

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017

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, 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, 2017, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the CNMI's basic financial statements, and we have issued our report thereon dated June 27, 2018. 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*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, the financial statements of the Commonwealth Ports Authority, the Commonwealth Development Authority and the Marianas Public Land Trust not being audited and the financial statements of the Commonwealth Utilities Corporation, the Northern Marianas College, the Public School System, 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 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 Northern Mariana Islands Retirement Fund which was 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 entity that was 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 Visitors Authority. The findings, if any, included in that report is 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 2017-001 through 2017-003, 2017-007, 2017-008 and 2017-012 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 2017-004 through 2017-006, 2017-009 through 2017-011, 2017-013 and 2017-014 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 2017-015.

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

June 27, 2018

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, 2017. 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, 2017. 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 qualified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the CNMI's compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in items 2017-016 through 2017-024 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2017-016	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Equipment and Real Property Management
2017-017	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Procurement and Suspension and Debarment
2017-018	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Subrecipient Monitoring
2017-019	20.205	Highway Planning and Construction	Equipment and Real Property Management
2017-020	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Equipment and Real Property Management
2017-021	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Reporting
2017-022	93.767	Children's Health Insurance Program	Eligibility
2017-022	93.778	Medical Assistance Program	Eligibility
2017-023	93.778	Medical Assistance Program	Special Tests and Provisions
2017-024	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Subrecipient Monitoring

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

Qualified Opinion on Each Major Federal Program

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 each of its major federal programs for the year ended September 30, 2017.

Other 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.

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. *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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2017-016 through 2017-024, that we consider to be material weaknesses.

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, each major fund, and the aggregate remaining fund information of the CNMI as of and for the year ended September 30, 2017, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the CNMI's basic financial statements. We issued our report thereon dated June 27, 2018, 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, No. 71, No. 73, No. 78 and No. 82, the financial statements of the Commonwealth Ports Authority, the Commonwealth Development Authority and the Marianas Public Land Trust not being audited and the financial statements of the Commonwealth Utilities Corporation, the Northern Marianas College, the Public School System, 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

June 27, 2018

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor
Year Ended September 30, 2017

Federal Grantor	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture	\$ -	\$ 12,699,454
U.S. Department of Commerce	-	3,579,327
U.S. Department of Defense	-	742,703
U.S. Department of the Interior	1,604,960	6,403,362
U.S. Department of Justice	-	1,629,468
U.S. Department of Labor	-	1,430,595
U.S. Department of Transportation	-	2,176,143
Institute of Museum and Library Services	-	104,879
U.S. Environmental Protection Agency	-	2,548,947
U.S. Department of Energy	-	483,892
U.S. Department of Education	-	870,951
U.S. Department of Health and Human Services	-	33,848,007
U.S. Department of Homeland Security	9,122,473	14,465,289
U.S. Department of Veterans Affairs	-	57,187
TOTAL FEDERAL GRANTS FUND	10,727,433	81,040,204
TOTAL CAPITAL PROJECTS FUND	-	14,887,959
TOTAL PUBLIC WORKS FUND	-	3,566,358
Unallocated expenditures	-	36,821
TOTAL EXPENDITURES OF FEDERAL AWARDS	<u>\$ 10,727,433</u>	<u>\$ 99,531,342</u>

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

Reconciliation:

Expenditures per above	\$ 99,531,342
Local match	7,472,690
Public Works Grants (CFDA 20.205 in Other Governmental Fund)	(3,566,358)
Unreconciled difference	<u>1,875</u>
	<u>\$ 103,439,549</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, 2017

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 SNAP Cluster:	\$ -	\$ 199,807
10.551	Supplemental Nutrition Assistance Program	-	10,450,222
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	-	1,843,970
	Subtotal SNAP Cluster	-	12,294,192
10.664	Cooperative Forestry Assistance	-	159,487
10.676	Forest Legacy Program	-	7,425
10.766	Community Facilities Loans and Grants Cluster: Community Facilities Loans and Grants	-	7,165
	Subtotal Community Facilities Loans and Grants Cluster	-	7,165
10.890	Rural Development Cooperative Agreement Program	-	31,378
	TOTAL U.S. DEPARTMENT OF AGRICULTURE	-	12,699,454
U.S. DEPARTMENT OF COMMERCE			
11.YA132309CN0062	2010 Census Economic Development Cluster:	-	71
11.300	Investments for Public Works and Economic Development Facilities	-	5,014
11.307	Economic Adjustment Assistance	-	797,364
	Subtotal Economic Development Cluster	-	802,378
11.407	Interjurisdictional Fisheries Act of 1986	-	1,444
11.419	Coastal Zone Management Administration Awards	-	2,036,450
11.437	Pacific Fisheries Data Program	-	223,482
11.452	Unallied Industry Projects	-	5,224
11.454	Unallied Management Projects	-	112,902
11.467	Meteorologic and Hydrologic Modernization/Development	-	47,854
11.482	Coral Reef Conservation Program	-	349,522
	TOTAL U.S. DEPARTMENT OF COMMERCE	-	3,579,327
U.S. DEPARTMENT OF DEFENSE			
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Se	-	7,042
12.617	Economic Adjustment Assistance for State Governments	-	735,661
	TOTAL U.S. DEPARTMENT OF DEFENSE	-	742,703
U.S. DEPARTMENT OF THE INTERIOR			
	Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration Program	-	1,041,436
15.611	Wildlife Restoration and Basic Hunter Education	-	908,726
	Subtotal Fish and Wildlife Cluster	-	1,950,162
15.615	Cooperative Endangered Species Conservation Fund	-	407,671
15.634	State Wildlife Grants	-	37,526
15.657	Endangered Species Conservation Recovery Implementation Funds	-	5,657
15.663	National Fish and Wildlife Foundation	-	20,679
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands	-	1,816,098
	Compact Impact	1,604,960	1,729,591
15.904	Historic Preservation Fund Grants-In-Aid	-	435,978
	TOTAL U.S. DEPARTMENT OF THE INTERIOR	1,604,960	6,403,362
U.S. DEPARTMENT OF JUSTICE			
16.017	Sexual Assault Services Formula Program	-	44,844
16.523	Juvenile Accountability Block Grants	-	970
16.540	Juvenile Justice and Delinquency Prevention Program	-	53,863
16.550	State Justice Statistics Program for Statistical Analysis Centers	-	(464)
16.575	Crime Victim Assistance	-	399,851
16.588	Violence Against Women Formula Grants	-	499,870
16.710	Public Safety Partnership and Community Policing Grants	-	280,238
16.738	Edward Byrne Memorial Justice Assistance Grant Program	-	257,827
16.750	Support for Adam Walsh Act Implementation Grant Program	-	92,469
	TOTAL U.S. DEPARTMENT OF JUSTICE	-	1,629,468

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, 2017

Federal CFDA Number	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
	WIOA Cluster:		
17.258	WIOA Adult Program	-	416,002
17.259	WIOA Youth Activities	-	315,395
17.278	WIOA Dislocated Worker Formula Grants	-	144,193
	Subtotal WIOA Cluster	-	875,590
17.225	Unemployment Insurance	-	6,290
17.235	Senior Community Service Employment Program	-	283,770
17.273	Temporary Labor Certification for Foreign Workers	-	76,122
17.277	WIOA National Dislocated Worker Grants/WIA National Emergency Grants	-	961
17.504	Consultation Agreements	-	162,246
17.604	Safety and Health Grants	-	25,616
	TOTAL U.S. DEPARTMENT OF LABOR	-	<u>1,430,595</u>
U.S. DEPARTMENT OF TRANSPORTATION			
20.218	Motor Carrier Safety Assistance	-	344,180
	Federal Transit Cluster:		
20.500	Federal Transit_Capital Investment Grants	-	40,363
	Subtotal Federal Transit Cluster	-	40,363
20.509	Formula Grants for Rural Areas	-	701,576
20.514	Public Transportation Research, Technical Assistance, and Training	-	12,688
	Highway Safety Cluster:		
20.600	State and Community Highway Safety	-	1,035,647
	Subtotal Highway Safety Cluster	-	1,035,647
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	-	41,689
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION	-	<u>2,176,143</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
45.310	Grants to States	-	104,879
U.S. DEPARTMENT OF VETERANS AFFAIRS			
64.203	Veterans Cemetery Grants Program	-	57,187
U.S. ENVIRONMENTAL PROTECTION AGENCY			
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	-	2,548,947
	TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY	-	<u>2,548,947</u>
U.S. DEPARTMENT OF ENERGY			
81.041	State Energy Program	-	230,190
81.042	Weatherization Assistance for Low-Income Persons	-	253,702
	TOTAL U.S. DEPARTMENT OF ENERGY	-	<u>483,892</u>
U.S. DEPARTMENT OF EDUCATION			
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	-	826,239
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	-	35,524
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	-	9,188
	TOTAL U.S. DEPARTMENT OF EDUCATION	-	<u>870,951</u>
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	-	311,794
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	-	421,597
93.053	Nutrition Services Incentive Program	-	34,782
	Subtotal Aging Cluster	-	768,173
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	-	2,500

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, 2017

Federal CFDA Number	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED			
93.043	Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	-	9,130
93.052	National Family Caregiver Support, Title III, Part E	-	114,018
93.127	Emergency Medical Services for Children	-	51,642
93.136	Injury Prevention and Control Research and State and Community Based Programs	-	18,667
93.369	ACL Independent Living State Grants	-	18,956
93.464	ACL Assistive Technology	-	145,043
93.556	Promoting Safe and Stable Families	-	163,963
93.568	Low-Income Home Energy Assistance	-	268,859
93.569	Community Services Block Grant	-	606,170
	CCDF Cluster:		
93.575	Child Care and Development Block Grant	-	1,970,269
	Subtotal CCDF Cluster	-	1,970,269
93.590	Community-Based Child Abuse Prevention Grants	-	192,316
93.630	Developmental Disabilities Basic Support and Advocacy Grants	-	266,975
93.643	Children's Justice Grants to States	-	40,433
93.645	Stephanie Tubbs Jones Child Welfare Services Program	-	166,382
93.667	Social Services Block Grant	-	54,770
93.669	Child Abuse and Neglect State Grants	-	76,661
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	-	154,381
93.767	Children's Health Insurance Program	-	9,560,732
	Medicaid Cluster:		
93.778	Medical Assistance Program	-	19,197,967
	Subtotal Medicaid Cluster	-	19,197,967
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	-	33,848,007
U.S. DEPARTMENT OF HOMELAND SECURITY			
97.012	Boating Safety Financial Assistance	-	674,027
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	9,122,473	11,456,702
97.039	Hazard Mitigation Grant	-	108,366
97.042	Emergency Management Performance Grants	-	1,175,681
97.047	Pre-Disaster Mitigation	-	5,140
97.067	Homeland Security Grant Program	-	1,045,373
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY	9,122,473	14,465,289
	TOTAL FEDERAL GRANTS FUND	10,727,433	81,040,204
U.S. DEPARTMENT OF THE INTERIOR			
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects:		
	FY96 - FY02 Appropriations Act Grant	-	53,536
	FY04 Appropriations Act Grant	-	14,834,423
	TOTAL CAPITAL PROJECTS FUND	-	14,887,959
U.S. DEPARTMENT OF TRANSPORTATION			
20.205	Highway Planning and Construction Cluster: Highway Planning and Construction	-	3,566,358
	Total Highway Planning and Construction Cluster and TOTAL PUBLIC WORKS GRANT FUND	-	3,566,358
	Unallocated expenditures	-	36,821
	TOTAL EXPENDITURES OF FEDERAL AWARDS	\$ 10,727,433	\$ 99,531,342

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, 2017

(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 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, 2017. 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, 2017 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, 2017.

Federal award totals for the excluded departments and component units as of September 30, 2017, are as follows:

<u>Agency or Component Unit</u>	<u>Federal Award Total</u>
Commonwealth Ports Authority	\$ 6,372,307
Commonwealth Development Authority	\$ 12,669,524

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

(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 2017, the CNMI has the following approved indirect cost rates:

Programs which directly charged utilities	11.70%
Programs not directly charging utilities	32.32%

e. Matching Costs

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

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, Adverse and Disclaimer

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? None reported
 7. Type of auditor's report issued on compliance for major federal programs: Qualified
 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? None reported
 9. Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects Compact Impact
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support
93.767	Children's Health Insurance Program
93.778	Medical Assistance Program
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
20.205	Highway Planning and Construction

10. Dollar threshold used to distinguish between type A and type B Programs: \$2,985,940
 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, 2017

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>
2017-001-002	External Financial Reporting
2017-003	Cash and Cash Equivalents
2017-004-005	Receivables
2017-006	Tax Rebates Payable
2017-007	Notes Payable - Judicial Building Loan
2017-008	Compensated Absences
2017-009	Fund Balance - Encumbrances
2017-010	Revenue/Receipts - Division of Revenue and Taxation
2017-011	Expenditures
2017-012	Commonwealth Healthcare Corporation
2017-013	CNMI Workers' Compensation Commission
2017-014	CNMI Group Health and Life Insurance
2017-015	CNMI Local Noncompliance

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2017-016	15.875	Equipment and Real Property Management	\$ -
2017-017	15.875	Procurement and Suspension and Debarment	\$ 1,356,194
2017-018	15.875	Subrecipient Monitoring	\$ -
2017-019	20.205	Equipment and Real Property Management	\$ -
2017-020	66.600	Equipment and Real Property Management	\$ 33,140
2017-021	66.600	Reporting	\$ -
2017-022	93.767	Eligibility	\$ -
2017-022	93.778	Eligibility	\$ 4,558
2017-023	93.778	Special Tests and Provisions	\$ -
2017-024	97.036	Subrecipient Monitoring	\$ -

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

External Financial Reporting

Finding No. 2017-001

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 Utilities Corporation (CUC)
3. Commonwealth Healthcare Corporation (CHCC)
4. Public School System (PSS)
5. Northern Marianas College (NMC)

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 a disclaimer of 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. 2016-001.

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, 2017

External Financial Reporting

Finding No. 2017-002

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, 2017.

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, 2017.

Identification as a Repeat Finding: Finding No. 2016-002.

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, 2017

Cash and Cash Equivalents

Finding No. 2017-003

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

Condition: Tests of bank reconciliations noted the following:

1. A signatory for one account (bank code 11450) was not updated.
2. A bank reconciliation for one account (bank code 11411) was not provided.
3. Bank reconciling items for the following accounts were not recorded at September 30, 2017:

<u>Bank Code</u>	<u>Account Name</u>	<u>Amount of Reconciling Items</u>
11610	TDOA CNMI Treasurer	\$ 1,985,049
11616	CNMI Treasurer - MVA Trust Account	\$ 400,000

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, 2017, a \$65,050 security deposit comprised 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.
6. At September 30, 2017, the CNMI recorded cash clearing accounts of \$531,724. These accounts are expected to be zero at fiscal year-end. An audit adjustment was proposed to correct \$510,006 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, 2017, the CNMI recorded non-CNMI cash accounts of \$11,848 (bank code 11340) and \$(34,581,204) (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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No. 2017-003, Continued

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. 2016-003.

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, 2017

Receivables

Finding No. 2017-004

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, 2017, NMIRF transferred 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, 2017. 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. 2016-004.

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, 2017

Receivables

Finding No. 2017-005

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 and reported in a schedule obtained from OPA did not agree to payables recorded in corresponding component unit (CU) 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.

Component Unit (CU)	Receivables Per OPA Schedule	Payables Reported in CU's Financial Statements	Difference	Comments
CDA	\$ 82,234	Unknown	Unknown	lack of CU financial statements
CHCC	\$ 2,232,608	Unknown	Unknown	lack of CU financial statements
Commonwealth Ports Authority (CPA)	\$ 3,423,813	\$ 1,859,876	\$ 1,563,940	unreconciled differences
CUC	\$ 13,416,025	Unknown	Unknown	lack of CU financial statements
Marianas Public Land Trust	\$ 160,620	Unknown	Unknown	not reported in CU financial statements
NMC	\$ 1,505,395	Unknown	Unknown	lack of CU financial statements
PSS	\$ 1,843,754	Unknown	Unknown	lack of CU financial statements

As of September 30, 2017, 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. 2016-005.

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, 2017

Tax Rebates Payable

Finding No. 2017-006

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, 2017, tax rebates payable aggregated \$70,203,616. The balance consists of the following:

Estimated 2017 liability based on fiscal year 2017 collections	\$ 25,632,619
Additional Child Tax Credit (ACTC)	6,875,037
2016 and prior rebates unpaid as of September 30, 2017	<u>37,695,960</u>
	<u>\$ 70,203,616</u>

Tests of tax rebates payable noted the following:

1. For unpaid tax year 2016 and prior rebates:
 - a. Of eighteen unmatched filings relating to individual and corporate tax rebate payables of \$3,251,406, the following were noted:
 - i. Five 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-01068	2011	\$ 521,512	\$ 519,144	\$ 2,368
I-38047	2009	789	417	372
I-40385	2012	15,132	12,921	2,211
I-41171	2013	7,512	(460)	7,972
I-42787	2015	<u>1,633</u>	<u>1,432</u>	<u>201</u>
		<u>\$ 546,578</u>	<u>\$ 533,454</u>	<u>\$ 13,124</u>

- ii. Tax returns were not provided for four totaling \$87,591:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-01000	2008	\$ 64,991
I-24676	2000	52
I-29175	2004	21,316
I-33418	2006	<u>1,232</u>
		<u>\$ 87,591</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No. 2017-006, Continued

Condition, Continued:

- iii. The rebate amounts on the tax returns were zero for three totaling \$522,267. 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-00770	2002	\$ 465,940
C-00937	2006	46,761
C-01179	2015	<u>9,566</u>
		\$ <u>522,267</u>

- b. Of eleven assessed filings tested relating to individual and corporate tax rebate payables of \$467,018, the following were noted:

- i. Tax returns were not provided for four totaling \$20,285:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-00010	2000	\$ 13,847
I-02836	2004	5,738
I-04461	2004	362
I-15252	2005	<u>338</u>
		\$ <u>20,285</u>

- ii. The rebate amounts on the tax returns were left blank or were zero for two totaling \$66,151. 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-00106	2002	\$ 8,189
C-00541	2012	<u>57,962</u>
		\$ <u>66,151</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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No. 2017-006, Continued

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. 2016-007.

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, 2017

Notes Payable - Judicial Building Loan

Finding No. 2017-007

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, 2017, principal and interest payable to NMISF amounted to \$3,664,852 and \$14,201, respectively, which was 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 the loan 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 agreement with USDA or determined necessary modifications to the NMISF loan.

Cause: The CNMI lacks a formal plan to pay this obligation.

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

Recommendation: The CNMI should develop and implement a formal plan to pay the outstanding obligation.

Identification as a Repeat Finding: Finding No. 2016-008.

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, 2017

Compensated Absences

Finding No. 2017-008

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, 2017, compensated absences payable per the subsidiary ledger aggregated \$10,432,599. Of this amount, \$1,019,685 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$928,227 represents accrued leave in excess of the 45-day/360-hour limit. The balance at September 30, 2017 is net of individual debit balances of \$217,608.

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. 2016-009.

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, 2017

Fund Balance - Encumbrances

Finding No. 2017-009

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

1. Encumbrances in the subsidiary ledger of \$3,279,586 differed from the general ledger of \$6,605,407 at September 30, 2017. The difference of \$3,325,821 was corrected through a proposed audit reclassification.
2. Of two encumbrances tested, aggregating to \$519,453, one encumbrance has an unrecorded open amount of \$100,000. This condition was corrected through a proposed audit adjustment.

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
1015	N/A	1505	62060	640914 OC	\$ 202,000

Grants Assistance Funds

1. Encumbrances in the subsidiary ledger of \$12,937,469 differed from the general ledger of \$48,538,909 at September 30, 2017. The difference of \$35,601,441 was corrected through a proposed audit reclassification.
2. The encumbrance aging includes a balance of \$3,293,868, 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	10.475	\$ 7,268
2020	15.605	2,400
2020	16.582	42,583
2020	66.600	20,971
2020	93.243	4,162
2020	93.251	5,280
2020	93.268	3,607
2020	93.505	11,712
2020	93.959	4,350
2020	93.994	1,240
2020	97.044	1,315
2020	DUNS 929955383	75
2020	Unknown	94,404
2022	16.803	12,100
4044	15.875	26,450
4045	15.875	(309,568)
4049	15.875	104,770
4052	15.875	(477,506)
4058	15.875	<u>3,738,255</u>
Total		\$ <u>3,293,868</u>

3. Of ten encumbrances tested, aggregating \$5,377,603, the following were noted:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No. 2017-009, Continued

Condition, Continued:

Grants Assistance Funds, Continued

- a. Six encumbrances totaling \$286,357 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>
2020	93.505	H05050	534820 OA	\$ 600	07/14/11
4045	15.875	4928	60002 OS	\$ (75,910)	02/26/97
4052	15.875	5136	194 OS	\$ (329,238)	09/02/03
4058	15.875	5634	486 OS	\$ 253,946	03/02/09
4058	15.875	5654	533 OS	\$ 246,960	07/19/10
4058	15.875	5656	525 OS	\$ 189,999	05/13/10

- b. Four 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	93.505	H05050	64100	534820 OA
4045	15.875	4928	64100	60002 OS
4058	15.875	5634	64100	486 OS
4058	15.875	5654	64100	533 OS

- c. 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>
4058	15.875	5656	525 OS	448529	\$ 124,260

- d. One encumbrance has an unrecorded open amount of \$599,070. This condition was corrected through a proposed audit adjustment

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
4058	15.875	5663D	64100	629558 OM	\$ 3,303,559

Saipan Amusement Fund

1. Encumbrances in the subsidiary ledger of \$114,679 differed from the general ledger of \$372,809 at September 30, 2017. The difference of \$258,130 was corrected through a proposed audit reclassification.

2. Of two encumbrances tested, aggregating \$16,500, the following were noted:

- a. The obligating document for one encumbrance was not provided:

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>
7069	7175A	62660	6188863 OC

- b. One encumbrance has an unrecorded open amount of \$77,740. 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, 2017

Finding No. 2017-009, Continued

Condition, Continued:

Saipan Amusement Fund, Continued

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
7069	15.875	7179R	62060	641980 OC	\$ 15,079

Other Governmental Funds

1. Encumbrances in the subsidiary ledger of \$13,933,324 differed from the general ledger of \$8,888,877 at September 30, 2017. The difference of \$5,044,447 was corrected through a proposed audit reclassification.
2. Of eighteen encumbrances tested, aggregating \$12,105,233, the following were noted:
 - a. Two encumbrances totaling \$756,250 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>
4043	83.516	T85164	333747 OC	\$ 669,480	02/20/02
4042	Unknown	4633	391 OS	\$ 86,770	03/02/06

- b. Two encumbrances were subsequently cancelled and adjusted. This condition was corrected through a proposed audit adjustment

<u>Fund</u>	<u>CDFA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Supplier No.</u>	<u>Amount</u>
4042	Unknown	4962F	672 OS	Unknown	\$ 103,140
4042	Unknown	4962G	636240 OC	Unknown	\$ 5,607

- c. Three expenditures totaling \$1,247,481 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	1361251	\$ 835,940
4043	20.205	T4205X	64670	600432 OC	1370607	\$ 407,200
4043	20.205	T6205F	64670	615501 OC	1368756	\$ 4,341

- d. Four encumbrances totaling \$2,230,431 were obligated as of September 30, 2017, but the project was cancelled. This condition was corrected through a proposed audit adjustment

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
4043	20.205	T6205G	64430	630779 OC	\$ 1,897,432
2080	Unknown	2082	62060	634076 OC	\$ 130,000
2080	Unknown	2082	64590	638757 OC	\$ 184,999
7068	Unknown	63050	63050	626490 OP	\$ 18,000

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No. 2017-009, Continued

Condition, Continued:

Other Governmental Funds, Continued

- e. 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>
4043	20.205	T6205G	64430	630779 OC
2080	Unknown	2082	62060	634076 OC
2080	Unknown	2082	64590	638757 OC
4042	Unknown	4633	64300	391 OS
7068	Unknown	7068C	63050	626490 OP

- f. One encumbrance has an unrecorded open amount of \$167,788. This condition was corrected through a proposed audit adjustment

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
2080	Unknown	T6205N	62060	625194 OC	\$ -

3. The encumbrance aging includes a balance of \$1,489,283, 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>
2030	Unknown	\$ 5,073
2043	Unknown	5,765
4042	Unknown	180,851
4043	20.205	224,881
4043	83.516	907,535
4043	Unknown	91,938
4047	Unknown	46,958
4052	15.875	25,601
4058	15.875	681
Total		\$ <u>1,489,283</u>

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. 2016-010.

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, 2017

Revenue/Receipts - Division of Revenue and Taxation

Finding No. 2017-010

Criteria: Documents supporting revenues must be filed and maintained.

Condition: Tests of cash receipts at the Division of Revenue and Taxation noted the following:

- a. Of thirty-five business gross revenue taxes (account nos. 40110 and 40120) tested, the tax return was not provided for one cash receipt (cash receipt no. 3303304 dated 01/31/17) amounted to \$3,892,344.
- b. Of twelve wage and salary receipts (account nos. 40210 and 40220) tested, eleven receipts were not supported by a detailed summary of taxes withheld by taxpayer. Thus, we were unable to determine if the taxes were properly assessed:

<u>Receipt No.</u>	<u>Receipt Date</u>	<u>Amount</u>
3263867	10/31/16	\$ 181,000
3280686	12/12/16	\$ 3,095
3311991	01/30/17	\$ 120,425
3324637	03/14/17	\$ 9,838
3342902	04/19/17	\$ 16,775
3355053	05/12/17	\$ 163,294
3374166	06/22/17	\$ 1,821
3393507	07/24/17	\$ 191,472
3402101	08/18/17	\$ 1,124
3418656	09/25/17	\$ 185,276
3295981	01/17/17	\$ 1,670

Cause: The CNMI lacks adequate file maintenance

Effect: Revenues could be misstated.

Recommendation: We recommend that all tax returns be filed and maintained.

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, 2017

Expenditures

Finding No. 2017-011

Criteria: Expenditures should be monitored, supported and be recorded when incurred.

Condition: During fiscal year 2017, the CNMI recorded transfers out to the Rota and Tinian Municipal Treasury of \$1,732,493. Amounts were transferred to finance Rota and Tinian operations. However, related expenditures were not recorded by the CNMI. In addition, documents supporting these expenditures were not maintained and monitored by the CNMI. This condition was corrected through proposed audit adjustments.

Cause: The CNMI failed to monitor expenditures incurred by Rota and Tinian Municipalities.

Effect: Expenditures could be misstated and misuse of funds could occur.

Recommendation: The CNMI should monitor expenditures incurred by Rota and Tinian municipalities and documents supporting expenditures should be maintained and expenditures should be recorded when incurred.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for the reason indicated in the Corrective Action Plan.

Auditor Response: Documents supporting the expenditures were not provided to the auditor. Transfers were recorded in the general ledger; however, the related expenditures were not identified.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Commonwealth Healthcare Corporation

Finding No. 2017-012

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, 2017, 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. 2016-011.

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, 2017

CNMI Workers' Compensation Commission

Finding No. 2017-013

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, 2017, 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, 2017 were not prepared for WCC cash accounts aggregating \$174,626.
2. WCC maintains an investment with a market value of \$1,344,605 at September 30, 2017; however, an investment policy was not provided. In addition, fiscal year 2017 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. 2016-012.

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, 2017

CNMI Group Health and Life Insurance

Finding No. 2017-014

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 August 5, 2016, Public Law 19-60, transferred administrative functions of the CNMI Group Health and Life Insurance (GHLI) from NMIRF to the CNMI Department of Finance (DOF). CNMI management determined that GHLI should be included within its Special Revenue Funds. As of September 30, 2017, transfers of GHLI's assets and liabilities were not documented. Audit adjustments were proposed to record GHLI's transactions during fiscal year 2017.

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

Effect: GHLI's funds could be misstated.

Recommendation: The CNMI should document transfers of GHLI's assets and liabilities and should establish or assign separate general ledger accounts for GHLI funds.

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, 2017

CNMI Local Noncompliance

Finding No. 2017-015

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

Condition: On September 28, 2016, the CNMI passed Public Law 19-68 as the Appropriations and Budget Authority Act of 2017. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2017.

	<u>Budgeted Level of Expenditures</u>	<u>Actual Expenditures</u>	<u>Over Expenditure</u>
Health (Medicaid local expenses and medical referrals)	\$ 7,663,277	\$ 16,694,135	\$ 9,030,858
Judgments	\$ 1,000,000	\$ 9,866,590	\$ 8,866,590
Executive branch:			
Department of Public Safety	\$ 7,934,462	\$ 10,486,421	\$ 2,551,959
Department of Finance	\$ 5,570,269	\$ 6,736,618	\$ 1,166,349
Department of Fire and Emergency Medical Services	\$ 4,648,863	\$ 5,448,806	\$ 799,943
Department of Commerce	\$ 1,231,114	\$ 1,489,835	\$ 258,721
Department of Corrections	\$ 4,903,931	\$ 5,016,335	\$ 112,404
Debt service	\$ 8,460,375	\$ 10,415,124	\$ 1,954,749
Office of the Public Auditor	\$ 1,013,668	\$ 1,727,721	\$ 714,053
Tourism (payment to MVA)	\$ 15,200,631	\$ 15,753,034	\$ 552,403
Employee benefits (payment to GHLITF)	\$ 10,326,817	\$ 10,448,830	\$ 122,013
Government utilities	\$ 110,300	\$ 200,988	\$ 90,688
Boards and commissions	\$ 1,883,077	\$ 1,897,282	\$ 14,205

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. 2016-013.

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, 2017

Finding No.: 2017-016
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 BTS 2014-1, TAP CNMI 2015-5, MAP CNMI 2016-1, CNMI BTS 2015-1, TAP CNMI 2016-1 and TAP CNMI 2016-4
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 Procurement & Supply (P&S) to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction. Also, P&S shall perform random audits of property held by each accountable person to validate the integrity of the property control process.

Further, property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition: 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 2017.
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 the cumulative dollar amount of property and equipment acquired with program grant funds over the past five years.

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Grand Total</u>
\$ 579,437	\$ 62,939	\$ 1,123,090	\$ 42,537	\$ 104,272	\$ 1,912,275

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-016, 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 BTS 2014-1, TAP CNMI 2015-5, MAP CNMI 2016-1, CNMI
BTS 2015-1, TAP CNMI 2016-1 and TAP CNMI 2016-4
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Identification as a Repeat Finding: Finding No. 2016-031.

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, 2017

Finding No.: 2017-017
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-2015-1, CNMI-CIP-2015-3 and CNMI-CIP-2017-2
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,356,194

Criteria: In accordance with applicable procurement requirements, procurement transactions shall provide for full and open competition through the use of competitive procedures. Also, 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 prior finding 2015-028 and related finding 2016-021, noncompliance with procurement requirements was cited for construction contract no. 659 OS. The records in the procurement file were not sufficient to demonstrate the reasonableness of the contract price. In a letter dated May 22, 2018, the Office of Insular Affairs, U.S. DOI, required recovery of \$5.7M, which was the difference between the initial cost estimate of \$16.2M and the contract price of \$21.9M.

In FY 2017, the CNMI executed a total of \$1,805,099 in change orders to the abovementioned construction contract no. 659 OS, resulting in an increased contract price of \$23,799,972. The records in the procurement files for the change orders were not sufficient to demonstrate the reasonableness of the change order costs. The total expenditures incurred in FY 2017 under contract no. 659 OS is \$1,356,194, which is a questioned cost.

Cause: The CNMI did not enforce compliance with applicable procurement requirements to make and document a price analysis to determine the reasonableness of the contract price. Also, the CNMI determined it was in the best interest of the government to issue change orders, as opposed to performing formal bid procedures.

Effect: The CNMI is in noncompliance with applicable procurement requirements, and questioned costs of \$1,356,194 exist.

Recommendation: The CNMI should seek further guidance from the grantor agency. Also, the responsible procurement authority should perform and document the required price analysis in sufficient detail to demonstrate the reasonableness of the contract price in accordance with applicable procurement requirements.

Identification as a Repeat Finding: Finding No. 2016-021.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for the reason indicated in the Corrective Action Plan.

Auditor Response: No written waiver was provided. Decisions for all procurement actions, including the justification of costs either through competition or price analysis, should be documented in the procurement record in order to substantiate compliance with applicable requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-018
 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-2016-2 and CNMI-CIP-2015-7
 Area: Subrecipient Monitoring
 Questioned Costs: \$-0-

Criteria: In accordance with applicable subrecipient monitoring requirements, the pass-through entity (PTE) must establish and implement subrecipient monitoring policies and procedures, including the following:

- At the time of the award, clearly identifying to the subrecipient all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award;
- Ensuring that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of 2 CFR part 200, subpart F and that the required audits are completed within nine months of the end of the subrecipient's audit period;
- Issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report;
- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings;
- 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 2017.

<u>Date</u>	<u>Document No.</u>	<u>Subrecipient</u>	<u>Amount</u>
10/31/16	1305661	CUC	\$ 578,696
03/06/17	1315878	CUC	19,947
06/05/17	1341687	PSS	<u>65,100</u>
			\$ <u>663,743</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, CUC and PSS, have been subjected to Single Audits; however, there is no evidence that the Single Audit Reports are used as a monitoring tool.
3. For one (or 50%) of two subrecipient audits tested, the audit for CUC includes a finding related to the grant; however, there is no evidence that a procedure was implemented to determine that the subrecipient takes timely and appropriate corrective action on all audit findings.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-018, 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-2016-2 and CNMI-CIP-2015-7
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Condition, Continued:

4. There is no evidence that a procedure was implemented to determine that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of 2 CFR part 200, subpart F and that the required audits are completed within nine months of the end of the subrecipient's audit period.

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

Effect: The CNMI is in noncompliance with applicable subrecipient monitoring requirements. No questioned costs are presented as we are unable to quantify the extent of the noncompliance, and the FY 2016 Single Audit reports of the subrecipients tested reported no questioned costs 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. 2016-022.

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, 2017

Finding No.: 2017-019
 Federal Agency: U.S. Department of Transportation
 CFDA Program: 20.205 Highway Planning and Construction
 Federal Award Nos.: CM-NH-FY17(001), CM-NH-0030(010) and CM-NH-0031(015)
 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 funding for the property (including the Federal award identification number), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.

Condition: Tests of five capital assets, aggregating \$239,910 in acquisition costs of a total of \$808,386, resulted in the following deficiencies:

1. Property records maintained by P&S and the program contain incomplete information as to percentage of Federal participation, Federal Award Identification Number, source of the property, who holds title and the use of the property.
2. For one (or 20%), the asset was purchased using local funds; however, it was recorded as a federal purchase per P&S records. No questioned cost is presented as we verified existence.
3. The property listing of the program, totaling \$438,361, did not agree with the property listing of P&S, totaling \$808,386. The difference is \$370,025.
4. Program management represents that a physical inventory count was performed in the fiscal year; however, the date of such performance is not documented.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding property records maintained.

Effect: The effect of the above condition is noncompliance with the applicable equipment management. No questioned costs are presented since we are unable to quantify the overall extent of noncompliance. Also, we were able to verify the physical existence of the assets selected for testing. See below for the cumulative dollar amount of property and equipment acquired with program grant funds over the past five years.

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Grand Total</u>
\$ 2,266,388	\$ 11,099	\$ 899	\$ 4,794	\$ 215,990	\$ 2,499,170

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-019, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Federal Award Nos.: CM-NH-FY17(001), CM-NH-0030(010) and CM-NH-0031(015)
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Recommendation: We recommend that the CNMI maintain complete records of property and equipment acquired with grant funds, perform annual physical inventories, and comply with applicable property management policies and procedures by performing annual reconciliations between the program and P&S to determine where the variances lie.

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, 2017

Finding No.: 2017-020
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the
Insular Areas - Program Support
Federal Award No.: M-00915614
Area: Equipment and Real Property Management
Questioned Costs: \$33,140

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 Procurement and Supply (P&S) to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction. Further, P&S shall perform random audits of property held by each accountable person to validate the integrity of the property control process.

Further, property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal award identification number), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property.

Condition: Tests of seventeen capital assets, aggregating \$462,039 in acquisition costs of a total of \$1,984,166, resulted in the following deficiencies:

1. Property records maintained by P&S and the program contain incomplete information as to location, percentage of Federal participation, Federal award identification number, source of the property, who holds title and the use of the property.
2. For one (US-30727CM for \$13,970) (or 6%), the 1997 vehicle could not be located, although P&S indicated it was inventoried.
3. For one (FA-00975US for \$42,275) (or 6%), the P&S inventory listing indicated the Handheld X-Ray was surveyed; however, it was still in use by the program. No questioned cost is presented as we verified existence.
4. For three (or 21%), the P&S inventory listing indicated the assets were surveyed, but survey documents were not provided, and physical existence could not be verified.

FA-00104US, 2003 vehicle	\$ 11,895
MP-10692CM, computer/server	<u>7,275</u>
	\$ <u>19,170</u>

5. The property listing of the program totaling \$689,539 did not agree to the property listing of P&S totaling \$1,984,166. The difference is \$1,294,627. No questioned cost is presented as we are unable to determine the cumulative dollar amount of the noncompliance.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-020, Continued
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the
Insular Areas - Program Support
Federal Award No.: M-00915614
Area: Equipment and Real Property Management
Questioned Costs: \$33,140

Condition, Continued:

6. A complete physical inventory of equipment and property was not performed during FY 2017, but was done in October 2017. The last physical inventory was in May 2015.

Cause: The cause of the above condition is lack of adherence with established policies and procedures regarding property records maintained.

Effect: The effect of the above condition is noncompliance with the applicable equipment management requirements and questioned costs of \$33,140 exist. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Grand Total</u>
\$ 82,734	\$ 69,929	\$ 21,454	\$ 802,902	\$ 145,748	\$ 1,122,767

Recommendation: We recommend that the CNMI maintain complete records of property and equipment acquired with grant funds, perform annual physical inventories, and comply with applicable property management policies and procedures by performing annual reconciliations between the program and P&S to determine where the variances lie.

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, 2017

Finding No.: 2017-021
 Federal Agency: U.S. Environmental Protection Agency
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the
 Insular Areas - Program Support
 Federal Award No.: M-00915614
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: The Program is required to submit an SF-425, Federal Financial Report that is accurately prepared.

Condition: Program income earned and unexpended was incorrectly reported:

	<u>Program Income Earned</u>	<u>Unexpended Program Income</u>
Amount per general ledger	\$ 393,637	\$ 229,467
Amount reported	<u>563,209</u>	<u>101,055</u>
	\$ <u>(169,572)</u>	\$ <u>128,412</u>

Cause: The cause of the above condition is a lack of controls over compliance with reporting requirements and monitoring of program income.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No question cost is presented as there is no reportable finding for program income compliance.

Recommendation: We recommend that the Program take reasonable steps to effectively comply with applicable regulations and monitor program income.

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, 2017

Finding No.: 2017-022
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.767 Children's Health Insurance Program
 Federal Award Nos.: 1705-CQ0301, 1705-CQ5R21, 1705-CQ5021 and 05-1605CQ5R21
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 1705-CQ5MAP, 1705-CQ5ADM, 1705-CQACAI, 1705-CQ1935, 170CQIIMPL, 05-1605CQ5MAP, 05-1605CQ5ADM, 05-160CQIIMPL and 05-1605CQACAI
 Area: Eligibility
 Questioned Costs: \$4,558

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, 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)

Condition: Of sixty-three eligibility files tested, aggregating \$232,539 in total benefits paid of a population of \$19.1 million, deficiencies were noted, as follows:

1. For three (or 5%), the countable income calculated by Medicaid differs from the third party verifications. No questioned cost is reported as the recipients' countable income per the third party verifications are 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>
11-019955-00	08/17/17	\$ 1,189	\$ 1,023	\$ 166
20-016212-01	12/19/16	\$ 1,036	\$ 699	\$ 337
13-011121-00	03/20/17	\$ 751	\$ 327	\$ 424

2. For one (or 2%), the non-exempt resources calculated by Medicaid differs from the third party verification. No questioned cost is reported as the non-exempt resources per the third party verification is within the resource limits.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Non-Exempt Resources Per Third Party Verification</u>	<u>Non-Exempt Resources Per Medicaid</u>	<u>Variance</u>
12-023601-00	11/17/16	\$ 781	\$ 563	\$ 218

3. For twelve (or 19%), the automated teller machine (ATM) receipts reflecting the accounts' current balances were used to determine the recipients' non-exempt resources. However, per Medicaid's application checklist, the required third party verification for banking activities are current savings and checking account statements. The ATM receipts does not reflect the account's activities, therefore, we were not able to determine whether there were any significant withdrawals made from the accounts prior to the submission of the ATM receipts to Medicaid Office for eligibility determination.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-022, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.767 Children's Health Insurance Program
 Federal Award Nos.: 1705-CQ0301, 1705-CQ5R21, 1705-CQ5021 and 05-1605CQ5R21
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 1705-CQ5MAP, 1705-CQ5ADM, 1705-CQACAI, 1705-CQ1935, 170CQIIMPL, 05-1605CQ5MAP, 05-1605CQ5ADM, 05-160CQIIMPL and 05-1605CQACAI
 Area: Eligibility
 Questioned Costs: \$4,558

Condition, Continued:

<u>Case Number</u>	<u>Certification Effective</u>	<u>Benefits Paid and Questioned Costs</u>
16-022522-15	10/27/16	\$ 10
14-034105-00	05/08/17	211
17-010028-00	03/14/17	131
16-007087-00	12/10/16	0
17-023588-00	10/19/16	936
14-001319-12	06/28/17	171
14-019727-00	02/28/17	512
12-019906-00	02/28/18	0
11-023581-00	10/20/16	0
16-020419-00	03/30/17	1,644
12-032623-01	10/09/16	807
17-033307-00	06/12/17	22
		<u>\$ 4,444</u>

4. For one (or 2%), a non-biological child was claimed as a dependent, however, 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 child was legally adopted by the applicant.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Household Member</u>	<u>Benefits Paid and Questioned Costs</u>
14-011544-00	09/15/16	5	\$ 114

5. For three (or 5%), eligibility determination was either performed after sixty days from the date of application or the application forms were not dated, thus, we were not able to determine whether eligibility determinations were performed within sixty days from the date of application. No questioned cost is reported as applicants were determined to be eligible.

<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>
11-010490-01	09/07/17	Not dated	08/24/17	Unknown
12-002034-14	03/05/17	Not dated	05/12/17	Unknown
14-032450-00	06/28/17	04/03/17	06/28/17	86

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-022, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.767 Children's Health Insurance Program
Federal Award Nos.: 1705-CQ0301, 1705-CQ5R21, 1705-CQ5021 and 05-1605CQ5R21
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 1705-CQ5MAP, 1705-CQ5ADM, 1705-CQACAI, 1705-CQ1935, 170CQIIMPL, 05-1605CQ5MAP, 05-1605CQ5ADM, 05-160CQIIMPL and 05-1605CQACAI
Area: Eligibility
Questioned Costs: \$4,558

Effect: The CNMI is in noncompliance with applicable eligibility requirements pursuant to the Medicaid Operational Plan. The projected questioned cost exceeds \$25,000, and known questioned costs of \$4,558 exist, as noted below:

Questioned Costs

Condition 3	\$ 4,444
Condition 4	<u>114</u>
	\$ <u>4,558</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. 2016-025.

Views of Auditee and Corrective Action Plan:

The CNMI disagrees with this finding for reasons indicated in the Corrective Action Plan.

Auditor Response:

Condition 1: For 20-016212-01, the variance of \$337 is due to the monthly earned income declared by the spouse which was not included in our calculation as there was no employment verification nor check stubs in file to support spouse's earned income.

For 13-011121-00, the variance of \$424 is the difference between the income per employment verification document and the income used by Medicaid. Income used by Medicaid for the calculation is the check amount instead of the monthly salary stated on the employment verification.

Condition 3: Medicaid requires submission of current savings and checking account statements for verification of banking activities.

Condition 4: There was no evidence on file how Medicaid determined that the applicant is eligible to claim the non-biological child to be her dependent.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-023
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 1705-CQ5MAP, 1705-CQ5ADM, 1705-CQACAI, 1705-CQ1935,
170CQIIMPL, 05-1605CQ5MAP, 05-1605CQ5ADM, 05-
160CQIIMPL and 05-1605CQACAI
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 that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

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. 2016-027.

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, 2017

Finding No.: 2017-024
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: FEMA-4235-DR
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, Compliance Requirements - Subrecipient Monitoring, a pass-through entity is responsible for:

- Monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensuring that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years beginning on or after December 26, 2014 have met the audit requirements of 2 CFR part 200, subpart F and that the required audits are completed within 9 months of the end of the subrecipient's audit period;
- Issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report;
- Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.
- 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. Control procedures to monitor subrecipient compliance with applicable laws, regulations, and provisions of contracts and grant agreements are not evident. We are aware that CHCC, CPA, CUC and PSS have been subjected to Single Audits; however, there is no evidence that the Single Audit Reports are used as a monitoring tool.
2. For one (or 25%) of four subrecipient audits tested, the audit for CUC includes a finding related to the grant; however, there is no evidence that a procedure is implemented to determine that the subrecipient takes timely and appropriate corrective action on all audit findings.
3. There is no evidence that a procedure is implemented to determine that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of 2 CFR part 200, subpart F and that the required audits are completed within nine months of the end of the subrecipient's audit period.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-024, Continued
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially
Declared Disasters)
Federal Award No.: FEMA-4235-DR
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

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

Effect: The CNMI is in noncompliance with applicable subrecipient monitoring requirements. No questioned costs are presented as we are unable to quantify the extent of the noncompliance, and the FY 2016 Single Audit reports of the subrecipients tested reported no questioned costs 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.

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, 2017

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, 2017:

Questioned costs as previously reported:

Fiscal year 2016	\$ 16,067,272
Fiscal year 2015	2,052,940
Fiscal year 2014	3,230,734
Fiscal years 2013 and prior	<u>10,217,523</u>

31,568,469

Less questioned costs resolved in fiscal year 2017:

Questioned costs resolved per USDHS letter dated March 22, 2018:	
Fiscal year 2016 Single Audit	(337,295)
Questioned costs resolved per USDOJ letter dated December 22, 2017:	
Fiscal year 2016 Single Audit	(9,567,010)
Fiscal year 2015 Single Audit	(1,309,226)
Questioned costs resolved per USDHHS letter dated August 2, 2017:	
Fiscal year 2012 Single Audit	<u>(26,592)</u>

20,328,346

Questioned costs of fiscal year 2017 Single Audit

1,393,892

Unresolved questioned costs at September 30, 2017

\$ 21,722,238



Office of the Secretary
Department of Finance

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Corrective Action Plan
Year Ended September 30, 2017

Finding No. 2017-001

Name of Contact Persons: Michael Pai, Public Auditor, Lillian Pangelinan, NMISF Administrator, Gary Camacho, CUC Executive Director, Esther Muna CHCC CEO, Glenn Muna, Acting PSS Commissioner and Carmen Fernandez, NMC President

Corrective Action: The Public School System and the Northern Marianas College completed their FY17 audits prior to June 30th, but after the deadline set by the auditors conducting the CNMI audit, and therefore was not possible to include their financials in the CNMI audit without impacting the release of the CNMI audit in a timely manner.

As contractor for this 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 for the FY18 audit. All Department Heads of each of the agencies are aware of the deadlines and will ensure that all contracts to begin audits are in place for their financial audits prior to the close of the fiscal year. They will also ensure that all year end reports required for the FY18 audit are submitted to the CNMI as per deadlines set in conjunction with OPA to ensure that they are included in the next report.

Proposed Completion Date: June 30, 2019

Finding No. 2017-002

Name of Contact Persons: Edward Manibusan, Attorney General, Lillian Pangelinan, NMISF Administrator and Larrisa Larson, Secretary of Finance

Corrective Action: Legal Review in this matter is ongoing as the NMISF has taken the position that it is an arm of the court and not a component unit. As a result, the NMISF believes that it is not a pension fund and is not required to comply with GASB Statement No. 68. The matter continues to be under discussion between the CNMI and the NMISF. The Administration will take appropriate action upon conclusion of this discussion.

Proposed Completion Date: Ongoing

Finding No. 2017-003

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Connie Agulto, CNMI Treasurer

Corrective Action:

1. An updated signature card for the new authorized signers are completed and will be submitted in FY 2018.
2. This account has remained inactive since its inception. DOF will conduct a review of accounts that remain inactive and proceed with appropriate consolidations and closures.
3. DOF accepts the proposed audit adjustments. The cash management policies were implemented in the latter part of FY 17 and the reconciliation of similar accounts are to be completed in a timely manner.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No. 2017-003, Continued

Corrective Action, Continued:

4. These accounts are managed and reconciled by the Judicial branch, and DOF is working with them to provide the department with necessary documents to demonstrate internal controls.
5. DOF will conduct a review of accounts to include 15050 and determine appropriate actions.
- 6-7. DOF accepts the proposed audit adjustments. The cash management policies were implemented in the latter part of FY 17, and the reconciliation of similar accounts are to be completed in a timely manner.

Proposed Completion Date: September 30, 2018

Finding No. 2017-004

Name of Contact Person: Larrisa Larson, Secretary of Finance

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

Proposed Completion Date: September 30, 2019

Finding No. 2017-005

Name of Contact Persons: Michael Pai, Public Auditor and Larrisa Larson, Secretary of Finance

Corrective Action: The component units dispute the receivables schedule. Nevertheless, the Department of Finance will enforce collections starting FY 2019 and determine collectability of prior years.

Proposed Completion Date: June 30, 2019

Finding No. 2017-006

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Maria White, Division of Revenue and Taxation

Corrective Action: The Division of Revenue and Taxation has 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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No. 2017-007

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

Corrective Action: The CNMI is following PL 9-3 to the extent that 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 the USDA to address this issue. With the improving financial standing of the CNMI in the recent years, we are optimistic that the loan will be approved.

Proposed Completion Date: September 30, 2019

Finding No. 2017-008

Name of Contact Persons: Bernadita Palacios, Director of F&A, Eloida Macaranas Payroll Manager

Corrective Action: The Department of Finance completed its cash management plan in the latter part of FY17. The plan contains policies and procedures to review the validity of charges in compensated absences payable in a timely manner. DOF contracted a consultant who reviewed the balances with DOF staff and made adjustments. They also have been reviewing the compensated absences payable and will continue to review these balances on a regular basis.

Proposed Completion Date: September 30, 2018

Finding No. 2017-009

Name of Contact Person: Bernadita Palacios, Director of F&A

Corrective Action: CNMI agrees with all proposed audit adjustments. The cash management plan implemented in the latter part of FY 17 contains policies and procedures to review the encumbrances. Furthermore, DOF will establish a task force to examine the validity of outstanding encumbrances to timely adjust the subsidiary ledger by year end.

Proposed Completion Date: September 30, 2018

Finding No. 2017-010

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: DOF is currently updating its policies and procedures that will address the security of files that contain personal information. With the implementation of the revised policies and procedures we aim to address proper filings and maintenance.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No. 2017-011

Name of Contact Persons: Municipal Treasurers and/or Mayors of First and Second Senatorial District

Corrective Action: The CNMI disagrees with this finding. The CNMI has conducted transfers based upon both CNMI law and a spending plan/budget worksheet provided by the Municipalities prior to transfer of funding. The CNMI Legislature passes appropriation laws that transfer funds to either the Municipalities of each Senatorial District or the Offices of the Mayors of each Senatorial District. Documents pertaining to the physical transfer of funds and the respective laws pertaining to the transfers are available at the CNMI Department of Finance. Documents supporting the expenditures once the funds are transferred are maintained at each Senatorial District and are recorded when incurred in each of the respective municipalities.

Proposed Completion Date: Not Applicable

Finding No. 2017-012

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

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 and develop a plan for the pending matters.

Proposed Completion Date: Ongoing

Finding No. 2017-013

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Mark Rabauliman, Secretary of Commerce

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.

Proposed Completion Date: Ongoing

Finding No. 2017-014

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI has been working on the separation of the GHLI program from the NMIRF and integration into the CNMI DOF. As both functions are currently within the DOF area of responsibility, the work to separate all aspects of the two entities will be completed in the current fiscal year.

Proposed Completion Date: September 30, 2018

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No. 2017-015

Name of Contact Persons: Virginia Villagomez, Special Assistant for Office of Management and Budget and Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI agrees with this finding and continuously works towards addressing over expenditures and determining the appropriate budgetary levels for the Commonwealth.

Areas affecting public health and human welfare are an issue as areas such as medical referral for patients requiring urgent health care not available in the Commonwealth and overtime for 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 arise to address the areas where the Commonwealth often experiences budgetary shortfalls. Additional hiring of law enforcement personnel will also reduce the amount of overtime as there are more employees working regular hours and sharing the responsibility for the CNMI safety.

Proposed Completion Date: September 30, 2018

Finding No.: 2017-016
Federal Agency: U.S. Department of the Interior
CFDA Program: USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Federal Award Nos.: CNMI BTS 2014-1, TAP CNMI 2015-5, MAP CNMI 2016-1, CNMI BTS 2015-1, TAP CNMI 2016-1 and TAP CNMI 2016-4
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The Department of Finance has submitted in its 2019 budget proposal to incorporate new technological systems to improve inventory (and other financial) procedures. The aim of this implementation is to process documents more efficiently, with less required human resources, and to maintain records to include information such as federal award identification number, source of the property, title, percentage of federal participation, and use and condition of the property.

Additionally, this will improve the time and effort needed for central government to reconcile records with program managers. A physical Inventory of FY 2017 will be coordinated with program manager and Division of Procurement and Supply to address this finding.

Proposed Completion Date: December 31, 2018

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No.: 2017-017

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-2015-1, CNMI-CIP-2015-2, CNMI-CIP-2015-3, CNMI-CIP-2015-4 and CNMI-CIP-2017-2
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,356,194

Name of Contact Person: Administrator of CIP Office

Corrective Action: CNMI disagrees with this finding. Contracting office determines that Regulations 70-30.1-115(f) is not applicable in this matter because Contract 659-OS was implemented due to extraordinary circumstances to prevent Stipulated Orders from EPA. As such, CNMI determines that section (g) is applicable: "*The head of the contracting activity may, in exceptional cases, waive the requirement for submission of certified cost or pricing data. The authorization for the waiver and the reasons for granting it shall be in writing.*" CIP office believes that extending the contract through change orders was more cost effective and timely rather than conducting open bids and engineering estimates as a price analysis was conducted in the beginning of the project. CNMI will continue to communicate with OIA regarding contract no. 659-OS as this has been a related finding (2015-028, 2016-021).

Proposed Completion Date: N/A

Finding No.: 2017-018

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-2016-2 and CNMI-CIP-2015-7
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Name of Contact Person: Administrator of CIP Office

Corrective Action:

1. The *Subrecipient Agreement* has been drafted and reviewed by the Office of the Attorney General. All component units for sub grants for fiscal year 2017 have signed and executed subrecipients are required to review and sign the agreements annually, before the release of funds.
2. *Sub recipient Monitoring Policies & Procedures* have been implemented and communicated to all sub recipients. 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. A subrecipients monitoring checklist has been incorporated to facilitate in the monitoring process.

Proposed Completion Date: June 30, 2018

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No.: 2017-019
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Federal Award Nos.: CM-NH-FY17(001), CM-NH-0030(010) and CM-NH-0031(015)
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Name of Contact Person: Lorraine M. Seman, Administrator, Highway Planning

Corrective Action:

1. Conduct physical inventory on a semi-annual basis and update inventory forms to include Federal Award numbers, and percentage of federal participation, and to remain separate from items purchased with local funds.
2. Include a separate listing to include infrastructure assets and update and maintain annually.
3. Coordinate with CNMI Division of Procurement & Supply to update central records to include information such as but not limited to property records, transfers, surveyed properties and de-obligation records. In addition, propose inventory system to identify separately DPW/TSD from local.
4. Establish control procedures for monitoring and maintenance of property files and equipment to include follow-up of requests for property survey/de-obligation/transfer, if any to ensure that our records are complete and accurate and reconcile on a regular basis.

Proposed Completion Date: December 30, 2018

Finding No.: 2017-020
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
Federal Award No.: M-00915614
Area: Equipment and Real Property Management
Questioned Costs: \$33,140

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action:

Condition 1: The Department of Finance has submitted in its 2019 budget proposal to incorporate new technological systems to improve inventory (and other financial) procedures. The aim of this implementation is to process documents more efficiently, with less required human resources, and to maintain records to include information such as federal award identification number, source of the property, title, percentage of federal participation, and use and condition of the property.

Condition 2-5: A physical Inventory of FY 2017 will be coordinated with program manager and Division of Procurement and Supply to address these findings.

Proposed Completion Date: December 31, 2018

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No.: 2017-021
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
Federal Award No.: M-00915614
Area: Reporting
Questioned Costs: \$-0-

Name of Contact Persons: Gloria Castro, DEQ and Larrisa Larson, Secretary of Finance

Corrective Action: The Department of Finance agrees that the figures reported in error need closer review. The Department of Finance disagrees with the statement that there are a lack of controls over compliance with reporting requirements and monitoring of program income. Reports are done on a quarterly basis. Copies of these reports are distributed to the Department and the federal program officers on a quarterly basis as well. All supporting documentation are attached to the SF425s to support the information contained in the report. We believe this to be an isolated instance with zero question cost, but will take note of this occurrence and continue to comply with applicable regulations and monitor program income.

Proposed Completion Date: June 30, 2018

Finding No.: 2017-022
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.767 Children's Health Insurance Program
Federal Award Nos.: 1705-CQ0301, 1705-CQ5R21, 1705-CQ5021 and 05-1605CQ5R21
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 1705-CQ5MAP, 1705-CQ5ADM, 1705-CQACAI, 1705-CQ1935, 170CQIIMPL, 05-1605CQ5MAP, 05-1605CQ5ADM, 05-160CQIIMPL and 05-1605CQACAI
Area: Eligibility
Questioned Costs: \$4,558

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

Corrective Action:

Condition 1A: CNMI agrees with this finding. We have corrected our calculations.

Condition 1B-C: CNMI disagrees with this finding and have provided to our auditors supporting documents to calculations.

Condition 2. CNMI agrees with this finding. We have corrected our calculations.

Condition 3. CNMI disagrees with this finding. ATM receipts reflect the accounts' current balances since we require current balances. The Bank does not issue bank statements especially if the customer does not have any activity or if there is no deposit made in the account. However, Medicaid will ensure that the practice of obtaining current bank statements is a requirement or request for an affidavit if they cannot afford a bank statement.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No.: 2017-022, Continued

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.767 Children's Health Insurance Program
Federal Award Nos.: 1705-CQ0301, 1705-CQ5R21, 1705-CQ5021 and 05-1605CQ5R21
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 1705-CQ5MAP, 1705-CQ5ADM, 1705-CQACAI, 1705-CQ1935, 170CQIIMPL, 05-1605CQ5MAP, 05-1605CQ5ADM, 05-160CQIIMPL and 05-1605CQACAI
Area: Eligibility
Questioned Costs: \$4,558

Corrective Action, Continued:

Condition 4. CNMI disagrees with this finding. Since the mother of the non-biological child is the biological child, and is still a minor, of the case holder/applicant, our office determines that the applicant may claim the child (grandchild) as a dependent.

Condition 5. CNMI agrees with the audit finding. We have updated our policies and procedures and will enforces such controls.

Proposed Completion Date: Immediately

Finding No.: 2017-023

Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 1705-CQ5MAP, 1705-CQ5ADM, 1705-CQACAI, 1705-CQ1935, 170CQIIMPL, 05-1605CQ5MAP, 05-1605CQ5ADM, 05-160CQIIMPL and 05-1605CQACAI
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Name of Contact Persons: Helen C. Sablan, Medicaid Director and Frank Celis, Director of EDP

Corrective Action: The CNMI is currently developing policies and procedures to safeguard personal information stored physically and electronically across the CNMI and will be in accordance with the program's ADP security system.

Proposed Completion Date: September 30, 2018

Finding No.: 2017-024

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

Name of Contact Person: Virginia Villagomez, Authorized Representative

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No.: 2017-024, Continued

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

Corrective Action: The CNMI has been made aware of subrecipient monitoring requirements that include identification and of all Public Assistance Program subrecipients who are subject to audit requirements. The corrective action plan includes by the end of July 2018 (1) identification of all subrecipients who are subject to audit requirements based on amount of Federal funding received, (2) communication and/or correspondence with all applicable subrecipients to determine that the audit requirements were met. For those subrecipients for which findings are noted, the following steps will be implemented: (3) further monitoring and follow-up efforts to ensure that any findings, specific to the Public Assistance funding, are resolved within noted timeframes, and (4) GAR decision letters for those subrecipients that remain in noncompliance with the audit requirements or have not resolved any applicable audit findings.

Proposed Completion Date: July 31, 2018