277	09/16/10
4058	15.875	5654	536 OS	\$ 249,800	08/04/10

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-010, Continued

Condition, Continued:

Grants Assistance Funds, Continued

- b. Fourteen contracts were not provided:

<u>Fund</u>	<u>CDFA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>
2020	97.012	T5012B	62660	611031 OC
4045	15.875	4781	64100	25 OS
4045	15.875	4782	64100	44 OS
4045	15.875	4910	64100	70152 OS
4045	15.875	4952	64100	54 OS
4045	15.875	4972	64100	70233 OS
4049	15.875	5821	64100	68 OS
4052	15.875	5164	64100/64200	123 OS
4052	15.875	5165	64100/64200	159 OS
4052	15.875	5177	64100	396 OS
4058	15.875	5648	64100	543 OS
4058	15.875	5654	64100	536 OS
4058	15.875	5691	64100	672 OS
4058	15.875	5615	64100	452 OS
4058	15.875	5615	64300	456 OS

- c. Four expenditures totaling \$213,500 were not accrued at year end, but had been deducted from the related encumbrance:

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4058	15.875	5691	64100	672 OS	1303958	\$ 119,320
4058	15.875	5691	64100	672 OS	1311470	\$ 83,137
4058	15.875	5649C	64100	676 OS	1308351	\$ 8,002
4058	15.875	5649C	64100	67 OS	1310792	\$ 3,041

- d. Fifteen encumbrances totaling \$17,552,468 were subsequently cancelled and adjusted. This condition was corrected through a proposed audit adjustment

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Supplier No.</u>	<u>Amount</u>	<u>Date Adjusted</u>
4045	15.875	4781	25 OS	110801	\$ 124,260	01/17/17
4045	15.875	4782	44 OS	110801	\$ 36,000	01/17/17
4045	15.875	4910	70152 OS	111788	\$ 128,806	01/17/17
4045	15.875	4934	60328 OS	110407	\$ 440,502	01/17/17
4045	15.875	4952	54 OS	209178	\$ 4,563,839	01/17/17
4045	15.875	4972	70233 OS	111144	\$ 273,272	01/17/17
4049	15.875	5821	68 OS	197884	\$ 198,000	01/17/17
4052	15.875	5164	123 OS	110952	\$ 2,254,390	01/17/17
4052	15.875	5164	123 OS	110952	\$ 2,254,390	01/17/17
4052	15.875	5165	159 OS	340667	\$ 3,194,096	01/17/17
4052	15.875	5165	159 OS	340667	\$ 3,194,096	01/17/17
4052	15.875	5177	396 OS	517708	\$ 196,491	01/17/17
4058	15.875	5615	452 OS	557577	\$ 403,556	01/17/17
4058	15.875	5615	456 OS	513069	\$ 161,683	01/17/17
4058	15.875	5638A	629 OS	209175	\$ 129,086	12/15/16

- e. One \$655,439 expenditure had been incurred in fiscal year 2016 but was not deducted from the related encumbrance. This condition was corrected through a proposed audit adjustment

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-010, Continued

Condition, Continued:

Grants Assistance Funds, Continued

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
2020	10.551	A6551J	63020	618078 OM	1304821	\$ 655,439

Saipan Amusement Fund

1. Encumbrances in the subsidiary ledger of \$137,396 differed from the general ledger of \$372,809 at September 30, 2016. The difference of \$235,413 was corrected through a proposed audit reclassification.
2. One contract was not provided:

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>
7069	7176K	64580	617001 OC

Nonmajor Governmental Funds

1. Encumbrances in the subsidiary ledger of \$11,648,795 differed from the general ledger of \$8,888,877 at September 30, 2016. The difference of \$2,759,918 was corrected through a proposed audit reclassification.
2. Of twenty-two encumbrances tested, aggregating \$21,773,741, the following were noted:
 - a. Four encumbrances totaling \$859,025 did not indicate activity for more than three years:

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4042	N/A	4623	65 OS	\$ 40,800	02/21/07
4043	83.516	T85164	333747 OC	\$ 669,480	02/20/02
4043	20.205	T02055	533007 OC	\$ 134,253	03/04/13
4043	83.516	T8516B	442129 OC	\$ 14,493	08/03/05

- b. One encumbrance was subsequently cancelled and adjusted. This condition was corrected through a proposed audit adjustment

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Supplier No.</u>	<u>Amount</u>	<u>Date Adjusted</u>
4041	N/A	4026	40 OS	110063	\$ 270,275	01/17/17

- c. Four expenditures totaling \$352,508 were not accrued at year-end but had been deducted from the related encumbrance:

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4043	20.205	T4205X	64670	600432 OC	1304176	\$ 150,316
4043	20.205	T4205X	64670	600432 OC	1313590	\$ 165,019
4043	20.205	T6205F	64670	615501 OC	1312566	\$ 36,080
4043	20.205	T6205F	64670	615501 OC	1318855	\$ 1,094

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No. 2016-010, Continued

Condition, Continued:

Nonmajor Governmental Funds, Continued

- d. Five contracts and/or vouchers were not provided:

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>
4042	N/A	4962F	64300	672 OS
4043	20.205	T4205X	64670	600432 OC
4043	20.205	T6205F	64670	615501 OC
4043	83.516	T8516B	62480	442129 OC
7068	N/A	7068A	62500	320769 OT

Cause: The CNMI lacks policies and procedures to monitor recorded encumbrance reserves and lacks adequate file maintenance.

Effect: Disclosure requirements relative to the reserve for encumbrances could be misstated and may result in incorrect budgetary financial statements.

Recommendation: Responsible DOF personnel should support all encumbrances with encumbering documents and update encumbrances for actual expenditures. Long outstanding encumbrances and debit balances should be examined for validity. DOF should take reasonable steps to timely adjust the subsidiary ledger to include valid encumbrances at year end.

Identification as a Repeat Finding: Finding No. 2015-010.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Commonwealth Healthcare Corporation

Finding No. 2016-011

Criteria: Transfers of assets and liabilities that attach to discretely presented component units should be documented.

Condition: CNMI Public Law 16-51 created the Commonwealth Healthcare Corporation (CHCC), which is responsible for providing healthcare services in the CNMI, as of October 1, 2011. Healthcare services had previously been accounted for within the General Fund. As of September 30, 2016, transfers of associated receivables, inventory and obligations had not occurred.

Cause: The CNMI lacks coordination over the transfer of assets and liabilities.

Effect: Assets and liabilities associated with CHCC remain in the General Fund.

Recommendation: The CNMI should document the transfer of receivables, inventory and obligations as of October 1, 2011 between the CNMI and CHCC.

Identification as a Repeat Finding: Finding No. 2015-011.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

CNMI Workers' Compensation Commission

Finding No. 2016-012

Criteria: Transfers of assets and liabilities from component units should be documented. In addition, an effective system of internal control over financial reporting includes maintenance of a separate general ledger system that records transactions and generates timely, reliable, and relevant financial information.

Condition: On November 9, 2012, Public Law 17-88, transferred administrative functions of the CNMI Workers' Compensation Commission (WCC) from NMIRF to the CNMI Department of Commerce (DOC). CNMI management determined that WCC should be included within its Special Revenue Funds. As of September 30, 2016, transfers of WCC's cash and cash equivalents, certificates of deposit, investments and receivable accounts were not documented.

In addition, tests of WCC accounts noted the following:

1. Bank reconciliations at September 30, 2016 were not prepared for WCC cash accounts aggregating \$174,623.
2. WCC maintains an investment with a market value of \$1,199,223 at September 30, 2016; however, an investment policy was not provided. In addition, fiscal year 2016 investment transactions were not recorded, reconciled and monitored.

Audit adjustments were proposed to record WCC's transactions during fiscal year 2016.

Cause: The CNMI lacks coordination over the transfer of WCC accounts between NMIRF and the CNMI and lacks procedures over financial reporting.

Effect: WCC's funds could be misstated.

Recommendation: The CNMI should document transfers of WCC's assets and establish or assign separate general ledger accounts for WCC funds. Further, bank reconciliations should be prepared for all cash accounts. Lastly, CNMI should establish an investment policy.

Identification as a Repeat Finding: Finding No. 2015-012.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

CNMI Local Noncompliance

Finding No. 2016-013

Criteria: Budgets are a vital tool for establishing public policy and maintaining control over the management of public resources.

Condition: On September 29, 2015, the CNMI passed Public Law 19-08 as the Appropriations and Budget Authority Act of 2016. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2016.

	<u>Budgeted Level of Expenditures</u>	<u>Actual Expenditures</u>	<u>Over Expenditure</u>
Health (Medicaid local expenses and medical referrals)	\$ 5,515,659	\$ 14,029,545	\$ 8,513,886
Employee benefits (payment to GHLITF)	\$ 8,011,881	\$ 12,301,616	\$ 4,289,735
Executive branch:			
Department of Public Safety	\$ 5,674,140	\$ 8,542,443	\$ 2,868,303
Department of Corrections	\$ 4,048,360	\$ 4,429,374	\$ 381,014
Department of Fire and Emergency Medical Services	\$ 3,413,366	\$ 3,436,944	\$ 23,578
Department of Commerce	\$ 1,087,697	\$ 1,127,658	\$ 39,961
Other Offices of the Governor and Lt. Governor	\$ 5,379,296	\$ 5,426,908	\$ 47,612
Disaster expenditures	\$ 1,028,255	\$ 4,288,984	\$ 3,260,729
Debt service	\$ 8,494,625	\$ 10,233,026	\$ 1,738,401
Tourism (payment to MVA)	\$ 12,160,001	\$ 12,487,309	\$ 327,308
Pension contributions (payment to NMISF and NMIRF)	\$ 30,364,787	\$ 30,371,693	\$ 6,906
Office of the Public Auditor	\$ 1,182,168	\$ 1,461,658	\$ 279,490
Unallocated adjustments, net	\$ -	\$ 1,866,361	\$ 1,866,361

Cause: The CNMI authorized expenditures in excess of budget allotments.

Effect: Expenditures exceed budget allotments.

Recommendation: Responsible DOF personnel should examine issues attendant to the over expenditures and should assess the propriety of budgeted levels.

Identification as a Repeat Finding: Finding No. 2015-013.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-014
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Criteria: A State that submits an indirect cost rate proposal should ascertain that costs collected in the cost pools and allocation methods are in compliance with the applicable cost principles.

Condition: The CNMI did not provide the indirect cost rate proposal for fiscal year 2016.

Cause: The CNMI did not enforce controls over record keeping.

Effect: The CNMI is in noncompliance with applicable cost principles. No questioned costs are presented as the CNMI received a negotiated indirect cost rate agreement for fiscal year 2016 and applied the approved rate.

Recommendation: The CNMI should retain records of audit significance.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for the reason that Indirect Cost Rates are available. See full response in the Corrective Action Plan.

Auditor Response: We were not provided the indirect cost rate proposal and related supporting documentation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-015
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Area: Reporting
Questioned Costs: \$43,552

Criteria: Pursuant to the Memorandum of Understanding with the Food and Nutrition Service (FNS), the grantee must submit the Project Area Participation and Coupon Issuance (FNS 256) report. Reported amounts should be accurate and complete.

Condition: Tests of reporting noted a variance between the FNS 256 and the general ledger details. An explanation was not provided for the variance.

Total coupon issuances	\$ 9,501,496
Less program benefits	<u>9,965,175</u>
	(463,679)
Add:	
September 2015 coupons	<u>420,127</u>
Variance	\$ <u>(43,552)</u>

Cause: The CNMI did not effectively monitor the accuracy and completeness of reported amounts.

Effect: The CNMI is in noncompliance with applicable reporting requirements. Either the reported amount of coupon issuances is understated or program benefits are overstated. A questioned cost of \$43,552 results.

Recommendation: The responsible personnel should monitor reported amounts for accuracy and completeness in accordance with applicable reporting requirements.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-016
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Federal Award Nos.: NA12NOS4190178, NA13NOS4190148, NA14NOS4190119 and
NA15NOS4190187
Area: Equipment and Real Property Management
Questioned Costs: \$9,498

Criteria: In accordance with applicable equipment and real property management requirements, a State must use, manage, and dispose of equipment acquired under a Federal award in accordance with State laws and procedures. The following CNMI requirements are applicable:

- Property information will be maintained for all non-capitalized property with a value between \$1,000 and \$5,000. This type of non-capitalized property is referred to as selected non-capitalized property.
- Property information may be maintained for non-capitalized property with less than \$1,000 in value, if so designated by the Director of the Division of Procurement and Supply (P&S) to reflect the CNMI's desire to track certain types of property. This type of non-capitalized property is referred to as designated non-capitalized property.
- All capitalized property, selected non-capitalized property, and designated non-capitalized property shall be identified by a property control number, which shall be permanently affixed to each individual piece of such property in a manner that is readily observable and shall be entered into the Master Inventory Control Record by the Property Management Branch.
- P&S will conduct an annual inventory of property held by each Accountable Person as reflected in the master inventory control record.
- The Director of P&S is designated to review and approve the recommended disposition by the Survey Authority. The Director may, at his discretion, establish and delegate powers to a standing board of three members of which he is a member and shall act as Chairman to investigate unusual losses such as those resulting from officially declared disasters.
- The Survey Authority is the Manager of the Property Management Branch designated to conduct surveys and to deputize Survey Officers to assist in the conduct of surveys by the Director of P&S.
- The Accountable Person is the designated official who has administrative control over the use of personal property within his area of jurisdiction.
- The Accountable Person is required to request relief of accountability for such property by initiating a CNMI "Report of Survey Form".
- Survey action must be initiated by the Accountable Person immediately upon discovery of property lost, missing, damaged or destroyed. Further, the Accountable Person will initiate survey action when it is determine that property is unserviceable or no longer required for CNMI operations and programs.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-016, Continued
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Federal Award Nos.: NA12NOS4190178, NA13NOS4190148, NA14NOS4190119 and NA15NOS4190187
 Area: Equipment and Real Property Management
 Questioned Costs: \$9,498

Criteria, Continued:

- A CNMI "Report of Survey Form" is required for:
 - (a) Loss of property when the original acquisition cost is equal to or exceeds \$1,000 in value or which was classified as designated non-capitalized property.
 - (b) Damaged property that is equal to or exceeds \$1,000 in value or which was classified as designated non-capitalized property.
 - (c) Any circumstances, regardless of the value of the property involved, in which there is a reasonable possibility of a claim against the Government in connection with the administration, care, and use of Government property.
- A survey is required to investigate circumstances surrounding property which is lost, missing, damaged, destroyed, unserviceable property or is no longer required for CNMI Government operations or programs and report findings and make recommendations for:
 - (a) Relieving the Accountable Person and/or Responsible Person of accountability and/or responsibility for the property; and,
 - (b) Determining whether personal liability exists for lost, missing, damaged or destroyed property.

Condition: Tests of forty-four capital assets, aggregating \$390,862 in acquisition costs of a total of \$850,895, resulted in the following deficiencies:

1. For twenty-five (or 57%), the following assets could not be located:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Status Per Listing</u>	<u>Cost</u>	<u>Questioned Cost</u>
07/20/92	CNMI-29867	Working	\$ 18,489	\$ -
05/01/03	MP-05068CM	Working	65	-
08/27/04	MP-09021CM	Working	192	-
11/03/04	MP-09481CM	Working	1,773	-
06/17/05	ITEM-33242	Working	149	-
10/17/05	MP-12428CM	Working	2,289	-
10/23/06	MP-14750CM	Working	2,050	-
03/10/08	FA-00416CM	Working	6,090	-
03/20/12	MP-24552CM	Working	799	-
12/01/14	MP-27982CM	Working	9,498	9,498
08/08/97	CNMI-FA00193	Surveyed	7,721	-
05/05/99	US-32741CM	Surveyed	1,199	-
09/20/00	US-30257CM	Surveyed	1,000	-
10/16/01	CNMI-39331	Surveyed	15,000	-
10/15/03	MP-07573CM	Surveyed	1,188	-
05/06/04	MP-08376CM	Surveyed	245	-
06/09/08	MP-17966CM	Surveyed	5,350	-
05/19/09	FA-00481US	Surveyed	34,699	-

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-016, Continued
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Federal Award Nos.: NA12NOS4190178, NA13NOS4190148, NA14NOS4190119 and NA15NOS4190187
 Area: Equipment and Real Property Management
 Questioned Costs: \$9,498

Condition, Continued:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Status Per Listing</u>	<u>Cost</u>	<u>Questioned Cost</u>
10/28/09	FA-00522US	Surveyed	10,515	-
07/14/00	US-28003CM	Inventoried	12,000	-
07/25/00	US-34078CM	Inventoried	15,000	-
06/05/01	MP-00322US	Inventoried	1,000	-
10/16/01	US-29462CM	Inventoried	49	-
07/29/02	MP-03660CM	Inventoried	475	-
10/18/10	MP-22682CM	Inventoried	610	-
			<u>\$ 147,445</u>	<u>\$ 9,498</u>

For items listed as surveyed, the survey forms were not provided. A questioned cost is presented for only one item, as it represents a relatively recent acquisition after 2012 that is likely to have a fair market value in excess of \$5,000.

2. For one (or 2%), the asset is located in Rota and we were informed that the asset is in poor condition, but is still being used by the Program. However, we were not able to corroborate the asset's condition as the vehicle's license plate number was listed as the condition on the property listing.

<u>Date Acquired</u>	<u>Property No.</u>	<u>Equipment Status Per Listing</u>	<u>Equipment Condition Code</u>	<u>Cost</u>
09/03/03	FA-00145US	Inventoried	GOVT-3560	\$ 26,700

3. For one (or 2%), the asset was surveyed on 01/24/17 and was sold for \$100 to a third party on 01/27/17; however, the survey form was not signed by the Director of P&S and by the Survey Authority to evidence approval of the asset being surveyed and whether the Accountable Person had been relieved of his or her responsibility for the asset.

<u>Date Acquired</u>	<u>Property No.</u>	<u>Cost</u>
08/26/05	FA-00214US	\$ 15,999

4. For one (or 2%), the property listing indicated the item to be in working condition, but the item was found to be unserviceable.

<u>Date Acquired</u>	<u>Property No.</u>	<u>Status Per Listing</u>	<u>Cost</u>
03/29/11	ITEM-50333	Inventoried	\$ 7,000

5. We noted a variance in the cost and number of items between the property listings maintained by the Program and P&S.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-016, Continued
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Federal Award Nos.: NA12NOS4190178, NA13NOS4190148, NA14NOS4190119 and
 NA15NOS4190187
 Area: Equipment and Real Property Management
 Questioned Costs: \$9,498

Condition, Continued:

	<u>Cost</u>	<u>Number of Items</u>
Per P&S	\$ 850,895	1,032
Per Program	(530,390)	(681)
Variance	\$ <u>320,505</u>	<u>351</u>

- The property listings maintained by the Program and P&S contain incomplete information, such as the cost of the property, percentage of Federal participation in the cost of the property, acquisition date, property tag number, location of the property, condition of the property, serial number and/or other identification number and any ultimate disposition data, including the date of disposal.
- We noted a variance in the number of surveyed items in fiscal year 2016 between the listings maintained by the Program and P&S.

	<u>Number of Surveyed Items</u>
Per P&S	4
Per Program	(1)
Variance	<u>3</u>

- An annual physical inventory count was not performed during fiscal year 2016.

We are unable to assess the overall cumulative monetary value of the deficiencies above; however, total capital outlays for fiscal years 2016, 2015, 2014, 2013 and 2012 were \$138,535, \$42,536, \$13,766, \$6,338 and \$48,531, respectively.

Cause: The CNMI lacks the human resources and financial management system structure needed to effect compliance with applicable equipment and real property management requirements.

Effect: The CNMI is in noncompliance with applicable equipment and real property management requirements and questioned costs of \$9,498 for Condition 1 exist.

Recommendation: The CNMI should consider seeking technical assistance and corresponding financial assistance from the Federal Government to develop and implement an equipment management system that can demonstrate compliance with applicable equipment and real property management requirements.

Identification as a Repeat Finding: Finding No. 2015-018.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-017
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Federal Award Nos.: NA13NOS4190148 and NA14NOS4190119
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$69,865

Criteria: In accordance with applicable procurement requirements, States will use the same State policies and procedures used for procurements from non-Federal Funds. In accordance with the CNMI procurement regulations, procurement transactions shall provide for full and open competition through the use competitive procedures, including the following:

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- Adequate public notice of the Invitation for Bids shall be given a reasonable time prior to the date set forth for the opening of bids. Publications of notice in a newspaper of general circulation in the CNMI once in each week over a period of thirty calendar days shall be deemed to be adequate notice unless the Chief determines a shorter period is reasonable and necessary; however, the bidding period shall not be less than fourteen calendar days. For those islands within the CNMI where there are no newspapers of general circulation, the posting of invitations to bid and requests for proposals in public places designated by the Chief shall be deemed adequate notice.
- 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 P&S Director for approval.

Condition: Of seven nonpayroll expenditures tested aggregating \$94,029, of a population of \$618,256, the following were noted:

1. For one (or 14%), adequate public notice is not evident. The publication of notices in a newspaper of general circulation in the CNMI for the following contract was not provided. The invitation for bid was solicited from three major auto dealerships. In addition, the bidding period was only ten days. Only one dealership submitted a bid.

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Reference</u>	<u>Document No.</u>	<u>Amount</u>
C4419R	01/20/16	ITB16-BECQ/DCRM-056(A)(B)	1256870	\$ 31,894
C4419R	05/06/16	ITB16-BECQ/DCRM-056(A)(B)	1266894	37,971
				\$ <u>69,865</u>

2. For one (or 14%), three newspaper publications dated 06/17/16, 06/24/16 and 07/01/16 were provided. Documentation that the P&S Director had determined a shorter bidding time was reasonable and necessary was not provided. Two companies submitted proposals. No questioned cost is presented as the request for proposal was publicized.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-017, Continued
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Federal Award Nos.: NA13NOS4190148 and NA14NOS4190119
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$69,865

Condition, Continued:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Reference</u>	<u>Document No.</u>	<u>Contract Amount</u>
C3419K	09/30/16	RFP16-BECQ/DCRM-110	1302343	\$ 13,000

Cause: The CNMI lacks systematic filing of procurement documents.

Effect: The CNMI is in noncompliance with applicable procurement regulations and questioned costs of \$69,865 for Condition 1 exist.

Recommendation: The responsible personnel should properly maintain and file procurement documents that substantiate compliance with applicable procurement requirements.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for the reason that bids were competitively sourced for Condition 1 and that the P&S Director has the authority to determine whether a shorter bidding time is reasonable and necessary for Condition 2. See full response in the Corrective Action Plan.

Auditor Response:

Condition 1: The transactions required competitive sealed bidding. The method used was informal solicitations, and a selection was made from less than three price quotations.

Condition 2: No written determination from the P&S Director was provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-018
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Federal Award No.: NA14NOS4190119
Area: Reporting
Questioned Costs: \$-0-

Criteria: Program income and expenses must be reported on the semi-annual Performance Progress Reports.

Condition: Cumulative program income and expenses associated with grant award number NA14NOS4190119, expiring on 09/30/17, were not reported on the semi-annual Performance Progress Reports for the periods ended March 31, 2016 and September 30, 2016.

<u>Period</u>	<u>Cumulative Program Income</u>	<u>Cumulative Program Expenses</u>
March 31, 2016	\$ 1,879,492	\$ 173,174
September 30, 2016	\$ 1,879,492	\$ 346,061

Cause: Program personnel did not effectively monitor the accuracy and completeness of the semi-annual Performance Progress Reports.

Effect: The CNMI is in noncompliance with applicable reporting requirements. No questioned costs are presented as we are unable to quantify the extent of noncompliance.

Recommendation: The responsible Program personnel should enforce monitoring policies and procedures over the accuracy and completeness of the Performance Progress Reports.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-019
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.482 Coral Reef Conservation Program
 Federal Award No.: NA15NOS4820040
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$33,454

Criteria: In accordance with the cooperative agreement for NA15NOS4820040, the recipient's share of costs is \$50,200 for the year ended September 30, 2016. Furthermore, in accordance with applicable matching standards, matching may be in the form of allowable costs incurred or in-kind contributions and must be verifiable from the records of grantees.

Condition: For certain amounts included in the Program's determination of the actual local match, such documents as payroll records and vehicle logs were not sufficient to substantiate the fringe benefits and transportation costs included in the Program's determination. The Program is deficient with the required recipient share for the year ended September 30, 2016:

	<u>Per Program</u>	<u>Per Verified Records</u>	
Required match per cooperative agreement			\$ 50,200
Actual match:			
Personnel costs - Forester employees for Rota DLNR	\$ 5,354	\$ 4,411	
Personnel costs - Volunteer stipends	1,485	1,485	
Transportation	<u>10,850</u>	<u>10,850</u>	
Total actual match	\$ <u>17,689</u>	\$ <u>16,746</u>	<u>(16,746)</u>
Deficient local match			\$ <u><u>33,454</u></u>

Cause: CNMI management did not effectively monitor compliance with applicable matching, level of effort, earmarking requirements.

Effect: The CNMI is in noncompliance with applicable matching, level of effort, earmarking requirements, and questioned costs of \$33,454 exist.

Recommendation: The responsible personnel should periodically review items included in the Program's local match determination and should include only those items that are supported by documents, such as payroll records relevant for the reporting period and vehicle logs. Any deficiencies should be identified and corrected in accordance with applicable matching, level of effort, earmarking requirements.

Identification as a Repeat Finding: Finding No. 2015-023.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for the reason that actual time logs and timesheets support the personnel and transportation costs. See full response in the Corrective Action Plan.

Auditor Response: No calculation or related supporting documents were provided to substantiate the fringe benefits included as part of the personnel costs for the Forester employees. Even if all personnel and transportation costs were fully substantiated, the total match of \$17,689 would still be deficient.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-020
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Federal Award No.: NA13NOS4820010
Area: Reporting
Questioned Costs: \$-0-

Criteria: The Program is required to submit a Form SF-425 that is accurately prepared and supported.

Condition: A detailed breakdown and/or supporting underlying accounting documents of the recipient share reported on the Form SF-425 were not provided. In addition, the cumulative amount reported as recipient share of \$49,449 does not agree with the expected cumulative recipient share of \$19,233 based on underlying accounting records, resulting in a variance of \$30,216.

Cause: The CNMI did not effectively monitor compliance with applicable reporting requirements.

Effect: The CNMI is in noncompliance with reporting requirements. No questioned costs are presented as we are unable to quantify the extent of noncompliance related to the Form SF-425 submission and the amount related to the recipient share is already questioned at Finding No. 2016-019.

Recommendation: The responsible personnel should monitor amounts reported on Form SF-425 for accuracy and completeness. Underlying accounting documents should be retained to substantiate reported amounts.

Identification as a Repeat Finding: Finding No. 2015-024.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-021
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.: CIP-CNMI-2010-2, CIP-CNMI-2009-2, CIP-CNMI-2015-4, CIP-CNMI-2014-1 and CIP-CNMI-2006-1
Area: Procurement and Suspension and Debarment
Questioned Costs: \$15,275,668

Criteria: In accordance with applicable procurement requirements, States will use the same State policies and procedures used for procurements from non-Federal Funds. In accordance with the CNMI procurement regulations, procurement transactions shall provide for full and open competition through the use competitive procedures, including the following:

- All government procurement shall be awarded by competitive sealed bidding, except under circumstances permitting other than full and open competition, to the lowest responsive bid by a responsible bidder.
- In accordance with CNMI Procurement Regulations section 70-30.1-115 (f), even though an item qualifies for exemption from the requirement for submission of certified cost or pricing data, the contracting offices shall make a price analysis to determine the reasonableness of the price and any need for further negotiation.

Condition: In FY 2015, noncompliance with procurement requirements was cited for contract no. 659 OS. The records in the procurement file were not sufficient to demonstrate the reasonableness of the contract price.

Neither a price analysis nor documentation of price negotiations was provided to support the contract award amount of \$21,994,873. Per the bid evaluation, the CNMI engineer cost estimate was \$16,286,215. The lowest bidder submitted a bid of approximately \$16.2 million. The FY 2015 finding reported questioned costs of \$1,309,226 for FY 2015 expenditures related to the noncompliant procurement. Total FY 2016 federal expenditures related to the noncompliant procurement are \$15,275,668.

Cause: The CNMI failed to enforce adherence with applicable procurement requirements in FY 2015.

Effect: Questioned costs of \$15,275,668 exist.

Recommendation: The responsible procurement authority should enforce compliance with applicable procurement requirements.

Identification as a Repeat Finding: Finding No. 2015-028.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for the reason that a bid evaluation was provided. See full response in the Corrective Action Plan.

Auditor Response: The bid evaluation provided indicates a project/CNMI engineer cost estimate of \$16,286,215 which is less than the contract amount of \$21,994,873. No documentation of price negotiations was provided to demonstrate the reasonableness of the contract price.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-022
 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.: CNMI-CIP-2014-2, CNMI-CIP-2013-3, CNMI-CIP-2013-1, CNMI-CIP-2013-6, CNMI-CIP-2012-8, CNMI-CIP-2012-7, CNMI-CIP-2011-1 and CNMI-CIP-2010-3
 Area: Subrecipient Monitoring
 Questioned Costs: \$-0-

Criteria: Pass-through entities must establish and implement subrecipient monitoring policies and procedures. Further, in accordance with OMB Compliance Supplement, Part 3.1 Compliance Requirements - Subrecipient Monitoring, a pass-through entity is responsible for:

- At the time of the award, identifying the subrecipient of 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.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition: Tests of subrecipient monitoring noted the following:

1. Subrecipient agreements were not executed with component units for subawards for fiscal year 2016.

<u>Date</u>	<u>Document No.</u>	<u>Subrecipient</u>	<u>Amount</u>
01/04/16	261110	Northern Marianas College	\$ 32,267
03/31/16	291397	Northern Marianas College	32,267
08/11/16	294626	Northern Marianas College	32,267
09/26/16	17504	Northern Marianas College	32,267
01/04/16	261111	Public School System	67,509
03/31/16	291396	Public School System	67,509
08/19/16	17373	Public School System	<u>67,509</u>
			\$ <u>331,595</u>

2. Control procedures to monitor subrecipient compliance with applicable laws, regulations, and provisions of contracts and grant agreements are not evident. We are aware the subrecipients named above, and the Commonwealth Healthcare Corporation and the Northern Marianas Housing Corporation, have been subjected to Single Audits; however, there is no evidence that the Single Audit Reports are used as a monitoring tool.

Cause: The CNMI failed to enforce compliance with subrecipient monitoring requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-022, 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.: CNMI-CIP-2014-2, CNMI-CIP-2013-3, CNMI-CIP-2013-1, CNMI-CIP-2013-6, CNMI-CIP-2012-8, CNMI-CIP-2012-7, CNMI-CIP-2011-1 and CNMI-CIP-2010-3
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Effect: The CNMI is in noncompliance with applicable subrecipient monitoring requirements. No questioned costs are presented as the FY 2016 Single Audit Reports of the abovementioned subrecipients reported no findings for this program.

Recommendation: The responsible personnel should consider obtaining training in the area of subrecipient monitoring and establishing and implementing policies and procedures over compliance with applicable subrecipient monitoring requirements.

Identification as a Repeat Finding: Finding No. 2015-030.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-023
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.767 Children's Health Insurance Program
 Federal Award Nos.: 05-1605CQ5R21
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$8,300

Criteria: In accordance with applicable allowable costs/cost principles requirements, rates billed by service providers must be within the allowable cost fee schedules.

Condition: For one (or 6%) of seventeen expenditures tested, aggregating \$1.1 million of total program costs of \$3.3 million, the agreed billing rate for the service provider is 31% of the total billing amount. However, 100% of the billed amount was paid.

General Ledger Date	Business Unit	Voucher Number	Billing Amount	Billing Rate	Amount Due Per Audit Expectation	Amount Paid	Variance	Questioned Costs (Federal Share)
08/22/16	H6767E	1296291	\$ 13,146	31%	\$ 4,075	\$ 13,146	\$ 9,071	\$ 8,300

Cause: The CNMI did not effectively monitor billings.

Effect: The CNMI is noncompliance with allowable costs/cost principles requirements, and questioned costs of \$8,300 exist. This finding is reportable since the projected questioned cost exceeds the \$25,000 threshold.

Recommendation: The CNMI should enforce policies and procedures over monitoring service provider billings for accuracy in accordance with applicable allowable costs/cost principles requirements.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-024
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 05-160CQIIMPL and 05-1605CQACAI
 Area: Activities Allowed or Unallowed
 Questioned Costs: \$-0-

Criteria: In accordance with activities allowed or unallowed requirements, service provider agreements are required and should be supported by a current CNMI business license and a CNMI or U.S. license to practice medicine.

Condition: Of thirty expenditures tested, aggregating \$9.9 million of total program costs of \$18.1 million, for one (or 3%) service provider, a current CNMI or U.S. license to practice medicine and/or as an emergency medical technician covering the period services were performed was not provided. No questioned cost is presented as the required licenses for all Medical Emergency Technicians were subsequently obtained in April 2017.

<u>General Ledger Date</u>	<u>Business Unit</u>	<u>Document No.</u>	<u>Service Date</u>	<u>Document Not Provided</u>
09/28/16	H6778G	1301665	08/10/15 - 07/30/16	License for Health Care Professional Licensing Board for all Medical Emergency Technicians

Cause: The CNMI lacks a systematic filing of relevant documentation for service providers.

Effect: The CNMI is in noncompliance with applicable activities allowed or unallowed requirements.

Recommendation: The responsible personnel should maintain relevant documentation for service providers in accordance with applicable activities allowed or unallowed requirements.

Identification as a Repeat Finding: Finding No. 2015-032.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding with no rationale. See full response in the Corrective Action Plan.

Auditor Response: The required licenses for all Medical Emergency Technicians were nonexistent during FY 2016.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-025
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.767 Children's Health Insurance Program
 Federal Award Nos.: 05-1605CQ5021, 05-1605CQ5R21, 05-1505CQ1081 and 05-1505CQ5021
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 05-1605CQ5MAP, 05-1605CQ1935, 05-160CQIIMPL, 05-1605CQACAI and 05-1605CQINCT
 Area: Eligibility
 Questioned Costs: \$18,592

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.

In addition, per Section D, Part 2 of the General Waiver Medical Assistance for the Needy Program, Medicaid is furnished to eligible individuals who are U.S. citizens, permanent residents of the CNMI or "qualified aliens" defined under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA).

Moreover, the following documents are required to process applicant applications:

1. Legal guardianship from the court that grants the guardian all rights, duties, and obligations including custody over a minor child.
2. Banking activities (savings and checking account statements)
3. Two current check stubs for all working applicants

Condition: Of sixty-one eligibility files tested, aggregating \$38,024 in total benefits paid of a population of \$17.3 million, deficiencies were noted, as follows:

1. For four (or 7%), the applicant declared income from employment for an adult household member; however, the adult household member's income was not included in the income eligibility determination.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Questioned Costs</u>
11-033230-00	10/19/15	\$ 38
13-014682-00	04/29/16	149
12-009505-15	09/15/15	424
15-033040-00	06/23/16	<u>194</u>
		\$ <u>805</u>

2. For one (or 2%), the countable income calculated by Medicaid differs from the third party verification. No questioned cost is reported as the applicant's countable income per the third party verification is within income limits.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Countable Income Per Third Party Verification</u>	<u>Countable Income Per Medicaid</u>	<u>Variance</u>
30-023571-00	02/27/16	\$ 776	\$ 728	\$ 48

3. For one (or 2%), the applicant declared non-exempt resources for an adult household member; however, the resources were not included in the household's resource eligibility determination. No questioned cost is presented as benefits paid to the participant are questioned at Condition 1 above.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-025, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.767 Children's Health Insurance Program
 Federal Award Nos.: 05-1605CQ5021, 05-1605CQ5R21, 05-1505CQ1081 and 05-1505CQ5021
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 05-1605CQ5MAP, 05-1605CQ1935, 05-160CQIIMPL, 05-1605CQACAI and 05-1605CQINCT
 Area: Eligibility
 Questioned Costs: \$18,592

Condition, Continued:

<u>Case Number</u>	<u>Certification Effective</u>	<u>Household Member</u>
13-014682-00	04/29/16	Common-law spouse

4. For one (or 2%), the non-exempt resources used were from one bank account balance at 08/08/16 of \$2,572. However, the balance of the account was \$21,506 at 06/30/16 and \$10,518 at 07/18/16, the date when the application was submitted. These balances exceeded the maximum resources level of \$3,900 for a household of eight, thus the applicant should have been determined ineligible for Medicaid benefits.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Questioned Costs</u>
14-033706-00	07/18/16	\$ 1,644

5. For four (or 7%), non-biological children claimed as dependents were based on a signed notarized affidavit of legal guardianship. There was no legal guardianship documentation from the court to grant the applicant all the rights, duties, and obligations, including custody, over the minor children or documentation that the children were legally adopted by the applicant. Since the claimed dependents are ineligible to receive Medicaid benefits, the applicant's income exceeded the income limit for the allowable household size.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Household Member</u>	<u>Benefits Paid</u>	<u>Questioned Costs</u>
13-023273-00	12/16/15	3	\$ -	\$ -
12-014847-00	10/27/15	3, 4, 5	\$ 6,887	6,887
12-019883-00	10/29/15	2, 3, 4, 5	\$ 401	401
12-021060-00	01/03/16	4	\$ 8,855	<u>8,855</u>
				\$ <u>16,143</u>

6. For one (or 2%), the permanent resident card for one adult household member expired on 08/04/15. No questioned cost is presented as the validated permanent resident card covering the effective Medicaid certification period was subsequently obtained in April 2017.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Household Member</u>
11-012418-00	07/09/16	4

7. For six (or 10%), eligibility determination was performed after sixty days from the date of application. No questioned cost is presented as applicants were determined to be eligible.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-025, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.767 Children's Health Insurance Program
 Federal Award Nos.: 05-1605CQ5021, 05-1605CQ5R21, 05-1505CQ1081 and 05-1505CQ5021
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 05-1605CQ5MAP, 05-1605CQ1935, 05-160CQIIMPL, 05-1605CQACAI and 05-1605CQINCT
 Area: Eligibility
 Questioned Costs: \$18,592

Condition, Continued:

<u>Case Number</u>	<u>Certification Effective</u>	<u>Application Date</u>	<u>Approval Date</u>	<u>Number of Days in Excess of Sixty Days</u>
11-011401-12	10/27/15	11/25/15	02/12/16	79
14-011786-00	07/19/15	08/19/15	10/19/15	61
15-013511-00	05/08/16	05/11/16	07/22/16	72
15-024783-00	12/10/15	12/10/15	02/10/16	62
30-023571-00	02/27/16	02/04/16	04/08/16	64
16-022239-00	11/21/15	10/28/15	12/28/15	61

8. For one (or 2%), a household member was not listed on the application form as applying for Medicaid assistance; however, the household member is receiving Medicaid benefits. No questioned cost is presented as all required documents for the household member not listed on the application form are in file and the total household income is within the income limit.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Household Member</u>
15-024783-00	12/10/15	6

Cause: The CNMI lacked adequate control procedures over compliance with requirements for eligibility applications, determination and approval processes, and documentation of third party verifications. Further, records/database of individuals receiving benefits may not be periodically checked and updated for completeness of population and eligibility information.

Effect: The CNMI is in noncompliance with applicable eligibility requirements pursuant to the Medicaid Operational Plan, and questioned costs of \$18,592 exist, as noted below:

Questioned Costs

Condition 1	\$ 805
Condition 4	1,644
Condition 5	<u>16,143</u>
	\$ <u>18,592</u>

Recommendation: The CNMI Medicaid Office should establish and enforce control procedures over compliance with requirements for eligibility applications, determination and approval processes, and documentation of third party verifications.

Identification as a Repeat Finding: Finding No. 2015-033.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-026
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 05-1605CQ5MAP, 05-1505CQ5MAP and 05-1505CQ5ADM
 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 (DOF).

Condition: Based on total expenditures reported on the CMS 64 quarterly report to the grantor for the year ended September 30, 2016, we noted the following variance:

<u>Description</u>	<u>Quarter Ended</u>	<u>Per Certification</u>	<u>Per General Ledger</u>	<u>Variance</u>
Form CMS 64.9 200K	12/31/15	\$ 467,290	\$ 494,180	\$ (26,890)

No questioned costs result as the variance of \$26,890 was subsequently adjusted to transfer the amount from the federal account to the local account, and the overdrawn amount was also returned to the grantor on 04/12/17.

Cause: The CNMI did not effectively monitor the accuracy and completeness of the required reports based on underlying accounting records. Also, the CNMI made adjustments subsequent to the submission of the CMS 64 report.

Effect: The CNMI is in noncompliance with Section 4.4 of the Medicaid Operational Plan and federal reporting requirements.

Recommendation: Responsible personnel should take steps to monitor reports and determine that information reported to the grantor is based on actual financial records and is supported with underlying accounting records.

Identification as a Repeat Finding: Finding No. 2015-034.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-027
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-1605CQ5MAP, 05-1605CQ5ADM, 05-1605CQ1935, 05-160CQIIMPL, 05-1605CQACAI, 05-1605CQINCT, 05-1505CQ5MAP, 05-1505CQ5ADM, 05-1505CQIMPL, 05-1405CQIMPL, 05-1405CQACAI, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQACAI and 05-1205CQ1935
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: In accordance with the OMB Compliance Supplement, State agencies must establish and maintain a program for conducting periodic risk analyses to ensure appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. On a biennial basis state agencies shall review the ADP system security of installations involved in the administration of HHS programs. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

Condition: The biennial review of the Program's ADP system security was not available.

Cause: The CNMI lacked policies and procedures for the biennial review of the Program's ADP system security.

Effect: The CNMI is in noncompliance with special tests and provisions requirements. No questioned costs result as we are unable to quantify the extent of the noncompliance.

Recommendation: The CNMI should establish policies and procedures for the biennial review of the Program's ADP system security.

Identification as a Repeat Finding: Finding No. 2015-035.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-028
 Federal Agency: U.S. Department of Homeland Security
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
 Federal Award Nos.: 1541DRMPP00000001 and 1611DRMPP00000001
 Area: Cash Management
 Questioned Costs: \$-0-

Criteria: In accordance with applicable cash management requirements, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipient. Interest earned on advances is required to be submitted promptly, but at least quarterly, to the Federal agency.

Condition: As previously reported in finding number 2014-053 in the FY 2014 Single Audit Report of the CNMI, the following grants were closed as of September 30, 2014. Final drawdowns of \$1,346,636 and \$39,721 occurred in January 2013. No documentation has been provided to demonstrate that the advances have been obligated since January 2013. As of September 30, 2016, the unobligated amount of \$1,386,971, inclusive of accrued interest, was recorded in the general fund (account no. 11623).

<u>Grant No.</u>	<u>Business Unit</u>	<u>Total Cumulative Expenditures Per SF-425</u>	<u>Total Cumulative Expenditures Per General Ledger</u>	<u>Unobligated Amount</u>
1541DRMPP00000001	M4037L	\$ 6,334,210	\$ 4,987,574	\$ 1,346,636
1611DRMPP00000001	M6036W	\$ 1,046,674	\$ 1,006,953	\$ 39,721

Cause: The CNMI failed to effect corrective action.

Effect: The CNMI is in noncompliance with applicable cash management requirements. No questioned costs are presented as the specified federal funds were previously questioned in the fiscal year 2014 audit.

Recommendation: The CNMI should effect corrective action.

Identification as a Repeat Finding: Finding No. 2015-037.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-029
 Federal Agency: U.S. Department of Homeland Security
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
 Federal Award No.: Disaster Registry No. 4235
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$608,343

Criteria: In accordance with applicable procurement requirements, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds. In accordance with the CNMI procurement regulations, procurement transactions shall provide for full and open competition through the use competitive procedures, including the following:

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- 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 P&S Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, the procurement requirement shall not be artificially divided so as to constitute a small purchase.

In accordance with Emergency Purchasing under CNMI Procurement regulations Section 3-107 (a) notwithstanding any other provision of the regulations in this subchapter, the government may make emergency procurement when there exists a threat to public health, safety or welfare under emergency conditions. An emergency procurement must be as competitive as practicable under the circumstances. (b) A written justification of the basis for the emergency and for the selection of the particular contractor must be made by the official with expenditure authority. (c) If the P&S Director is satisfied, he shall state his approval in writing.

Condition: Of sixteen expenditures tested, aggregating \$1,272,859 of a population of \$2,931,360, twelve expenditures (or 75%) have no written justification of the basis for the emergency vendor selection.

<u>Contract(C)/PO No. (P)</u>	<u>Business Unit</u>	<u>Document Date</u>	<u>Document No.</u>	<u>Questioned Costs</u>
C609970	M4235F	08/02/16	1293985	\$ 41,174
P602003	M4235E	08/23/16	294817	52,715
P602083	M4235E	11/17/15	259850	25,920
P612304	M4235U	06/23/16	1287107	12,771
C564732, CO no. 6	M4235B	08/09/16	1294631	53,259
C564732, CO no. 6	M4235B	06/07/16	1283211	171,999
P612138	M4235B	05/19/16	1268266	237,284
P608276	M4235B	03/17/16	1262176	2,160
150459OM	M4235T	04/07/16	291432	3,524
P610862	M4235E	04/27/16	1266148	3,055
P608321	M4235B	03/16/16	1262108	3,042
P610008	M4235B	05/05/16	1266801	1,440
				<u>\$ 608,343</u>

Cause: The CNMI failed to enforce adherence to applicable procurement requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-029, Continued
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: Disaster Registry No. 4235
Area: Procurement and Suspension and Debarment
Questioned Costs: \$608,343

Effect: The CNMI is noncompliant with applicable procurement regulations, and a questioned cost of at least \$608,343 exists.

Recommendation: The responsible procurement authority should enforce compliance with applicable procurement requirements.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for the reason that emergency procurement was allowed. See full response in the Corrective Action Plan.

Auditor Response: No documentation was provided to substantiate compliance with emergency procurement procedures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-030
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: Disaster Registry No. 4235
Area: Reporting
Questioned Costs: \$-0-

Criteria: The Program is required to submit a Form SF-425 that is accurately prepared and supported.

Condition: The cumulative amount reported as federal share of \$11,221,084 does not agree with the expected cumulative federal share per audit expectation of \$11,246,200, resulting in a variance of \$25,116.

Cause: The CNMI lacked procedures to effectively monitor compliance with applicable reporting requirements.

Effect: The CNMI is in noncompliance with reporting requirements. No questioned costs are presented as we are unable to quantify the extent of noncompliance related to the Form SF-425 submission.

Recommendation: The grant program office should communicate with CNMI DOF to effectively monitor compliance with applicable reporting requirements.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for the reason that expenditures under Business Unit (BU) M4235A are not reportable for purposes of SF-425. See full response in the Corrective Action Plan.

Auditor Response: No exemptions or waivers were provided to support the exclusion of BU M4235A expenditures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-031
 CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
 USDOJ 15.875 Economic, Social, and Political Development of
 the Territories - Capital Improvement Projects
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

Criteria: In accordance with applicable regulations, a state must use, manage and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures.

The CNMI Property Management Policies and Procedures requires the Division of 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.

Moreover, when acquiring replacement equipment, the grantee or sub-grantee may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property, subject to the approval of the awarding agency.

Condition: Tests of equipment and real property noted the following:

1. There is no documentation that a complete physical inventory of equipment and property was performed in FY 2016.
2. Property records maintained by P&S have missing information or did not include certain required information, such as serial or federal award identification number, source of the property, who holds title, percentage of federal participation in the cost of the property, and use and condition of the property.

Cause: The CNMI lacks the human resources and financial management system structure needed to effect compliance with applicable equipment and real property management requirements.

Effect: The CNMI is in noncompliance with applicable equipment management requirements. See below for cumulative dollar amount of property and equipment acquired with program grant funds for those major programs to which this requirement is direct and material.

<u>CFDA No.</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Grand Total</u>
10.551	\$ 21,069	\$ 279,654	\$ 19,653	\$ 389	\$ 12,152	\$ 332,917
15.875	\$ 62,939	\$ 1,123,090	\$ 42,537	\$ 104,272	\$ 298,354	\$ 1,631,192

Identification as a Repeat Finding: Finding No. 2015-036.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-031, Continued
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
USDOJ 15.875 Economic, Social, and Political Development of
the Territories - Capital Improvement Projects
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Recommendation: The CNMI should consider seeking technical and financial support from Federal agencies to develop human resources and a financial management system that are capable of effecting compliance with applicable property management policies and procedures.

Views of Auditee and Corrective Action Plan:

The CNMI describes corrective action in the Corrective Action Plan.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2016

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2016:

Questioned costs as previously reported:

Fiscal year 2015	\$ 3,198,253
Fiscal year 2014	3,698,678
Fiscal year 2013	1,057,377
Fiscal years 2012 and prior	<u>9,160,146</u>

17,114,454

Less questioned costs resolved in fiscal year 2016:

Questioned costs resolved per USDOJ letter dated June 27, 2017:	
Fiscal year 2015 Single Audit	(1,145,313)
Questioned costs resolved per USDOC letter dated June 13, 2017:	
Fiscal year 2014 Single Audit	<u>(467,944)</u>

15,501,197

Questioned costs of fiscal year 2016 Single Audit

16,067,272

Unresolved questioned costs at September 30, 2016

\$ 31,568,469

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan
Year Ended September 30, 2016

Finding No. 2016-001

Name of Contact Persons: Michael Pai, Public Auditor, Lillian Pangelinan, NMISF, Manuel Sablan, CDA Executive Director, Gary Camacho, CUC Executive Director, Esther Muna, CHCC CEO and Larrisa Larson, DOF Secretary

Corrective Action: There have been several changes in the financial oversight of the various agencies that did not complete their audits for FY16 by the deadline required for submission of this report. As contractor for the contract for the audit, the Public Auditor will establish a schedule of oversight in conjunction with all agencies that are required to submit audited financial statements to the CNMI Government and work with agencies to meet the deadlines in a timely manner to meet deadlines for the FY17 audit. All Department Heads of each of the agencies are aware of the deadlines and will get all contracts in place for their financial audits prior to close of the fiscal year and have all year end reports required for the FY 17 audit as per deadlines set in conjunction with OPA.

Proposed Completion Date: FY18

Finding No. 2016-002

Name of Contact Persons: Edward Manibusan, OAG, Lillian Pangelinan, NMISF and Larrisa Larson, DOF Secretary

Corrective Action: The NMISF has taken the position that it is not a component unit of the CNMI Government and that it is also not a pension fund and therefore does not need to provide financial statements that comply with GASB Statement No. 61. The matter is currently under legal review by the OAG and the CNMI Government and a course of action regarding this matter is still pending. The Administration will take a position once the legal review has been completed and address this matter upon deciding whether it agrees or disagrees with this position.

Proposed Completion Date: FY18

Finding No. 2016-003

Name of Contact Persons: Larrisa Larson, DOF Secretary, Bernadita Palacios, DOF Director of F&A and Martha Camacho, DOF F&A Manager

Corrective Action: DOF concurs with this finding. In FY16, reconciliation staff were trained on the policies and procedures of their section. In addition an evaluation of the process and causes for delay were identified. Work towards addressing this finding has been ongoing.

1. The Division of Finance and Accounting has hired new employees to help and greatly improved our bank reconciliations to meet target dates and be in compliance with established policies and procedures. We expect such findings to be resolved in FY 2017.
2. Bank code 11411 is operated under the Department of Commerce (See Finding 2016-012), and the Department of Finance (DOF) will coordinate/facilitate with Commerce to implement reconciliation policies and procedures.
3. DOF accepts the proposed adjustments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No. 2016-003, Continued

Corrective Action, Continued:

4. We have contacted the Judicial offices and received confirmation that reconciliations for such accounts are now being prepared in accordance with policies and procedures. We expect such finding to be resolved in FY 2017.
5. Department of Finance has developed a cash management plan to consolidate policies and procedures for the various sections and divisions, which does include timely updating bank account information. We will update our records to include information for bank code 15050.
6. DOF accepts the proposed adjustments.
7. DOF accepts the proposed adjustments.

Due to the findings presented in the audit of fiscal year 2015, DOF has taken great strides to improve compliance and expects to see improvements in fiscal year 2017. There is a cash management plan in development which is currently under final review to update policies and procedures and pertinent information. The cash management plan is expected to be formally implemented at the start of fiscal year 2018.

Proposed Completion Date: September 30, 2017

Finding No. 2016-004

Name of Contact Person: Larrisa Larson, Acting Administrator/DOF Secretary

Corrective Action: DOF and the NMIRF are in the process of updating and recording these receivables. The agencies are also in the process of coordinating the documentation of this transfer.

Proposed Completion Date: Ongoing

Finding No. 2016-005

Name of Contact Persons: Michael Pai, Public Auditor, Larrisa Larson, DOF Secretary, and Edward Manibusan, OAG

Corrective Action: OPA will provide reports on receivables to DOF on a regular basis to allow DOF to record and reconcile accounts to the payable balances in a timely manner. DOF will also work with the OAG to determine collectability of all in arrears. OPA, OAG and DOF will work on draft legislation to ensure that all agencies comply with the mandated 1%.

Proposed Completion Date: Ongoing

Finding No. 2016-006

Name of Contact Person: Larrisa Larson, DOF Secretary

Corrective Action: The CNMI will conduct an assessment of the collectability of interfund balances. The CNMI will also develop a process of recording updated balances on a regular basis in compliance with GASB Statement No. 34.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No. 2016-007

Name of Contact Persons: Larrisa Larson, DOF Secretary and Maria T. White, DRT Manager

Corrective Action: The Division of Revenue and Taxation increased its personnel in February 2017, and as such, we hope to implement most, if not all, the recommendations by the start of FY 2018. It is imperative that the division trains its employees on the newly established policies and procedures and retain its quality employees to effectively carry out the divisions directives.

Proposed Completion Date: September 30, 2018

Finding No. 2016-008

Name of Contact Persons: Chief Justice Alexandro Castro and Larrisa Larson, DOF Secretary

Corrective Action: The CNMI is following PL9-3 to the extent it is able, and is transferring funds as collected and as required by law. Unfortunately, there is a lack of funding to cover the remaining balance owed on monthly payment as collections aren't sufficient to cover the entire monthly payment. The Judiciary has applied for a loan with USDA to address this issue. Upon approval of this loan, the entire balance of this loan will be paid and a new loan at a lower rate will be in place.

Proposed Completion Date: FY18

Finding No. 2016-009

Name of Contact Persons: Larrisa Larson, DOF Secretary and Bernadita Palacios, DOF Director of F&A

Corrective Action: DOF has contracted a consultant to update personnel records of inactive, terminated, or retired employees.

In the development of the cash management plan, we have included in our policies and procedures to review the validity of charges in compensated absences payable in a timely manner.

Proposed Completion Date: August 30, 2017

Finding No. 2016-010

Name of Contact Persons: Larrisa Larson, DOF Secretary and Bernadita Palacios, DOF Director of F&A

Corrective Action:

General Fund - 1. DOF has informed the auditor that this testing/finding is invalid as DOF did not receive a request for such documents.

Grants Assistance Fund - 2. We have reviewed such findings and are currently in contact with the vendors. We have received some confirmations to de-obligate the outstanding encumbrances and expect to clear all by the end of fiscal year 2017.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No. 2016-010, Continued

Corrective Action, Continued:

All others - A majority of these encumbrances are carried over from the old accounting system. We have hired a consultant to help us access this old information and make the necessary changes in the new system.

Proposed Completion Date: August 30, 2017

Finding No. 2016-011

Name of Contact Persons: Esther Muna, CHCC CEO, Derek Sasamoto, CHCC CFO and Larrisa Larson, DOF Secretary

Corrective Action: The CNMI and CHCC have been working on the final issues of the transition of CHCC to an independent corporation. CHCC and the CNMI will review the pending matters and develop a plan for any pending matters.

Proposed Completion Date: Ongoing

Finding No. 2016-012

Name of Contact Person: Larrisa Larson, DOF Secretary and Mark Rabauliman, DOC Secretary

Corrective Action: DOF and Department of Commerce will finalize the transfer of assets in writing and complete the work on establishing and assigning general ledger accounts for WCC funds. A consultant has been hired to assist with this matter. An investment policy is currently under review and will be finalized by end of 2017.

Proposed Completion Date: December 31, 2017

Finding No. 2016-013

Name of Contact Persons: Virginia Villagomez, OMB Special Assistant and Larrisa Larson, DOF Secretary

Corrective Action: The CNMI agrees with this finding and continuously works towards compliance with the Appropriations and Budget Authority Acts. Areas affecting public health and welfare are an issue as areas such as Medical Referral for patients requiring urgent health care not available in the Commonwealth and Overtime for the salaries of the law enforcement officers responsible for public welfare and safety often require resources beyond what has been budgeted. As investment increases in the Commonwealth, it is anticipated that revenue will continue to rise and address these areas where the Commonwealth often experiences budgetary shortfalls. In the meantime, measures are in place to work towards keeping agencies that do not play a role in the public safety and welfare within their operating budget.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-014

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Name of Contact Person: Walter Macaranas, NAP Administrator

Corrective Action: The Fiscal Year 2015 revealed three draft findings, but did not include a finding in the area of Allowable Costs/Cost Principles particularly lack of records retention related to negotiated indirect cost rate. The current Indirect Cost Negotiation Agreement which was executed on August 13, 2015 covered negotiated rates for fiscal years 2015 and 2016, see Indirect Cost Rates for FY15 and FY16. Such exhibit was available during the fiscal year 2015 single audit review and the retention of such exhibit was available for audit purposes or significance in the NAP financial records during the fiscal year 2016 audit review.

Completion Date: July 19, 2016

Finding No.: 2016-015

Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Federal Award No.: 7NM4004NM
Area: Reporting
Questioned Costs: \$43,552

Name of Contact Person: Walter Macaranas, NAP Administrator

Corrective Action: Based on the NAP redemption reports, total coupons redeemed for fiscal year 2016 was \$9,545,046. In addition, the FNS 256 reports recorded total benefits issued in the amount of \$9,501,496 for fiscal year 2016. In comparison between coupons redeemed and benefits issued, a variance of \$43,550 exists. Provisionally, NAP agrees to the variance reported in the finding, thus a reexamination of the redemption reports is acute to resolving or assenting to the questioned cost.

Completion Date: July 31, 2017

Finding No.: 2016-016

Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Federal Award Nos.: NA12NOS4190178, NA13NOS4190148, NA14NOS4190119 and NA15NOS4190187
Area: Equipment and Real Property Management
Questioned Costs: \$10,297

Name of Contact Person: Janice Castro, Grants Program Manager, Division of Coastal Resources Management

Corrective Action: Both DCRM and P&S have demonstrated weak monitoring controls regarding procurement and inventory. DCRM Standard Operating Procedures will be revised to include detailed procurement and inventory standards reflecting both local and federal regulations. DCRM will complete a physical inventory and reconcile with P&S before the end of this fiscal year.

Proposed Completion Date: September 30, 2017.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-017
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Federal Award Nos.: NA13NOS4190148 and NA14NOS4190119
Area: Procurement and Suspension and Debarment
Questioned Costs: \$69,865

Name of Contact Person: Janice Castro, Grants Program Manager, Division of Coastal Resources Management

Corrective Action:

Condition 1: DCRM provided P&S the specifications for the above ITBs for which P&S solicited sealed bids from the three (3) automobile dealers on islands that are able to meet the listed specifications. Thus, despite the absence of notice in newspapers for this ITB, the bids were competitively sourced. A copy of the solicitation for bids and the broadcast report is attached hereto for your records.

Condition 2: NMIAC §70-30.3-205(e)(1) states that the P&S Director can determine whether a shorter bidding time is reasonable and necessary. Fourteen days is the minimum required notice in §70-30.3-205(e)(1).

DCRM continues to adhere to Procurement and Supply's advice and recommendations regarding procurement processes. However, DCRM recognizes that it is critical to ensure that the program practices tighter internal controls to ensure compliance with both federal and local regulations. DCRM will revise its Standard Operating Procedures to include procurement requirements and regulations within administrative processes so as to prevent future errors from occurring.

Proposed Completion Date: Revisions to the DCRM SOP will be made by September 30, 2017.

Finding No.: 2016-018
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Federal Award Nos.: NA14NOS4190119
Area: Reporting
Questioned Costs: \$-0-

Name of Contact Person: Janice Castro, Grants Program Manager, Division of Coastal Resources Management

Corrective Action: The failure to report program income and expenses was an oversight for both DCRM and NOAA. While the figures were not reported, NOAA did not provide comments to revise the submitted reports to include the program income information, nor did they reject the submission of the above performance progress reports. DCRM will include the required information moving forward.

Proposed Completion Date: Program income and expenses associated with their respective awards will be reported in the next performance progress report (September 2017) and all subsequent reports thereafter.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-019

Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Federal Award No.: NA15NOS4820040
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$33,454

Name of Contact Person: Jihan Buniag, CRI Project Coordinator, Division of Coastal Resources Management

Corrective Action: Represented personnel match of \$17,689 is supported by actual time logs and timesheets of employees indicates time spent on the project. Actual time logs of Rota Forestry staff work and vehicle logs in FY '15 were provided to the auditor and are again included in this document. Calculations for salaried match are included.

- \$4,267 (212 hours x 20.13/hour) in value for this person can be proven. James Manglona, Head Forester for Rota DLNR spent a documented 212 hours (in signed time logs) on this project between October 2015 and end of September 2016.
- \$973 (112 hours x 8.69/hour) in value for this person can be proven. Jeffrey Masga, Forestry Technician I for Rota DLNR spent a documented 112 hours (in signed time logs) on this project between October 2015 and beginning of November 2016.
- \$114 (12 hours x \$9.57 /hour=\$382.80) in value for this person can be proven. Antonio C. Reyes, Forestry Technician II for Rota DLNR spent a documented 12 hours (in signed time logs) on this project between September 2015 and end of September 2016.
- \$765 (17 days x \$45/day) in value for this person can be proven. Vicente Masga, Volunteer for Rota DLNR spent a documented 17 days (in signed time logs) on this project between July 2016 and September 2016.
- \$720 (16 days x \$45/day) in value for this person can be proven. Joaquin Fujihira, Jr., Volunteer for Rota DLNR spent a documented 16 days (in signed time logs) on this project between July 2016 and September 2016.
- We provided sign in sheets for the equivalent of 155 days of car use, 155 days X \$70 day= \$10,850 between October 2015 and the end of September 2016.

Personnel Costs - Forester employees for DLNR - \$5,354
Personnel Costs - Volunteer Stipends- \$1,485
Transportation - \$10,850
Total Match: \$17,689
Deficient Local Match: \$32,511

DCRM will implement a more effective and accurate tracking system that will measure the amount of contributed match as it occurs over the grant cycle, to ensure that the required level of matching is met in a timely manner.

Proposed Completion Date: September 30, 2017.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-020
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Federal Award No.: NA13NOS4820010
Area: Reporting
Questioned Costs: \$-0-

Name of Contact Person: Jihan Buniag, CRI Project Coordinator, Division of Coastal Resources Management

Corrective Action: DCRM will implement a more effective and accurate tracking system that will measure the amount of contributed match as it occurs over the grant cycle, to ensure that the required level of matching is met in a timely manner. In addition, DCRM will revise its Standard Operating Procedures to include proper instructions on how to document matching efforts.

Proposed Completion Date: September 30, 2017.

Finding No.: 2016-021
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.: CIP-CNMI-2010-2, CIP-CNMI-2009-2, CIP-CNMI-2015-4, CIP-CNMI-2014-1 and CIP-CNMI-2006-1
Area: Procurement and Suspension and Debarment
Questioned Costs: \$15,275,668

Name of Contact Person: Virginia C. Villagomez, CIP Administrator

Corrective Action: On 02/24/2015, the Director of Procurement & Supply informed the Attorney General, Deputy Attorney General, Public Auditor, CIP Administrator, CIP Project Manager, and the president of each bidder that he rescinded the Determination of Non-Responsibility based on the discussion between the bidders' attorneys that the lowest bidder was "no longer interested in pursuing the Puerto Rico Dump Closure." Our office disagrees with the terminology "*withdrawn bid*", therefore, the above finding is incorrect to state that, "the lowest bidder *withdrew its bid*," requiring a "written withdrawal directly from the lowest bidder." The non-renewal of their bid bond, automatically disqualified the lowest bidder from the procurement process, dismissing the need for a "written withdrawal" letter.

Additionally, a copy of the 11/19/2014 protest letter provided to the auditor states that the lowest bidder "purposely did not extend its bid beyond the 90-day bid acceptance deadline leaving the government free to make an award." As the legal representative of the lowest bidder, our Office accepted this communication and proceeded with the procurement process as advised by the Director of Procurement & Supply.

A bid evaluation was completed by GHD, Inc. on August 1, 2014 and a copy was provided to the auditor.

Proposed Completion Date: June 30, 2017.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-022
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.: CNMI-CIP-2014-2, CNMI-CIP-2013-3, CNMI-CIP-2013-1, CNMI-CIP-2013-6, CNMI-CIP-2012-8, CNMI-CIP-2012-7, CNMI-CIP-2011-1 and CNMI-CIP-2010-3
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Name of Contact Person: Virginia C. Villagomez, CIP Administrator

Corrective Action:

1. The *Subrecipient Agreement* has been drafted and reviewed by the Office of the Attorney General. All component units for subawarded grants for fiscal year 2016 have signed and executed Subrecipient Agreements. Moving forward all subrecipients are required to review and sign the agreements annually, before the release of funds.
2. *Subrecipient Monitoring Policies & Procedures* have been implemented and communicated to all subrecipients. Moving forward, all subrecipients are required to review and initial the document annually.

Additionally, our Office is aware that control procedures must be in place that require the subrecipients' reporting of audit findings related to 15.875. It is stated in the *Subrecipient Monitoring Policies & Procedures* that any and all independent audit findings for autonomous agencies must be reported to our office.

Proposed Completion Date: June 30, 2017.

Finding No.: 2016-023
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.767 Children's Health Insurance Program
Federal Award Nos.: 05-1605CQ5R21
Area: Allowable Costs/Cost Principles
Questioned Costs: \$8,300

Name of Contact Person: Helen C. Sablan, Medicaid Director

Corrective Action: We agree with the audit finding and recommendation. We will return the questioned costs of \$8,300 and will request a refund from the provider.

Proposed Completion Date: 10/01/2017

Finding No.: 2016-024
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-160CQIIMPL and 05-1605CQACAI
Area: Activities Allowed or Unallowed
Questioned Costs: \$-0-

Name of Contact Person: Helen C. Sablan, Medicaid Director

Corrective Action: We disagree with the audit finding.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-025

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.767 Children's Health Insurance Program
Federal Award Nos.: 05-1605CQ5021, 05-1605CQ5R21, 05-1505CQ1081 and 05-1505CQ5021
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-1605CQ5MAP, 05-1605CQ1935, 05-160CQIIMPL, 05-1605CQACAI and 05-1605CQINCT
Area: Eligibility
Questioned Costs: \$18,592

Name of Contact Person: Helen C. Sablan, Medicaid Director

Corrective Action:

Condition 1: We agree with the audit finding and recommendation.
Condition 2: We agree with the audit finding and recommendation.
Condition 3: We agree with the audit finding and recommendation.
Condition 4: We agree with the audit finding and recommendation.
Condition 5: We agree with the audit finding and recommendation.
Condition 6: We agree with the audit finding and recommendation.
Condition 7: We agree with the audit finding and recommendation.
Condition 8: We agree with the audit finding and recommendation.

Proposed Completion Date: Ongoing.

Finding No.: 2016-026

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-1605CQ5MAP, 05-1505CQ5MAP and 05-1505CQ5ADM
Area: Reporting
Questioned Costs: \$-0-

Name of Contact Person: Helen C. Sablan, Medicaid Director

Corrective Action: We agree with the audit finding and recommendation.

Proposed Completion Date: Ongoing.

Finding No.: 2016-027

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-1605CQ5MAP, 05-1605CQ5ADM, 05-1605CQ1935, 05-160CQIIMPL, 05-1605CQACAI, 05-1605CQINCT, 05-1505CQ5MAP, 05-1505CQ5ADM, 05-1505CQIMPL, 05-1405CQIMPL, 05-1405CQACAI, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQACAI and 05-1205CQ1935
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Name of Contact Persons: Helen C. Sablan, Medicaid Director and Frank C. Celis, Director, Division of Electronic Data Processing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued

Year Ended September 30, 2016

Finding No.: 2016-027, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 05-1605CQ5MAP, 05-1605CQ5ADM, 05-1605CQ1935, 05-160CQIIMPL, 05-1605CQACAI, 05-1605CQINCT, 05-1505CQ5MAP, 05-1505CQ5ADM, 05-1505CQIMPL, 05-1405CQIMPL, 05-1405CQACAI, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQACAI and 05-1205CQ1935
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Corrective Action:

- (1) The As/400 720 midrange server is located in a secure windowless concrete building with no identification. The building is monitored by 4 security cameras with a lock and deadbolt and rfid magnetic entry system.
- (2) The room in which the servers are located is protected by magnetic locking system that can only be accessed with an RFID card.
- (3) Data is backed up daily and monthly, all tapes are secured onsite in a fireproof safe and a secondary site in a fireproof safe. The network is protected by a sonicwall NSA 4500 firewall.
- (4) Data lines are protected by Sonicwall NSA 4500 VPN tunnels using AeS 32 bit encryption.
- (5) The Users of the As/400 system must go through 3 levels of authentication, Windows Authentication, Sonicwall GVC authentication and As/400 Authentication.
- (6) In order to meet U.S IRS standards DoF is currently in the process of creating a plan of action and management policy. We plan to have this policy in place by the end of the year.
- (7) We are currently in the process of securing a disaster recovery site.
- (8) DoF at this time does not have an FTE for a Security Manager.

Proposed Completion Date: Ongoing.

Finding No.: 2016-028

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award Nos.: 1541DRMPP00000001 and 1611DRMPP00000001
Area: Cash Management
Questioned Costs: \$-0-

Name of Contact Person: Governor's Authorized Representative, Office of Management and Budget

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-028, Continued

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award Nos.: 1541DRMPP00000001 and 1611DRMPP00000001
Area: Cash Management
Questioned Costs: \$-0-

Corrective Action: At the close-out of both disasters 1541DRMPP00000001 and 1611DRMPP00000001, a review of all the project files was conducted by a representative of the Grant's Public Assistance Program to ensure the projects were completed, and the final amounts were determined and either approved or reduced. Any scope of work identified that was not completed within the performance period resulted in a deobligation of the funds, and the final awarded amounts to the respective applicants were adjusted. Subsequently after the review, our office was instructed to process the final draws, and in the interest of ensuring accountability, the holding accounts were established to prevent any comingling with what was booked and processed and what was pending to be processed either through a journal voucher reimbursing the Grantee or an actual check to the Grantee's component units. The funds in the holding account relates to Small Projects, and for Small Projects, pursuant to 44 CFR 206.205, "the Federal payment for small projects shall not be reduced if all of the approved funds are not spent to complete a project. However, failure to complete a project may require that the Federal payment be refunded." In the case of both disasters, the Grantor's review during close-out confirmed the projects were completed, necessary adjustments were made, and the final drawdowns were made.

The Grantee has met with the Grantor in April 2017 to discuss the Grantee's action plan to liquidate the funds from the holding account, and the Grantor has agreed to follow through until the questioned cost is resolved. Any earned interest from the period of the drawdown will be returned to the Grantor.

Proposed Completion Date: June 30, 2017

Finding No.: 2016-029

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: Disaster Registry No. 4235
Area: Procurement and Suspension and Debarment
Questioned Costs: \$608,343

Name of Contact Person: Governor's Authorized Representative, Office of Management and Budget

Corrective Action: Based on the first bullet item under Criteria: "All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition." The questioned expenditures fall under "circumstances permitting other than full and open competition."

These and other Emergency Purchases made during defined Disaster-declared Emergencies include Emergency Services Contracts requiring the signatures of the Special Assistant for Homeland Security and Emergency Management and the Governor's Authorized Representative.

An accompanying Emergency Goods and Services Contract Addendum cites that such emergency purchases are pursuant to the following Commonwealth Code sections:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-029, Continued

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: Disaster Registry No. 4235
Area: Procurement and Suspension and Debarment
Questioned Costs: \$608,343

Corrective Action, Continued:

(a) Title 1, Division 2, §20144 – “During a state of major disaster or a state significant emergency, the Governor may: (1) Suspend the provision of any administrative regulation prescribing procedures for conducting Commonwealth business or the other order, rules and administrative regulations of any other Commonwealth agency if strict compliance would prevent, hinder, or delay necessary actions, including the making of emergency purchases, by the CNMI Homeland Security and Emergency Management authority to respond to the major disaster or a state significant emergency or if strict compliance would increase the threat to the community, environment, critical infrastructures and/or key resources.”

When within the defined period of Disaster-declared Emergencies that authorizes the Governor to “suspend the provision of any administrative regulation prescribing procedures for conducting Commonwealth business or the other order...” the CNMI will continue to utilize the Emergency Services Contract form and Emergency Goods and Services Contract Addendum to make emergency purchases.

When not within the defined period of Disaster-declared Emergencies, the CNMI will pursue emergency purchases in accordance with Emergency Purchasing under CNMI Procurement Regulations Section 3-107 (a) notwithstanding any other provision of the regulations in this subchapter, the government may make emergency procurement when there exists a threat to public health, safety or welfare under emergency conditions. As emergency procurement must be as competitive as practicable under the circumstances. (b) A written justification of the basis for the emergency and for the selection of the particular contractor must be made by the official with expenditure authority. (c) If the P&S Director is satisfied, he shall state his approval in writing.

Proposed Completion Date: N/A

Finding No.: 2016-030

Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: Disaster Registry No. 4235
Area: Reporting
Questioned Costs: \$-0-

Name of Contact Person: Governor’s Authorized Representative, Office of Management and Budget

Corrective Action: The noted variance of \$25,116, not reflected on the SF-425, is under Business Unit M4235A which is not a grant award, unlike the other reported M4235 accounts. This BU is a contract for services or supplies provided to FEMA by the CNMI. As a result, the SF-425 report accurately reflects the grant award funding received by FEMA to the CNMI.

Proposed Completion Date: N/A

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-031

CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
USDO I 15.875 Economic, Social, and Political Development of
the Territories - Capital Improvement Projects
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Name of Contact Persons:

USDOA 10.551: Walter Macaranas, NAP Administrator

USDO I 15.875: Larrisa Larson, DOF Secretary and Virginia C. Villagomez, CIP
Administrator

Corrective Action:

USDOA 10.551: The NAP will work closely with the P&S Property Management Branch to re-review the inventory records with the objective of reconciling fiscal years 2014 to 2016 and to achieve a reconciliation document. The reconciliation document should include the required information of, the federal award identification number and the percentage of federal participation cost.

USDO I 15.875: The agencies cited in this finding will coordinate with P&S to conduct a physical inventory and reconcile property records. There is a newly proposed set of policies and procedures for P&S. DOF is in the process of hiring a consultant to help train current and new employees to effectively carry out the duties set forth.

Proposed Completion Dates:

USDOA 10.551: September 30, 2017

USDO I 15.875: August 30, 2017