

COMMONWEALTH DEVELOPMENT AUTHORITY

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2004

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

Board of Directors
Commonwealth Development Authority:

We have audited the financial statements of the Commonwealth Development Authority (CDA), as of and for the year ended September 30, 2004, and have issued our report thereon dated July 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CDA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect CDA's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 13) as items 2004-1 and 2004-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated July 1, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CDA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Deloitte & Touche LLC

July 1, 2005

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

Board of Directors
Commonwealth Development Authority:

Compliance

We have audited the compliance of the Commonwealth Development Authority (CDA) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. CDA's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 13). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of CDA's management. Our responsibility is to express an opinion on CDA's compliance based on our audit.

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

As described in items 2004-3 and 2004-4 in the accompanying Schedule of Findings and Questioned Costs, CDA did not comply with requirements regarding procurement and suspension and debarment and reporting related to U.S. Department of Housing and Urban Development programs that are applicable to its major programs. Compliance with such requirements is necessary, in our opinion, for CDA to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, CDA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect CDA's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-3 and 2004-4.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of CDA as of and for the year ended September 30, 2004, and have issued our report thereon dated July 1, 2005. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 5) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of CDA. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Deloitte & Touche LLC

July 1, 2005

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

Federal Grantor/ Program Title	Federal CFDA Number	Federal Cumulative Amount of Grant Award	Federal Funds Received in Fiscal Year 2004	Federal Funds Expended in Fiscal Year 2004
Direct Programs:				
U.S. Department of the Interior/Covenant Capital Development Fund	15.875	\$ 1,910,517	\$ 1,910,567	\$ 1,910,567
U.S. Department of Housing and Urban Development /Section 8 Housing Choice Voucher Program	14.871	2,455,379	2,206,844	2,206,844
U.S. Department of Housing and Urban Development /Lower Income Housing Assistance Program	14.856	455,339	455,339	455,339
	14.856	252,860	252,860	252,860
	14.856	249,325	249,325	249,325
	14.856	191,892	191,892	191,892
Subtotal CFDA #14.856		<u>1,149,416</u>	<u>1,149,416</u>	<u>1,149,416</u>
U.S. Department of Housing and Urban Development /Community Development Block Grant				
Basketball Court Lower Navy Hill	14.225	46,248	23,803	23,803
Garapan Water Quality Restoration	14.225	1,000,000	157,425	157,425
Gualo Rai Teen Center	14.225	140,000	-	-
Kagman Community Center Renovations/Repairs	14.225	120,152	114,728	114,728
Koblerville Sports Complex	14.225	200,000	69,660	69,660
Multi Purpose Center Renovation	14.225	183,648	-	-
NMC Recreational Center	14.225	107,272	-	-
Rota Baseball Field	14.225	300,000	-	-
Rota Baseball Field Lights	14.225	269,666	-	-
Rota Pathway	14.225	350,000	-	-
Sugar King Cultural Center	14.225	388,000	-	-
Susupe Baseball Field Bleachers	14.225	165,000	-	-
Susupe Track and Field	14.225	250,000	165,177	165,177
Tinian Community Center III	14.225	241,345	-	-
Tinian Public Library	14.225	340,000	178,357	178,357
Tinian Seepage Pit	14.225	153,753	-	-
Tinian Shelter	14.225	300,000	-	-
Van for Disabled	14.225	40,480	-	-
Administrative Fee	14.225	976,436	48,407	48,407
Subtotal CFDA #14.225		<u>5,572,000</u>	<u>757,557</u>	<u>757,557</u>
U.S. Department of Housing and Urban Development/Emergency Shelter	14.231	232,450	52,203	52,203
U.S. Department of Housing and Urban Development /HOME Investment Partnerships Program	14.239	382,800	-	-
	14.239	2,169,200	166,023	166,023
Subtotal CFDA #14.239		<u>2,552,000</u>	<u>166,023</u>	<u>166,023</u>
U.S. Department of Agriculture/Rural Development /Home Preservation Grant	10.417	39,500	-	-
		<u>\$ 13,911,262</u>	<u>\$ 6,242,610</u>	<u>\$ 6,242,610</u>
Reconciliation of expenditures to Statement of Revenues, Expenses and Changes in Net Assets:				
Federal award expenditures per above:				
U.S. Department of the Interior/Covenant Capital Development Fund			\$ 1,910,567	
Federal award expenditures per Statement of Revenues, Expenses and Changes in Net Assets:				
Transfers out for capital development grants			\$ 1,819,900	
Reconciling items:				
Administrative expenditures funded by Covenant Funds			<u>90,667</u>	
			<u>\$ 1,910,567</u>	

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

(1) Scope of Review

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

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

b. Subgrantees

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

c. Funds Received

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

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

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2004

(2) Summary of Significant Accounting Policies, Continued

c. Funds Received, Continued

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

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

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

U.S. Department of HUD - CDBG Grants/HOME Investment Partnerships Program/Emergency Shelter Grants Program/Affordable Housing Program - NMHC received these funds in a direct capacity in fiscal year 2004 and administers the funds and is responsible for ensuring compliance with laws and regulations.

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

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

U.S. Department of Agriculture - Rural Development - NMHC received these funds in a direct capacity in fiscal year 2004 and administers the funds and is responsible for ensuring compliance with laws and regulations.

d. Indirect Cost Allocation

CDA does not receive an indirect cost allocation.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2004

(3) Loan Funds

a. Development Banking Division

The Development Banking Division of CDA represents the revolving fund required under the *Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands* into which repayments of principal and interest from revenue-producing projects funded under Section 702(c) of the Covenant shall be deposited. These funds will be used for financing additional revenue-producing capital development projects. During the year ended September 30, 2004, such funds amounting to \$1,819,900 were transferred out as capital development grants to CNMI Office of the Governor for matching funds for grants from the U.S. Department of the Interior. As of September 30, 2004, \$3,732,896 (net of the allowance for doubtful accounts of \$66,159,100) of loans made out of this revolving fund were outstanding.

b. Development Corporation Division

The Development Corporation Division (DCD) of CDA represents the revolving fund established to account for funds received by the former Northern Mariana Islands Economic Development Loan Fund pursuant to Section 702(c) of the Covenant from February 15, 1975 through September 30, 1985. In addition to the aforementioned financial resources, DCD has been designated as the administrative agency for economic development loans transferred from the Trust Territory of the Pacific Islands government to the CNMI. DCD also served as an intermediary lender for part of the year, for the SBA Microloan Program and obtained loans from SBA and used the loan funds to issue short-term microloans to qualified newly-established and growing small business concerns in the CNMI. As of September 30, 2004, \$15,890,223 (net of the allowance for doubtful accounts of \$19,922,959) of loans made out of this revolving fund were outstanding.

c. Northern Marianas Housing Corporation

The Northern Marianas Housing Corporation (formerly the Mariana Islands Housing Authority (MIHA)) received economic development loan funds from the former Northern Mariana Islands Economic Development Loan Fund pursuant to a Memorandum of Understanding transferring funds received under Section 702(c) of the Covenant to MIHA. These funds are used for a revolving fund for a special program of low interest housing loans for low income families. As of September 30, 2004, \$4,292,953 (net of the related allowance for doubtful accounts of \$278,807 and out of total NMHC net loans receivable of \$14,657,678) of loans made out of this revolving fund were outstanding.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Section I - Summary of Auditor's Results

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

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Housing and Urban Development:	
Community Development Block Grant	14.225
Section 8 Housing Choice Voucher Program	14.871
HOME Investment Partnerships Program	14.239

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

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2004-1 - 2	Receivables	\$ -	10 - 11

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2004-3	Procurement and Suspension and Debarment Reporting	\$ 13,406	12
2004-4		\$ -	13

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section II - Financial Statement Findings

Receivables

Finding No. 2004-1

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

Condition: Our audit included an analysis of the Development Corporation Division's past due loans to determine the propriety of the allowance for doubtful loans as of September 30, 2004. This analysis revealed that as of September 30, 2004, one hundred thirty-two loans (61% of the two hundred fifteen total loans outstanding) were six months or more in arrears. At September 30, 2003, one hundred twenty-seven loans (57% of the two hundred twenty-three total loans outstanding) were six months or more in arrears. Accrued interest on loans has also increased from \$8,969,125 at September 30, 2003 to \$11,225,283 as of September 30, 2004. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio.

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

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

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

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2003.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Receivables

Finding No. 2004-2

Criteria: The allowance for loan losses should be adequate to absorb possible losses on existing loans that may be uncollectible based on periodic evaluations of the collectibility of loans and prior loan loss experience.

Condition: The allowance for delinquent loans is automatically calculated in the loan system based on CDA's allowance policy. Our review of the loan loss reserve calculation revealed several loan accounts not included in the calculation. A large portion of these accounts represents matured loans. Moreover, a review and analysis of the reserve calculation to evaluate adequacy of the reserve was not performed. An audit adjustment was proposed to record an additional reserve.

Cause: The cause of the above condition is the failure of the loan system to completely capture all loan accounts subject to reserve calculation as programmed in CDA's loan system and also the lack of periodic review and analysis to evaluate the adequacy of the reserve.

Effect: The effect of the above condition is the misstatement of loans receivables and bad debt expense.

Recommendation: We recommend that management evaluate the existing computerized calculation of loan loss reserve, identify areas where errors are likely to occur and adopt and implement corrective measures and actions. We also recommend that management ensure that periodic reviews and assessments of adequacy of the loan loss reserve be performed.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section III - Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment

Finding No. 2004-3

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of Housing and Urban Development / Community Development Block Grant / CFDA #14.225	<p><u>Criteria:</u> The <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i> (the Common Rule) and the CNMI Procurement Regulations (CNMI-PR) aim to provide an effective broad-based competition within a free enterprise system. The CNMI-PR provide that all government procurement shall be awarded through competitive bidding except if another method of procurement is justified, such as a small purchase, sole source, emergency or expedited procurement.</p> <p><u>Condition:</u> Three disbursements through purchase orders (check #s 15672, 14577 and 15079) for construction management services, amounting to \$13,406 were awarded via in-house management authorization without open competition or valid certification from the Division of Procurement and Supply (P&S).</p> <p><u>Cause:</u> The cause of the above condition is management's belief that the contract does not require compliance with CNMI-PR.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with the Common Rule and the CNMI-PR.</p> <p><u>Recommendation:</u> We recommend that NMHC ensure strict compliance with the requirements of the Common Rule and the CNMI-PR on competitive bidding.</p>	\$ 13,406
Total Questioned Costs		\$ <u>13,406</u>

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Housing and Urban Development
Reporting - HOME Investment Partnerships Program
CFDA #14.239

Finding No. 2004-4

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

Condition: NMHC draws funds for use in HOME expenditures and reports these expenditures on the SF-272. We noted that funds drawn in the current year include administrative expenditures incurred in prior years amounting to \$167,128. Additionally, NMHC has not requested for drawdowns for administrative costs incurred in the current year. Administrative costs are included under operating expenses and cannot be readily identified from other federal grant administrative expenses.

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

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

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

COMMONWEALTH DEVELOPMENT AUTHORITY

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2004

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2004:

Questioned costs as previously reported	\$ -
Questioned costs of fiscal year 2004 Single Audit	<u>13,406</u>
Unresolved questioned costs at September 30, 2004	\$ <u>13,406</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 13).



COMMONWEALTH DEVELOPMENT AUTHORITY

P.O. BOX 502149, SAIPAN MP 96950

Tel.: (670) 234-6245/6293/7145/7146 • Fax: (670) 234-7144 or 235-7147

Email: cda@itecnmi.com • Website: www.cda.gov.mp



Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and Compliance for the Year Ended September 30, 2004

Financial Statements Findings

Receivables

Finding No. 2004-1

The Loan Department continues to do its loan servicing. Clients have been contacted to come to the office and try to establish workable solutions to bring their accounts to current. Aging letters of 30, 60 and 90-day delinquency and loan statements as well are mailed to clients on a monthly basis. Field visits are conducted so that a better communication system may be established with the clients to have a better understanding of their business situation and financial conditions. Intern services from the Pacific Business Center Program of the University of Hawaii are maximized by conducting educational assistance such as workshops and working on a one on one basis with our clients. After all means have been exhausted, accounts that are 120 days in arrears are referred to Legal Counsel for litigation. All accounts are carefully scrutinized and analyzed in how best the clients can be assisted to either pay their accounts or improve their existing business conditions. The Loan Manager has exemplified the performance of this department in trying to improve better client relationship and gradually reduce the delinquency rate. The process will take time before it will come to fruition due to no loan servicing being done in the past.

Finding No. 2004-2

CDA determined that the computerized Loan Loss Report did not include matured loans in the calculation for the loan loss. This was the reason for the understated booking of the loan loss reserve. The programmer was contacted to modify the program to include matured loans. The exclusion of the matured loans was intended due to the fact that those loans were actually matured and must be categorized as non-performing loans. Effective with the modification of the Loan Loss Program, the loan loss calculation will include all matured loans.

Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment - Community Development Block Grant Finding No. 2004-3

NMHC ensures strict compliance with requirements of the Common Rule and the CNMI-PR on competitive bidding. This condition was an issue due to leaks and possible cracks in the building casing causing water to seep. Management was called upon to act and needed the building repaired immediately because the community was going to hold a large function at the Center. The air conditioning was also not working and the main assembly hall was very hot. The engineer called in to do the assessment was also the engineer that designed and acted as construction manager during construction. The engineer, members of the Kagman Association, and management met to discuss the problem. Since the engineer did the assessment and came up with some recommendations to correct the problem, the same engineer did the oversight of the work. Quick action needed to be done. The engineer was given the responsibility to review the work of the contractor for general repairs and another company for the air conditioning. NMHC did speak to CNMI Procurement discussing the initial contract under this project that it was like an extension of the original contract. Also, it was anticipated that the cost was within the amount needing only a purchase order. We did contact some alternative sources to get quotations. The information we received was that it would cost NMHC significantly more because they would have to review and evaluate all of the construction plans, drawings and specifications. If we were to bid the project, it would have taken longer. We didn't have funding allocated specifically for this project to oversee the repairs and air conditioning these came from CDBG administration. It was management's decision to act quickly and not to solicit bids or proposals. In urgent and critical cases, Procurement generally grants its approval for us to proceed. NMHC gives its assurances that every project executed or to be executed by NMHC meets the Common Rule and CNMI-PR requirements.

Reporting - HOME Investment Partnerships Program Finding No. 2004-4

NMHC management ensures proper reporting of expenditures on SF-272s to HUD. NMHC did reconcile expenditures versus revenue prior to reporting to HUD and implemented supporting documents for justification of allowable cost for all grant expenditures.



COMMONWEALTH DEVELOPMENT AUTHORITY

P.O. BOX 502149, SAIPAN MP 96950
Tel.: (670) 234-6245/6293/7145/7146 • Fax: (670) 234-7144 or 235-7147
Email: cda@itecnmi.com • Website: www.cda.gov.mp



Summary of Schedule of Prior Audit Findings

Status of audit findings included in the schedule of findings and questioned costs for the year ended September 30, 2003:

Financial Statement Findings

Finding No. 2003-1 - Corrective action has been taken.

Finding No. 2003-2 - Corrective action has been taken.

Finding No. 2003-3 - Not corrected. See corrective action plan to Finding No. 2004-1.

Federal Award Findings and Questioned Costs

Finding No. 2003-4 - Corrective action has been taken.