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COMMONWEALTH DEVELOPMENT AUTHORITY

REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS
IN ACCORDANCE WITH OMB CIRCULAR A-133

YEAR ENDED SEPTEMBER 30, 2008

COMMONWEALTH DEVELOPMENT AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

INDEPENDENT AUDITORS' REPORT

Board of Directors
Commonwealth Development Authority:

We have audited the accompanying combined statements of net assets of the Commonwealth Development Authority (CDA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), as of September 30, 2008 and 2007, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of CDA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CDA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commonwealth Development Authority as of September 30, 2008 and 2007, and their changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commonwealth Development Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Commonwealth Development Authority's basic financial statements. The Combining Statement of Net Assets, the Combining Statement of Revenues, Expenses and Changes in Net Assets, the Combining Statement of Cash Flows, the Combined Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual and the Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual as of and for the year ended September 30, 2008 (pages 37 through 41) are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth Development Authority's management. The Combining Statement of Net Assets, the Combining Statement of Revenues, Expenses and Changes in Net Assets and the Combining Statement of Cash Flows as of and for the year ended September 30, 2008 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2010, on our consideration of internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debate & Touche LLC

May 7, 2010



COMMONWEALTH DEVELOPMENT AUTHORITY

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Management's Discussion and Analysis Year Ended September 30, 2008

The Management's Discussion and Analysis of the Commonwealth Development Authority's (CDA) financial performance provides an overview of CDA's financial activity for the fiscal year ended September 30, 2008, with selected comparative information for the fiscal years ended September 30, 2007 and 2006. Please read it in conjunction with the more detailed information contained within the accompanying financial statements.

CDA, formerly known as the Economic Development Loan Fund, was established as an autonomous public agency in 1985 through Public Law 4-49. Its overall purpose is to stimulate economic development in the Commonwealth of the Northern Mariana Islands (CNMI). Its mission statement is to provide appropriate financial and technical assistance to facilitate the start-up or expansion of private and public enterprises for their success, the benefit of the CNMI's economic welfare and the long-term sustainability of CDA. CDA's functions are carried out through the Development Banking Division (DBD) and the Development Corporation Division (DCD). Additionally, in 1994, the Northern Marianas Housing Corporation (NMHC) was consolidated into CDA. CDA, as the financing arm of the CNMI, successfully continues its role to stimulate the CNMI's economy by financing major capital improvements and investing in its people. CDA has a Board of Directors composed of seven individuals that are appointed staggered four-year terms by the Governor of the CNMI.

DBD generally engages in government and public sector activities while DCD engages in private sector activities. Additionally, on December 1, 2000, CDA was given administrative authority for the Qualifying Certificate Program (QC). The QC is a tax incentive program to encourage new investment within the CNMI. NMHC provides low-cost housing and rentals and housing loans to qualifying residents of the CNMI. In addition, NMHC has many loan programs to all income level qualified applicants. CDA maintains three offices: its main office is in Saipan and branch offices are in Tinian and Rota.

DCD's mission is to initiate, stimulate and facilitate development of the economy of the CNMI for the economic and social advancement of the people of the CNMI by making loans, loan guarantees, and providing financial, technical and advisory assistance to the private sector in the CNMI.

DCD's primary activity relates to the servicing of its direct loan portfolio. As of September 30, 2008, DCD's net loans receivable portfolio was \$13,189,715, which was an increase of \$3,095,492 or 31% compared to 2007. As of September 30, 2007, DCD's net loans receivable portfolio was \$10,094,223, which was a decrease of \$1,131,885 or 10% compared to the previous year. The cause of the increase in fiscal year 2008 was due to several large loans guaranteed by CDA with local banks that were called and subsequently included in DCD's loan portfolio. In fiscal year 2007, the decrease was due to the continuing deterioration in the quality of the underlying loan portfolio and losses that were realized with foreclosure on the collateral of some significantly delinquent loans.

DBD holds a portfolio consisting of loans to various governmental and quasi-governmental agencies of the CNMI government. All of the loans are non-performing and have been fully allowed for. In fiscal year 2007, CDA's Board of Directors consented to a request from the Board of Directors of the Commonwealth Ports Authority to suspend interest payments for a period of two years and principal payments for a period of five years due to difficult financial circumstances. Because of this impairment, management has agreed with the auditor's recommendation to fully allow for the principal and accrued interest totaling \$6,123,309.

Subsequent to the end of fiscal year 2008, CDA approved the proposed conversion of the Commonwealth Utilities Corporation (CUC) debt into preferred stock in CUC. See note 14 to the financial statements for more detailed information. This conversion will permit CUC to move ahead with greater flexibility in obtaining financing in the future and gives CDA a chance to recover some of the funds it loaned to CUC through dividends on the preferred stock.

Unfortunately, with the Asian economic crisis in the early 1990's and subsequent "Global Economic Crisis" beginning in late 2007, many of the projects financed by these loans have suffered significantly in value both as commercial enterprises and in terms of the fair market value of the loans' underlying assets and collateral. Events such as the attacks on 9/11, the SARS epidemic, the war in Iraq and sharp increases in fuel prices have had significant negative impact on Saipan's tourist-based economy. Local factors such as sharp increases in utility charges and the loss of the major tax base provided by the garment manufacturing industry only served to make weathering the external crises more difficult.

In 2004, the CNMI was swept by two major typhoons, Tingting and Chaba, devastating CDA-funded clients in the Marine and Agriculture loan categories. While these categories of loan are slowly recovering, there continues to be high delinquency rates.

As stated earlier, the net value of DCD's loan portfolio after recoveries (bad debts) was \$13,189,715 in 2008 and \$10,094,223 in 2007. Total recoveries (bad debts) were \$862,710 and \$(2,272,922) in 2008 and 2007, respectively. These figures represent the estimated potential loss of value of the loans and accrued interest for the respective fiscal years. The ultimate collection of the earned interest and the principal value of loans is DCD's biggest financial concern.

The Board of Directors continues to emphasize to management that the collection of delinquent loans must be its top priority.

In response to the difficult situations experienced by virtually all of DCD's borrowers, management has been working on solutions that can benefit both CDA and the borrowers where possible. One of the programs initiated was the Debt-Relief Program. Qualified borrowers are encouraged to restructure their delinquent loans at new, less-burdensome interest rates (typically 2%) and the accrued interest is set aside so that the new loan has a chance of being amortized if the new payment schedule is adhered to. This gives borrowers, that were previously in seemingly hopeless situations, new hope for paying off their loans. While CDA may potentially lose some of the accrued interest that has been set aside, the reality is those sums would likely have never been recovered if the original loan structure had been continued.

In cases where borrowers are in default and there is no workable solution for repayment of the loan, CDA has, as a last resort, been forced to foreclose on properties that were collateralizing the loans or accept the properties through "deed in lieu of foreclosure". CDA then attempts to sell or lease these properties to recover as much of the loan principal as possible. Given the extremely depressed state of the real estate market in the CNMI, the values realized on foreclosed properties is often significantly less than the balance on the loan. In cases where CDA is unable to obtain a reasonable value for a foreclosed property, management may decide to defer disposal of the property until market conditions improve.

Financial Highlights

- In 2008, DCD had net operating revenues of \$4,140,974 while DBD had a loss of \$1,262,530. A significant component of these figures is bad debts. Both divisions had significant changes in bad debts compared with 2007. DCD had a recovery of bad debts of \$862,710 in 2008 compared with bad debts expense of \$2,272,922 in 2007. DBD is the opposite, with an additional \$1,710,440 charged to bad debts in 2008. Interest and fees earned on loans for DCD for the year decreased by \$305,063, or 9%. DBD had a slight decrease of \$11,719, or 7%, compared to 2007.
- Another area of concern is the decrease in earnings on investments suffered by each division as interest rates on investments decreased along with the funds available for investments. DCD investments decreased from \$7,679,502 at September 30, 2007 to \$2,835,938 at September 30, 2008, a decrease of \$4,843,564, or 63%. For DBD the decrease was from \$8,074,512 to \$6,550,922, a drop of \$1,523,590, or 19%. CDA's management must keep these negative trends in mind when creating budgets and making commitments for its limited funds.
- In 2008, operating expenses for DCD, omitting the provisions for loan guaranty and foreclosed real estate, decreased by \$157,672 or 13% from 2007. This drop is primarily attributable to decreases in professional fees, employee benefits, and travel. Expenses in fiscal year 2007 were inflated by a catch-up payment to the Office of the Public Auditor for \$116,753 relating to the annual 1% of the CDA's budget that had been in dispute and unpaid for many years.

- As noted above, DCD's bad debts and the provisions for loan guaranty and foreclosed real estate losses continue to be highly volatile and generally reflect a negative trend. Only through renewed efforts by CDA to work with loan clients in innovative ways to restore their loans to "performing" status and to pursue realization of value from collateralizing assets for loans that have no hope of recovery can this trend be reversed. DBD also suffers from a decrease in repayments from its borrowers as the government's financial condition deteriorates in unison with the general economy. Directives from the CNMI Government to waive interest, forgive debt, or provide funds for non-developmental uses continue to reduce the ability of CDA to function in its designated roll.
- On December 31, 2007, NMHC entered into a settlement agreement with MPLT relating to the \$10,000,000 note payable. This resulted in NMHC recording a gain on settlement with MPLT of \$3,340,823. See note 9 to the financial statements for more detailed information.
- The above changes resulted in an increase of the combined net assets of CDA by \$598,593, or 2%, from 2007 to 2008.

Northern Marianas Housing Corporation (NMHC)

NMHC is a multifaceted organization that offers direct housing loans, housing loan guarantees, rental properties, housing and community development and where necessary, infrastructure development.

NMHC has finalized the closing of Tottotville and 45 houses are fully occupied and sold to respective homeowners. With the closure of the Expansion Project, NMHC is in the process of transferring infrastructure values to CUC and the Department of Public Works (DPW). During fiscal year 2005, homeowners filed complaints with respect to the poor workmanship in the construction of their homes. The designer/construction management and contractor for the subdivision have been contacted and all parties are addressing the areas of complaints. Mediation was also pursued; however, major issues being disputed are still unresolved by parties involved. Court hearings are ongoing with the latest held on January 5, 2010. NMHC has settled with the forty (45) homeowners and is planning to file a litigation against the contractor and the construction manager.

Another major concern is the newly-enacted Public Law 15-48 (H.B. No. 15-197) which Governor Benigno R. Fitial signed into law on Tuesday, March 13, 2007. This law repealed in its entirety, 2 CMC §§ 4486 and 4498, and amended 2 CMC §4497 to eliminate the moratorium extended to NMHC on the loan made to NMHC by the Marianas Public Land Trust (MPLT). PL 15-48 has serious financial burdens as NMHC is forced to commence payment to MPLT. During fiscal year 2008, MPLT and NMHC finalized the portfolio transfer and resolved the financial burden to NMHC.

NMHC recovered the loss from the portfolio transfer, which decreased the portfolio from \$32 million to \$22 million, as all disaster vouchers from Typhoons Tingting and Chaba were converted to regular vouchers bringing the total to 363 voucher units that NMHC now administers and monitors for compliance.

Mortgage & Credit Division

The Mortgage & Credit Division is currently in the process of revamping the HOME Program policies and procedures so that U.S. Housing and Urban Development (HUD) regulations are properly addressed. The processing of rehabilitation and new construction loans for this specific program has been put on hold until the policies and procedures are in place and reviewed by HUD.

In June 2008, the Agreement Between the Parties, the U.S. Department of Agriculture (USDA) Rural Development (USDA RD) and the Northern Marianas Housing Corporation to Resolve Defaulted USDA Rural Development Loans was executed. This agreement has been established to outline the steps and mutually agreed-upon terms in liquidating defaulted USDA RD loans which NMHC agreed to act as trustee on deeds of trust securing USDA RD housing loans in the CNMI. The loans and properties covered by this agreement are accelerated accounts and accounts that are expected to be accelerated in the near future. This agreement encompasses forty-eight (48) seriously delinquent loans.

Northern Marianas Housing Corporation (NMHC), Continued

Mortgage & Credit Division, Continued

On July 30, 2008, Public Law 110-289, or the Housing and Economic Recovery Act of 2008 (HERA), created the Neighborhood Stabilization Program (NSP). NSP is a HUD program which provides emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their respective communities. NSP provides grants to every state and local community to purchase foreclosed or abandoned homes and to rehabilitate, resale, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. NMHC intends to use the grant provided by this program to address the problems created by foreclosed and abandoned homes. Foreclosed homes will be acquired, rehabilitated, and resold to low income families.

Rota Field Office

A. Rota Housing Choice Voucher Program:

In fiscal year 2008, thirty (30) Housing Choice Vouchers (HCV) were utilized on Rota. This figure is slightly more than half of the total number of Housing Choice Vouchers (50) that were awarded by HUD to the island of Rota after Typhoon Pongsona. The demand for additional vouchers still exists, especially since qualified families prefer the HCV Program over the Multi-Family/New Construction Program for many reasons. However, with the knowledge of the limited availability of Housing Choice Vouchers and a long waiting period, many people are unwilling to go through the application process. Housing assistance to prospective tenants on the waiting list is on a first-come first-serve basis.

B. Rota Multi-Family/New Construction Program:

The NMHC Rota Multi-Family/New Construction Program has been experiencing a low occupancy rate. In fiscal year 2008, only thirteen (13) of thirty (30) housing units at the Liyo' Housing Subdivision were occupied, which translates to approximately a 56% vacancy rate. The high vacancy rate could be attributed to several factors:

1. Housing Choice Voucher (HCV) Program

- a. The existence of the Housing Choice Voucher Program has led to many qualified applicants for housing assistance wanting to apply for this program instead.
- b. Applicants qualified for housing assistance prefer the HCV Program because of the ability to choose a housing unit at a preferred location.
- c. Housing units registered under the HCV Program are typically semi to fully furnished, unlike the housing units under the Multi-Family/New Construction Program.

2. Condition of the Housing Units

- a. Safety concerns have been one of the biggest reasons why the occupancy rate is low and also why people are not applying for housing assistance under this program. The housing units at the Liyo' Housing Subdivision have undergone and continue to undergo constant repairs due to the rusting and deterioration of the rebars. As a result, hairline and severe cracks are formed on the walls and ceilings of the housing units. Maintaining these units is costing NMHC significant amounts of money for materials and labor.

3. Utility Hook-up

- a. Applicants find it very difficult to afford the security deposit required by CUC in order to connect to utilities. NMHC requires a receipt of payment for utility connection prior to moving in a tenant.

Northern Marianas Housing Corporation (NMHC), Continued

Rota Field Office, Continued

Despite the problems that exist within the Multi-Family/New Construction Program, efforts to increase the occupancy rate at the Liyo' Housing Subdivision are ongoing. The Rota Field Office advertises the vacant units and informs the general public of the housing assistance available to qualified applicants. Print advertisements and notices posted on the local television channel are some of the methods used to reach the public. Furthermore, constant repairs and maintenance are being conducted to ensure the units meet HUD's Housing Quality Standards, so that NMHC may continue to provide housing assistance to families in need.

C. Short-Term Goals:

The goal of NMHC Rota Field Office is to boost up the occupancy rate at the Liyo' Housing Subdivision. To attain this goal, NMHC must continue with the repair and maintenance of the units and ultimately find a more adequate long-term solution to the deteriorating condition of the Liyo' Housing Subdivision units. In addition, NMHC would have to look into providing additional benefits to applicants, such as providing basic furniture (beds, dining tables, etc.) to attract qualified families, for these are some of the concerns families have. Finally, NMHC will continue to advertise and educate the local community on Rota about the housing assistance available for qualified families.

Community Development Block Grant (CDBG)

NMHC received \$2,345,446 in CDBG funding in fiscal year 2008. As stated in the Consolidated Plan, Community Development goals include the following:

- Infrastructure upgrades to provide basic services to the community and encourage economic development (goal: 3 projects)
- Create an environment that is both functional and inviting to businesses, residents, and tourists. (goal: 2 projects)
- Provide support for limited clientele and community needs (goal: 2 units)
- Promote community health, team work, and sportsmanship. (goal: 2 projects)

Because of the limited funding in fiscal year 2008, NMHC allocated the entire CDBG grant amount to the Northern Marianas Islands Football Association, which fulfills one of the aforementioned goals: **Promote community health, team work, and sportsmanship.** As such, the project will encourage community involvement, sportsmanship, and a healthy lifestyle. Despite challenges along the way, such as environmental issues, NMHC continues to work with the CNMI Capital Improvement Project (CIP) Office and regulatory agencies to address any set-backs with regards to the environmental assessment. NMHC is still working towards fulfilling its goals as stated in the Five-Year Consolidated Plan.

Emergency Shelter Grant (ESG)

NMHC received \$28,213 in fiscal year 2008. As in previous years, the ESG has been allocated to the Guma Esperansa shelter and the Division of Youth Services (DYS) shelter. Guma Esperansa serves women and their children who are victims of domestic violence and human trafficking. The DYS shelter serves youths who are victims of child abuse/neglect and runaway youths. ESG funding is used to assist with the operational costs and essential services of both shelters.

**Combined Statements of Net Assets
As of September 30, 2008, 2007 and 2006**

	2008	2007	\$ Change	% Change	2006
Current assets	\$ 8,487,821	\$ 12,188,230	\$ (3,700,409)	-30%	\$ 6,920,156
Other assets	13,604,236	21,729,620	(8,125,384)	-37%	19,584,021
Capital assets	14,231,597	14,813,822	(582,225)	-4%	15,689,514
Noncurrent assets	<u>11,474,721</u>	<u>14,550,106</u>	<u>(3,075,385)</u>	-21%	<u>21,144,397</u>
Total assets	\$ <u>47,798,375</u>	\$ <u>63,281,778</u>	\$ <u>(15,483,403)</u>	-24%	\$ <u>63,338,088</u>
Current liabilities	\$ 3,892,380	\$ 11,098,399	\$ (7,206,019)	-65%	\$ 4,471,051
Noncurrent liabilities	<u>6,079,863</u>	<u>14,955,840</u>	<u>(8,875,977)</u>	-59%	<u>14,146,288</u>
Total liabilities	<u>9,972,243</u>	<u>26,054,239</u>	<u>(16,081,996)</u>	-62%	<u>18,617,339</u>
Invested in capital assets	14,231,597	14,813,822	(582,225)	-4%	15,689,514
Restricted	<u>23,594,535</u>	<u>22,413,717</u>	<u>1,180,818</u>	5%	<u>29,031,235</u>
Total net assets	<u>37,826,132</u>	<u>37,227,539</u>	<u>598,593</u>	2%	<u>44,720,749</u>
Total liabilities and net assets	\$ <u>47,798,375</u>	\$ <u>63,281,778</u>	\$ <u>(15,483,403)</u>	-24%	\$ <u>63,338,088</u>

**Combined Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008, 2007 and 2006**

	2008	2007	\$ Change	% Change	2006
Operating revenues:					
Interest and fees on loans	\$ 3,935,370	\$ 4,534,674	\$ (599,304)	-13%	\$ 4,490,641
Section 8 income:					
Federal housing assistance rentals	3,748,003	4,254,926	(506,923)	-12%	3,977,799
Tenant share	115,430	113,514	1,916	2%	77,937
Interest on investments	536,509	703,516	(167,007)	-24%	572,483
HOME Investment Partnership Program grants	48,073	665,067	(616,994)	-93%	1,211,497
HOME Investment Partnership grants program income	-	299,808	(299,808)	-100%	119,276
CDBG Program Grant	2,345,446	555,622	1,789,824	322%	765,393
ESG Program Grant	28,213	26,184	2,029	8%	67,503
Other	<u>191,961</u>	<u>253,600</u>	<u>(61,639)</u>	-24%	<u>92,677</u>
	10,949,005	11,406,911	(457,906)	-4%	11,375,206
Bad debts	<u>(3,069,279)</u>	<u>(3,476,736)</u>	<u>407,457</u>	-12%	<u>(11,638,614)</u>
Net operating revenues	<u>7,879,726</u>	<u>7,930,175</u>	<u>(50,449)</u>	-1%	<u>(263,408)</u>
Operating expenses:					
Section 8 rental	2,370,234	2,788,538	(418,304)	-15%	2,471,599
CDBG Program Grant	2,345,446	555,622	1,789,824	322%	765,393
Salaries and wages	954,511	836,184	118,327	14%	1,013,668
Provision for foreclosed real estate	935,106	628,663	306,443	49%	914,650
Depreciation	447,377	478,869	(31,492)	-7%	679,164
Employee benefits	353,239	477,092	(123,853)	-26%	457,833
Repairs and maintenance	302,559	358,113	(55,554)	-16%	512,660
Utilities	271,340	296,745	(25,405)	-9%	277,608
Professional fees	261,374	689,956	(428,582)	-62%	201,259
Office rent	118,402	126,927	(8,525)	-7%	128,006
Travel	103,628	158,199	(54,571)	-34%	93,259
HOME Investment Partnership Program grants	48,073	665,067	(616,994)	-93%	1,211,497
ESG Program Grant	28,213	26,184	2,029	8%	67,503
Provision for loan guaranty	-	5,689,799	(5,689,799)	-100%	-
HOME Investment Partnership grants program income expense	-	299,808	(299,808)	-100%	119,276
Other	<u>362,920</u>	<u>449,477</u>	<u>(86,557)</u>	-19%	<u>566,304</u>
Total operating expenses	<u>8,902,422</u>	<u>14,525,243</u>	<u>(5,622,821)</u>	-39%	<u>9,479,679</u>
Operating income (loss)	<u>(1,022,696)</u>	<u>(6,595,068)</u>	<u>5,572,372</u>	-84%	<u>(9,743,087)</u>

**Combined Statements of Revenues, Expenses and Changes in Net Assets, Continued
Years Ended September 30, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2006</u>
<i>Nonoperating revenues (expenses):</i>					
Gain on settlement with MPLT	3,340,823	-	3,340,823	100%	-
Other income	238,572	535,449	(296,877)	-55%	249,705
Interest income	34,442	97,746	(63,304)	-65%	51,463
Impairment loss on land	(620,869)	-	(620,869)	100%	-
Interest expense	(198,942)	(872,531)	673,589	-77%	(878,108)
Other expense	(33,350)	-	(33,350)	100%	-
Write-off of note and interest payable to CNMI	-	-	-	0%	4,174,042
Infrastructure transferred out to related party	-	-	-	0%	(1,769,371)
Contributions to the CNMI	-	-	-	0%	(4,000,000)
Total nonoperating revenues (expenses), net	<u>2,760,576</u>	<u>(239,336)</u>	<u>3,000,012</u>	-1253%	<u>(2,172,269)</u>
Income (loss) before transfers	<u>1,737,980</u>	<u>(6,834,404)</u>	<u>8,572,384</u>	-125%	<u>(11,915,356)</u>
Transfers out for capital development grants	(1,139,387)	(658,806)	(480,581)	73%	(2,608,963)
Change in net assets	<u>598,593</u>	<u>(7,493,210)</u>	<u>8,091,803</u>	-108%	<u>(14,524,319)</u>
Net assets - beginning	<u>37,227,539</u>	<u>44,720,749</u>	<u>(7,493,210)</u>	-17%	<u>59,245,068</u>
Net assets - ending	<u>\$ 37,826,132</u>	<u>\$ 37,227,539</u>	<u>\$ 598,593</u>	2%	<u>\$ 44,720,749</u>

**Combined Statements of Cash Flows
Years Ended September 30, 2008, 2007 and 2006**

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2006</u>
Cash flows from operating activities	\$ 1,536,815	\$ 3,645,783	\$ (2,108,968)	-58%	\$ 1,406,459
Cash flows from capital and related financing activities	(9,481,244)	(967,081)	(8,514,163)	880%	(6,866,890)
Cash flows from investing activities	<u>8,658,500</u>	<u>(2,103,461)</u>	<u>10,761,961</u>	-512%	<u>3,262,360</u>
Net increase (decrease) in cash and cash equivalents	<u>714,071</u>	<u>575,241</u>	<u>138,830</u>	24%	<u>(2,198,071)</u>
Cash and cash equivalents at beginning of year	<u>2,287,675</u>	<u>1,712,434</u>	<u>575,241</u>	34%	<u>3,910,505</u>
Cash and cash equivalents at end of year	<u>\$ 3,001,746</u>	<u>\$ 2,287,675</u>	<u>\$ 714,071</u>	31%	<u>\$ 1,712,434</u>

Capital Assets and Debt Administration

Capital Assets

At September 30, 2008 and 2007, CDA had \$14,231,597 and \$14,813,822, respectively, invested in capital assets, net of depreciation where applicable. This represents a net decrease of \$38,644, or less than 1%, during fiscal year 2008.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Property and equipment, net	\$ 2,303,333	\$ 2,703,108	\$ 2,814,400
Asset held for sale	-	-	443,000
Land	9,650,313	10,409,682	10,409,682
Foreclosed real estate	<u>2,277,951</u>	<u>1,701,032</u>	<u>2,022,432</u>
	<u>\$ 14,231,597</u>	<u>\$ 14,813,822</u>	<u>\$ 15,689,514</u>

See notes 7 and 8 to the financial statements for more detailed information on CDA's capital assets and changes therein.

Long-Term Debt

At September 30, 2008 and 2007, CDA had \$1,494,243 and \$10,608,466, respectively, in long-term debt outstanding. See note 9 to the financial statements for more detailed information on CDA's long-term debt and changes therein.

Economic Outlook

CDA

CDA is being affected by the negative economic forces at play globally as well as locally. If the recent trend in the performance of CDA's assets were to continue, a question of CDA's viability to continue operating as an independent entity must be addressed. CDA is currently not able to fund its ongoing operations from earnings generated by the loan portfolio and investments and must use its cash reserves to cover this shortfall. The budget for fiscal year 2009 also reflects a shortfall. Management has begun to recognize this situation and to address it. As mentioned above, management has initiated a "Debt-Relief Program" to bring qualified borrowers from a delinquent, non-paying status to a performing, paying status. The "price" to CDA of this program is to reduce the rate of interest on these loans to 2%, a rate that does not go far in generating income for CDA. However, management's belief is that, if enough of the delinquent, non-paying borrowers can see hope for paying off their loans and begin to pay on a regular basis, these funds added to the loan pool and re-lent to qualified borrowers, as well as the interest earned on the revised loans, will begin to accumulate to a point where CDA can operate "in the black." Of course, beyond these revenue side enhancements, management will enact reductions and overall scrutiny of expenses. While there is no simple solution to reverse the deterioration of CDA's loan portfolio, CDA believes there is still time and are still steps that can be taken to improve the likelihood of CDA's continuing existence as a contributing member of the CNMI government and beneficial part of the economy of the CNMI.

NMHC

NMHC's CDBG grant allocation was reduced by \$506,421 for FY 2009 resulting in a CDBG administrative loss of \$101,284. This is due to the HUD funding reduction. NMHC has a five year plan for all CPD programs and is committed to its current allocations. NMHC will lower expenses following the cost reduction approach in the future. With regards to the Section 8 Multifamily project for Rota, the revenue will decrease due to the thirty-three percent occupancy rate, which resulted in applicants relocating to the U.S. mainland to look for better opportunities and make additional income for their families. This will result in another decrease of revenue in the amount of \$215,000.

The CNMI's economic outlook continues to be uncertain. Austerity measures continued to be in effect government wide in FY 2010 to compensate for decreased revenues. Two significant industries, which played a material role in driving the CNMI's economy, are tourism and the garment industry, which have been in decline for a number of years. A series of unfortunate events hindered the return of tourist arrival levels to that enjoyed in the 1990's and thus the tourist industry and the economy continue to suffer as a result. Tourism overall appears to be on the rebound and partially stabilized. The garment industry has declined almost entirely, compounding the CNMI's economic woes. While several efforts are underway to look at alternative industries to revive the economy no immediate appreciable growth is anticipated in the foreseeable future.

As a result of the dwindling resources available for NMHC, the budget of federal funds will also be affected and is expected to decrease until recovery. As such, NMHC continues to apply the cost reduction approach to lower the deficit for every fiscal year. NMHC continues to take internal measures to ensure that this would not result in a deficit. The continuing economic challenges may result in further budget reductions in FY 2011 but NMHC has mechanisms in place to closely monitor such actions and is actively pursuing alternative funding opportunities to compensate for reductions in the traditional sources of funding.

Contacting CDA's Management

This financial report is designed to provide a general overview of CDA's financial condition and to demonstrate its accountability for monies received. The Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the report on the audit of CDA's financial statements which is dated December 29, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements. If you have questions about this report or need additional financial information, please contact Mr. Stuart Smith, CDA Comptroller, P.O. Box 502149, Saipan, MP 96950-2149, or call (670) 234-7145/6293 or send email to executive@cda.gov.mp or Mr. Joshua T. Sasamoto, NMHC Corporate Director, P.O. Box 500514, Saipan, MP 96950-0514, or call (670) 234-6866/9447 or send email to jtsasamoto@nmhc.gov.mp.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Statements of Net Assets
September 30, 2008 and 2007

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 3,001,746	\$ 2,287,675
Time certificates of deposit	579,448	1,078,122
Receivables:		
Current portion of loans receivable, net	4,521,475	8,042,720
Current portion capital development loans from related parties, net	-	176,498
Rent, net	72,323	79,543
Accrued interest, net of allowance for doubtful accounts of \$15,788,934 and \$16,246,000 as of September 30, 2008 and 2007, respectively	161,456	494,240
Other	123,919	23,444
Prepaid expenses	27,454	5,988
Total current assets	<u>8,487,821</u>	<u>12,188,230</u>
Other assets:		
Cash and cash equivalents, restricted	4,796,824	7,053,728
Time certificates of deposit, restricted	<u>8,807,412</u>	<u>14,675,892</u>
Total other assets	<u>13,604,236</u>	<u>21,729,620</u>
Noncurrent assets:		
Loans receivable, net	11,474,721	13,084,236
Capital development loans receivable from related parties, net	-	1,465,870
Property and equipment, net	2,303,333	2,703,108
Land	9,650,313	10,409,682
Foreclosed real estate	<u>2,277,951</u>	<u>1,701,032</u>
Total noncurrent assets	<u>25,706,318</u>	<u>29,363,928</u>
	<u>\$ 47,798,375</u>	<u>\$ 63,281,778</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Current installment of notes payable to related party	\$ 111,754	\$ 114,243
Accounts payable and accrued expenses	1,180,922	1,461,862
Deferred revenues	14,020	14,020
Interest payable	-	1,927,030
Due to grantor agency	1,756,057	1,321,927
Reserve for loan guaranty	<u>829,627</u>	<u>6,259,317</u>
Total current liabilities	3,892,380	11,098,399
Notes payable to related party, net of current installments	1,382,489	10,494,223
Deferred revenues, net of current portion	<u>4,697,374</u>	<u>4,461,617</u>
Total liabilities	<u>9,972,243</u>	<u>26,054,239</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets	14,231,597	14,813,822
Restricted	<u>23,594,535</u>	<u>22,413,717</u>
Total net assets	<u>37,826,132</u>	<u>37,227,539</u>
	<u>\$ 47,798,375</u>	<u>\$ 63,281,778</u>

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Interest and fees on loans	\$ 3,935,370	\$ 4,534,674
Section 8 income:		
Federal housing assistance rentals	3,748,003	4,254,926
Tenant share	115,430	113,514
Interest on investments	536,509	703,516
HOME Investment Partnership Program grants	48,073	665,067
HOME Investment Partnership grants program income	-	299,808
CDBG Program Grant	2,345,446	555,622
ESG Program Grant	28,213	26,184
Other	191,961	253,600
	<u>10,949,005</u>	<u>11,406,911</u>
Bad debts	<u>(3,069,279)</u>	<u>(3,476,736)</u>
Net operating revenues	<u>7,879,726</u>	<u>7,930,175</u>
Operating expenses:		
Section 8 rental	2,370,234	2,788,538
CDBG Program Grant	2,345,446	555,622
Salaries and wages	954,511	836,184
Provision for foreclosed real estate	935,106	628,663
Depreciation	447,377	478,869
Employee benefits	353,239	477,092
Repairs and maintenance	302,559	358,113
Utilities	271,340	296,745
Professional fees	261,374	689,956
Office rent	118,402	126,927
Travel	103,628	158,199
HOME Investment Partnership Program grants	48,073	665,067
ESG Program Grant	28,213	26,184
Provision for loan guaranty	-	5,689,799
HOME Investment Partnership grants program income expense	-	299,808
Other	362,920	449,477
Total operating expenses	<u>8,902,422</u>	<u>14,525,243</u>
Operating loss	<u>(1,022,696)</u>	<u>(6,595,068)</u>
Nonoperating revenues (expenses):		
Gain on settlement with MPLT	3,340,823	-
Other income	238,572	535,449
Interest income	34,442	97,746
Impairment loss on land	(620,869)	-
Interest expense	(198,942)	(872,531)
Other expense	(33,350)	-
Total nonoperating revenues (expenses), net	<u>2,760,676</u>	<u>(239,336)</u>
Income (loss) before transfers	1,737,980	(6,834,404)
Transfers out for capital development grants	<u>(1,139,387)</u>	<u>(658,806)</u>
Change in net assets	598,593	(7,493,210)
Net assets - beginning	<u>37,227,539</u>	<u>44,720,749</u>
Net assets - ending	<u>\$ 37,826,132</u>	<u>\$ 37,227,539</u>

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Statements of Cash Flows
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from interest and fees on loans receivable	\$ 2,059,066	\$ 3,690,351
Cash received from interest and fees on capital development loans	162,743	161,989
Interest and dividends on investments	641,258	724,659
Cash payments to suppliers for goods and services	(789,389)	(1,732,171)
Cash received from customers	(107,772)	285,047
Cash payments to employees for services	(1,122,649)	(836,184)
Cash received from federal grant awards	6,603,865	6,270,857
Cash payments from federal grant awards	<u>(5,910,307)</u>	<u>(4,918,765)</u>
Net cash provided by operating activities	<u>1,536,815</u>	<u>3,645,783</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(47,602)	(133,771)
Proceeds from sale of property and equipment	-	535,725
Proceeds from sale of land	100,000	-
Net disbursements of loans receivable	(1,153,974)	(1,226,108)
Net proceeds of capital development loans receivables	109,409	-
Proceeds from sale of foreclosed properties	105,000	-
Payments to MPLT	(2,025,000)	-
Payments for guaranteed loans	(5,429,690)	(138,584)
Payments received on capital development loans	-	654,463
Transfers for capital development grants	<u>(1,139,387)</u>	<u>(658,806)</u>
Net cash used for capital and related financing activities	<u>(9,481,244)</u>	<u>(967,081)</u>
Cash flows from investing activities:		
Net proceeds from restricted cash and cash equivalents	8,624,058	505,966
Net purchase of time certificates of deposit	-	(2,707,173)
Interest received	<u>34,442</u>	<u>97,746</u>
Net cash provided by (used for) investing activities	<u>8,658,500</u>	<u>(2,103,461)</u>
Net increase in cash and cash equivalents	714,071	575,241
Cash and cash equivalents at beginning of year	<u>2,287,675</u>	<u>1,712,434</u>
Cash and cash equivalents at end of year	<u>\$ 3,001,746</u>	<u>\$ 2,287,675</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,022,696)	\$ (6,595,068)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Bad debts	3,069,279	3,476,736
Provision for loan guaranty	-	5,689,799
Provision for foreclosed real estate	935,106	628,663
Depreciation	447,377	478,869
(Increase) decrease in assets:		
Receivables:		
Rent	(51,400)	(82,067)
Other	(349,743)	(82,169)
Accrued interest	(1,608,812)	(579,022)
Prepaid expenses	(21,466)	10,795
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(280,940)	229,997
Deferred revenues	(14,020)	-
Due to grantor agency	<u>434,130</u>	<u>469,250</u>
Net cash provided by operating activities	<u>\$ 1,536,815</u>	<u>\$ 3,645,783</u>

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Statements of Cash Flows, Continued
Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Supplemental disclosure of noncash capital and related financing activities:		
Recognition of foreclosed properties:		
Noncash increase in foreclosed real estate	\$ 1,513,606	\$ -
Noncash decrease in loans receivable	(1,513,606)	-
	<u>\$ -</u>	<u>\$ -</u>
Settlement agreement with MPLT:		
Noncash decrease in notes payable to related party	\$ 8,996,623	\$ -
Noncash decrease in interest payable	1,927,030	-
Noncash interest expense	97,970	-
Noncash decrease in loans receivables	(9,142,426)	-
Write-off of allowance for loan losses	3,660,578	-
Noncash decrease in interest receivables	(1,479,469)	-
Write-off of allowance for uncollectible interests	1,305,517	-
Cash payment to MPLT	(2,025,000)	-
Noncash gain on settlement with MPLT	(3,340,823)	-
	<u>\$ -</u>	<u>\$ -</u>
Recognition of impairment loss:		
Impairment loss on land	\$ 620,869	\$ -
Noncash decrease in land	(620,869)	-
	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(1) Reporting Entity

The Commonwealth Development Authority (CDA), a component unit of the Commonwealth of the Northern Mariana Islands (CNMI), was created as an autonomous public agency of the CNMI pursuant to Public Law 4-49 as amended by Public Laws 4-63 and 5-27. CDA is affiliated with all other component units of the CNMI Government. 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 functions of CDA are carried out through a Development Banking Division (DBD, government and public sector activities), a Development Corporation Division (DCD, private sector activities), and a discretely presented component unit, the Northern Marianas Housing Corporation (NMHC). NMHC, formerly the Mariana Islands Housing Authority (MIHA), was established under Public Law 5-37 to assist in the development and administration of low cost residential housing in the Northern Mariana Islands. In 1977, Public Law 5-37 was succeeded by Public Law 5-67, which empowered MIHA to provide low cost residential housing and employment through the construction, maintenance, and repair of such housing. On October 20, 1994, Executive Order 94-3 became effective which abolished MIHA and all of its functions, assets and liabilities were transferred to CDA. CDA established a subsidiary corporation (i.e., NMHC) to account for the operations, assets and liabilities of MIHA. NMHC is governed by a five member Board of Directors appointed by the Board of Directors of CDA. The purpose and functions of the two divisions and NMHC are as follows:

Development Banking Division:

- To receive and hold United States economic assistance for economic development loans provided under Section 702(c) of the Covenant to Establish a Commonwealth of the Northern Mariana Islands in Political Union with the United States of America (the Covenant);
- To aid in the financing of capital improvement projects and other projects undertaken by the CNMI and its autonomous public agencies;
- To achieve the greatest possible return, in terms of economic development, on the funds made available to the CNMI by the United States in accordance with the Covenant; and on such other funds as may be made available to CDA as capital contributions;
- To disseminate modern practices and techniques of financing, management and business administration in order to raise the levels of efficiency and productivity in all sectors; and
- To serve as the Northern Marianas development bank identified in Article IX, Section 6(c) of the Constitution.

As such, DBD considers all its net assets restricted for such purposes.

Development Corporation Division:

- To identify, formulate, initiate, stimulate and facilitate business and commercial enterprises, with special emphasis on agricultural and marine resources, manufacturing and processing activities, import substitution, export development and responsible use of indigenous raw materials;

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(1) Reporting Entity, Continued

Development Corporation Division, Continued:

- To identify, formulate, initiate, stimulate and facilitate business and commercial enterprises where a service necessary and vital to economic development is required, or where profit incentives are not sufficient to attract private sector investors; and
- To serve as the economic development loan fund agency for qualified private sector enterprises.

As such, DCD considers all its net assets, except net assets invested in capital assets, to be restricted for such purposes.

Northern Marianas Housing Corporation:

- To administer direct loans to qualified individuals for housing construction;
- To participate as guarantor or trustee in housing loan programs;
- To develop and construct rental housing;
- To construct and/or administer various other Federal and local residential and housing projects; and
- To participate in projects subsidized by the U.S. Department of Housing and Urban Development (HUD). Upon completion of the projects, the residential units are rented to qualifying families and individuals.

As such, NMHC considers all its net assets, except net assets invested in capital assets, to be restricted for such purposes.

(2) Summary of Significant Accounting Policies

The accounting policies of CDA conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically proprietary funds. Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. CDA has implemented GASB 20 and elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the statements of net assets. Proprietary fund operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budgets

In accordance with Public Law 3-68, the Planning and Budgeting Act of 1983, CDA submits an annual budget to the CNMI Office of the Governor.

Cash and Cash Equivalents and Time Certificates of Deposit

GASB Statement No. 3 previously required government entities to present deposit risks in terms of whether the deposits fell into the following categories:

- Category 1 Deposits that are federally insured or collateralized with securities held by CDA or its agent in CDA's name;
- Category 2 Deposits that are uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in CDA's name; or
- Category 3 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent but not in CDA's name and non-collateralized deposits.

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for deposits falling into categories 1 and 2 but retained disclosures for deposits falling under category 3. Category 3 deposits are those deposits that have exposure to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, CDA's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. CDA does not have a deposit policy for custodial credit risk.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

For purposes of the statements of net assets and cash flows, cash and cash equivalents is defined as cash held in demand deposits, savings and unrestricted time certificates of deposit with a maturity date within three months of the date acquired. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified. At September 30, 2008 and 2007, total unrestricted cash and cash equivalents were \$3,001,746 and \$2,287,675, respectively, and the corresponding bank balances were \$3,198,666 and \$2,336,895, respectively. Of the bank balance amounts, \$3,198,666 and \$1,427,107 are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance as of September 30, 2008 and 2007, respectively, and \$-0- and \$909,788 are maintained at a non-FDIC insured bank as of September 30, 2008 and 2007, respectively. Bank deposits in the amount of \$255,253 and \$264,647 were FDIC insured as of September 30, 2008 and 2007, respectively. CNMI law does not require component units to collateralize their bank accounts and thus CDA's deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

Time certificates of deposit (TCDs), with maturities of more than three months when purchased, had fair value approximating cost as of September 30, 2008 and 2007. At September 30, 2008 and 2007, approximately \$579,448 and \$1,078,122, respectively, of CDA's TCDs are with financial institutions subject to FDIC. As of September 30, 2008 and 2007, TCDs in the amount of \$100,000 were FDIC insured. CNMI law does not require component units to collateralize their bank accounts and thus CDA's deposits in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets. Current policy is to capitalize items in excess of \$500.

Long-lived assets for which management has committed to a plan to dispose of the assets, whether by sale or abandonment, are reported at the lower of carrying amount or fair value less costs to sell.

Land

Land is recorded at fair market value at the date of acquisition. Valuations are periodically performed by management and adjustments are made to reflect the land at the lower of the carrying amount or fair market value. The carrying amount of the land is evaluated on an annual basis to determine impairment by estimating the recoverable value. Recoverable value is based on management's historical knowledge and changes in market conditions from the time of valuation. An impairment loss is recognized in the period in which it arises. For the fiscal year ended September 30, 2008, NMHC recorded an impairment loss on land of \$620,869.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Foreclosed Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value at the date of foreclosure less estimated selling costs establishing a new cost basis. Valuations are periodically performed by management and adjustments are made to reflect the real estate at the lower of the carrying amount or fair value less estimated costs to sell. Operating expenses or income, reductions in estimated values, and gains or losses on disposition of such properties are charged to current operations.

Loans Receivable, Interest Receivable and Allowance for Loan Losses

Loans and interest receivable are stated at the amount of unpaid principal and interest, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for doubtful accounts charged to expense. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may be uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrowers' ability to pay.

Restricted Cash and Cash Equivalents and Time Certificates of Deposit

As described in note 1, DBD receives and holds United States economic assistance for economic development loans provided under Section 702(c) of the Covenant. The *Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands* requires that a revolving fund be established into which repayments of principal and interest from revenue-producing projects shall be deposited for financing of additional revenue-producing capital development projects. From its inception on October 1, 1985, DBD has exclusively accounted for Covenant 702(c) funding and thus represents the required revolving fund.

As described in note 1, DCD serves as the economic development loan fund agency for qualified private sector enterprises. DCD 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 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 represents a revolving fund to account for economic development loans to qualified private sector enterprises.

As described in note 1, NMHC administers various Federal and local residential and housing projects. In administering these programs, NMHC is required to maintain certain funds as collateral or in accounts which are restricted for specific purposes.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Operating revenues include all direct revenues such as interest and fees on loans, federal grants and interest on investments.

Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. Interest on loans is accrued and credited to income based on the principal amount outstanding for both performing and nonperforming loans. Due to current confines of CDA and NMHC's systems, interest on nonperforming loans remains to be accrued and credited to income. However, a bad debt expense is recognized for the amount of interest deemed uncollectible. CDA and NMHC are currently working to be able to prospectively cease recognition of interest income on nonperforming loans.

Federal grant revenues are recognized when allowable expenses are incurred.

Non-operating revenues result from capital and financing activities.

Deferred Revenues

Deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. Deferred revenues include prepaid lease income on foreclosed real estate held for lease and recorded loan receivables from individuals eligible under the HOME Investment Partnerships program administered by NMHC.

Compensated Absences

Vested or accumulated vacation leave is recorded as benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Accumulated sick pay benefits as of September 30, 2008 and 2007 was approximately \$184,792 and \$146,836, respectively.

Retirement Plan

CDA contributes to the Northern Mariana Islands Retirement Fund's (the Fund) defined benefit plan (DB Plan) and defined contribution plan (DC Plan), a cost sharing, and multi-employer plan (the Plan) established and administered by the CNMI.

The Plan provides retirement, security and other benefits to employees, and their spouses and dependents, of the CNMI Government and CNMI agencies, instrumentalities and public corporations. Benefits are based on the average annual salary of the beneficiary over the term of credited service. Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, is the authority under which benefit provisions are established. Public Law No. 6-17 was subsequently amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Retirement Plan, Continued

GASB Statement No. 45 requires employers to record other postemployment benefits (OPEB) expense for their contractually required contributions to the OPEB plan. CDA has complied with GASB 45 by recording OPEB expense based on the statutory determined contribution rate of the Fund. CDA's OPEB liability is incorporated into the contribution amount. It is the understanding of the management of CDA that the statutory determined contribution rate of the Fund incorporates both the pension liability and the OPEB liability. GASB 45 also requires detailed disclosure of information related to the OPEB plan and CDA management was unable to obtain this information from the Fund financial report. CDA management is unable to obtain the required disclosures and is of the opinion that such information must be obtained from the Fund. It is the position of the management of CDA that the Fund is solely responsible for disclosure of OPEB information.

The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Northern Mariana Islands Retirement Fund, P.O. Box 501247, Saipan, MP, 96950-1247.

Defined Benefit Plan (DB Plan)

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. CDA is required to contribute at an actuarially determined rate. The actuarially determined contribution rate for the fiscal year ended September 30, 2008 is 29.9665% of covered payroll based on an actuarial valuation as of October 1, 2007 issued in December 2008. The established statutory rate at September 30, 2008 is 36.6667% of covered payroll.

Defined Contribution Plan (DC Plan)

On June 16, 2006, Public Law No. 15-13 was enacted which created the DC Plan, a multi-employer pension plan and is the single retirement program for all employees whose first time CNMI government employment commences on or after January 1, 2007. Each member of the DC Plan is required to contribute to the member's individual account an amount equal to 10% of the member's compensation. CDA is required to contribute to each member's individual account an amount equal to 4% of the member's compensation. The DC Plan by its nature is fully funded on a current basis from employer and member contributions.

CDA's contributions to the Fund for the years ended September 30, 2008, 2007 and 2006 were \$266,396, \$409,185 and \$326,053, respectively, which were equal to the required contributions for each year.

Net Assets

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, has required CDA to establish net asset categories as follows:

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Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

Net Assets, Continued

- Invested in capital assets; capital assets, net of accumulated depreciation.
- Restricted:

Nonexpendable - Net assets subject to externally imposed stipulations that CDA maintain them permanently. At September 30, 2008 and 2007, CDA does not have nonexpendable net assets.

Expendable - Net assets whose use by CDA is subject to externally imposed stipulations that can be fulfilled by actions of CDA pursuant to those stipulations or that expire by the passage of time. As described in note 1, CDA considers all assets, except investments in capital assets, to be restricted for economic development.

- Unrestricted; net assets that are not subject to externally imposed stipulations. As CDA considers all assets, except investments in capital assets, to be restricted for economic development, CDA does not have unrestricted net assets of September 30, 2008 and 2007.

New Accounting Standards

During fiscal year 2008, CDA implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues* and GASB Statement No. 50, *Pension Disclosures an amendment of GASB Statements No. 25 and 27*. GASB Statement No. 43 establishes uniform financial reporting for other postemployment benefit plans by state and local governments. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing and includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The implementation of these pronouncements did not have a material effect on the accompanying financial statements.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB Statement No. 49 provides guidance and consistency under which a governmental entity would be required to report a liability related to pollution remediation. The provisions of this statement are effective for periods beginning after December 15, 2007. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

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Notes to Financial Statements
September 30, 2008 and 2007

(2) Summary of Significant Accounting Policies, Continued

New Accounting Standards, Continued

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income. The provisions of this statement are effective for periods beginning after June 15, 2008. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB Statement No. 53 is intended to improve how state and local governments report information about derivative instruments - financial arrangements used by governments to manage specific risks or make investments - in their financial statements. The provisions of this statement are effective for periods beginning after June 15, 2009. Management does not believe that the implementation of this statement will have a material effect on the financial statements of CDA.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, CDA has entered into off-balance sheet financial instruments consisting of commitments to extend credit and loan guarantees. Such financial instruments are recorded in the financial statements when they become payable.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Restricted Cash and Cash Equivalents and Time Certificates of Deposit

Development Banking Division

Restricted cash and cash equivalents and time certificates of deposit represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding, and are restricted for capital development purposes. Proceeds are deposited with commercial lending institutions and the securities are held in the name of CDA.

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Notes to Financial Statements
September 30, 2008 and 2007

(3) Restricted Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Development Banking Division, Continued

At September 30, 2008 and 2007, restricted cash and cash equivalents and time certificates of deposit consist of time certificates of deposit with maturity periods ranging from eight to sixteen months and amounts held in demand deposit accounts. These investments are presented at fair value in the accompanying financial statements, in accordance with GASB Statement No. 31. At September 30, 2008 and 2007, total restricted cash and cash equivalents and time certificates of deposit were \$6,604,652 and \$9,007,216, respectively, with \$6,604,652 and \$9,007,216, respectively, maintained in financial institutions subject to FDIC insurance. Restricted cash and cash equivalents and investments in the amount of \$100,000 were FDIC insured as of September 30, 2008 and 2007. CNMI law does not require component units to collateralize their bank accounts and thus CDA's restricted cash and cash equivalents and investments in excess of FDIC insurance are uncollateralized. Accordingly, the deposits are exposed to custodial credit risk.

Development Corporation Division

At September 30, 2008 and 2007, restricted cash and cash equivalents and time certificates of deposit consist of time certificates of deposit with maturity periods ranging from six to nine months and amounts held in demand deposit accounts. Restricted cash and cash equivalents and time certificates of deposit amounted to \$2,256,490 and \$6,601,380 at September 30, 2008 and 2007, respectively, and comprise amounts maintained as a guarantee against loans issued by the bank. Of the bank balance amounts, \$2,256,490 and \$6,601,380 is maintained in financial institutions subject to FDIC insurance as of September 30, 2008 and 2007, respectively. Restricted cash and cash equivalents and investments in the amount of \$100,000 were FDIC insured as of September 30, 2008 and 2007. Accordingly, the deposits are exposed to custodial credit risk.

Northern Marianas Housing Corporation

NMHC maintains depository accounts with financial institutions in the CNMI which are restricted for various purposes, as detailed below. At September 30, 2008 and 2007, restricted cash and cash equivalents consist of amounts held in demand deposit accounts and time certificates of deposit with sixty days maturity. Of the amounts detailed below, \$142,223 and \$135,358 at September 30, 2008 and 2007, respectively, were FDIC insured. Accordingly, the deposits are exposed to custodial credit risk.

	<u>2008</u>	<u>2007</u>
<u>Restricted cash and cash equivalents:</u>		
Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to USDA Rural Development loans	\$ 2,223,115	\$ 256,872
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	196,819	196,425
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	58,851	74,888

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Notes to Financial Statements
September 30, 2008 and 2007

(3) Restricted Cash and Cash Equivalents and Time Certificates of Deposit, Continued

Northern Marianas Housing Corporation, Continued

	<u>2008</u>	<u>2007</u>
<u>Restricted cash and cash equivalents, continued:</u>		
MPLT collateral account	-	1,043,485
Time certificates of deposit for MPLT loan program	-	2,641,310
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	2,028,317	1,644,962
Other depository accounts reserved for various purposes	<u>235,992</u>	<u>263,082</u>
	<u>\$ 4,743,094</u>	<u>\$ 6,121,024</u>

CDA's investments in time certificates of deposit had the following maturities at September 30, 2008:

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>
DBD	\$ 6,550,922	\$ 6,550,922	\$ -	\$ -	\$ -
DCD	<u>2,835,938</u>	<u>1,739,906</u>	<u>1,096,032</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,386,860</u>	<u>\$ 8,290,828</u>	<u>\$ 1,096,032</u>	<u>\$ -</u>	<u>\$ -</u>

(4) Loans Receivable

Development Corporation Division

As described in note 1, DCD was established to serve as the economic development loan fund agency for qualified private sector enterprises pursuant to Public Law 4-49. In this capacity all functions, powers, duties, funds, contracts, obligations and liabilities managed and administered by the Northern Marianas Islands Economic Development Loan Fund (EDLF) were transferred to DCD. EDLF was established pursuant to Article VII, Section 702(c) of the Covenant, dated February 15, 1975, to administer financial resources received under the Covenant which were specifically set aside for a loan program to assist the general economic development of the Northern Marianas Islands. Additionally, the Trust Territory of the Pacific Islands Government contributed to the economic development loan portfolio.

Outstanding loans are due within various periods not to exceed thirty (30) years. The interest rates charged are based on the economic purpose of the loan. Production development loans bear interest at 7% to 9%, marine and agriculture loans bear interest at 4.5%, commercial development loans bear interest at 7% to 9%, and microloans bear interest at 7% to 12%.

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Notes to Financial Statements
September 30, 2008 and 2007

(4) Loans Receivable, Continued

Northern Marianas Housing Corporation

NMHC makes loans for the specific purpose of providing residents of the Northern Mariana Islands with approved low-cost housing. The loans have terms from ten to thirty-three years in duration at interest rates of 4.5% to 12%. Loans are restricted to ninety percent (90%) of the appraised value of the property or the purchase price, whichever is lower. For construction loans, the purchase price of the property is defined as the value of the land plus the estimated cost of construction.

Major classifications of economic development loans as of September 30, 2008 and 2007 (with combining information as of September 30, 2008), are as follows:

	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>2008</u>	<u>2007</u>
General	\$ 31,992,168	\$ 763,556	\$ 32,755,724	\$ 26,937,140
Direct family home loans	-	3,187,107	3,187,107	11,954,633
Marine	5,560,903	-	5,560,903	5,368,630
Agriculture	2,562,530	-	2,562,530	2,593,312
HOME Investment Partnerships Act grant	-	3,807,611	3,807,611	3,700,877
Housing construction	-	461,014	461,014	552,546
Tinian turnkey	-	498,040	498,040	500,878
Home revenue bond	-	80,370	80,370	82,219
Section 8	-	167,943	167,943	168,318
Housing preservation grant	-	59,173	59,173	46,364
Trust Territory Guaranteed	<u>4,764</u>	<u>-</u>	<u>4,764</u>	<u>8,887</u>
Loan principal receivable	40,120,365	9,024,814	49,145,179	51,913,804
Less allowance for loan losses	<u>(26,930,650)</u>	<u>(6,218,333)</u>	<u>(33,148,983)</u>	<u>(30,739,045)</u>
Net loans receivable	<u>\$ 13,189,715</u>	<u>\$ 2,806,481</u>	<u>\$ 15,996,196</u>	<u>\$ 21,174,759</u>

Maturities of the above principal balances subsequent to September 30, 2008, will be as follows:

	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>Total</u>
Fully matured and others	\$ 25,963,667	\$ 2,341,838	\$ 28,305,505
1 - 6 months	766,020	233,490	999,510
7 - 18 months	1,174,100	466,906	1,641,006
19 months - 3 years	5,682,951	435,264	6,118,215
After 3 years	<u>6,533,627</u>	<u>5,547,316</u>	<u>12,080,943</u>
	<u>\$ 40,120,365</u>	<u>\$ 9,024,814</u>	<u>\$ 49,145,179</u>

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Notes to Financial Statements
September 30, 2008 and 2007

(4) Loans Receivable, Continued

Allowance for Loan Losses

An analysis of the change in the allowance for loan losses is as follows:

	Development Corporation Division	Northern Marianas Housing Corporation	<u>2008</u>	<u>2007</u>
Balance - beginning of year	\$ 23,388,320	\$ 7,398,528	\$ 30,786,848	\$ 27,982,989
Provision for loan losses	3,550,326	2,480,384	6,030,710	2,805,267
Write-off of loans	<u>(7,996)</u>	<u>(3,660,579)</u>	<u>(3,668,575)</u>	<u>(1,408)</u>
Balance - end of year	\$ <u>26,930,650</u>	\$ <u>6,218,333</u>	\$ <u>33,148,983</u>	\$ <u>30,786,848</u>

(5) Due from/to Other Funds

Due from/to balances between NMHC and DBD result from loans made by CDA to the former Marianas Islands Housing Authority (MIHA) prior to that entity being established as a subsidiary corporation of CDA. The year end balances are summarized as follows:

	<u>2008</u>	<u>2007</u>
Housing construction loan. On February 3, 1999, CNMI Public Law 11-57 authorized CDA to write off the portion of this loan not considered recoverable through sale of housing construction units. Interest has therefore been suspended pending sales of the units.	\$ 456,611	\$ 1,027,211
Operating expenses	<u>54,045</u>	<u>54,045</u>
	\$ <u>510,656</u>	\$ <u>1,081,256</u>

DBD provided an allowance of \$296,797 and \$119,316 to the outstanding balance of the due from NMHC at September 30, 2008 and 2007, respectively.

Due from/to balances between DBD and DCD result from the use of restricted funding between the two divisions. These balances result from the time lag between the dates that 1) reimbursable expenditure occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made and are scheduled to be collected in the subsequent year.

All due from/to balances of CDA are eliminated in the basic financial statements.

(6) Capital Development Loans Receivable From Related Parties

As described in note 2, DBD is required to establish a revolving fund into which repayments of principal and interest from revenue-producing projects shall be deposited. The revolving fund consists of the following notes receivable as of September 30, 2008 and 2007:

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(6) Capital Development Loans Receivable From Related Parties, Continued

	<u>2008</u>	<u>2007</u>
Note receivable from the Commonwealth Utilities Corporation (CUC), bearing interest at 7% per annum, with quarterly principal and interest payments due February 17, 1992 in the amount of \$658,469, with a maturity date of February 17, 2013. Proceeds are used for certain power generation and distribution projects within the CNMI.	\$ 30,000,000	\$ 30,000,000
Note receivable from CUC, bearing interest at 5% per annum, with quarterly principal and interest payments due January 12, 1994 in the amount of \$359,514, with a maturity date of January 12, 2014. Proceeds are used for certain water projects within the CNMI.	16,068,750	16,068,750
Due from CUC, bearing interest at 7% per annum, with monthly principal and interest payments of \$58,509. No promissory agreement related to this note has been signed.	10,000,000	10,000,000
Note receivable from CUC, bearing interest at 7% per annum, with quarterly principal and interest payments due two years after January 30, 1990 in the amount of \$276,471, with a maturity date of January 30, 2000. Proceeds are used for Saipan Power Plant expansion.	5,500,000	5,500,000
Note receivable from the Commonwealth Ports Authority (CPA), bearing interest at 2.5% per annum, with quarterly principal and interest payments in the amount of \$204,113, with maturity date of November 16, 2014. Proceeds are used for the Saipan Harbor Project. Beginning January 2008, principal and interest payments have been deferred for five years and two years, respectively.	<u>6,085,380</u>	<u>6,232,718</u>
Total capital development loans receivable	67,654,130	67,801,468
Less allowance for loan losses	<u>(67,654,130)</u>	<u>(66,159,100)</u>
Net capital development loans receivable	\$ <u> -</u>	\$ <u>1,642,368</u>

An analysis of the change in the allowance for loan losses is as follows:

	<u>2008</u>	<u>2007</u>
Balance - beginning of year	\$ 66,159,100	\$ 66,159,100
Provision for loan losses	<u>1,495,030</u>	<u> -</u>
Balance - end of year	\$ <u>67,654,130</u>	\$ <u>66,159,100</u>

At September 30, 2008, estimated proceeds from principal and interest repayments of loans receivable (excluding all CUC loans) for the following years ending September 30, are as follows:

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(6) Capital Development Loans Receivable From Related Parties, Continued

<u>Year ending September 30,</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
2009	\$ -	\$ -	\$ -
2010	-	337,805	337,805
2011	-	76,057	76,057
2012	-	57,373	57,373
2013	5,044,603	38,217	5,082,820
2014 - 2015	<u>1,040,777</u>	<u>20,097</u>	<u>1,060,874</u>
	<u>\$ 6,085,380</u>	<u>\$ 529,549</u>	<u>\$ 6,614,929</u>

A Memorandum of Agreement (MOA) was established between CDA and CUC on November 21, 2002, as amended in January 2004, to waive a portion of the capital development loans receivable and the conversion into equity ownership of the balance. Public Law 13-35 effectuated terms of the MOA requiring CDA to waive \$16,068,750 and waive certain specified interest payments and for other purposes. Public Law 13-36 effectuated terms of the MOA by authorizing CUC to issue shares to CDA of cumulative nonconvertible non-transferable preferred stock valued at \$45,500,000. Public Law 15-12, enacted on June 6, 2006, authorized CDA to waive the sum of \$45,500,000 of the principal and any and all accrued interest owed by CUC on all outstanding capital development loans.

(7) Property and Equipment

Property and equipment consist of the following at September 30, 2008 and 2007:

Development Corporation Division

	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2008</u>
Structure and improvements	7 years	\$ 469,125	\$ 6,834	\$ -	\$ 475,959
Vehicles/office equipment	3 - 5 years	112,168	11,692	-	123,860
Computer equipment	3 - 5 years	123,278	845	-	124,123
Furniture and fixtures	7 years	<u>125,619</u>	<u>-</u>	<u>-</u>	<u>125,619</u>
		830,190	19,371	-	849,561
Less accumulated depreciation		<u>(810,481)</u>	<u>(13,669)</u>	<u>-</u>	<u>(824,150)</u>
		<u>\$ 19,709</u>	<u>\$ 5,702</u>	<u>\$ -</u>	<u>\$ 25,411</u>
	<u>Estimated Useful Lives</u>	<u>Balance at October 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at September 30, 2007</u>
Structure and improvements	7 years	\$ 469,125	\$ -	\$ -	\$ 469,125
Vehicles/office equipment	3 - 5 years	111,269	899	-	112,168
Computer equipment	3 - 5 years	122,620	658	-	123,278
Furniture and fixtures	7 years	<u>125,619</u>	<u>-</u>	<u>-</u>	<u>125,619</u>
		828,633	1,557	-	830,190
Less accumulated depreciation		<u>(795,203)</u>	<u>(15,278)</u>	<u>-</u>	<u>(810,481)</u>
		<u>\$ 33,430</u>	<u>\$ (13,721)</u>	<u>\$ -</u>	<u>\$ 19,709</u>

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Notes to Financial Statements
September 30, 2008 and 2007(7) Property and Equipment, ContinuedNorthern Marianas Housing Corporation

	Estimated Useful Lives	Balance at October 1, 2007	Additions	Deletions	Balance at September 30, 2008
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	\$ 2,463,531	\$ 3,925	\$ -	\$ 2,467,456
Section 8 Koblerville Housing	30 years	1,933,153	4,845	-	1,937,998
Section 8 Rota Housing	30 years	1,176,787	-	-	1,176,787
Section 8 Tinian Housing	30 years	1,065,154	-	-	1,065,154
Section 8 Housing Phase II	30 years	635,229	700	-	635,929
Section 8 Housing Phase I	30 years	<u>600,515</u>	<u>-</u>	<u>-</u>	<u>600,515</u>
		<u>7,874,369</u>	<u>9,470</u>	<u>-</u>	<u>7,883,839</u>
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	478,231	-	-	478,231
Equipment and computers	3 - 8 years	517,213	18,649	-	535,862
Vehicles	3 years	<u>150,477</u>	<u>-</u>	<u>-</u>	<u>150,477</u>
		<u>3,969,412</u>	<u>18,649</u>	<u>-</u>	<u>3,988,061</u>
		11,843,781	28,119	-	11,871,900
Less accumulated depreciation		<u>(9,160,382)</u>	<u>(433,596)</u>	<u>-</u>	<u>(9,593,978)</u>
		<u>\$ 2,683,399</u>	<u>\$ (405,477)</u>	<u>\$ -</u>	<u>\$ 2,277,922</u>
Balance at September 30, 2007					
	Estimated Useful Lives	Balance at October 1, 2006	Additions	Deletions	Balance at September 30, 2007
Residential Housing Development Projects:					
Section 8 Mihaville Housing	30 years	\$ 2,460,684	\$ 2,847	\$ -	\$ 2,463,531
Section 8 Koblerville Housing	30 years	1,926,648	6,505	-	1,933,153
Section 8 Rota Housing	30 years	1,176,222	565	-	1,176,787
Section 8 Tinian Housing	30 years	1,065,154	-	-	1,065,154
Section 8 Housing Phase II	30 years	635,229	-	-	635,229
Section 8 Housing Phase I	30 years	<u>600,515</u>	<u>-</u>	<u>-</u>	<u>600,515</u>
		<u>7,864,452</u>	<u>9,917</u>	<u>-</u>	<u>7,874,369</u>
Other:					
Koblerville infrastructure	30 years	2,214,991	-	-	2,214,991
Tinian infrastructure	30 years	608,500	-	-	608,500
Building and improvements	20 years	424,586	53,645	-	478,231
Equipment and computers	3 - 8 years	476,311	40,902	-	517,213
Vehicles	3 years	<u>139,197</u>	<u>27,750</u>	<u>(16,470)</u>	<u>150,477</u>
		<u>3,863,585</u>	<u>122,297</u>	<u>(16,470)</u>	<u>3,969,412</u>
		11,728,037	132,214	(16,470)	11,843,781
Less accumulated depreciation		<u>(8,947,067)</u>	<u>(463,591)</u>	<u>250,276</u>	<u>(9,160,382)</u>
		<u>\$ 2,780,970</u>	<u>\$ (331,377)</u>	<u>\$ 233,806</u>	<u>\$ 2,683,399</u>

NMHC also holds title to approximately 339,000 square meters of land acquired at no cost which was originally held for development of low income rental housing or resale to low income families for construction of housing. The land is recorded on NMHC's financial statements at estimated fair value of \$9,650,313 and \$10,409,682 at September 30, 2008 and 2007, respectively. For the fiscal year ended September 30, 2008, NMHC recorded impairment loss on land of \$620,869. Public Law 6-34 provides NMHC, subject to certain terms and conditions, the authority to lease for commercial development certain land situated in the North Garapan Subdivision Annex No. 2. NMHC is currently in the process of promoting the development of the abovementioned land to allow NMHC to meet its future commitments.

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Notes to Financial Statements
September 30, 2008 and 2007

(8) Foreclosed Real Estate

A summary of the changes in foreclosed real estate and the related valuation allowance as of September 30, 2008 and 2007 is as follows:

	<u>Development Corporation Division</u>		<u>Northern Marianas Housing Corporation</u>	<u>2008</u>	<u>2007</u>
	<u>For Sale</u>	<u>For Lease</u>			
Foreclosed Real Estate					
Balance at beginning of year	\$ 1,056,274	\$ 1,584,400	\$ 380,695	\$ 3,021,369	\$ 3,390,432
Additions	1,513,606	-	170,277	1,683,883	666,638
Deletions	(100,000)	-	(121,858)	(221,858)	(359,375)
Decline in market value	<u>(356,606)</u>	<u>-</u>	<u>-</u>	<u>(356,606)</u>	<u>(676,326)</u>
	2,113,274	1,584,400	429,114	4,126,788	3,021,369
Valuation allowance	<u>(1,056,637)</u>	<u>(792,200)</u>	<u>-</u>	<u>(1,848,837)</u>	<u>(1,320,337)</u>
Balance at end of year	\$ <u>1,056,637</u>	\$ <u>792,200</u>	\$ <u>429,114</u>	\$ <u>2,277,951</u>	\$ <u>1,701,032</u>
Valuation Allowance					
Balance at beginning of year	\$ 528,137	\$ 792,200	\$ -	\$ 1,320,337	\$ 1,368,000
Recoveries	(50,000)	-	-	(50,000)	(62,863)
Provision	<u>578,500</u>	<u>-</u>	<u>-</u>	<u>578,500</u>	<u>15,200</u>
Balance at end of year	\$ <u>1,056,637</u>	\$ <u>792,200</u>	\$ <u>-</u>	\$ <u>1,848,837</u>	\$ <u>1,320,337</u>

(9) Notes Payable to Related Party

Development Banking Division

Note payable at September 30, 2008 and 2007, is as follows:

	<u>2008</u>	<u>2007</u>
Note payable to Marianas Public Land Trust (MPLT), bearing interest at 6.5% per annum, due over a fifteen-year term, beginning June, 2003. The note is collateralized by the full faith and credit of the CNMI Government held in trust by MPLT, for the purpose of development and maintenance of the American Memorial Park, and is being repaid from earnings of the investments pursuant to CNMI Public Law 11-72.	\$ <u>1,494,243</u>	\$ <u>1,611,843</u>

Principal maturities for subsequent fiscal years are as follows (estimated as repayments depend on earnings on the investments):

<u>Year ending September 30,</u>	<u>Principal Balance</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 111,754	\$ 93,955	\$ 205,709
2010	122,820	86,246	209,066
2011	131,046	78,020	209,066
2012	139,822	69,244	209,066
2013	149,186	59,880	209,066
2014 - 2018	<u>839,615</u>	<u>136,024</u>	<u>975,639</u>
	\$ <u>1,494,243</u>	\$ <u>523,369</u>	\$ <u>2,017,612</u>

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(9) Notes Payable to Related Party, Continued

Northern Marianas Housing Corporation

Notes payable at September 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Note payable to MPLT, bearing interest at 8.5% per annum, due on March 1, 2016, collateralized by the full faith and credit of the CNMI Government. CNMI Public Law 12-27 approved the repayment of the loan through legislative appropriation of operating transfers to the general fund of the CNMI Government from investment income of MPLT. Operating transfers to the general fund reduce NMHC's liability to MPLT.	\$ <u>-</u>	\$ <u>8,996,623</u>

On December 31, 2007, MPLT and NMHC entered into a Settlement Agreement to settle all disputed issues and claims relating to the \$10,000,000 note payable. Under the Settlement Agreement, NMHC paid MPLT \$2,025,000 and assigned to MPLT certain loans and mortgages in the NMHC owned loan portfolio totaling \$10,621,895 which consists of \$9,142,426 of loan principal and \$1,479,469 of interest receivables. In addition, MPLT assumed liability for the repayment of certain service released loans totaling \$1,672,102 in contingent liabilities for and on behalf of NMHC in the form of guarantees to certain financial institutions. For the fiscal year ended September 30, 2008, notes payable of \$8,996,623, interest payable of \$2,025,000, loans receivables of \$5,481,848 (net of allowance for loan losses of \$3,660,578) and interest receivable of \$173,952 (net of allowance for uncollectible interest of \$1,305,517) are written-off in the accompanying financial statements and a gain on settlement with MPLT of \$3,340,823 is recorded by NMHC.

Changes in notes payable for the years ended September 30, 2008 and 2007, are as follows:

	Balance October 1, 2007	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2008	Due Within One Year
DBD	\$ 1,611,843	\$ -	\$ (117,600)	\$ 1,494,243	\$ 111,753
NMHC (MPLT)	<u>8,996,623</u>	<u>-</u>	<u>(8,996,623)</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,608,466</u>	<u>\$ -</u>	<u>\$ (9,114,223)</u>	<u>\$ 1,494,243</u>	<u>\$ 111,753</u>
	Balance October 1, 2006	<u>Additions</u>	<u>Reductions</u>	Balance September 30, 2007	Due Within One Year
DBD	\$ 1,712,943	\$ -	\$ (101,100)	\$ 1,611,843	\$ 114,243
NMHC (MPLT)	<u>8,996,623</u>	<u>-</u>	<u>-</u>	<u>8,996,623</u>	<u>-</u>
	<u>\$ 10,709,566</u>	<u>\$ -</u>	<u>\$ (101,100)</u>	<u>\$ 10,608,466</u>	<u>\$ 114,243</u>

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(10) Transfers for Capital Development Grants

As described in note 2, DBD receives and holds U.S. economic assistance provided in the Covenant. Terms and conditions of this assistance are contained in the *Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands* (the Agreement). In accordance with the Agreement, DBD uses the proceeds, and accumulated earnings, by issuing either grants or loans to subrecipients, and acts in a pass through capacity. Revenues and expenditures related to grant agreements are recognized by the subrecipient with DBD recording expense under the caption "transfer out for capital development grants".

Transfers for capital development grants consist of transfers to (a) the CNMI Office of the Governor for matching funds for grants from the U.S. Department of the Interior amounted to \$639,387 and \$658,806 for the years ended September 30, 2008 and 2007, respectively, and (b) transfers to the CNMI Second Senatorial District for various programs and projects pursuant to Public Law No. 15-111 amounted to \$500,000 for the year ended September 30, 2008.

(11) Related Party Transactions

CDA maintains depository accounts in FDIC insured financial institutions. One of the Board members of CDA is currently the President Regional Manager of one of these financial institutions. CDA's deposits in this financial institution amounted to \$14,305,349 and \$17,851,314 as of September 30, 2008 and 2007, respectively. Management is of the opinion that transactions with this financial institution are of similar terms and conditions as with unrelated parties.

(12) Commitments and Contingencies

Commitments

CDA leases certain foreclosed real estate properties for periods ranging from fifteen to fifty-five years. On December 14, 2007, CDA entered into a sublease agreement for a portion of its office space in Saipan. The sublease is for a period of two years commencing from December 1, 2007 for an annual rental of \$24,000. Lease income for the years ended September 30, 2008 and 2007 amounted to \$43,770 and \$17,025, respectively. Minimum future lease income is as follows:

<u>Year ending September 30,</u>	<u>Minimum Lease Income Due</u>
2009	\$ 54,270
2010	38,620
2011	38,770
2012	42,770
2013	44,020
Thereafter	1,349,485
	<u>\$ 1,567,935</u>

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(12) Commitments and Contingencies, Continued

Commitments, Continued

Under a lease agreement beginning April 30, 2003 and expiring September 30, 2020, CDA leases office space in Saipan. The lease agreement provides for an annual rental of \$96,000 during the term of the lease. Also, CDA leases its office space in Tinian for an annual rental of \$8,400. The related lease agreement expires on May 31, 2009. Rental expense for these leases for each of the years ended September 30, 2008 and 2007 is \$104,400.

Total minimum future rentals under these operating leases as of September 30, 2008 are as follows:

<u>Year ending</u> <u>September 30,</u>	
2009	\$ 101,600
2010	96,000
2011	96,000
2012	96,000
2013	96,000
2014 - 2018	480,000
2019 - 2020	<u>192,000</u>
	<u>\$ 1,157,600</u>

Contingencies

CDA is authorized to guarantee up to 90% of the principal of loans and lines of credit made by financial institutions to qualified borrowers, in addition to approving direct loans. The amounts for which CDA was contingently liable under this arrangement at September 30, 2008 and 2007, was \$94,197 and \$6,347,083, respectively. As of September 30, 2008, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

NMHC participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$553,925 have been set forth in CDA's Single Audit Report for the year ended September 30, 2008. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(12) Commitments and Contingencies, Continued

Contingencies, Continued

NMHC has entered into an agreement with the USDA Rural Development (RD) (formerly the U.S. Farmers Home Administration or FmHA) whereby NMHC assists borrowers in obtaining RD financing for housing construction. The agreement requires NMHC to guarantee any deficiency in foreclosure proceeds should borrowers default on the RD loans. As security under the agreement, NMHC is required to maintain an escrow account of \$286,436. Beginning September 30, 1993, the amount in the escrow account will be reduced each year by the product of \$1,500 multiplied by the number of loans paid in full for that particular year, or 4% of the total outstanding balance, whichever is less. As of September 30, 2008 and 2007, NMHC has guaranteed outstanding loans of approximately \$12,277,300 and \$12,270,000, respectively. As of September 30, 2008 and 2007, the balance in the escrow account was \$259,144 and \$256,872, respectively. These amounts are included in "restricted cash and cash equivalents" in the accompanying financial statements. As of September 30, 2008 and 2007, the amount of defaulted loans related to the agreement was \$4,550,555 and \$4,473,936, respectively. Of the total defaulted loans, the amount with demand notices from RD was \$546,597 and \$569,518 at September 30, 2008 and 2007, respectively, for which NMHC recorded a liability included in "reserve for loan guaranty" in the accompanying financial statements. NMHC management cannot presently determine any additional liability on the remaining defaulted loans of \$4,279,126 at September 30, 2008 and \$3,904,418 at September 30, 2007 and, accordingly, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

In June 2008, NMHC entered into an agreement with RD to resolve defaulted RD loans. The agreement has been established to outline the steps and mutually agreed-upon terms in liquidating defaulted RD loans. The agreement encompasses forty-eight seriously delinquent guaranteed loans totaling \$3,126,371. However, this number may decline if any accounts cure before the related auction dates. On June 5, 2008, NMHC's Board of Directors approved a resolution to restrict \$1,521,923 of NMHC's funds for the purpose of paying any amount due and payable to RD pursuant to the agreement. The eventual outcome of this matter cannot be presently determined and, accordingly, no provision for any liability or potential loss that may result from this matter has been recorded in the accompanying financial statements.

NMHC entered into a loan agreement and related loan purchase agreement with a savings and loan in the CNMI whereby the savings and loan will make available up to \$6,000,000 for housing loans. Under the agreements, NMHC is responsible for administering the loan purchase program and the savings and loan agrees to purchase qualified loans from NMHC. NMHC guarantees the first 25% of the principal balance plus interest on each loan sold to the savings and loan. As of September 30, 2008 and 2007, NMHC was contingently liable for \$1,102,655 and \$1,198,817, respectively, of the balance of loans purchased by the savings and loan. In addition, NMHC is required to maintain an account at the savings and loan equal to the lesser of 5% of all loans sold to the savings and loan or \$100,000. The balance in the account at September 30, 2008 and 2007 was \$58,851 and \$74,888, respectively, which is included in "restricted cash and cash equivalents" in the accompanying financial statements.

COMMONWEALTH DEVELOPMENT AUTHORITY

Notes to Financial Statements
September 30, 2008 and 2007

(12) Commitments and Contingencies, Continued

Contingencies, Continued

NMHC also has similar arrangements with other financial institutions whereby NMHC guarantees a varying percentage of loans issued by the banks for housing construction. At September 30, 2008 and 2007, NMHC was contingently liable to these institutions for \$1,646,480 and \$5,187,500, respectively. As of September 30, 2008 and 2007, the total amount of defaulted loans related to these arrangements was \$-0- and \$260,109, respectively. As of September 30, 2008 and 2007, the amount was recorded by NMHC as a liability and was included in "reserve for loan guaranty" in the accompanying financial statements.

(13) Risk Management

CDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. CDA has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(14) Subsequent Event

On May 7, 2009, CUC and CDA, entered into a Preferred Stock Agreement (the Agreement) to effectuate the terms and conditions of the MOA by requiring CUC to issue shares of cumulative, non-convertible and non-transferrable preferred stock to CDA amounting to \$45,000,000 and yielding annual dividends of two percent per annum. The Commonwealth Public Utilities Commission approved the Agreement on September 3, 2009. The Agreement provides CUC the right to purchase from CDA up to \$16,200,000 of the \$45,000,000 preferred stock through offset against CUC's future, internally-funded capital improvement projects. Subject to CUC purchase exception, CDA shall not transfer any of its rights, title or interest to such preferred stocks. Further, the Agreement provides for deferral of the dividend payments for the first three years after issuance, with such deferred dividend payments being amortized, interest free, over a fifteen-year period. Dividends are to be paid to CDA beginning October 1, 2012. The Agreement cancels and discharges the indebtedness of CUC to CDA amounting to \$61,568,750 in principal and \$138,670,797 in accrued interest, including related late charges and any other charges owed by CUC on the capital development loans.

On September 28, 2009, CUC issued to CDA forty-five shares of preferred stock with a par value of \$1,000,000 per share for a total aggregate value of \$45,000,000. The preferred stock yields guaranteed annual dividends at two percent per annum payable quarterly in advance. The dividends of the preferred stock are cumulative from and after October 1, 2009 and bear no interest. At September 30, 2008, no adjustments related to the Agreement have been made to the accompanying financial statements of CDA.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Net Assets
September 30, 2008

ASSETS	Development Banking Division	Development Corporation Division	Component Unit	Elimination Entries	Total
			Northern Marianas Housing Corporation		
Current assets:					
Cash and cash equivalents	\$ -	\$ 1,701,162	\$ 1,300,584	\$ -	\$ 3,001,746
Time certificates of deposit	-	579,448	-	-	579,448
Receivables:					
Loans	-	3,648,006	873,469	-	4,521,475
Rent, net	-	-	72,323	-	72,323
Accrued interest, net	46,173	80,443	34,840	-	161,456
Other	-	32,112	91,807	-	123,919
Prepaid expenses	-	12,949	14,505	-	27,454
Total current assets	46,173	6,054,120	2,387,528	-	8,487,821
Other assets:					
Cash and cash equivalents, restricted	53,730	-	4,743,094	-	4,796,824
Time certificates of deposit, restricted	6,550,922	2,256,490	-	-	8,807,412
Total other assets	6,604,652	2,256,490	4,743,094	-	13,604,236
Noncurrent assets:					
Loans receivable, net	-	9,541,709	1,933,012	-	11,474,721
Due from other funds	2,574,143	-	-	(2,574,143)	-
Property and equipment, net	-	25,411	2,277,922	-	2,303,333
Land	-	-	9,650,313	-	9,650,313
Foreclosed real estate	-	1,848,837	429,114	-	2,277,951
Total noncurrent assets	2,574,143	11,415,957	14,290,361	(2,574,143)	25,706,318
	<u>\$ 9,224,968</u>	<u>\$ 19,726,567</u>	<u>\$ 21,420,983</u>	<u>\$ (2,574,143)</u>	<u>\$ 47,798,375</u>
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current installment of notes payable to related party	\$ 111,754	\$ -	\$ -	\$ -	\$ 111,754
Accounts payable and accrued expenses	24,481	324,479	831,962	-	1,180,922
Deferred revenues	-	14,020	-	-	14,020
Due to grantor agency	-	-	1,756,057	-	1,756,057
Reserve for loan guaranty	-	-	829,627	-	829,627
Total current liabilities	136,235	338,499	3,417,646	-	3,892,380
Notes payable to related party, net of current installments	1,382,489	-	-	-	1,382,489
Deferred revenues, net of current portion	-	693,515	4,003,859	-	4,697,374
Due to other funds	-	2,360,284	510,656	(2,870,940)	-
Total liabilities	1,518,724	3,392,298	7,932,161	(2,870,940)	9,972,243
Net assets:					
Invested in capital assets	-	1,874,248	12,357,349	-	14,231,597
Restricted	7,706,244	14,460,021	1,131,473	296,797	23,594,535
Total net assets	7,706,244	16,334,269	13,488,822	296,797	37,826,132
	<u>\$ 9,224,968</u>	<u>\$ 19,726,567</u>	<u>\$ 21,420,983</u>	<u>\$ (2,574,143)</u>	<u>\$ 47,798,375</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2008

	Development Banking Division	Development Corporation Division	Component Unit Northern Marianas Housing Corporation	Elimination Entries	Total
Operating revenues:					
Interest and fees on loans	\$ 152,497	\$ 2,912,148	\$ 870,725	\$ -	\$ 3,935,370
Section 8 income:					
Federal housing assistance rentals	-	-	3,748,003	-	3,748,003
Tenant share	-	-	115,430	-	115,430
Interest on investments	270,045	266,464	-	-	536,509
HOME Investment Partnership					
Program grants	-	-	48,073	-	48,073
CDBG Program Grant	-	-	2,345,446	-	2,345,446
ESG Program Grant	-	-	28,213	-	28,213
Other	25,368	99,652	66,941	-	191,961
	447,910	3,278,264	7,222,831	-	10,949,005
Bad debts	(1,710,440)	862,710	(2,399,030)	177,481	(3,069,279)
Net operating revenues	(1,262,530)	4,140,974	4,823,801	177,481	7,879,726
Operating expenses:					
Section 8 rental	-	-	2,370,234	-	2,370,234
CDBG Program Grant	-	-	2,345,446	-	2,345,446
Salaries and wages	-	414,088	540,423	-	954,511
Provision for foreclosed real estate	-	935,106	-	-	935,106
Depreciation	-	13,667	433,710	-	447,377
Employee benefits	-	168,138	185,101	-	353,239
Repairs and maintenance	-	9,837	292,722	-	302,559
Utilities	-	28,919	242,421	-	271,340
Professional fees	-	74,184	187,190	-	261,374
Office rent	-	110,002	8,400	-	118,402
Travel	-	59,675	43,953	-	103,628
HOME Investment Partnership					
Program grants	-	-	48,073	-	48,073
ESG Program Grant	-	-	28,213	-	28,213
Other	23,692	154,966	184,262	-	362,920
Total operating expenses	23,692	1,968,582	6,910,148	-	8,902,422
Operating income (loss)	(1,286,222)	2,172,392	(2,086,347)	177,481	(1,022,696)
Nonoperating revenues (expenses):					
Gain on settlement agreement with MPLT	-	-	3,340,823	-	3,340,823
Other income	218,572	20,000	-	-	238,572
Interest income	-	-	34,442	-	34,442
Impairment loss on land	-	-	(620,869)	-	(620,869)
Interest expense	(100,972)	-	(97,970)	-	(198,942)
Other expense	-	-	(33,350)	-	(33,350)
Total nonoperating revenues (expenses), net	117,600	20,000	2,623,076	-	2,760,676
Income (loss) before transfers	(1,168,622)	2,192,392	536,729	177,481	1,737,980
Transfers out for capital development grants	(1,139,387)	-	-	-	(1,139,387)
Change in net assets	(2,308,009)	2,192,392	536,729	177,481	598,593
Net assets - beginning	10,014,253	14,141,877	12,952,093	119,316	37,227,539
Net assets - ending	\$ 7,706,244	\$ 16,334,269	\$ 13,488,822	\$ 296,797	\$ 37,826,132

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combining Statement of Cash Flows
Year Ended September 30, 2008

	Development Banking Division	Development Corporation Division	Component Unit Northern Marianas Housing Corporation	Elimination Entries	Total
Cash flows from operating activities:					
Cash received from interest and fees on loans receivable	\$ -	\$ 1,548,419	\$ 510,647	\$ -	\$ 2,059,066
Cash received from interest and fees on capital development loans	162,743	-	-	-	162,743
Interest and dividends on investments	307,794	333,464	-	-	641,258
Cash payments to suppliers for goods and services	789	(424,116)	(366,062)	-	(789,389)
Cash received from customers	25,368	(172,304)	39,164	-	(107,772)
Cash payments to employees for services	-	(582,226)	(540,423)	-	(1,122,649)
Cash received from federal grant awards	-	-	6,603,865	-	6,603,865
Cash payments from federal grant awards	-	-	(5,910,307)	-	(5,910,307)
Net cash provided by operating activities	496,694	703,237	336,884	-	1,536,815
Cash flows from capital and related financing activities:					
Net interdivisional transactions	(1,869,280)	2,439,880	(570,600)	-	-
Acquisition of property and equipment	-	(19,369)	(28,233)	-	(47,602)
Proceeds from sale of land	-	-	100,000	-	100,000
Net (disbursements) proceeds of loans receivable	-	(2,152,380)	998,406	-	(1,153,974)
Net proceeds of capital development loans receivables	109,409	-	-	-	109,409
Proceeds from sale of foreclosed properties	-	70,000	35,000	-	105,000
Payments to MPLT	-	-	(2,025,000)	-	(2,025,000)
Payments for guaranteed loans	-	(5,429,690)	-	-	(5,429,690)
Transfers for capital development grants	(1,139,387)	-	-	-	(1,139,387)
Net cash used for capital and related financing activities	(2,899,258)	(5,091,559)	(1,490,427)	-	(9,481,244)
Cash flows from investing activities:					
Net proceeds from restricted cash and cash equivalents	2,402,564	4,843,564	1,377,930	-	8,624,058
Interest received	-	-	34,442	-	34,442
Net cash provided by investing activities	2,402,564	4,843,564	1,412,372	-	8,658,500
Net increase in cash and cash equivalents	-	455,242	258,829	-	714,071
Cash and cash equivalents at beginning of year	-	1,245,920	1,041,755	-	2,287,675
Cash and cash equivalents at end of year	\$ -	\$ 1,701,162	\$ 1,300,584	\$ -	\$ 3,001,746
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (1,286,222)	\$ 2,172,392	\$ (2,086,347)	\$ 177,481	\$ (1,022,696)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Bad debts	1,710,440	(862,710)	2,399,030	(177,481)	3,069,279
Provision for foreclosed real estate	-	935,106	-	-	935,106
Depreciation	-	13,667	433,710	-	447,377
(Increase) decrease in assets:					
Receivables:					
Rent	-	-	(51,400)	-	(51,400)
Other	-	(257,936)	(91,807)	-	(349,743)
Accrued interest	47,995	(1,296,729)	(360,078)	-	(1,608,812)
Prepaid expenses	-	(6,961)	(14,505)	-	(21,466)
Increase (decrease) in liabilities:					
Accounts payable and accrued expenses	24,481	20,428	(325,849)	-	(280,940)
Deferred revenues	-	(14,020)	-	-	(14,020)
Due to grantor agency	-	-	434,130	-	434,130
Net cash provided by operating activities	\$ 496,694	\$ 703,237	\$ 336,884	\$ -	\$ 1,536,815
Supplemental disclosure of noncash capital and related financing activities:					
Recognition of foreclosed properties:					
Noncash increase in foreclosed real estate	\$ -	\$ 1,513,606	\$ -	\$ -	\$ 1,513,606
Noncash decrease in loans receivable	-	(1,513,606)	-	-	(1,513,606)
	\$ -	\$ -	\$ -	\$ -	\$ -
Settlement agreement with MPLT:					
Noncash decrease in notes payable to related party	\$ -	\$ -	\$ 8,996,623	\$ -	\$ 8,996,623
Noncash decrease in interest payable	-	-	1,927,030	-	1,927,030
Noncash interest expense	-	-	97,970	-	97,970
Noncash decrease in loans receivables	-	-	(9,142,426)	-	(9,142,426)
Write-off of allowance for loan losses	-	-	3,660,578	-	3,660,578
Noncash decrease in interest receivables	-	-	(1,479,469)	-	(1,479,469)
Write-off of allowance for uncollectible interests	-	-	1,305,517	-	1,305,517
Cash payment to MPLT	-	-	(2,025,000)	-	(2,025,000)
Noncash gain on settlement with MPLT	-	-	(3,340,823)	-	(3,340,823)
	\$ -	\$ -	\$ -	\$ -	\$ -
Recognition of impairment loss:					
Impairment loss on land	\$ -	\$ -	\$ 620,869	\$ -	\$ 620,869
Noncash decrease in land	-	-	(620,869)	-	(620,869)
	\$ -	\$ -	\$ -	\$ -	\$ -

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Combined Schedule of Revenues, Expenses and Changes in Net Assets
- Budget and Actual
Year Ended September 30, 2008

	Budget	Actual	Variance
Operating revenues:			
Interest and fees on loans	\$ 309,557	\$ 3,935,370	\$ 3,625,813
Section 8 income:			
Federal housing assistance rentals	3,308,228	3,748,003	439,775
Tenant share	-	115,430	115,430
Interest on investments	-	536,509	536,509
HOME Investment Partnership Program grants	89,986	48,073	(41,913)
CDBG Program Grant	246,045	2,345,446	2,099,401
ESG Program Grant	-	28,213	28,213
Other	-	191,961	191,961
Total operating revenues	3,953,816	10,949,005	6,995,189
Recoveries (bad debts)	-	(3,069,279)	(3,246,760)
Net operating revenues	3,953,816	7,879,726	3,748,429
Operating expenses:			
Section 8 rental	1,821,800	2,370,234	(548,434)
Salaries and wages	1,335,230	954,511	380,719
HOME Investment Partnership Program grants	-	48,073	(48,073)
Provision for foreclosed real estate	-	935,106	(935,106)
Depreciation	-	447,377	(447,377)
CDBG Program Grant	-	2,345,446	(2,345,446)
Repairs and maintenance	209,775	302,559	(92,784)
Employee benefits	543,272	353,239	190,033
Professional fees	348,969	261,374	87,595
Office rent	102,344	118,402	(16,058)
Travel	132,497	103,628	28,869
Capital outlay	19,180	-	19,180
ESG Program Grant	-	28,213	(28,213)
Utilities	225,066	271,340	(46,274)
Other	449,567	362,920	86,647
Total operating expenses	5,187,700	8,902,422	(3,714,722)
Operating (loss) income	(1,233,884)	(1,022,696)	33,707
Nonoperating revenues (expenses):			
Gain on settlement agreement with MPLT	-	3,340,823	3,340,823
Other income	-	238,572	238,572
Interest income	116,753	34,442	(82,311)
Impairment loss on land	-	(620,869)	(620,869)
Interest expense	(100)	(198,942)	(198,842)
Other expense	-	(33,350)	(33,350)
Total nonoperating revenues (expenses), net	116,653	2,760,676	2,644,023
(Loss) income before contributions and transfers	(1,117,231)	1,737,980	2,677,730
Transfers out for capital development grants	-	(1,139,387)	(1,139,387)
Change in net assets	(1,117,231)	598,593	1,538,343
Net assets - beginning	-	37,227,539	37,108,223
Net assets - ending	\$ (1,117,231)	\$ 37,826,132	\$ 38,646,566

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Revenues, Expenses and Changes in Net Assets - Budget and Actual
Year Ended September 30, 2008

	Development Banking Division			Development Corporation Division			Northern Marianas Housing Corporation		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Operating revenues:									
Interest and fees on loans	\$ -	\$ 152,497	\$ 152,497	\$ -	\$ 2,912,148	\$ 2,912,148	\$ 309,557	\$ 870,725	\$ 561,168
Section 8 income:									
Federal housing assistance									
rentals	-	-	-	-	-	-	3,308,228	3,748,003	439,775
Tenant share	-	-	-	-	-	-	-	115,430	115,430
Interest on investments	-	270,045	270,045	-	266,464	266,464	-	-	-
HOME Investment Partnership									
Program grants	-	-	-	-	-	-	89,986	48,073	(41,913)
CDBG Program Grant	-	-	-	-	-	-	246,045	2,345,446	2,099,401
ESG Program Grant	-	-	-	-	-	-	-	28,213	28,213
Other	-	25,368	25,368	-	99,652	99,652	-	66,941	66,941
Total operating revenues	-	447,910	447,910	-	3,278,264	3,278,264	3,953,816	7,222,831	3,269,015
Recoveries (bad debts)	-	(1,710,440)	(1,710,440)	-	862,710	862,710	-	(2,399,030)	(2,399,030)
Net operating revenues	-	(1,262,530)	(1,262,530)	-	4,140,974	4,140,974	3,953,816	4,823,801	869,985
Operating expenses:									
Section 8 rental	-	-	-	-	-	-	1,821,800	2,370,234	(548,434)
HOME Investment Partnership									
Program grants	-	-	-	-	-	-	-	48,073	(48,073)
Salaries and wages	-	-	-	507,366	414,088	93,278	827,864	540,423	287,441
CDBG Program Grant	-	-	-	-	-	-	-	2,345,446	(2,345,446)
Depreciation	-	-	-	-	13,667	(13,667)	-	433,710	(433,710)
Provision for foreclosed									
real estate	-	-	-	-	935,106	(935,106)	-	-	-
Repairs and maintenance	-	-	-	-	9,837	(9,837)	209,775	292,722	(82,947)
Employee benefits	-	-	-	172,637	168,138	4,499	370,635	185,101	185,534
Professional fees	-	-	-	95,819	74,184	21,635	253,150	187,190	65,960
Office rent	-	-	-	91,124	110,002	(18,878)	11,220	8,400	2,820
Travel	-	-	-	46,500	59,675	(13,175)	85,997	43,953	42,044
ESG Program Grant	-	-	-	-	-	-	-	28,213	(28,213)
Capital outlay	-	-	-	-	-	-	19,180	-	19,180
Utilities	-	-	-	28,919	(28,919)	225,066	242,421	(17,355)	(17,355)
Other	-	23,692	(23,692)	203,685	154,966	48,719	245,882	184,262	61,620
Total operating expenses	-	23,692	(23,692)	1,117,131	1,968,582	(851,451)	4,070,569	6,910,148	(2,839,579)
Operating (loss) income	-	(1,286,222)	(1,286,222)	(1,117,131)	2,172,392	3,289,523	(116,753)	(2,086,347)	(1,969,594)
Nonoperating revenues (expenses):									
Gain on settlement agreement									
with MPLT	-	-	-	-	-	-	-	3,340,823	3,340,823
Other income	-	218,572	218,572	-	20,000	20,000	-	-	-
Interest income	-	-	-	-	-	-	116,753	34,442	(82,311)
Impairment loss on land	-	-	-	-	-	-	-	(620,869)	(620,869)
Interest expense	-	(100,972)	(100,972)	(100)	-	100	-	(97,970)	(97,970)
Other expense	-	-	-	-	-	-	-	(33,350)	(33,350)
Total nonoperating revenues (expenses), net	-	117,600	117,600	(100)	20,000	20,100	116,753	2,623,076	2,506,323
(Loss) income before contributions and transfers	-	(1,168,622)	(1,168,622)	(1,117,231)	2,192,392	3,309,623	-	536,729	536,729
Transfers out for capital development grants	-	(1,139,387)	(1,139,387)	-	-	-	-	-	-
Change in net assets	-	(2,308,009)	(2,308,009)	(1,117,231)	2,192,392	3,309,623	-	536,729	536,729
Net assets - beginning	-	10,014,253	10,014,253	-	14,141,877	14,141,877	-	12,952,093	12,952,093
Net assets - ending	\$ -	\$ 7,706,244	\$ 7,706,244	\$ (1,117,231)	\$ 16,334,269	\$ 17,451,500	\$ -	\$ 13,488,822	\$ 13,488,822

See Accompanying Independent Auditors' Report.

COMMONWEALTH DEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE COMMONWEALTH
OF THE NORTHERN MARIANA ISLANDS)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

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

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, 2008, and have issued our report thereon dated May 7, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CDA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 82) to be significant deficiencies in internal control over financial reporting as items 2008-1 through 2008-5.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1, 2008-3, 2008-4 and 2008-5 to be material weaknesses.

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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of CDA in a separate letter dated May 7, 2010.

CDA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit CDA's responses and, accordingly, we express no opinion on it.

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

May 7, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 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, 2008. 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 82). 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 2008-6 through 2008-43 in the accompanying Schedule of Findings and Questioned Costs, CDA did not comply with requirements regarding allowable costs/cost principles, cash management, Davis-Bacon Act, eligibility, matching, level of effort, earmarking, procurement and suspension and debarment, program income, reporting and special tests and provisions that are applicable to its CFDA 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas, CFDA 14.239 HOME Investment Partnerships Program and CFDA 14.871 Section 8 Housing Choice Vouchers programs. Compliance with such requirements is necessary, in our opinion, for CDA to comply with the requirements applicable to that program.

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, 2008.

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 the 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, 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 CDA's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in CDA's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in the entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2008-6 through 2008-43 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected in the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2008-7, 2008-10, 2008-11 and 2008-12 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of CDA as of and for the year ended September 30, 2008, and have issued our report thereon dated May 7, 2010. Our audit was performed for the purpose of forming our opinion on CDA's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 6) 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. 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.

CDA's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit CDA's responses and, accordingly, we express no opinion on it.

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

May 7, 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

Federal Grantor/Program Title	Federal CFDA Number	Expenditures FY08
Direct Programs:		
U.S. Department of Housing and Urban Development:		
Section 8 Housing Choice Vouchers	14.871	\$ 2,697,973
Section 8 New Construction and Substantial Rehabilitation:		
TQ10-0011-005 Mihaville	14.182	649,980
TQ10-0016-004 Koblerville	14.182	312,471
TQ10-0006-004 Rota	14.182	121,783
TQ10-0011-001 Tinian	14.182	256,214
Subtotal CFDA #14.182		<u>1,340,448</u>
Community Development Block Grants/Special Purpose Grants/Insular Areas:		
Tinian Public Library	14.225	24,363
Tinian Shelter/Tinian Public Library Public Service	14.225	105,187
Rota Baseball Field	14.225	80,578
Sugar King Cultural Center	14.225	185,522
Garapan Central Market/Susupe Sports Complex	14.225	148,334
Public Restroom in Rota	14.225	189,019
Tinian Amphitheater Phase I	14.225	300,000
Susupe Track and Field Bleachers/Island Skate Park	14.225	22,320
Susupe Track and Field Bleachers/NMI Japan Cultural Center/Island Skate Park	14.225	103,960
NMI Japan Foodcourt	14.225	100,000
Paupau MRR/NMI Japan Cultural Center	14.225	33,996
NYBA/MHS Public Service	14.225	173,000
Tinian Amphitheater Phase II	14.225	60,734
Tinian Elementary School Public Service	14.225	26,986
Marianas High School Building J	14.225	421,153
Capitol Hill 1.0 MG Reservoir Rehabilitation	14.225	143,384
Administrative Fee	14.225	226,910
Subtotal CFDA #14.225		<u>2,345,446</u>
Emergency Shelter Grants Program	14.231	28,213
HOME Investment Partnerships Program	14.239	47,923
		<u>\$ 6,460,003</u>
Reconciliation of expenditures to Statement of Revenues, Expenses and Changes in Net Assets:		
Federal award expenditures per above:		
U.S. Department of Housing and Urban Development:		
Section 8 Housing Choice Vouchers		\$ 2,697,973
Section 8 New Construction and Substantial Rehabilitation		1,340,448
		<u>\$ 4,038,421</u>
Federal award expenditures per Statement of Revenues, Expenses and Changes in Net Assets:		
U.S. Department of Housing and Urban Development:		
Section 8 Housing Choice Vouchers:		
Section 8 rental		\$ 2,370,234
Utilities		133,049
Salaries and wages		127,466
Employee benefits		54,109
Travel		9,115
Professional fees		4,000
		<u>2,697,973</u>
Section 8 New Construction and Substantial Rehabilitation:		
Salaries and wages		412,957
Employee benefits		130,991
Professional fees		157,581
Repairs and maintenance		292,722
Office rent		8,400
Travel		34,836
Utilities		109,372
Property and equipment acquisition		9,424
Other		184,165
		<u>1,340,448</u>
		<u>\$ 4,038,421</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, 2008

(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

U.S. Department of Housing and Urban Development - Community Development Block Grants/Special Purpose Grants/Insular Areas/HOME Investment Partnerships Program/Emergency Shelter Grants Program - NMHC received these funds in a direct capacity in fiscal year 2008 and administers the funds and is responsible for ensuring compliance with laws and regulations.

U.S. Department of Housing and Urban Development - Section 8 New Construction and Substantial Rehabilitation /Section 8 Housing Choice Vouchers - 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.

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, 2008

(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, 2008, such funds amounting to (a) \$639,387 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 and (b) \$500,000 were transferred to the CNMI Second Senatorial District for various programs and projects. As of September 30, 2008, \$-0- (net of the allowance for doubtful accounts of \$67,654,130) 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, 2008, \$13,189,715 (net of the allowance for doubtful accounts of \$26,930,650) 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, 2008, \$1,485,641 (net of the related allowance for doubtful accounts of \$2,718,248 and out of total NMHC net loans receivable of \$2,806,481) of loans made out of this revolving fund were outstanding.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 4. | Noncompliance material to the financial statements noted? | None reported |

Federal Awards

- | | | |
|-----|--|-----------|
| | Internal control over major programs: | |
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. | CDA's major programs were as follows: | |
| | CFDA | |
| | <u>Number</u> <u>Federal Program</u> | |
| | 14.182 Section 8 New Construction and Substantial Rehabilitation | |
| | 14.225 Community Development Block Grants/Special Purpose | |
| | Grants/Insular Areas | |
| | 14.871 Section 8 Housing Choice Vouchers | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 |
| 11. | CDA qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No |

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2008-1 - 2	DCD Loans Receivable	11 - 14
2008-3	NMHC Loans Receivable	15
2008-4	NMHC Land	16
2008-5	NMHC Loan Guarantee Agreements	17

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2008-6	Allowable Costs/Cost Principles	\$ 5,682	18 - 19
2008-7 - 9	Eligibility	\$ 85,202	20 - 23
2008-10	Procurement and Suspension and Debarment	\$ 156,372	24 - 25
2008-11	Subrecipient Monitoring	\$ 197,124	26
2008-12 - 13	Special Tests and Provisions	\$ 94,928	27 - 28
2008-14 - 16	Cash Management	\$ -	29 - 33
2008-17	Davis-Bacon Act	\$ -	34
2008-18 - 30	Eligibility	\$ -	35 - 62
2008-31 - 35	Reporting	\$ -	63 - 69
2008-36 - 43	Special Tests and Provisions	\$ -	70 - 82

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

DCD Loans Receivable

Finding No. 2008-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis. Further, all receivables should be assessed and monitored for collectability. Balances deemed not collectible should be adequately allowed for. Additionally, calculation of allowance for loan losses and other related receivables should be regularly reviewed for accuracy, completeness and reasonableness. Further, for restructured loans, the allowance should be determined in the same manner as prior to the restructuring until a sufficient time has passed that the borrower can meet the revised debt service requirements.

Condition: Our tests of DCD's loans receivable noted the following:

1. An analysis of DCD's past due loans was performed to determine the propriety of the allowance for doubtful loans as of September 30, 2008. This analysis revealed that loans which are six months or more in arrears amounted to \$28,232,235 or 70.4% of the total loans receivables outstanding of \$40,120,365 as of September 30, 2008. The related accrued interest on loans that are six months or more in arrears amounted to \$14,729,939 or 99.7% of the total accrued interest receivables outstanding of \$14,781,876 as of September 30, 2008.
2. Nine restructured loans (#s AD 70285, AD 70292, CD 70280, CD 70288, CD 70298, CD 70302, RE 70279, RE 70289 and RE 70306), which were past due for more than six months and in arrears prior to the restructuring, were classified as less than six months in arrears in the receivable aging report since the original due dates and past due balances were revised. As such, the related allowance was calculated based on the revised terms. An audit adjustment was proposed to record an additional allowance of \$1,700,996 relating to these nine loans.
3. As of September 30, 2008, CDA has recorded loans receivable miscellaneous charges (GL # 1208-00) of \$498,888 with a related allowance of \$249,444. This receivable was excluded in CDA's calculation of the loan loss reserve at September 30, 2008. Further, CDA did not perform a separate assessment of the collectability of the account balance. This condition was corrected through a proposed audit adjustment for an additional allowance of \$249,268.

Cause: The cause of the above condition is the increase in past due loans and lack of adequate review of the reasonableness of the calculation of the allowance for loan losses and other related receivables.

Effect: The effect of the above condition is an increased possibility of loan losses due to non-payment by borrowers and potential misstatement of loans receivable and related accounts.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-1, Continued

Recommendation: We recommend that CDA continue to follow-up on past due loans, continue to evaluate these loans and develop corrective action plans. We recommend that corrective action plans be documented accordingly. Future results may be compared against this plan and actions taken by management as deemed necessary. Legal action should be considered for those loans, which are considered unlikely to be serviceable by the borrower. We further recommend CDA review the aging of restructured loans and revisit allowance calculation for these loans. In addition, we recommend CDA perform periodic review of the calculation of allowance for loan losses and other related receivables for accuracy, completeness and reasonableness.

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Stuart Smith, Comptroller

Corrective Action: Ensuring collection of loans is a complex problem exacerbated by difficult financial times in the CNMI. Inadequate levels of staffing in the Loan Department also reduce the ability to monitor and work with clients closely. If loans are monitored more closely perhaps there would be fewer delinquent loans and the valuation of the loans would have less negative impact.

CDA has done a more thorough job in FY09 in making sure loans are valued in a manner consistent with the guidelines set forth by CDA in conjunction with the auditors. Restructured loans that have insufficient time (one year) to establish payment histories based on the restructured status are valued in the same manner as their status dictated prior to restructuring. Miscellaneous charges have been valued in a manner consistent with that of accrued interest valuations.

While the loan portfolio may have improved its delinquency rates, management is beginning to take various actions to work with clients (restructuring with set-aside or write-off of accrued interest and foreclosures when no other viable solutions are available). Most of the restructured loans are maintaining a current-payment status. The Loan Department will have the services of an additional staff member beginning in May 2010 to assist in collections and working with clients. Management is also continuing to explore different ways to assist clients in making their loans more manageable. These steps will likely involve concessions on the part of CDA regarding accrued interest but management feels it is critical to recover loan principal and to give borrowers every chance possible to avoid bankruptcy, foreclosure, and other expensive, painful options.

Proposed Completion Date: Improving the delinquency rate of the loan portfolio is an ongoing process that will never be "completed" but the additional staff will be available in May 2010 and additional borrower-assistance programs will be implemented in the second half of FY 2010.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

DCD Loans Receivable

Finding No. 2008-2

Criteria: Identified adjustments to loan balances arising from loan reclassifications should be recorded in the general ledger in a timely manner.

Condition: Tests of loans receivable noted the following:

1. A summary judgment was ordered during the current fiscal year for one loan (ref. CD 33870); however, a reclassification to judgment loan has not been recorded as of September 30, 2008. The related loan, interest and miscellaneous charges receivable amounted to \$550,285, \$530,036 and \$4,273, respectively, as of September 30, 2008.
2. A summary judgment was ordered prior to the current fiscal year for one loan (ref. CD 70313); however, a reclassification to judgment loan was only recorded during fiscal year 2008. The related loan, interest and miscellaneous charges receivable amounted to \$423,799, \$57,417 and \$5,368, respectively, as of September 30, 2008.
3. A summary judgment was ordered prior to the current fiscal year for one loan (ref. CD 33970); however, a reclassification to judgment loan has not been recorded as of September 30, 2008. The related loan, interest and miscellaneous charges receivable amounted to \$310,320, \$335,307 and \$565, respectively, as of September 30, 2008.

An audit adjustment is not necessary as judgment loans are 100% allowed for.

Cause: The cause of the above condition is the lack of monitoring procedures to ensure that loan reclassifications are recorded in the general ledger.

Effect: The effect of the above condition is incorrect classification of receivables and a potential misstatement of interest income.

Recommendation: We recommend that CDA ensure that adjustments resulting from loan reclassifications are timely recorded.

Prior Year Status: The lack of monitoring procedures to ensure that all loan reclassification adjustments are recorded in the general ledger was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Stuart Smith, Comptroller

Corrective Action: The legal machinations involved with judgments against borrowers are not a black-and-white process. While a summary judgment may be obtained against a borrower as a last resort to recovering a loan, CDA has a high rate of experience with the summary judgment NOT being the final judgment. Often the judgment includes a period where actions by either party may render the judgment void. This is one reason the Loan Department may not ask Accounting to immediately reclassify a judgment loan. The other reason for delays in the past is simply due to understaffing in both the Loan and the Accounting Departments for much of the past two years.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: Beginning in late FY 2009 the Loan and Accounting Departments have been more diligent in booking judgment loans in a timely manner. Beginning in FY 2010 CDA will book loans as judgment loans as soon as there is a court order and if there are any subsequent modifications to the judgment they will be recorded as they occur.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

NMHC Loans Receivable

Finding No. 2008-3

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis. Further, all receivables should be assessed and monitored for collectability. Balances deemed uncollectible should be adequately allowed for. Additionally, calculations of the allowance for loan losses should be regularly reviewed for accuracy, completeness and reasonableness.

Condition: An analysis of NMHC's past due loans was performed to determine the propriety of the allowance for doubtful accounts as of September 30, 2008. This analysis revealed that loans, including interest, which are over one hundred twenty days past due amounted to \$5,974,257 or 66.4% of the total loans with interest receivable of \$8,993,928 as of September 30, 2008.

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

Effect: The effect of the above condition is the increased possibility of loan losses due to borrower nonpayment.

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

Prior Year Status: NMHC's increase in past due loans was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC will perform a detailed review of the adequacy of its reserve for seriously defaulted loans and guaranteed loans for these financial institutions and assess the need to provide additional reserves for defaulted loans which is based on the appraisal value of the property and establish a policy that supports reasonable allowance calculations.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

NMHC Land

Finding No. 2008-4

Criteria: Long-lived assets should be reported at the lower of the carrying amount or fair value. A review of the valuations of real property should be periodically performed by management and adjustments should be made to reflect the lower of the carrying amount or fair market value.

Condition: As of September 30, 2008, NMHC has \$10,271,182 of recorded land. The last appraisal occurred during fiscal year 2003. However, a November 2008 appraisal of two lots with a carrying value of \$256,000 resulted in an \$84,000 decrease in recorded values. Management did not perform an evaluation of the carrying values of the remaining lots. This matter was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of established policies and procedures to periodically review the recorded values of real property and the high cost of obtaining appraisal services.

Effect: The effect of the above condition is a potential misstatement of land.

Recommendation: We recommend that NMHC ensure that long-lived assets are reported at the lower of carrying amount or fair value. Additionally, we recommend that NMHC establish policies and procedures to periodically evaluate the carrying values of long-lived assets.

Prior Year Status: The lack of established policies and procedures of periodic review of recorded values of real property and the high cost of obtaining appraisal services was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC will establish policies and procedures of periodic review of recorded values of real property and obtaining appraisal once every two years.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

NMHC Loan Guarantee Agreements

Finding No. 2008-5

Criteria: An effective system of internal control includes procedures to ensure that contingent liabilities are assessed and reviewed for probable losses.

Condition: NMHC has existing loan guarantee and purchase agreements with certain financial institutions. As of September 30, 2008, NMHC's related loan guarantees amounted to \$16,062,280. Of the total, approximately \$4,550,555 is delinquent and past due. NMHC has received demand notices for \$546,597. NMHC has recorded a related reserve of \$546,597. However, NMHC is unable to determine if an additional reserve should be established due to limited information provided by the financial institutions. NMHC is currently working with the institutions to obtain sufficient information to determine a better estimate of the reserve for loan guarantees.

Cause: The cause of the above condition is the lack of established policies and procedures in assessing the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses.

Effect: The effect of the above condition is the possible misstatement of the reserve for loan guaranty and related accounts.

Recommendation: We recommend that NMHC ensure that the reserve for guaranteed loans is assessed and reviewed for adequacy. Further, we recommend that NMHC establish policies and procedures to assess the adequacy of the reserve for guaranteed loans, both past due and current. Additionally, we recommend that NMHC continue to obtain sufficient information from financial institutions about the status of defaulted loans and determine which of the defaulted loans will likely result in payment or settlement.

Prior Year Status: The lack of established policies and procedures to assess and review the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC will ensure that the reserve for guaranteed loans is assessed and reviewed for adequacy. NMHC will establish internal policies and procedures to assess the value of its properties using comparables of properties sold or leased, or by obtaining information from the Recorder's Office. These assessments and conclusions shall be documented and made readily available. The Accounting Division will work closely with the Loan Division in getting appraisals once every two years as per management recommendations.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

Allowable Costs/Cost Principles

Finding No. 2008-6

Program	Reason for Questioned Costs	Questioned Costs																																																																																						
U.S. Department of Housing and Urban Development / Section 8 Housing Choice Vouchers / CFDA #14.871 / Federal Award # TQ901 / Federal Award Period 10/01/07 - 09/30/08	<p>Criteria: In accordance with 24 CFR Section 982.158 and 982 subpart K, the PHA must pay monthly housing assistance payments (HAP) on behalf of the family that corresponds with the amount on line 12u of the HUD-50058, Family Report. This HAP amount must be reflected on the HAP contract and HAP register.</p> <p>Condition: Of seventy-four HAP rental disbursements and five utility assistance reimbursements tested, we noted the following:</p> <p>1. The HAP disbursement relating to four participants did not correspond with the required HAP indicated in the form HUD-50058 and the HAP contract. Details are as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Certification Effective</th> <th>GL Date</th> <th>Account/ Household No.</th> <th>HAP Disbursement</th> <th>HAP per HUD -50058 and HAP Contract</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>09/01/07</td> <td>11/02/07</td> <td>HVC01086</td> <td>\$ 719</td> <td>\$ 690</td> <td>\$ 29</td> </tr> <tr> <td>09/01/07</td> <td>12/03/07</td> <td>HO1143A</td> <td>\$ 1,109</td> <td>\$ 1,042</td> <td>67</td> </tr> <tr> <td>12/01/07</td> <td>03/03/08</td> <td>HO1051A</td> <td>\$ 1,041</td> <td>\$ 1,032</td> <td>9</td> </tr> <tr> <td>05/15/08</td> <td>09/03/08</td> <td>HO1227</td> <td>\$ 858</td> <td>\$ 712</td> <td>146</td> </tr> <tr> <td colspan="5"></td> <td style="text-align: right;"><u>\$ 251</u></td> </tr> </tbody> </table> <p>2. For six HAP disbursements, the supporting HUD-50058 and HAP contract/lease amendment covering the period tested were not on file. Details are as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>GL Date</th> <th>Account/Household No.</th> <th>HAP Disbursement</th> </tr> </thead> <tbody> <tr> <td>01/01/08</td> <td>HO1212</td> <td>\$ 520</td> </tr> <tr> <td>07/31/08</td> <td>HO1185</td> <td>706</td> </tr> <tr> <td>09/03/08</td> <td>HCV01005</td> <td>1,100</td> </tr> <tr> <td>09/03/08</td> <td>HO1185</td> <td>706</td> </tr> <tr> <td>05/02/08</td> <td>HR009B</td> <td>1,100</td> </tr> <tr> <td>09/04/08</td> <td>HR009B</td> <td>1,100</td> </tr> <tr> <td colspan="2"></td> <td style="text-align: right;"><u>\$ 5,232</u></td> </tr> </tbody> </table> <p>3. For one HAP disbursement, the amount paid to the landlord was overstated by \$24 due to an error in calculating pro-rated HAP covering May 2008.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Certification Effective</th> <th>GL Date</th> <th>Account/ Household No.</th> <th>HAP Disbursement</th> </tr> </thead> <tbody> <tr> <td>05/14/08</td> <td>06/02/08</td> <td>HO1224</td> <td>\$ 1,981</td> </tr> </tbody> </table> <p>4. For one participant under portability, the HUD-50058 from the receiving PHA covering the period tested was not in the tenant's file. However, no questioned costs arise as the HAP was agreed to a billing received from the receiving PHA.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>GL Date</th> <th>Account/Household No.</th> <th>HAP Disbursement</th> </tr> </thead> <tbody> <tr> <td>09/08/08</td> <td>HO1089A</td> <td>\$ 1,445</td> </tr> </tbody> </table> <p>5. The actual utility reimbursement made to one participant did not agree to the utility allowance indicated in HUD-50058 as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Certification Effective</th> <th>GL Date</th> <th>Account/ Household No.</th> <th>Utility Reimbursement</th> <th>Utility Allowance Per HUD-50058</th> <th>Variance</th> </tr> </thead> <tbody> <tr> <td>11/01/07</td> <td>12/06/07</td> <td>HO1087</td> <td>\$ 142</td> <td>\$ 69</td> <td>\$ 73</td> </tr> </tbody> </table>	Certification Effective	GL Date	Account/ Household No.	HAP Disbursement	HAP per HUD -50058 and HAP Contract	Variance	09/01/07	11/02/07	HVC01086	\$ 719	\$ 690	\$ 29	09/01/07	12/03/07	HO1143A	\$ 1,109	\$ 1,042	67	12/01/07	03/03/08	HO1051A	\$ 1,041	\$ 1,032	9	05/15/08	09/03/08	HO1227	\$ 858	\$ 712	146						<u>\$ 251</u>	GL Date	Account/Household No.	HAP Disbursement	01/01/08	HO1212	\$ 520	07/31/08	HO1185	706	09/03/08	HCV01005	1,100	09/03/08	HO1185	706	05/02/08	HR009B	1,100	09/04/08	HR009B	1,100			<u>\$ 5,232</u>	Certification Effective	GL Date	Account/ Household No.	HAP Disbursement	05/14/08	06/02/08	HO1224	\$ 1,981	GL Date	Account/Household No.	HAP Disbursement	09/08/08	HO1089A	\$ 1,445	Certification Effective	GL Date	Account/ Household No.	Utility Reimbursement	Utility Allowance Per HUD-50058	Variance	11/01/07	12/06/07	HO1087	\$ 142	\$ 69	\$ 73	<p>\$ 251</p> <p>5,232</p> <p>24</p> <p>73</p>
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COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-6, Continued

Program	Reason for Questioned Costs	Questioned Costs						
	<u>Condition, Continued:</u>							
	6. For one utility reimbursement, the supporting HUD-50058 covering the period tested was not on file. Details are as follows:							
	<table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;">GL Date</th> <th style="text-align: left;">Account/Household No.</th> <th style="text-align: left;">Utility Reimbursement</th> </tr> </thead> <tbody> <tr> <td>07/31/08</td> <td>HR009B</td> <td>\$ 102</td> </tr> </tbody> </table>	GL Date	Account/Household No.	Utility Reimbursement	07/31/08	HR009B	\$ 102	102
GL Date	Account/Household No.	Utility Reimbursement						
07/31/08	HR009B	\$ 102						
	7. Complete copies of pre-posting reports for the months of October and November 2007, evidencing verification and review by the Housing Manager prior to HAP disbursement, could not be located. No questioned costs arise as the Housing Manager's initials were evident in the cancelled check copies.							
	<u>Cause:</u> The causes of the above condition are lack of adequate monitoring procedures to ensure that HAP amounts are updated and adjusted to the system for any changes resulting from annual and/or interim reexaminations or other related actions taken and lack of internal controls over file maintenance.							
	<u>Effect:</u> The effect of the above condition is the misstatement of HAP payments and questioned costs of \$5,682. This matter is reportable as the projected questioned costs exceed \$10,000.							
	<u>Recommendation:</u> We recommend NMHC establish adequate monitoring procedures to ensure that changes to HAP amounts are updated and adjusted in the system. Additionally, we recommend that NMHC establish policies and procedures for the timely identification and reconciliation of variances between actual HAP disbursements and HAP per HUD-50058 and the HAP contract. We further recommend that NMHC strengthen internal controls over file maintenance.							
	<u>Prior Year Status:</u> The lack of adequate monitoring procedures to ensure that HAP amounts are updated and adjusted to the system for any changes resulting from annual and/or interim reexaminations or other related actions taken and lack of internal controls over file maintenance was reported as a finding in the Single Audit of CDA for fiscal year 2007.							
	<u>Auditee Response and Corrective Action Plan:</u>							
	Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing							
	Corrective Action: NMHC will review and cross-check occupancy rent calculations and Section 8 Tenant and Landlord data before HAP disbursement. The Housing Specialist will follow the link from occupancy and rent calculation to Section 8 Tenant Landlord. Corrective action will be taken by NMHC to ensure that preposting report is printed and verified by the PHD Manager with a copy thereof at the Fiscal Division.							
	Proposed Completion Date: Immediately							

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Eligibility

Finding No. 2008-7

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Housing and Urban Development / Section 8 New Construction and Substantial Rehabilitation / CFDA #14.182 / Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001 / Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09</p>	<p>Criteria: Owners must develop a method to maintain documentation of the waiting list composition, application status, and actions taken. Further, owners should periodically analyze their waiting list policies and documentation procedures to determine whether an independent party reviewing the list and its supporting documentation could follow the actions taken, applicable preferences, and reasons why certain individuals may have been selected ahead of others on the waiting list. If not, the owner must make the waiting list format and associated practices more transparent.</p> <p>Condition: During examination of the tenant files for fifty tenants receiving housing assistance in fiscal year 2008, records of the waiting lists from which these tenants were selected were not provided. We were unable to determine if selection of these tenants were in accordance with NMHC's admission policies in its administrative plan. The housing assistance payments for the specific periods examined relating to the fifty tenants amounted to \$52,677.</p> <p>Cause: The cause of the above condition is the lack of established policies and procedures in maintaining documentation of the waiting list.</p> <p>Effect: The effect of the above condition is noncompliance with waiting list management compliance requirements and questioned costs of \$52,677.</p> <p>Recommendation: We recommend NMHC maintain records of waiting lists on a periodic basis and file this information in the tenant file and/or in a central waiting list selection file.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing</p> <p>Corrective Action: The waiting list and selection of applicants is based on the following (1) applicant selected on first-come, first-served basis depending on the unit size available; (2) applicant selected on NMHC discretion like referral victims' families with documentation; (3) applicant selected with notations as to why family is skipped on the waiting list; unable to contact, no security deposit available within time frame given; and (4) upon selection of applicant, Housing Specialist will print a list of applicants for the unit size selected and place the document in the tenant's file for prospective move-in.</p> <p>NMHC will maintain a record of waiting lists and selection. Further, NMHC will file this information in the tenant's file.</p> <p>Proposed Completion Date: Immediately</p>	<p>52,677</p>

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Eligibility

Finding No. 2008-8

Program		Reason for Questioned Costs					Questioned Costs																											
U.S. Department of Housing and Urban Development / Section 8 New Construction and Substantial Rehabilitation / CFDA #14.182 / Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001 / Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09		<p><u>Criteria:</u> Assisted tenants must have only one residence and receive assistance only in that unit. Tenants must not receive assistance for two units at the same time. This prohibition does not prevent a person who is currently receiving assistance from applying for an assisted unit in another property. The assisted tenancy in the unit being vacated must end before the subsidy begins in the new unit.</p> <p><u>Condition:</u> During examination of fifty tenant files, a unit transfer recertification was processed by NMHC. Assistance payments were requested for both the old and the new unit for the same amount and for the same period. As of September 30, 2008, the assistance payments were either unadjusted or not adjusted in subsequent HAP requests.</p> <table border="1"> <thead> <tr> <th>Old Unit</th> <th>New Unit</th> <th>Certification Effective</th> <th>Period Benefits Received</th> <th>Total HAP Per HUD \$2670</th> <th>Should be HAP</th> <th>Overstatement in HAP</th> <th>Adjustments During FY 2008 per HUD \$2670</th> <th>Uncorrected HAP as of 09/30/08</th> </tr> </thead> <tbody> <tr> <td>M17</td> <td>M08</td> <td>08/01/07</td> <td>12/07 -01/08</td> <td>\$ 3,452</td> <td>\$ 1,726</td> <td>\$ 1,726</td> <td>\$ 2,589</td> <td>\$ (863)</td> </tr> <tr> <td>R20</td> <td>R30</td> <td>03/01/08</td> <td>02/08 -08/08</td> <td>\$ 12,334</td> <td>\$ 6,167</td> <td>\$ 6,167</td> <td>\$ 1,762</td> <td>\$ 4,405</td> </tr> </tbody> </table>					Old Unit	New Unit	Certification Effective	Period Benefits Received	Total HAP Per HUD \$2670	Should be HAP	Overstatement in HAP	Adjustments During FY 2008 per HUD \$2670	Uncorrected HAP as of 09/30/08	M17	M08	08/01/07	12/07 -01/08	\$ 3,452	\$ 1,726	\$ 1,726	\$ 2,589	\$ (863)	R20	R30	03/01/08	02/08 -08/08	\$ 12,334	\$ 6,167	\$ 6,167	\$ 1,762	\$ 4,405	
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Total uncorrected overstatements in housing assistance payments amounted to \$3,542. Of the amount, \$881 is already questioned at Finding No. 2008-7.

2,661

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that housing assistance in units being vacated is discontinued in a timely manner.

Effect: The effect of the above condition is an overstatement of housing assistance payments and questioned costs of \$2,661. This matter is reportable since the projected questioned costs exceed \$10,000.

Recommendation: We recommend that NMHC establish adequate monitoring procedures to ensure that assisted tenancy in units being vacated is discontinued in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will make necessary adjustments on the March 2010 HAP claims.

Proposed Completion Date: Fiscal year 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Eligibility

Finding No. 2008-9

Program	Reason for Questioned Costs	Questioned Costs																																																																																																																																		
U.S. Department of Housing and Urban Development / Section 8 Housing Choice Vouchers / CFDA #14.871 / Federal Award # TQ901 / Federal Award Period 10/01/07 - 09/30/08	<p>Criteria: Pursuant to Section 7 of Section 8 Administrative Plan for Rental Housing Assistance, HAP are based on annual or total income (monetary or not) a family is anticipated to receive from a source outside the family in the 12 months following admission or reexamination minus allowable exclusions and mandatory allowances and deductions. Income from all sources of each member of the household who is eighteen (18) years or older shall be accounted.</p> <p>Condition: During examination of sixty-six tenant files, the following were noted:</p> <p>1. For four items, the recalculated HAP was lower than the HAP calculated and paid by NMHC as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Account/ Household No.</th> <th style="text-align: left;">Certification Effective</th> <th style="text-align: left;">Unit Size</th> <th style="text-align: right;">Should be Income (Allow- ance)</th> <th style="text-align: right;">Income (Allow- ance) per NMHC</th> <th style="text-align: right;">Variance in Income or Allow- ance</th> <th style="text-align: right;">Should be Monthly HAP</th> <th style="text-align: right;">Monthly HAP per NMHC</th> <th style="text-align: right;">Variance in HAP</th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>HO1116</td> <td>04/01/08</td> <td>3</td> <td style="text-align: right;">\$ 15,550</td> <td style="text-align: right;">\$ 14,321</td> <td style="text-align: right;">\$ (1,229)</td> <td style="text-align: right;">\$ 953</td> <td style="text-align: right;">\$ 983</td> <td style="text-align: right;">\$ 30</td> <td style="text-align: right;">180</td> </tr> <tr> <td>HO1187</td> <td>06/01/08</td> <td>2</td> <td style="text-align: right;">\$ 8,946</td> <td style="text-align: right;">\$ 5,907</td> <td style="text-align: right;">\$ (2,139)</td> <td style="text-align: right;">\$ 677</td> <td style="text-align: right;">\$ 725</td> <td style="text-align: right;">48</td> <td style="text-align: right;">192</td> </tr> <tr> <td>HO1213</td> <td>10/15/07</td> <td>3</td> <td style="text-align: right;">\$ 8,722</td> <td style="text-align: right;">\$ 7,384</td> <td style="text-align: right;">\$ (1,338)</td> <td style="text-align: right;">\$ 1,045</td> <td style="text-align: right;">\$ 1,078</td> <td style="text-align: right;">33</td> <td style="text-align: right;">380</td> </tr> <tr> <td>HO1171</td> <td>01/01/08</td> <td>3</td> <td style="text-align: right;">\$ (1,440)</td> <td style="text-align: right;">\$ (1,920)</td> <td style="text-align: right;">\$ (480)</td> <td style="text-align: right;">\$ 769</td> <td style="text-align: right;">\$ 781</td> <td style="text-align: right;">12</td> <td style="text-align: right;">108</td> </tr> </tbody> </table> <p>2. For three tenants, eligibility determination could not be completed as the HUD Form 50058 could not be located in file. Details are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Account/ Household No.</th> <th style="text-align: left;">Certification Effective</th> <th style="text-align: right;">Monthly HAP</th> <th style="text-align: right;">Total HAP</th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>HCV01005</td> <td>09/01/08</td> <td style="text-align: right;">\$ 1,100</td> <td style="text-align: right;">\$ 1,100</td> <td></td> </tr> <tr> <td>HO1185</td> <td>06/01/08</td> <td style="text-align: right;">\$ 706</td> <td style="text-align: right;">2,824</td> <td></td> </tr> <tr> <td>HO1212</td> <td>10/01/07</td> <td style="text-align: right;">\$ 520</td> <td style="text-align: right;">6,240</td> <td></td> </tr> <tr> <td colspan="3">Total</td> <td style="text-align: right;">10,164</td> <td></td> </tr> <tr> <td colspan="3">Amount already questioned at 2008-6</td> <td style="text-align: right;">(3,032)</td> <td></td> </tr> <tr> <td colspan="3">Questioned costs this finding</td> <td style="text-align: right;">\$ 7,132</td> <td style="text-align: right;">7,132</td> </tr> </tbody> </table> <p>3. 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For one tenant, an income eligibility determination could not be performed as the HUD Form 50058, quality control review worksheet and documents supporting the tenant's income and assets and third party verifications could not be located in the tenant file.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Account/ Household No.</th> <th style="text-align: left;">Period Tested</th> <th style="text-align: right;">Monthly HAP</th> <th style="text-align: right;">Total HAP</th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>HR009B</td> <td>05/01/08</td> <td style="text-align: right;">\$ 1,100</td> <td style="text-align: right;">\$ 5,500</td> <td></td> </tr> <tr> <td colspan="3">Amount already questioned at 2008-6</td> <td style="text-align: right;">(2,200)</td> <td></td> </tr> <tr> <td colspan="3">Questioned costs this finding</td> <td style="text-align: right;">\$ 3,300</td> <td style="text-align: right;">3,300</td> </tr> </tbody> </table>	Account/ Household No.	Certification Effective	Unit Size	Should be Income (Allow- ance)	Income (Allow- ance) per NMHC	Variance in Income or Allow- ance	Should be Monthly HAP	Monthly HAP per NMHC	Variance in HAP		HO1116	04/01/08	3	\$ 15,550	\$ 14,321	\$ (1,229)	\$ 953	\$ 983	\$ 30	180	HO1187	06/01/08	2	\$ 8,946	\$ 5,907	\$ (2,139)	\$ 677	\$ 725	48	192	HO1213	10/15/07	3	\$ 8,722	\$ 7,384	\$ (1,338)	\$ 1,045	\$ 1,078	33	380	HO1171	01/01/08	3	\$ (1,440)	\$ (1,920)	\$ (480)	\$ 769	\$ 781	12	108	Account/ Household No.	Certification Effective	Monthly HAP	Total HAP		HCV01005	09/01/08	\$ 1,100	\$ 1,100		HO1185	06/01/08	\$ 706	2,824		HO1212	10/01/07	\$ 520	6,240		Total			10,164		Amount already questioned at 2008-6			(3,032)		Questioned costs this finding			\$ 7,132	7,132	Account/ Household No.	Certification Effective	Monthly HAP	Total HAP		HCV01144	12/01/06	\$ 585	\$ 1,170		HO1216	11/01/07	\$ 682	7,502		HO1402A	07/01/07	\$ 1,100	9,900					\$ 18,572	18,572	Account/ Household No.	Period Tested	Monthly HAP	Total HAP		HR009B	05/01/08	\$ 1,100	\$ 5,500		Amount already questioned at 2008-6			(2,200)		Questioned costs this finding			\$ 3,300	3,300	<p>180</p> <p>192</p> <p>380</p> <p>108</p> <p>7,132</p> <p>18,572</p> <p>3,300</p>
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COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-9, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Cause:</u> The cause of the above conditions is lack of adequate policies and procedures in the calculation and review of family income determination supporting eligibility.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$29,864.</p> <p><u>Recommendation:</u> We recommend that NMHC strengthen policies and procedures in the calculation and review of family income determination supporting eligibility.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing</p> <p>Corrective Action: NMHC ensures that its policies regarding eligibility documentation requirements will be complied with.</p> <p>Proposed Completion Date: Immediately</p>	

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Procurement and Suspension and Debarment

Finding No. 2008-10

Program	Reason for Questioned Costs	Questioned Costs															
U.S. Department of Housing and Urban Development / Community Development Block Grants/ Special Purpose Grants/ Insular Areas / CFDA #14.225 / Federal Award # B-05-ST-69-0001 / Federal Award Period 10/01/06 - 09/30/11	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Further, brand names should not be indicated in the request of proposals or solicitations so as not to limit competition. Specifically, the CNMI's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Price quotations should be obtained from at least three vendors for purchases between \$2,500 and \$9,999.99. Any price quotations obtained must be written, documented and submitted for approval. Bidding is not required for procurement under \$2,500. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. The invitation for bids shall be publicized in order to increase competition and broaden industry participation. A bidding period of at least thirty days shall be provided unless a shorter period is determined to be reasonable and necessary, but shall never be less than fifteen days. • For procurement methods that permit contracting without using full and open competition, a written justification memo should be prepared and submitted by the expenditure authority and approved by the Procurement and Supply Director. • For change orders, the agency shall thoroughly assess whether or not it would be more prudent to seek competition before adding significant new work to existing contracts. Change orders on construction and A&E contracts, which exceed 25% of the cumulative contract price, shall automatically be procured through competitive procedures, except when the procurement of the additional work to be performed is authorized without using full and open competition. <p><u>Condition:</u> Of \$2,345,446 program expenses, fifty-four items, totaling \$1,765,262 were tested. Tests of expenses noted the following:</p> <ol style="list-style-type: none"> 1. The CNMI Procurement Regulations do not require bidding or solicitations for purchases below \$2,500. For three disbursements, price quotations or documentation evidencing competitive procurement could not be provided. <table style="margin-left: 40px; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>G/L Date</u></th> <th style="text-align: left;"><u>Check #</u></th> <th style="text-align: right;"><u>G/L Amount</u></th> </tr> </thead> <tbody> <tr> <td>06/17/08</td> <td>2695</td> <td style="text-align: right;">\$ 2,179</td> </tr> <tr> <td>10/26/07</td> <td>1038</td> <td style="text-align: right;">1,613</td> </tr> <tr> <td>05/22/08</td> <td>2493</td> <td style="text-align: right;"><u>2,486</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">\$ 6,278</td> </tr> </tbody> </table> <ol style="list-style-type: none"> 2. For one contract (NMHC-2008-007), we noted two change orders (CO #1 for \$61,239 and CO #3 for \$67,076) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although there was documentation of additional work to be performed, the justification documenting that the additional work could not be foreseen at the time of the original contract was procured or that an emergency situation existed was not evident. Total expenditures incurred related to this contract for the period ended September 30, 2008 amounted to \$143,384. 	<u>G/L Date</u>	<u>Check #</u>	<u>G/L Amount</u>	06/17/08	2695	\$ 2,179	10/26/07	1038	1,613	05/22/08	2493	<u>2,486</u>			\$ 6,278	<p>6,278</p> <p>143,384</p>
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COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-10, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Condition, Continued:</u></p> <p>3. For one contract (# 2008-005), the scope of work included in the invitation to bid specified a brand name. No questioned cost exists because NMHC received acceptance from the grantor in an email dated March 27, 2008.</p> <p>4. For one disbursement (check no. 2705), the procurement documents evidencing competitive procurement were not made available. The total expenditures charged to the program for the year ended September 30, 2008 amounted to \$6,710.</p> <p><u>Cause:</u> The causes of the above conditions are inadequate documentation of purchases and weak controls over ensuring that all procurement policies and procedures are implemented.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$156,372.</p> <p><u>Recommendation:</u> We recommend that NMHC strengthen internal controls over procurement to maximize competition. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file. We further recommend that NMHC strengthen procedures on procurement file maintenance. Finally, we recommend that NMHC follow federal procurement regulations that prohibit specifying brand names in order to provide full and open competition.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Edith Fejeran, Office Manager</p> <p>Corrective Action:</p> <p>1) \$6,278 - NMHC ensures that solicitation from travel agencies will again be done as part of its procedures to obtain quotations for airfares and services to maximize competition.</p> <p>Proposed Completion Date: Ongoing</p> <p>Name of Contact Persons: Edith Fejeran, Office Manager & Zenie Mafnas, Grant Writer/Planner</p> <p>Corrective Action:</p> <p>2) \$143,384 - documentation outlining unforeseen emergency situation submitted by WTF Program Manager and resubmitted here - the owner and operator of the reservoir, CUC, requested for CO #1 the day after NTP was issued to bypass the connection so 1,027 customers would not be without water for five months. Supporting attachments were also previously submitted to the auditors along with the letter explaining such. Please see these for a comprehensive explanation. Change order #3 was also necessitated by unforeseen circumstances and the funding utilized were CIP funds unrelated to NMHC.</p> <p>Proposed Completion Date: Immediately</p>	6,710

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Subrecipient Monitoring

Finding No. 2008-11

Program	Reason for Questioned Costs	Questioned Costs								
U.S. Department of Housing and Urban Development / Community Development Block Grants / Special Purpose Grants / Insular Areas / CFDA #14.225 / Federal Award # B-06ST-69-0001 / Federal Award Period 10/01/06 - 09/30/11	<p>Criteria: Pursuant to 24 CFR Part 570.503, before disbursing any CDBG funds to a subrecipient, the recipient shall sign a written agreement with the subrecipient. The agreement shall include provisions concerning: the statement of work, records and reports, program income and uniform administrative requirements under 24 CFR section 570.503. Further, pass-through entities must establish and implement subrecipient monitoring policies and procedures.</p> <p>Condition: For three subrecipients tested, progress reports and documentation of site visits evidencing that subrecipient monitoring policies and procedures are implemented could not be provided. A complete list of subrecipients is also not maintained and updated on a regular basis. Details are as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Subrecipient No.</u></th> <th style="text-align: center;"><u>Contract/Purchase Order No.</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">NMHC-PSS-2008-009 NMHC-PSS-2008-011 NMHC-2008-008</td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">2007-004-01 2008-002 PO123981 PO123664</td> </tr> <tr> <td style="text-align: center;">3</td> <td style="text-align: center;">NMHC-PSS-2008-010</td> </tr> </tbody> </table>	<u>Subrecipient No.</u>	<u>Contract/Purchase Order No.</u>	1	NMHC-PSS-2008-009 NMHC-PSS-2008-011 NMHC-2008-008	2	2007-004-01 2008-002 PO123981 PO123664	3	NMHC-PSS-2008-010	197,124
<u>Subrecipient No.</u>	<u>Contract/Purchase Order No.</u>									
1	NMHC-PSS-2008-009 NMHC-PSS-2008-011 NMHC-2008-008									
2	2007-004-01 2008-002 PO123981 PO123664									
3	NMHC-PSS-2008-010									

Cause: The cause of the above condition is failure to implement established monitoring policies and procedures and lack of documentation of monitoring procedures performed.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements and questioned costs of \$197,124.

Recommendation: We recommend that NMHC implement established subrecipient monitoring policies and procedures. We further recommend that NMHC maintain and update a listing of all subrecipients on a regular basis.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Zenie P. Mafnas, Grant Writer/Planner and Clemente Sablan, Technical Coordinator

Corrective Action: An assessment was performed by responsible staff of the entire site upon completion of the facility (Marianas High School Building J) on April 17, 2009. They visited all (8) classrooms in the building to ensure that the classrooms were equipped with the equipment listed under contracts 2008-09 and 2008-11. These personnel noted that contractors complied with the scope of work under the (2) contracts. As with contract 2008-10, they have not been able to perform physical monitoring in the classrooms for the chairs/desks ordered for Tinian Elementary School on the island of Tinian. NMHC will ensure that monitoring is conducted as soon as possible and record evidence of such monitoring. On several occasions, NMHC has been in contact with Julian Hofschneider, Principal of TES, at that time, and he has assured these personnel that chairs/desks were delivered in good condition and are being utilized by the students and faculty.

Proposed Completion Date: November 30, 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Special Tests and Provisions

Finding No. 2008-12

Program	Reason for Questioned Costs							Questioned Costs																																													
U.S. Department of Housing and Urban Development / Section 8 New Construction and Substantial Rehabilitation / CFDA #14.182 / Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001 / Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09	<p>Criteria: In accordance with federal regulations, the initial renewal rent applicable to NMHC projects is determined at the lesser of (a) the annual adjusted rent potential of expiring contracts and (b) the section 8 contract rent potential from the budget-based rent determination.</p> <p>Condition: The budgets reported by NMHC in the budget worksheet attached to the contract renewal request forms for the projects below are higher compared to the historical results of NMHC's actual expenses from prior fiscal years and are inconsistent with established budgets for the related fiscal year.</p> <table border="1"> <thead> <tr> <th>Project No.</th> <th>NMHC's Certification Date</th> <th>Budget Reported in the Contract Renewal Request Form</th> <th>Per NMHC's Budget Schedule for Fiscal Year 2007</th> <th>Average Actual Expenses (from Fiscal Years 2005 thru 2007)</th> <th>Total Rent Approved by Grantor</th> <th>Excess of Approved Rent over Average Actual Expenditures</th> <th>Estimated Project Occupancy Rate during Fiscal Year 2008</th> <th></th> </tr> </thead> <tbody> <tr> <td>TQ100011005</td> <td>04/19/07</td> <td>\$ 502,964</td> <td>\$ 470,328</td> <td>\$ 464,554</td> <td>\$ 488,088</td> <td>\$ 23,534</td> <td>93.73%</td> <td>22,060</td> </tr> <tr> <td>TQ100016004</td> <td>06/05/08</td> <td>\$ 517,263</td> <td>\$ 246,204</td> <td>\$ 258,673</td> <td>\$ 274,680</td> <td>\$ 16,007</td> <td>91.09%</td> <td>14,580</td> </tr> <tr> <td>TQ100006004</td> <td>04/19/07</td> <td>\$ 305,800</td> <td>\$ 273,840</td> <td>\$ 211,088</td> <td>\$ 286,680</td> <td>\$ 75,592</td> <td>40.31%</td> <td>30,470</td> </tr> <tr> <td>TQ100011001</td> <td>04/19/07</td> <td>\$ 215,500</td> <td>\$ 188,004</td> <td>\$ 180,639</td> <td>\$ 198,456</td> <td>\$ 17,817</td> <td>91.91%</td> <td>16,380</td> </tr> </tbody> </table>							Project No.	NMHC's Certification Date	Budget Reported in the Contract Renewal Request Form	Per NMHC's Budget Schedule for Fiscal Year 2007	Average Actual Expenses (from Fiscal Years 2005 thru 2007)	Total Rent Approved by Grantor	Excess of Approved Rent over Average Actual Expenditures	Estimated Project Occupancy Rate during Fiscal Year 2008		TQ100011005	04/19/07	\$ 502,964	\$ 470,328	\$ 464,554	\$ 488,088	\$ 23,534	93.73%	22,060	TQ100016004	06/05/08	\$ 517,263	\$ 246,204	\$ 258,673	\$ 274,680	\$ 16,007	91.09%	14,580	TQ100006004	04/19/07	\$ 305,800	\$ 273,840	\$ 211,088	\$ 286,680	\$ 75,592	40.31%	30,470	TQ100011001	04/19/07	\$ 215,500	\$ 188,004	\$ 180,639	\$ 198,456	\$ 17,817	91.91%	16,380	
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<p>The estimated project occupancy rate during fiscal year 2008 represents the percentage of actual housing assistance payments (excluding utility reimbursements) over total contract rent approved by the grantor.</p> <p>Cause: The cause of the above condition is the lack of established policies and procedures in determining reasonableness of budgets reported.</p> <p>Effect: The effect of the above condition is the incorrect determination of contract rents and questioned costs of \$83,490.</p> <p>Recommendation: We recommend the NMHC ensure that reported budgets are reviewed for reasonableness.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Persons: Roger A. Dris, Chief Accountant & Melinda P. Babauta, Acting Manager, Program & Housing</p> <p>Corrective Action: NMHC will ensure that reported budgets are approved by the grantor on time by submitting (OCAF) Operating Cost Adjustment Factor FORM 9624 and 9625, Rent Schedule 92458, Budget Worksheet 92547-A and Operating Cost Adjustment Factor posted on the Federal Register for the particular year. The Auditor should follow the timing principle by using the same fiscal year for the total rent approved by the grantor and actual HAP claims received for the same fiscal year.</p> <p>Proposed Completion Date: Immediately</p> <p>Auditor Response: The issue is the need for NMHC to ensure that reported budgets are reasonable. As indicated in the criteria, rent is determined at the lesser of (a) the annual adjustment rent potential of expiring contracts and (b) the Section 8 contract rent potential from the budget-based rent determination. The budget reported by NMHC supporting rent determination appears to be overstated as compared to budgets provided for examination and to actual program expenses in prior years.</p>																																																					

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Special Tests and Provisions

Finding No. 2008-13

Program	Reason for Questioned Costs	Questioned Costs																																
U.S. Department of Housing and Urban Development / Section 8 Housing Choice Vouchers / CFDA #14.871 / Federal Award # TQ901 / Federal Award Period 10/01/07 - 09/30/08	<p><u>Criteria:</u> In accordance with 24 CFR Part 982.204(a), except for special admissions, participants must be selected from the Public Housing Agency (PHA) waiting list. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan.</p> <p><u>Condition:</u> For six of seven tenants tested, we are unable to determine if the participant was selected from the waiting list as the waiting list as of the selection date was not available.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Tenant # Per New Admission and Transfer/Change in Unit Cost</th> <th style="text-align: center;">Date Admitted to the Program</th> <th style="text-align: center;">Type of Voucher</th> <th style="text-align: center;">Total HAP</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">23</td> <td style="text-align: center;">09/11/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">\$ -</td> </tr> <tr> <td style="text-align: center;">06</td> <td style="text-align: center;">08/27/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">746</td> </tr> <tr> <td style="text-align: center;">03</td> <td style="text-align: center;">06/13/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">3,874</td> </tr> <tr> <td style="text-align: center;">08</td> <td style="text-align: center;">08/01/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">2,200</td> </tr> <tr> <td style="text-align: center;">02</td> <td style="text-align: center;">09/08/08</td> <td style="text-align: center;">regular</td> <td style="text-align: right;">575</td> </tr> <tr> <td style="text-align: center;">04</td> <td style="text-align: center;">05/14/08</td> <td style="text-align: center;">disaster</td> <td style="text-align: right;"><u>4,043</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 11,438</u></td> </tr> </tbody> </table>	Tenant # Per New Admission and Transfer/Change in Unit Cost	Date Admitted to the Program	Type of Voucher	Total HAP	23	09/11/08	regular	\$ -	06	08/27/08	regular	746	03	06/13/08	regular	3,874	08	08/01/08	regular	2,200	02	09/08/08	regular	575	04	05/14/08	disaster	<u>4,043</u>				<u>\$ 11,438</u>	<p>11,438</p>
Tenant # Per New Admission and Transfer/Change in Unit Cost	Date Admitted to the Program	Type of Voucher	Total HAP																															
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02	09/08/08	regular	575																															
04	05/14/08	disaster	<u>4,043</u>																															
			<u>\$ 11,438</u>																															

Cause: The cause of the above condition is lack of adherence to established policies and procedures to ensure that the selection of participants is completely documented.

Effect: The effect of the above condition is noncompliance with the waiting list requirements and questioned costs of \$11,438.

Recommendation: We recommend that NMHC ensure that the selection of applicants from the waiting list are properly documented and maintained in the files.

Prior Year Status: The lack of adherence to established policies and procedures to ensure that the selection of participants is completely documented was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant & Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: Supporting documents should be found in both SEMAP Indicator No. 01 (Selection of Applicants) and Tenant Files - NMHC will ensure that its SEMAP policies are adhered to. HS is responsible for documentation and is further reinforced by the PHD Manager who is in charge of the oversight responsibility.

Proposed Completion Date: Immediately

Auditor Response: The waiting lists filed in NMHC's files do not include the waiting lists at the time the above tenants were admitted to the program.

Total Questioned Costs \$ 539,308

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Cash Management - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-14

Criteria: In accordance with applicable cash management requirements, when funds are advanced, recipients must use and follow procedures to minimize the time elapsing between the transfer of grant funds from the U.S. Treasury and disbursement for program activities. The recipient shall be liable for interest on federal funds from the date the federal funds are credited to the recipient's bank account until those funds are paid out and are deducted from that bank account for program purposes.

Additionally, HUD Handbook 4350.3 Chapter 9-13 specifies that the owner must provide the utility reimbursement to the tenant or utility provider within 5 business days of receipt of the assistance payment from HUD.

Condition: Twenty-four of thirty-eight utility reimbursements tested relating to the program cleared between 6 to 259 days after the allowable clearance pattern from the date federal funds were credited to NMHC's account.

Further, NMHC disburses tenant utility reimbursements in accordance with the utility provider's billing schedule which is not consistent with the 5 day requirement indicated in Chapter 9-13 of the HUD Handbook 4350.3 Chapter 9-13.

Cause: The cause of the above condition is payee failure to present checks within the allowable clearance pattern and NMHC's policies relating to disbursements of utility reimbursements not being in accordance with Handbook 4350.3 Chapter 9-13.

Effect: The effect of the above condition is a possible interest liability of \$61. However, no questioned costs result from the condition as the estimated interest liability to the Federal Government is less than \$10,000.

Recommendation: We recommend that NMHC review existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern and ensure that procedures are in line with federal regulations. Further, we recommend that NMHC develop procedures to monitor interest earned on advances and to remit interest in excess of \$100 annually.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC reviews existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Corrective action will be applied by mailing all checks issued from CDBG, HOME and ESG funds via certified mail to maintain the check register in compliance to this finding.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Cash Management - Community Development Block Grants/Special Purpose Grants/Insular Areas
CFDA #14.225, Federal Award # B-06ST-69-0001
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2008-15

Criteria: In accordance with applicable cash management requirements, when funds are advanced, recipients must use and follow procedures to minimize the time elapsing between the transfer of grant funds from the U.S. Treasury and disbursement for program activities. The allowable clearance pattern is three days. The recipient shall be liable for interest on federal funds from the date the federal funds are credited to the recipient's bank account until those funds are paid out and are deducted from that bank account for program purposes.

Condition: For twenty of fifty-five disbursements tested relating to the CDBG program, the following were cleared between one to fifty-six days after the allowable clearance pattern from the date federal funds were credited to NMHC's account. Details are as follows:

<u>Check #</u>	<u>G/L Amount</u>	<u>Check Clearance Date</u>	<u>Funds Receipt Date</u>	<u>Days Elapsed After 3 Day Clearance Pattern</u>
2114	\$ 30,000	04/10/08	03/20/08	12
3012	\$ 42,984	08/08/08	08/04/08	1
1035	\$ 53,187	01/16/08	10/25/07	56
1037	\$ 44,417	10/31/07	10/25/07	1
2710	\$ 99,361	07/02/08	06/23/08	4
3327	\$ 58,918	10/02/08	09/22/08	5
2270	\$ 16,830	04/30/08	04/21/08	4
2790	\$ 17,331	07/11/08	07/03/08	3
2929	\$ 26,442	08/08/08	07/24/08	8
2505	\$ 26,200	06/05/08	05/23/08	6
1779	\$ 22,877	02/15/08	02/07/08	3
1983	\$ 18,029	03/20/08	03/13/08	2
2187	\$ 26,745	04/14/08	04/07/08	2
2615	\$ 18,902	06/13/08	06/09/08	1
3234	\$ 8,913	09/16/08	09/05/08	4
2493	\$ 2,486	05/28/08	05/22/08	1
2756	\$ 7,228	07/02/08	06/26/08	1
1814	\$ 27,392	04/18/08	02/14/08	43
2793	\$ 13,790	07/09/08	07/03/08	1
1038	\$ 1,613	11/06/07	10/25/07	5

Cause: The cause of the above condition is weak controls to ensure that checks are disbursed within the allowable clearance pattern.

Effect: The effect of the above condition is a possible interest liability of \$375. However, no questioned costs result from the condition, as the estimated interest liability to the U.S. Department of Housing and Urban Development is less than \$10,000.

Recommendation: We recommend that NMHC review existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Further, we recommend that NMHC develop procedures to monitor interest earned on advances and remit interest in excess of \$100 annually.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-15, Continued

Prior Year Status: The failure of payees to present the checks to the bank within the allowable three day clearance pattern was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC reviews existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Corrective action will be applied by mailing all checks issued from CDBG, HOME and ESG funds via certified mail to maintain the check register in compliance to this finding.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Cash Management - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-16

Criteria: In accordance with applicable cash management requirements, when funds are advanced, recipients must use and follow procedures to minimize the time elapsing between the transfer of grant funds from the U.S. Treasury and disbursement for program activities. The allowable clearance pattern is three days. The recipient shall be liable for interest on federal funds from the date the federal funds are credited to the recipient's bank account until those funds are paid out and are deducted from that bank account for program purposes.

Condition: For forty-six of seventy-nine disbursements tested relating to the Section 8 Voucher program, the following cleared between one to twenty-three days after the allowable clearance pattern from the date federal funds were credited to NMHC's account. Details are as follows:

<u>Check #</u>	<u>G/L Amount</u>	<u>Check Clearance Date</u>	<u>Funds Receipt Date</u>	<u>Days Elapsed After 3 Day Clearance Pattern</u>
3963	\$ 585	10/05/07	10/01/07	1
3841	\$ 600	10/09/07	10/01/07	3
3872	\$ 750	10/09/07	10/01/07	3
3896	\$ 743	10/09/07	10/01/07	3
3962	\$ 1,200	10/05/07	10/01/07	1
4150	\$ 750	11/07/07	11/01/07	1
4175	\$ 793	11/07/07	11/01/07	1
4231	\$ 605	11/07/07	11/01/07	1
4249	\$ 650	11/08/07	11/01/07	2
4495	\$ 1,300	12/07/07	12/03/07	1
4784	\$ 485	01/16/08	01/02/08	7
4863	\$ 950	01/08/08	01/02/08	1
5026	\$ 12,350	01/29/08	01/02/08	16
5060	\$ 750	02/07/08	02/01/08	1
5090	\$ 1,300	02/11/08	02/01/08	3
5121	\$ 1,078	02/11/08	02/01/08	3
5693	\$ 822	04/07/08	04/01/08	1
5865	\$ 800	04/07/08	04/01/08	1
5750	\$ 850	04/07/08	04/01/08	1
5913	\$ 1,100	05/07/08	05/01/08	1
5938	\$ 2,167	05/07/08	05/01/08	1
5992	\$ 850	05/08/08	05/01/08	2
6014	\$ 850	05/07/08	05/01/08	1
6230	\$ 1,981	06/10/08	06/02/08	3
6280	\$ 650	06/10/08	06/02/08	3
6336	\$ 750	06/06/08	06/02/08	1
6357	\$ 983	06/06/08	06/02/08	1
6515	\$ 950	07/16/08	07/01/08	8
6540	\$ 1,100	07/07/08	07/01/08	1
6782	\$ 650	07/11/08	07/01/08	5
6593	\$ 750	07/08/08	07/01/08	2
6634	\$ 900	07/08/08	07/01/08	2
7179	\$ 682	09/08/08	08/01/08	23
7156	\$ 750	08/11/08	08/01/08	3

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-16, Continued

Condition, Continued:

<u>Check #</u>	<u>G/L Amount</u>	<u>Check Clearance Date</u>	<u>Funds Receipt Date</u>	<u>Days Elapsed After 3 Day Clearance Pattern</u>
7200	\$ 879	09/08/08	09/02/08	1
7228	\$ 1,300	09/08/08	09/02/08	1
7255	\$ 1,100	09/08/08	09/02/08	1
7276	\$ 1,300	09/08/08	09/02/08	1
7349	\$ 858	09/08/08	09/02/08	1
7565	\$ 1,445	09/11/08	09/02/08	4
3943	\$ 750	10/09/07	10/01/07	3
5595	\$ 498	04/07/08	04/01/08	1
4011	\$ 90	10/09/07	10/01/07	3
5816	\$ 90	04/14/08	04/01/08	6
6743	\$ 90	07/08/08	07/01/08	2
6833	\$ 102	08/13/08	08/01/08	5

Cause: The cause of the above condition is the failure of payees to present the checks to the bank within the allowable three day clearance pattern.

Effect: The effect of the above condition is a possible interest liability of \$23. However, no questioned costs resulted from the condition, as the estimated interest liability to the U.S. Department of Housing and Urban Development is less than \$10,000.

Recommendation: We recommend that NMHC review existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Further, we recommend that NMHC develop procedures to monitor interest earned on advances and remit interest in excess of \$100 annually.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC reviews existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Corrective action will be applied by mailing all checks issued from CDBG, HOME and ESG funds via certified mail to maintain the check register in compliance to this finding.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Davis-Bacon Act - Community Development Block Grants/Special Purpose Grants/Insular Areas
CFDA #14.225, Federal Award # B-04-ST-69-0001
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2008-17

Criteria: As part of NMHC's control procedures in monitoring compliance with the requirements of the Davis-Bacon Act, interviews of contractor workers at job sites is to be performed.

Condition: Tests of compliance with the Davis-Bacon Act noted that records of employee interviews, to support job site interviews of contractor's employees, were not available for seven CDBG funded projects (contract #s 2008-007, 2007-003, 2007-010, 2008-013, 2008-004, 2008-008 and 2008-015).

Cause: The cause of the above condition is the lack of established monitoring procedures to ensure that job site interviews are performed and documented.

Effect: The effect of the above condition is noncompliance with NMHC's control procedures to ensure that requirements of the Davis-Bacon Act are complied with. No questioned costs result as the related progress billings tested were supported with certified payrolls.

Recommendation: We recommend that NMHC establish monitoring controls to ensure that required procedures relating to job site interviews are performed and documented.

Prior Year Status: The lack of established monitoring procedures to ensure that job site interviews are performed and are properly documented was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Edith C. Fejeran, Office Manager and Clemente S. Sablan, Technical Coordinator

Corrective Action: Employee interviews at the job sites are done and NMHC will ensure compliance with the requirements of the Davis-Bacon Act. The Office Manager will receive job interview sheets and coordinate with field staff accountable for interviewing and documenting worker interviews at CDBG-funded jobsites. Interviews of workers for projects on Saipan will be coordinated between the Office Manager and the Technical Coordinator who conducts all field site visits and inspections. Travel authorizations for off-island projects will not be approved until interviews with prior travels are submitted and filed by the Technical Coordinator with the Accounting Office.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-18

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: During examination of tenant files for fifty tenants receiving housing assistance, the following were noted:

1. Deductions claimed include allowance for dependents which are not legal children of the household head/co-head. The household head and/or co-head are in a guardian/caretaker capacity based on a General/Special Power of Attorney (GPA/SPA) executed by the legal/biological parents of the dependent. We were unable to determine if NMHC performed further verification in addition to obtaining GPA/SPA to ensure that such are valid dependents. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not legal children (Household Member Ref. #)</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>
K11	04/08	05/09/07	5	\$ 480	\$ 838
K23	09/08	06/01/08	5, 6	\$ 960	673
M01	06/08	10/01/07	3, 4, 5, 6, 7, 8, 9	\$ 3,360	1,025
M14	10/07	02/01/07	2	\$ 480	729
M24	09/08	10/01/07	4	\$ 480	751
R05	10/07 and 06/08	10/01/06	2, 3	\$ 960	1,285
R25	03/08	11/01/07	3, 4	\$ 960	775
					<u>\$ 6,076</u>

2. Deductions claimed include an allowance for dependent(s). The relationship of the household head/co-head with the dependent is not evident to conclude whether the deduction claimed is for a valid dependent. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Effective Period of HAP based on HUD-50059</u>	<u>Certification Effective</u>	<u>Household Member Ref.#</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>
R21	04/08	07/01/07	07/01/07	3	\$ 480	\$ 835
R21	08/08	07/01/08	07/01/08	3	\$ 480	832
						<u>\$ 1,667</u>

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-18, Continued

Condition, Continued:

3. Deductions claimed include an allowance for a full-time student. The third party verification document obtained during the verification period only stated that the dependent will be returning to school. There is no documentation on file evidencing subsequent verification that the student actually returned to the school and is a full-time student during the period the tenant was receiving housing assistance. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification/ Recertification Effective Date</u>	<u>HUD-50059 Effective Date</u>	<u>Household Member Ref.#</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>
M12	January 2008	12/01/07	12/01/07	3	\$ 480	\$ 915

4. Deductions claimed include an allowance for a full-time student. There was no third party verification in file evidencing the dependent is a full-time student. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Effective Period of HAP based on HUD-50059</u>	<u>Certification Effective Date</u>	<u>Household Member Ref.#</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>
K20	April 2008	11/01/07	11/01/07	6	\$ 480	\$ 848

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that deductions claimed by the tenant/applicant are verified.

Effect: The effect of the above condition is noncompliance with eligibility requirements. Related housing assistance payments are already questioned at Finding No. 2008-7.

Recommendation: We recommend that NMHC ensure that deductions claimed are verified and agree to relevant supporting documentation.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: 1. and 2. - NMHC will ensure that all General Power of Attorney (GPA) should be coming from the Court and NMHC will no longer accept signed/notarized verification from the biological parent or household member. For families reporting "zero income", NMHC will coordinate with the Division of Revenue & Taxation to acquire tax documentation and will suspend the acceptance of document(s) signed by tenants relevant to income.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-18, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

3. M12 - NMHC obtained a certification of attendance on 10/29/09. NMHC is waiting for school certification to support necessary adjustments.
4. K20 - A certification of attendance for school year 2006-2007 was obtained; Household #6 is eligible for allowance. Effective 11/08, the tenant is no longer entitled for dependent allowance for #6.

Proposed Completion Date: Immediately

Auditor Response: K20 - NMHC should ensure that documentation supporting the allowance for full-time students is obtained during eligibility determination.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-19

Criteria: Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification. These are, in order of acceptability, third party verification, review of documents, and family certification. When third party verification is not available, owners must document, in the file, efforts made to obtain the required verification and the reason if the verification was not obtained. The owner must include the following documents in the applicant's or tenant's file:

1. A written note to file explaining why third party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party;
3. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
4. A written note to the file indicating that the request has been outstanding without a response from the third party.

Condition: During examination of fifty tenant files, the following were noted:

1. The following tenant/applicant reported other income. No third party verification documentations were in file. However, we did note an affidavit/notarized statements signed by the tenant/applicant. Further, documentation as to why a third party verification is not possible or documentation indicating that efforts were made to obtain third party verifications was not evident in file. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HUD-50059 Effective Date</u>	<u>Household Member #</u>	<u>Other Income Reported (Monthly Income)</u>	<u>HAP Amount</u>
M01	06/08	10/01/07	10/01/07	Head	\$ 50	\$ 1,025
M09	11/07	09/01/07	09/01/07	Head	\$ 120	1,025
M22	06/08	05/01/08	05/01/08	Head	\$ 20	1,025
M35	01/08	07/01/07	07/01/07	Head	\$ 23	938
R14	10/07 and 11/07	12/18/06	12/18/06	Head	\$ 160	<u>1,743</u>
						<u>\$ 5,756</u>

2. The following tenant/applicant reported zero income; however, based on the description of work performed by the household member(s), as stated in the statement of unemployment, there may be sources of other income which NMHC did not appear to have verified. Details are as follows:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-19, Continued

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member #</u>	<u>HAP Amount</u>
M47	09/08	11/01/07	Head	\$ 1,025

3. For the following reported income, the third party verification obtained could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member #</u>	<u>Income Type</u>	<u>Income Reported (Monthly Income)</u>	<u>HAP Amount</u>
R21	04/08	07/01/07	Head	SSI	\$ 391	\$ 835

4. For the following income reported by the applicant/tenant, income included on HUD-50059 did not agree to the related third party verification obtained:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Included in Form HUD-50059</u>	<u>Income Per Third Party Verification</u>	<u>Variance</u>	<u>HAP Amount</u>
R05	06/08	11/01/07	\$ 11,508	\$ 11,748	\$ 240	\$ 652

5. For the following, assets were reported by the applicant/tenant; however, a third party verification obtained could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member #</u>	<u>Asset Type</u>	<u>HAP Amount</u>
M16	02/08	11/01/07	Head, 2	Bank Account	\$ 905

Cause: The cause of the above condition is failure to obtain adequate third party verification and failure to document instances when third party verification cannot be obtained.

Effect: The effect of the above condition is noncompliance with eligibility requirements. Related housing assistance payments are questioned at Finding No. 2008-7.

Recommendation: We recommend that NMHC ensure that adequate third party verification is obtained and, when third party verification cannot be obtained, NMHC should ensure that efforts to obtain the required documentation and the reason the verification was not obtained are documented in the tenant file or equivalent.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-19, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. M01, M09, M22, M35 and R14 - We believe that a signed and notarized statement from the tenant constitutes sufficient documentation declaring the true and correct statement of in-kind contribution received.
2. M47 - A verification supporting a full-time volunteer as a pastor with no pay was obtained on 09/02/09.
3. R21 - SSI income is based on the interview that was conducted. NMHC attempted to verify and send a confirmation but no verification was received.
4. R05 - Annual recertification income is based on the interview conducted. HAP should be \$646 based on third party determination. NMHC will make necessary adjustments.
5. M16 - A verification of account was not obtained. Tenant cannot afford to pay the fee of \$25 for bank inquiry.

Further, NMHC will ensure that it will follow its eligibility documentation requirements.

Proposed Completion Date: Fiscal year 2009

Auditor Response: Efforts should be made to obtain third party verification. When third party verification cannot be obtained, such should be evident in the files.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-20

Criteria: Owners must include verification documentation in the tenant file. Further, NMHC accepts the following notarized statements or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household.

1. Affidavit as to assets
2. Statement of unemployment
3. Affidavit of zero income of adult member
4. Affidavit of child support

Condition: During examination of fifty tenant files, the following was noted:

Unit No.	Month Tested	Recertification (Annual/Interim) Effective	Household Member #	Documents not Found in Tenant File	HAP Amount
K19A	08/08	06/01/08	Head	Statement of unemployment, affidavit of child support, Affidavit of zero income, Affidavit as to assets, Certification of asset disposition	\$ 717
K20	03/08 and 04/08	11/01/07	3	Statement of unemployment, Affidavit of zero income	1,696
K20	03/08 and 04/08	11/01/07	6	Affidavit as to assets	-
M09	11/07	09/01/07	2	Statement of unemployment, Affidavit of zero income, Affidavit as to assets	1,025
M09	11/07	09/01/07	-	Updated verification of land obtained in February 2002	-
M12	01/08	12/01/07	3	Statement of unemployment, Affidavit of zero income, Affidavit as to assets	915
M12	01/08	12/01/07	Head	Affidavit as to assets	-
M12	01/08	12/01/07	-	Verification from NAP of Food Stamps benefits of \$309	-
					<u>\$ 4,353</u>

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that required documentation is obtained and filed.

Effect: The effect of the above condition is inadequate documentation of the eligibility determination. Related housing assistance payments are already questioned at Finding No. 2008-7.

Recommendation: We recommend NMHC ensure that all relevant documentation supporting eligibility determinations are obtained and included in file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-20, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. K19A - Head of Household was not on island due to medical referral. Further, annual recertification was conducted and processed. It is beyond NMHC's control to hold the certification process and penalize the family.
2. K20 during the interview for annual re-exam effective 11/07 household #3 signed a verification of employment dated 09/18/09 and verified, received 10/15/09 and unemployed effective 10/31/09.
3. K20 during the interview for annual re-exam #6 was not available at the time in school. Verification of assets was never submitted. This was corrected in November 2008.
4. M09 interview July 12, 2007 household number 2 was a minor not required to sign documents date of contract process 08/03/07 for annual recertification effective 09/01/08. This was corrected in the next reexamination 09/01/08.
5. M09 Quitclaim Deed of Homestead received and verified family does not reside unit size does not accommodate the household member.
6. M12 annual recertification effective 12/07 statement of unemployment/affidavit as to assets and affidavit of zero income signed/dated July 2007.
7. M12 annual recertification effective 12/07 Affidavit as to Assets signed by all adult member dated 07/07.
8. M12 during the certification effective 12/07 NAP income should be \$319.

Further, NMHC will establish a policy with respect to unavoidable circumstances that are beyond NMHC's or the tenant's control such as medical referral reasons and will ensure that the tenant's status is updated upon recertification. In addition, a policy will be established for tenants who become adults on or after recertification.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-21

Criteria: Adult members of a family must sign consent forms as required verification documents, so the owner can verify sources of family income and family size. The owner must consider a family ineligible if adult members refuse to sign applicable consent and verification forms. Consent forms must be signed by:

1. The head of household (regardless of age);
2. The spouse or co-head of household (regardless of age); and
3. Any other family member who is 18 years old or older.

NMHC's uses the "Document Package for Applicant's/Tenant's Consent to the Release of Information" (the Document Package) form to document compliance with this requirement.

Condition: During examination of fifty tenant files, the following were noted:

1. The "Document Package" was not signed by one or more adult members of the applicant/tenant. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Not signed by Household Member #</u>	<u>HAP Amount</u>
K19A	08/08	06/01/08	Head	\$ 717
M09	11/07	09/01/07	2	1,025
M16	02/08	11/01/07	2	905
T20	11/08	11/01/07	Head	<u>842</u>
				<u>\$ 3,489</u>

2. The following "Document Package" could not be located:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
K02A	02/08 and 07/08	12/01/07	\$ 1,250

3. The "Document Package" was signed by an individual not listed in HUD-50059 effective for the period examined:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HUD-50059 Effective</u>	<u>HAP Amount</u>
T20	01/08	11/01/07	08/01/07	\$ 842

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that relevant documentation is obtained and filed.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-21, Continued

Effect: The effect of the above condition is inadequate documentation supporting eligibility determination and requirements. Related housing assistance payments are already questioned at Finding No. 2008-7.

Recommendation: We recommend NMHC ensure that relevant documentation supporting eligibility determination is obtained and included in file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action:

1. M09 - Household member is not an adult member on the interview date; K19A - head of household not available off-island for medical reasons, adult member signed; M16 - spouse was not available to sign package document during the interview; and T20 - enclosed copy signed on date of the interview effective 11/07
2. Form 9887 "Document Package" not seen in file on date of interview 08/28/07.
3. T20 effective 11/07 certification change of head of household and move-out of household member.

Further, NMHC will ensure that its documents regarding eligibility requirements are met.

Proposed Completion Date: September 30, 2009 - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-22

Criteria: Owners must conduct a certification/recertification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual recertifications. Owners must then recompute tenant rents and assistance payments, if applicable, based on information gathered.

NMHC uses a "Certification/Re-certification Interview Sheet" to document certifications and recertifications performed.

Condition: During examination of fifty tenant files, the following were noted:

- The following annual recertification was not performed in a timely manner:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Previous Annual Certification</u>		<u>Current Annual Certification</u>	
		<u>Effective Date</u>	<u>Date Performed</u>	<u>Effective Date</u>	<u>Date Performed</u>
K25	June 2008	01/01/07	December 2006	01/01/08	August 2008

- The following certification/recertification interview sheet was either (a) not completed; (b) incomplete; or (c) not properly filled out:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per Certification/Recertification Interview Sheet</u>	<u>Sections of the Interview Sheet that are Incomplete/Not Completed</u>
K20	April 2008	11/01/07	4
K25	June 2008	01/01/08	1, 2, 3
R05	October 2007	11/01/06	6
R21	August 2008	07/01/08	4, 5, 6
T04	August 2008	07/01/08	2, 3
T05	February 2008	12/27/07	2, 3
T08	February 2008	08/01/07	2, 3, 6
T09	March 2008	03/01/08	2, 3
T15	July 2008	06/01/08	2, 3, 6
T16	February 2008	04/01/07	2, 3, 6
T17	January 2008	12/01/07	2, 3, 6
T18	May 2008	03/01/08	2, 3, 6
T20	January 2008	11/01/07	2

- The following certification/recertification interview sheet could not be located in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per Form HUD-50059</u>	<u>Certification Type per Form HUD-50059</u>
M08	December 2007	10/29/07	IR - UT
T15	December 2007	06/27/07	MI

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-22, Continued

Condition, Continued:

4. For the following, evidence of previous or current certification/recertification performed could not be located in file. We were unable to determine if required certifications/recertifications were performed and/or performed within the required timeframe. Details are as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Previous Certification/Recertification Effective Date</u>	<u>Current Certification/Recertification Effective Date</u>	<u>Month/Year Performed</u>
R21	April 2008	Unknown	07/01/07	June 2007
M06	November 2007	01/01/06	01/01/07	Unknown
M43	October 2007	01/01/07	07/01/07	Unknown

5. For the following, housing assistance was discontinued during fiscal year 2008; however, there was no documentation in file indicating why and when housing assistance was discontinued. Further, we were unable to verify if an annual recertification is required.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Latest HUD-50059 in Tenant File</u>	<u>Period HAP was Discontinued per HUD 52670</u>
R14	October 2007, November	12/18/06	12/18/06	December 2007

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that required certification/recertification is performed in a timely manner and documented.

Effect: The effect of the above condition is noncompliance with program eligibility requirements.

Recommendation: We recommend NMHC establish adequate monitoring procedures to ensure that required certification/recertification is timely performed and is documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will adhere to its documentation requirements for eligibility determination and will ensure such is filed.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Eligibility - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-23

Criteria: Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing required verifications so that if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

Condition: During examination of fifty tenant files, the assigned unit for the following did not appear reasonable based on the size of the household/family:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HUD-50059 Effective Date</u>	<u>Unit Size</u>	<u>No. of Household</u>	<u>HAP Amount</u>
K25	06/08	01/01/08	4 BR	1	\$ 838
M45	11/07, 04/08 and 05/08	09/01/07 and 04/01/08	4 BR	2	2,555
R21	04/08 and 08/08	08/01/07 and 08/01/08	4 BR	3	1,667
T05	02/08	12/27/07	4 BR	3	947
T20	01/08	08/01/07	3 BR	1	842
					<u>\$ 6,849</u>

Justification for the larger unit size assigned was not noted in file.

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that units assigned are in accordance with established occupancy standards.

Effect: The effect of the above condition is noncompliance with program eligibility requirements. Related housing assistance payments are already questioned at Finding No. 2008-7.

Recommendation: We recommend NMHC ensure strict adherence to established program occupancy standards.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-23, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. K25 prior certifications household member meets the unit size, effective 10/08 interim certification includes additional household member of (6) which complies with the reasonable household size.
2. M45 initially move in with large family composition now downsize household member, prospective unit transfer when unit size becomes available.
3. R21 initially moved in with large family composition now downsize household member.
4. T05 tenant already moved out. The unit is currently occupied by another family member.
5. T20 initial move in family composition of 3, household member downsize to one, under process for unit transfer to 2 BR accordingly to TIQ representative.

NMHC will process unit transfers accordingly when unit size is available or if applicant list for prospective move-in needed unit or a transfer is required.

NMHC will explore ways to assist families who are financially burdened with meeting expenses relevant to occupancy standards.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-24

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a "Declaration of 214 Status" form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in the tenant's files.

Condition: During examination of fifty tenant files, the following were noted:

1. The completed and signed "Declaration of Section 214 Status" form for the following household members could not be located:

<u>Unit No.</u>	<u>Form HUD-50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
M01	10/01/07	9	\$ 1,025
M14	02/01/07	2	729
M24	10/01/07	6	751
M27	10/01/07	8	1,025
R21	08/01/07 and 07/01/08	Head, 2	1,667
R30	03/01/08	2, 4	<u>881</u>
			\$ 6,078

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting social security numbers and citizenship.

Effect: The effect of the above condition is noncompliance with eligibility requirements. Housing assistance payments for the specific periods examined are already questioned at Finding No. 2008-7.

Recommendation: We recommend NMHC ensure that relevant documentation supporting citizenship is included in file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: Declaration of Section 214 Status were obtained for M01, M14, M24 M27, R30 and R21 and provided to the auditors.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-24, Continued

Auditor Response: The Declaration of Section 214 Status provided was obtained by NMHC subsequent to September 30, 2008. NMHC should ensure that such documents are obtained during eligibility determination.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-25

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: During examination of sixty-six tenant files, the following were noted:

1. For six tenants, deductions claimed included an allowance for dependent(s) which is (are) not biological or legal children of the household head/co-head. The household head/co-head are in a guardian/caretaker capacity based on either a general power of attorney, a notarized affidavit or an appointment of guardianship executed by the biological or legal parents of the dependent (s). We were unable to determine if NMHC performed further verification to ensure that such are valid dependents. Details are as follows:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Allowance Claimed</u>
HO1037A	Jul-08	12/01/07	\$ 480
HO1222	Sep-08	05/14/08	\$ 480
HCV01086	Nov-07	06/01/07	\$ 480
HO1068	Jul-08	02/01/08	\$ 480
HO1087	Dec-07	11/01/07	\$ 960
HO1107	May-08	01/01/08	\$ 960

2. For three tenants, deductions claimed included an allowance for a full-time student; however, there was no third party verification noted in file evidencing that the dependent was a full-time student. Details are as follows:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Allowance Claimed</u>
HCV01117	Jan-08	06/01/07	\$ 480
H01055	Oct-07	06/01/07	\$ 480
12728	Feb-08	01/01/08	\$ 480

3. For one tenant, deductions claimed included a medical allowance but we were not able to agree medical allowance claimed to documentation in file.

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Allowance Claimed</u>
HO1176	Aug-08	12/01/07	\$ 1,068

Cause: The cause of the above conditions is a lack of adequate policies and procedures to ensure that claimed deductions are verified and documented.

Effect: The effect of the above condition is noncompliance with eligibility requirements and possible miscalculation of HAP. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-25, Continued

Recommendation: We recommend that NMHC strengthen policies and procedures in verifying claimed deductions and that such verification be documented in the tenant file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure adequate policies and procedures are in place and documentation will be obtained to ascertain compliance with eligibility requirements.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-26

Criteria: Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification. These are, in order of acceptability, third-party verification, review of documents, and family certification. When third-party verification is not available, owners must document, in the file, efforts made to obtain the required verification and the reason if the verification was not obtained. The owner must include the following documents in the applicant's or tenant's file:

1. A written note to the file explaining why third-party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party;
3. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
4. A written note to the file indicating that the request has been outstanding without a response from the third party.

Condition: During examination of sixty-six tenant files, the following were noted:

1. For three tenants, there was a notarized affidavit as to assets declaring accounts with certain banks; however, there was no documentation on file evidencing that verification was requested from the bank. Further, for all tenants who did not declare a bank account, land or other assets, a third party verification was not performed.

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Asset Type</u>
HO1037A	Jul-08	12/01/07	Bank Account
HO1008	May-08	02/01/08	Bank Account
HO1155A	May-08	04/11/08	Bank Account

2. For the following fifteen tenants, third party verification documentation as to the validity of income reported by the tenant was not evident in file.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-26, Continued

Condition, Continued:

<u>Account/ Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Type</u>
HCV01005	Sep-08	09/01/08	Food stamps
HO1222	Sep-08	05/14/08	Food stamps, Social Security benefit and written verification from employer (only pay stubs on file)
HO1168	Jul-08	10/01/07	Food stamps
HO1019A	Sep-08	09/01/08	Food stamps and other income
HO1143A	Dec-07	09/01/07	Written verification from employer (only pay stubs on file)
HO1187	Jun-08	06/01/08	Written verification from employer (only pay stubs on file)
HO1001	Nov-07	09/01/07	Food stamps
HO1039	Apr-08	07/01/07	Written verification from employer (only pay stubs on file and 2 stubs were not within 60 days from recertification date)
HO1060A	Mar-08	03/01/08	Other income
HO1213	Feb-08	10/15/07	Food stamps and Written verification from employer (only pay stubs on file)
HO1212	Jan-08	10/01/07	Food stamps
HO1051A	Mar-08	09/01/07	Written verification from employer or pay stubs
HCV01093	Nov-07	08/01/07	Other income
HO1008	May-08	02/01/08	Written verification from employer (only pay stubs on file)
HO1107	May-08	01/01/08	Other income

3. For three tenants, income reported in HUD Form 50058 did not agree with the third party verification, and there was no documentation on file supporting the variance. Details are as follows:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Type</u>	<u>Income per HUD Form 50058</u>	<u>Income per Third Party Verification</u>	<u>Income per Third Party Verification</u>
HO1141	Feb-08	12/01/07	Other income	\$ 900	\$ 1,800	\$ 900
HO1155A	May-08	04/11/08	Food assistance and wages	\$ 10,424	\$ 11,752	\$ 1,328
HO1204	Dec-07	10/01/07	Other income	\$ 720	not specified	unknown

4. For one tenant, the food stamp certification on file was in the name of a person not included as a household member per HUD Form 50058. We noted that the household head was married to the person in May 2007 but was not included in the reported household. Further, the notarized affidavit as to assets and affidavit of child support were signed and notarized after the effective date of recertification. Details are as follows:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Date Signed and Notarized</u>
HO1034	Nov-07	11/01/07	11/15/07

5. For one tenant, the food stamp certification was dated 01/03/07 covering the eligibility period from 02/01/07-03/31/07 and the next eligibility determination was scheduled for 03/05/07. Thus, the verification document on file was not dated within 60 days of the recertification date. Details are as follows:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Recertification Date</u>
HCV9101	May-08	07/01/07	07/25/07

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-26, Continued

Cause: The cause of the condition is the lack of adequate policies and procedures to ensure that third party verifications are performed and documented for reported income and assets.

Effect: The effect of the above condition is noncompliance with eligibility requirements and a possible miscalculation of HAP. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMHC strengthen policies and procedures in performing and documenting third party verifications on income and assets declared by tenants/applicants.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure adequate policies and procedures are in place and documentation will be obtained to ascertain compliance with eligibility requirements. PHD will ensure that all information is correct and updated before finalizing certifications. NMHC will continue to locate files when found.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-27

Criteria: Owners must include verification documentation in file. Further, NMHC accepts the following notarized statements or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household.

1. Affidavit as to assets
2. Statement of unemployment
3. Affidavit of zero income of adult member
4. Affidavit of child support
5. Zero income in-kind contribution checklist

Condition: During examination of sixty-six tenant files, the following were noted:

1. For twenty tenants that reported zero income, the zero income in-kind contribution checklist was either (1) not signed and not completed; (2) signed and partially completed; or (3) signed and not completed.

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>
HO1089A	Apr-08	08/01/07
HCV01117	Jan-08	06/01/07
HCV01029	Oct-07	09/01/07
HO1050	Jul-08	03/01/08
HO1055	Oct-07	06/01/07
HCV01022	Sep-08	08/01/08
HO1215	Oct-07	08/01/07
HO1211	Jun-08	10/01/07
HO1068	Jul-08	02/01/08
HO1019A	Sep-08	09/01/08
HO1204	Dec-07	10/01/07
14961	May-08	11/01/07
HO1060A	Mar-08	03/01/08
HO1141	Feb-08	12/01/07
HO1192	Aug-08	07/01/08
HO1174	Apr-08	12/01/07
HO1053	Dec-07	05/01/07
HCV01093	Nov-07	08/01/07
HO1107	May-08	01/01/08
HO1104A	Jun-08	11/01/07

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-27, Continued

Condition, Continued:

2. For twenty-three tenants tested, documents supporting income and assets for all adult members of the household could not be located in the tenant file. Specific documents that could not be located are as follows:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Documents not Found in Tenant File</u>
HCV01117	Jan-08	06/01/07	Statement of unemployment, affidavit of zero income
HR0019A	Feb-08	07/01/07	Certificate of asset disposition of household head, notarized affidavit of child support for one dependent
HO1050	Jul-08	03/01/08	Affidavit of zero income of one adult member
HR0003	Dec-07	06/01/07	Zero income in-kind contribution checklist
HO1072	Jun-08	04/01/08	Affidavit as to assets for both household head and co-head not signed and notarized
HO1088B	Oct-07	07/01/07	Zero income in-kind contribution checklist
HCVO1005	Sep-08	09/01/08	Zero income in-kind contribution checklist, certificate of asset disposition
HO1227	Sep-08	05/15/08	Affidavit of zero income of adult member for household head
HO1222	Sep-08	05/14/08	Notarized affidavit as to assets, notarized affidavit of child support
HCV01086	Nov-07	06/01/07	Statement of unemployment and affidavit as to assets not notarized not signed by the other adult member
HO1052	Apr-08	09/01/07	Affidavit of zero income for other adult member
HO1211	Jun-08	10/01/07	Affidavit as to assets for spouse not signed and not notarized
HO1096	Nov-07	07/01/07	Affidavit of zero income of adult member for household head
HO1023	Aug-08	04/22/08	Notarized affidavit as to assets for other adult member, zero income in-kind contribution
HO1116	Jun-08	04/01/08	Statement of unemployment and affidavit of zero income for the mother
HO1001	Nov-07	09/01/07	Zero income in-kind contribution checklist, notarized affidavit as to assets, notarized affidavit of child support
HO1213	Feb-08	10/15/07	Statement of unemployment, affidavit of zero income for the spouse
HO1063A	Apr-08	07/01/07	Affidavit as to assets for both household head and co-head not notarized
HO1051A	Mar-08	09/01/07	Notarized affidavit as to assets and affidavit of zero income for both household head and co-head, zero income in-kind contribution checklist
HCV01093	Nov-07	08/01/07	Affidavit as to assets for other adult member not signed and not notarized
HO1014A	Jul-08	04/14/08	Affidavit of zero income of adult member, zero income in-kind contribution
HCV9101	May-08	07/01/07	Notarized affidavit as to assets for household head and zero income in-kind contribution checklist
HO1104A	Jun-08	11/01/07	Notarized affidavit of child support, notarized affidavit as to assets

Cause: The cause of the above conditions is the lack of adequate policies and procedures to ensure documentation supporting income and assets are prepared and maintained in the tenant file.

Effect: The effect of the above condition is noncompliance with eligibility requirements and a possible miscalculation of HAP. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMHC strengthen policies and procedures to ensure declared income and assets are supported and documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure that the HS completes the zero-income checklist and follow-up and compliance will be reinforced by the PHD Manager. PHD was informed by HUD official, Darlene Kaholokua in March, 2009 that ALL HoH who are not employed or receiving income from benefits such as trusts, pensions, Social Security benefits, etc. must complete a Zero Income In-Kind Contribution Checklist. PHD will ensure evidence of an attempt to obtain third party by sending out verifications to employers. NMHC will continue to locate files when found.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-28

Criteria: Owners must conduct a certification/recertification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual recertifications. Owners must then recalculate tenant rents and assistance payments, if applicable, based on the information gathered.

NMHC uses a "Certification/Re-certification Interview Sheet" to document certifications and recertifications performed.

Condition: During examination of sixty-six tenant files, the following were noted:

1. For four tenants tested, the quality control review sheet, certification/recertification interview sheet and all related documents (i.e. income and asset third party verification, required notarized affidavit as to assets and affidavit for income exclusions, etc.) supporting eligibility determination could not be located in file. Details are as follows:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>
HCV01144	Oct-07	12/01/06
HO1216	Aug-08	11/01/07
HO1402A	Dec-07	07/01/07
HR009B	May-08	unknown

2. For fifty-eight items tested, the quality control worksheet was not signed by the Housing Manager, while for one tenant, there was no quality control worksheet on file. Thus, there was no evidence of review of the eligibility determination or re-determination performed by the housing specialist prior to commencement of the housing assistance.

3. For one new admission, the application form was not signed by both the household head and co-head. Further, for one recertification, the certification/recertification interview sheet was not signed by the tenant. Details are as follows:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>
HO1089A	Apr-08	08/01/07
HO1213	Feb-08	10/15/07

4. For six tenants tested, the annual recertification was not performed in a timely manner as the recertification was performed later than the certification effective date. Details as follows:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-28, Continued

Condition, Continued:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Re-certification Date Performed</u>
HCV01086	Nov-07	06/01/07	06/04/07
HO1215	Oct-07	08/01/07	08/16/07
HO1211	Jun-08	10/01/07	10/04/07
HO1204	Dec-07	10/01/07	10/04/07
HO1087	Dec-07	11/01/07	11/07/07
HCV9101	May-08	07/01/07	07/25/07

Cause: The causes of the above conditions are lack of adequate procedures to ensure certifications and recertifications are performed, reviewed and documented and poor file maintenance.

Effect: The effect of the above conditions is noncompliance with eligibility requirements. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMC strengthen procedures to ensure certifications and recertifications are performed, reviewed and documented. We further recommend that NMHC improve file maintenance supporting eligibility determination.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: Continuing efforts will be made by NMHC to locate files and provide to the auditor.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-29

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Applicants must disclose social security numbers for all family members at least 6 years of age and older and provide documentation of social security numbers (SSN). Adequate documentation means a social security card issued by the Social Security Administration or other acceptable evidence of the SSN.
2. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a "Declaration of 214 Status" form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in file.

Condition: During examination of sixty-six tenant files, the following were noted:

1. A copy of the birth certificate (or equivalent documentation) for the following household member(s) could not be located.

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Member</u>
HO1050	Jul-08	03/01/08	One dependent
HCV0438A	Nov-07	01/01/07	Spouse

2. For one tenant, copies of the birth certificate (or equivalent documentation) and social security cards for two household members could not be located.

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>
HO1055	Oct-07	06/01/07

3. For fourteen tenants, the household member name per HUD Form 50058 and/or birth certificate for the following household member(s) did not agree with the social security card copy.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-29, Continued

Condition, Continued:

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Member</u>
HO1088B	Oct-07	07/01/07	Household head
HO1222	Sep-08	05/14/08	Household head and one dependent
HO1096	Nov-07	07/01/07	Household head
HO1017A	Dec-07	07/01/07	One disabled adult member
HO1143A	Dec-07	09/01/07	One dependent
HO1001	Nov-07	09/01/07	Household head
HO1060A	Mar-08	03/01/08	Household head
HO1034	Nov-07	11/01/07	Household head
HO1063A	Apr-08	07/01/07	Spouse
HO1174	Apr-08	12/01/07	Spouse and one dependent
HCV01093	Nov-07	08/01/07	One adult member
HO1107	May-08	01/01/08	Household head and one adult member
HO1014A	Jul-08	04/14/08	Household head
HCV0438A	Nov-07	01/01/07	Household head and one dependent

4. For four tenants, the birthdates stated in the HUD Form 50058 for the following household members did not agree with birthdates specified in the supporting birth certificate.

<u>Account/Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Member</u>
12728	Feb-08	01/01/08	Spouse
HO1174	Apr-08	12/01/07	Household head and two dependents
HO1107	May-08	01/01/08	Household head
HO1155A	May-08	04/11/08	Household head and one dependent

Cause: The cause of the above conditions is the lack of adequate procedures supporting tenant citizenship and social security number verification.

Effect: The effect of the above conditions is noncompliance with eligibility requirements. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMHC strengthen procedures over the verification of tenant citizenship and social security numbers.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure that the appropriate documents pertaining to SS, birth certificates and citizenship status are received from tenants, copied and placed in the files. Continuing efforts will be made to ensure compliance and copies will be provided to the auditor.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Eligibility - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-30

Criteria: Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing all of the required verifications so that if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

Condition: During examination of sixty-six tenant files, the assigned unit for the following did not appear reasonable considering the household size.

<u>Account/Household No.</u>	<u>Certification Effective</u>	<u>Unit Size</u>	<u>Household Size</u>
HCV01022	08/01/08	2 BR	1
HO1187	06/01/08	2 BR	1

No documentation or justification supporting the larger unit size was noted in file.

Cause: The cause of the above condition is the lack of procedures to ensure adherence to occupancy standards.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs arise since either the participant was eventually eligible or costs are already questioned at Finding No. 2008-9.

Recommendation: We recommend that NMHC implement strict policies to adhere with occupancy standards. Any exceptions should be approved and documented in the tenant file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will review its policies on occupancy standards and implement strict procedures to ensure compliance. Any exceptions will be approved and documented in the tenant file.

Proposed Completion Date: Fiscal year 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Reporting - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-31

Criteria: A paper copy of form HUD-52670, Housing Owner's Certification and Application for Housing Assistance Payments, generated by the owner's TRACS software, bearing an original signature and consistent with the corresponding electronic transmission, must be kept on file by the owner for each monthly subsidy period that the owner receives assistance payments. The file must also include a signed copy of form HUD-52670-A part 1, Schedule of Tenant Assistance Payments Due and forms HUD-52671-A through D, Special Claims Worksheets (if applicable), generated by the owner's TRACS software, as supporting documentation.

Additionally, housing assistance payments requested per form HUD 52670 must be consistent with housing assistance payments per form HUD-50059 submitted electronically.

Condition: During examination of form HUD 52670 for assistance payments requested during fiscal year 2008, the following were noted:

1. Copies (October 2007 through September 2008) of HUD-52670 filed by NMHC are not signed.
2. The HAP requested per HUD-52670 did not agree to the HAP per HUD-50059 for the following:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP per HUD-50059</u>	<u>HUD-50059 Effective Date</u>	<u>HAP per HUD 52670</u>	<u>Variance</u>
R05	October 2007	\$ 652	08/01/07	\$ 633	\$(19)
R14	November 2007	\$ 862	12/18/06	\$ 881	\$(19)

Cause: The cause of the above condition is the lack of awareness of the above program requirements.

Effect: The effect of the above condition is noncompliance with program reporting requirements.

Recommendation: We recommend NMHC ensure that program reporting requirements are followed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-31, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. NMHC will ensure that HUD 5670 copies filed are signed.
2. NMHC made necessary adjustments on the HAP claim effective 11/08.

Proposed Completion Date: Immediately - Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Reporting - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-32

Criteria: The form HUD-50059 must be submitted electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, move-in, or other change of unit for a family, among others. The signed HUD-50059 should be filed in the tenant file. Additionally, information reported in form HUD-50059 must be consistent with underlying records or supporting documentation.

The owner must sign and obtain the signature of the head, spouse, co-head, and all adult family members on the copy of the HUD-50059 certifying to the information that is transmitted to HUD or the Contract Administrator, whether the HUD-50059 was produced on site or received from a service provider. The signed HUD-50059 should be filed in the tenant file. In all cases, the computer generated HUD-50059 must include the required tenant signatures and owner signatures prior to submitting the data to the Contract Administrator or HUD. The owner may consider extenuating circumstances when an adult family member is not available to sign the HUD-50059, for example, an adult serving in the military, students away at college, adults who are hospitalized for an extended period of time, or a family member who is permanently confined to a nursing home or hospital. The owner must document in the file why the signature(s) was not obtained and, if applicable, when the signature(s) will be obtained.

Condition: During examination of form HUD-50059 for fifty tenants, the following were noted:

1. The HUD-50059 for the following was not signed by one or more adult household members:

<u>Unit No.</u>	<u>Form HUD-50059 Effective Date</u>	<u>Not Signed by Tenant (Household Member #)</u>
K19A	08/01/08	Head
K20	11/01/07	3, 4, 5, 6
K23	08/01/07	3
K23	08/01/08	Head, 2, 3
K24	02/01/08	2, 3, 8
M09	09/01/07	2
M27	10/01/07	Head
M42	09/01/07	2, 3, 4
T18	03/01/08	Head, 2
T20	11/01/07	Head
T09	03/01/08	Head, 2

2. Copies of HUD-50059 effective for the selected period were not signed by NMHC for all fifty tenant files.
3. The form HUD-50059 for the following could not be located in file:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-32, Continued

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective Date</u>	<u>HAP Requested per Form HUD 52670</u>
T17	January 2008	12/01/07	\$ 955

4. For "Section C. Household Information" of form HUD-50059, there were instances noted where the household member birth date indicated in form HUD-50059 did not agree to the date reflected in the birth certificates. Details are as follows:

<u>Unit No.</u>	<u>Form HUD-50059 Effective Date</u>	<u>Household Member #</u>
K11	05/09/07	5
M10	11/01/07	3

5. For "Section C. Household Information" of form HUD-50059, the following instance was noted wherein the household member's name did not agree to the name reflected on the social security card.

<u>Unit No.</u>	<u>Form HUD-50059 Effective Date</u>	<u>Household Member #</u>	<u>Inconsistent Information</u>
M01	10/01/07	2	First Name

Cause: The cause of the above condition is oversight by NMHC personnel when preparing form HUD-50059.

Effect: The effect of the above condition is noncompliance with program reporting requirements.

Recommendation: We recommend NMHC ensure that program reporting requirements are adhered to. Further, we recommend NMHC ensure that a signed final copy of the form HUD-50059 is on file.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will ensure that program reporting requirements are adhered to. HS will obtain a signed HUD 50059 with the appropriate signature and place document in tenant's file. Continuing efforts will be made to provide copies when found. However, new 50059A (applies to Gross Rent Change and Move-Out Tenants) does not require the signature for other adult household members.

Proposed Completion Date: Immediately - Fiscal year 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Reporting - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-33

Criteria: All applicable federal reporting requirements must be adhered to.

Condition: The March 2008 compliance supplement for CFDA 14.182 provided for the following reporting requirements for the program:

1. HUD-52663, *Requisition for Partial Payment of Annual Contributions (OMB No. 2577-0169)*
2. HUD-52681, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)*
3. HUD-52595, *Balance Sheet for Section 8 and Public Housing (OMB No. 2577-0169)*
4. HUD-50058, *Family Report (OMB No. 2577-0083)*

The above reports were not prepared by NMHC during fiscal year 2008. NMHC believes that the above reports do not apply to the program. However, relevant documentation or correspondence supporting non-applicability of the above reporting requirements was not provided.

Cause: The cause of the above condition is the lack of awareness by NMHC of all reporting requirements of the program.

Effect: The effect of the above condition is noncompliance with federal reporting requirements.

Recommendation: We recommend the NMHC identify all applicable federal reporting requirements and ensure that these are adhered to. Further, we recommend NMHC ensure that relevant documentation supporting non-applicability of certain reporting requirements are obtained and maintained accordingly.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will comply with all applicable federal reporting requirements and ensure that relevant documentation supporting non-applicability of certain reporting requirements are obtained and maintained accordingly.

Proposed Completion Date: Immediately - Fiscal year 2010

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Reporting - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-34

Criteria: In accordance with 24 CFR part 908 and 24 CFR section 982.158, the PHA is required to submit form HUD-50058, Family Report (OMB No. 2577-0083) electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

Condition: For three of sixty-six tenants tested, there was no evidence that the related HUD Form 50058 for the period selected was submitted electronically. Details are as follows:

<u>Account/Household No.</u>	<u>Type of Change</u>	<u>Effective Date</u>
HO1039	Interim reexamination	09/01/07
HO1189	Interim reexamination	05/29/08
HO1104A	Annual reexamination	11/01/07

Cause: The cause of the above condition is the lack of adequate review procedures to ensure that all grant reporting requirements are completely submitted.

Effect: The effect of the above condition is noncompliance with federal reporting requirements. No questioned costs arise as the participants were eligible.

Recommendation: We recommend that NMHC establish and implement review procedures to ensure that all grant reporting requirements are completely submitted, supported and documented.

Prior Year Status: The lack of adequate review procedures to ensure that all grant reporting requirements are completely submitted was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will establish and implement procedures to ensure that all grant reporting requirements are submitted and properly supported with documentation. PHD will ensure that all certifications are completely submitted and reported electronically.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Reporting - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-35

Criteria: The Uniform Financial Reporting Standards (24 CFR section 5.801) require PHAs to submit timely GAAP-based unaudited and audited financial information electronically to HUD through the Financial Assessment Sub-system (FASS-PH). The FASS-PH system is one of HUD's main monitoring and oversight systems for the HCV program.

Condition: NMHC's unaudited financial information for the year ended September 30, 2008 has not been submitted.

Cause: The cause of the above condition is lack of adequate control procedures over the submission of required financial reports to the grantor.

Effect: The effect of the above condition is noncompliance with the federal reporting requirements. No questioned costs arise as the total expenditures reported in quarterly HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement, submitted electronically agreed to the expenditures recorded in the general ledger.

Recommendation: We recommend that NMHC take reasonable steps to comply with the program's reporting requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC will take reasonable steps to comply with the program's reporting requirements and has advertised (RFP) request for proposal for FY 2009 and FY 2010 audited financial statements which includes the audit submission of FY 2006, FY 2007 and FY 2008.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development

Special Tests and Provisions - Section 8 New Construction and Substantial Rehabilitation

CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-0011-001

Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-36

Criteria: The PHA or owner must provide housing that is decent, safe, and sanitary. To achieve this end, the PHA must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe, and sanitary. Owners must document these inspections, as well as actions taken to address deficiencies, if any, noted during inspections.

Condition: During tests of NMHC's compliance with the housing quality standards requirement, the following were noted:

1. The completed unit inspection form, if any, evidencing unit inspections performed during fiscal year 2008 could not be located for three units (ref. unit #s M30, R05 and R14). We are unable to determine if the required housing quality inspections were performed.
2. The housing quality inspections performed during fiscal year 2008 for the following were not conducted within twelve months from the previous housing quality inspections:

<u>Unit No.</u>	<u>HQS Inspections</u>	
	<u>Effective Date</u>	<u>Prior HQS Inspection Date</u>
	<u>Performed during FY 2008</u>	
M14	August 2008	October 2005
M12	August 2008	June 2007
M06	November 2007	October 2005
M19	April 2008	March 2007
M43	December 2007	October 2005
M35	June 2008	May 2007
K23	April 2008	March 2007
K27	August 2008	July 2007
K19A	April 2008	March 2007
K02A	October 2007	October 2005
T16	March 2008	January 2007
T04	March 2008	May 2006
T09	February 2008	May 2006
T20	April 2008	November 2006
T17	July 2008	June 2007

3. The NMHC inspector reports for the following indicated deficiencies. However, relevant documentation indicating whether the deficiencies were addressed and/or whether needed repairs were timely completed could not be located in file:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-36, Continued

Condition, Continued:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>	<u>Overall Inspection Results</u>
M42	April 2008	Inconclusive
M15	June 2008	Inconclusive
M24	July 2008	Inconclusive
M21	July 2008	Inconclusive
M12	August 2008	Not indicated
M10	July 2008	Inconclusive
M26	November 2008	Inconclusive
M09	May 2008	Not indicated
M46	March 2008	Not indicated
M41	January 2008	Not indicated
M23	June 2008	Not indicated
M22	March 2008	Not indicated
M06	November 2007	Not indicated
M45	January 2008	Inconclusive
M16	July 2008	Inconclusive
M08	June 2008	Inconclusive
M01	July 2008	Inconclusive
M19	April 2008	Not indicated
M47	July 2008	Inconclusive
M43	December 2007	Not indicated
M35	June 2008	Inconclusive
M27	July 2008	Inconclusive
K23	April 2008	Not indicated
K27	August 2008	Not indicated
K19A	April 2008	Not indicated
K09A	August 2008	Not indicated
K25	November 2007	Inconclusive
K20	July 2008	Inconclusive
K02A	October 2007	Not indicated
K11	March 2008	Inconclusive
K06	December 2007	Not indicated
R07	February 2008	Not indicated
T18	December 2007	Pass
T16	March 2008	Pass
T04	March 2008	Pass
T05	March 2008	Pass
T09	February 2008	Pass
T15	June 2008	Pass
T08	June 2008	Pass
T20	April 2008	Pass
T17	July 2008	Pass

4. The inspection reports for the following did not indicate a deficiency; however, the NMHC inspector did not complete the overall inspection results/summary decision section of the inspection report:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>
K07B	January 2008
R21	May 2008

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-36, Continued

Condition, Continued:

5. The inspection report for one item (ref. unit #T04, inspection performed in March 2008) indicated deficiencies; however, the NMHC inspector did not classify whether the deficiency/damage is due to tenant negligence or due to wear/tear.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to unit inspections.

Effect: The effect of the above condition is noncompliance with housing quality standards requirements.

Recommendation: We recommend NMHC adhere to its policies and procedures relating to unit inspections. Additionally, we recommend that HQS procedures performed, as well as actions taken to address deficiencies noted during inspections, be documented in file.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: NMHC will adhere to policies and procedures relating to unit inspections and will follow Housing Quality Standards (HQS) procedures by documenting in the tenant's files, the inspections as well as actions taken to address deficiencies. Needed repairs that have been identified as a result of the inspection must be verified that the repairs have actually been addressed and completed and documented in the tenant's file. NMHC will further ensure that the inspection reports are completed by inspectors, charges, if any, are documented for tenants' assessment and placed in the tenant's files. Negligent damages must be assessed so that Fiscal Division will bill tenants accordingly.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 New Construction and Substantial Rehabilitation
CFDA #14.182, Federal Award #s TQ10-0011-005, TQ10-0016-004, TQ10-0006-004 and TQ10-
0011-001
Federal Award Periods 09/01/06 - 08/31/11, 08/01/07 - 07/31/08 and 08/01/08 - 07/31/09

Finding No. 2008-37

Criteria: In accordance with federal regulations, the PHA or owner must (a) establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units, structure types, and fuel types, (b) make an annual review of tenant utility allowances to determine their reasonableness, and (c) adjust the allowances, when appropriate.

Condition: During fiscal year 2008, the utility allowance was based on the fiscal year 2005 utility allowance schedule. The utility allowance schedule was revised subsequent to fiscal year 2008 and is effective 07/01/09. An annual review of the utility allowance schedule between fiscal year 2006 to fiscal year 2008 was not performed.

Cause: The cause of the above condition is lack of strict monitoring to ensure that the required annual review of the utility allowance schedule is being performed.

Effect: The effect of the above condition is noncompliance with federal regulations. Since an updated utility schedule is not available, the amount of questioned costs is not determinable.

Recommendation: We recommend NMHC implement monitoring procedures to perform the required annual review of the utility allowance schedule.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: Utility allowance has not changed since April 01, 1990. Housing Choice Voucher utility allowance changed in July 2009 and was implemented effective August 2009. NMHC will conduct periodic review of utility allowances to determine their reasonableness and such action will be documented in the file.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-38

Criteria: In accordance with 24 CFR Part 982.503(a)(1), the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each fair market rent (FMR) area in the PHA jurisdiction. Under NMHC's Section 8 Administrative Plan for Rental Assistance Program Section 10.1, NMHC currently administers a payment standard that is at 90% of the published FMR set for Guam and the Pacific Islands.

Condition: For forty-four of sixty-six tenants tested with effective dates covering fiscal years 2007 and 2008, the payment standard was calculated based on the published FMR schedule applicable for fiscal year 2006. In addition, for seven new admissions, one unit change and one rent increase in 2008, the 2006 FMR schedule was used during the determination of rent reasonableness.

Cause: The cause of the above condition is the lack of monitoring procedures to ensure that payment standard schedules are updated.

Effect: The effect of the above condition is the potential misstatement of payment standard amounts. However, no questioned cost was raised as the correct rate that should have been used to pay the rent was in excess of the rate utilized.

Recommendation: We recommend NMHC ensure that payment standard schedules are updated to reflect current fair market rents published by HUD.

Prior Year Status: The lack of monitoring procedures to ensure that payment standard schedules are updated was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, Chief Accountant and Melinda P. Babauta, Acting Manager, Program & Housing

Corrective Action: PHD is currently using updated 2009 payment standard schedules that reflect current fair market rents published by HUD. However, NMHC will ensure that future rates are at par with updated FMR.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-39

Criteria: Under 24 CFR Part 982.405(a), the Public Housing Agency (PHA) must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards (HQS). Further, under 24 CFR Part 982.158(d), the PHA must prepare a unit inspection report.

Condition: Of sixty-six items tested for HQS inspections, the following were noted:

1. The inspection checklist forms for the annual HQS inspection reports for two items were not available. Details are as follow:

<u>Account/Household No.</u>	<u>Effective Date</u>	<u>Date of HQS Inspection per HUD Form</u>
HCV01144	12/01/06	10/27/06
HO1213	10/15/07	10/15/07

2. For one failed annual HQS inspection conducted on 1/25/2008 (Account/Household No.: HO1068), there was no evidence of reinspection in file.
3. For three tenants, the completed HQS inspection checklist form within fiscal year 2008 could not be located.

<u>Account/Household No.</u>	<u>Effective Date</u>	<u>Date of HQS Inspection per HUD Form</u>
HR0019A	07/01/07	05/15/07
HR0049	07/01/07	05/17/07
HCV9101	07/01/07	05/16/07

4. For eight tenants, the inspection checklist form was not completely filled out as only the tenant's general information was noted.

<u>Account/Household No.</u>	<u>Effective Date</u>	<u>Date of HQS Inspection per HUD Form</u>
HO1050	03/01/08	02/15/08
HO1176	12/01/07	10/22/07
HO1211	10/01/07	10/04/07
HO1141	12/01/07	10/26/07
HO1087	11/01/07	10/09/07
HO1174	12/01/07	10/23/07
HO1008	02/01/08	01/28/08
HCV9101	07/01/07	05/16/07

5. For twenty-two inspection checklist forms tested, the decision on the unit inspected was not evident in the completed form.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-39, Continued

Condition, Continued:

<u>Account/Household No.</u>	<u>Effective Date</u>	<u>Date of HQS Inspection per HUD Form</u>
HO1050	03/01/08	02/15/08
HO1037A	12/01/07	10/14/07
HCV01036A	10/01/07	10/14/07
HO1168	10/01/07	09/26/07
HO1215	08/01/07	04/24/07
HO1176	12/01/07	10/22/07
HO1211	10/01/07	10/04/07
HO1216	11/01/07	10/11/07
HO1204	10/01/07	10/14/07
HO1224	05/14/08	05/12/08
14961	11/01/07	10/18/07
HO1060A	03/01/08	02/15/08
HO1141	12/01/07	10/26/07
HO1087	11/01/07	10/09/07
12728	01/01/08	10/29/07
HO1174	12/01/07	10/23/07
HO1008	02/01/08	01/28/08
HO1107	01/01/08	10/29/07
HCV9101	07/01/07	05/16/07
HO1189	12/01/07	12/21/07
HO1104A	11/01/07	10/11/07
HO1155A	04/11/08	04/04/08

6. For three failed HQS inspections, the tenant was not listed in the Failed HQS Inspection Report.

<u>Account/Household No.</u>	<u>Effective Date</u>	<u>Date of HQS Inspection per HUD Form</u>
HO1055	06/01/07	03/30/07
HO1068	02/01/08	01/25/08
12407	10/01/07	08/15/07

Cause: The cause of the above condition is the lack of systematic filing of HQS inspection reports and the lack of monitoring to ensure that HQS inspections are timely performed.

Effect: The effect of the above condition is possible noncompliance with the HQS inspection requirement.

Recommendation: We recommend that NMHC ensure that all HQS inspections are supported with HQS inspection reports and are at least performed annually. Additionally, we recommend that NMHC ensure that all HQS inspection reports are maintained in participant files.

Prior Year Status: The lack of systematic filing of HQS inspection reports and the lack of monitoring to ensure that all HQS inspections are performed on a timely manner was reported as a finding in the Single Audit of CDA for fiscal year 2007.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-39, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Melinda P. Babauta, Acting Manager, Program & Housing, Herman Lieto, Housing Preservation Technician and Mitch Aaron, Housing Inspector

Corrective Action: Unit inspection reports were either not in file or not fully completed. PHD did not have a full-time inspector at the time. NMHC will ensure that housing inspectors adequately complete the inspection reports and make follow-ups to ensure that all deficiencies are addressed, what kind of repairs were done and thoroughly documented in the tenant's files. PHD Manager will monitor to ensure compliance to the inspection requirements and that inspections are performed at least annually.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TO901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-40

Criteria: As provided under 24 CFR Part 982.404, for units under Housing Assistance Payment (HAP) contracts that fail to meet Housing Quality Standards (HQS), the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract.

Condition: Of eight unit re-inspections tested, we noted the following:

1. For seven tenants, there was no inspection deficiency report or any equivalent written documentation evidencing that NMHC notified the owner or tenant of the unit requiring correction of any cited life threatening HQS deficiencies within 24 hours of the inspection and of all other HQS deficiencies within 30 calendar days of the inspection or within a specified extension approved by NMHC.

<u>Tenant # Per Failed HQS Inspection Logsheet</u>	<u>Inspection Date</u>
1	10/14/07
2	10/18/07
4	12/21/07
8	06/13/08
13	07/08/08
14	07/08/08
16	07/07/08

2. For two tenants, there was no documentation evidencing that all deficiencies noted have been addressed or corrected within the allowed period.

<u>Tenant # Per Failed HQS Inspection Logsheet</u>	<u>Inspection Date</u>
1	10/14/07
4	12/21/07

3. For one tenant (Tenant No. Per Failed HQS Inspection Logsheet: 2), the re-inspection was scheduled for 11/27/07 which is 40 days from the annual inspection date of 10/18/07. However, the related approval extending the correction period to more than 30 days was not evident.

Cause: The cause of the above condition is the lack of documentation of re-inspections performed and the lack of monitoring to ensure that deficiencies are timely addressed.

Effect: The effect of the above condition is noncompliance with the HQS enforcement requirement.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

Finding No. 2008-40, Continued

Recommendation: We recommend NMHC ensure that results of HQS enforcements are documented in the deficiency reports and re-inspections are timely performed.

Prior Year Status: The lack of documentation of the results of re-inspections performed and the lack of monitoring to ensure that deficiencies are timely addressed was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Melinda P. Babauta, Acting Manager, Program & Housing, Herman Lieto, Housing Preservation Technician and Mitch Aaron, Housing Inspector

Corrective Action: NMHC will ensure that the results of HQS enforcements are properly documented in the deficiency reports and re-inspections are performed on a timely manner. PHD Manager will monitor to ensure compliance to the inspection requirements and that inspections are performed at least annually.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/07 - 09/30/08

Finding No. 2008-41

Criteria: In accordance with 24 CFR Part 982.517 (c)(1), a PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

Condition: During fiscal year 2008, the utility allowance was based on the fiscal year 2005 utility schedule. The utility allowance schedule that was revised during fiscal year 2008 was implemented subsequent to fiscal year 2008. Therefore, the required annual review of the utility allowance schedule was not evident from fiscal years 2006 to 2008.

Cause: The cause of the above condition is the lack of monitoring to ensure performance of the required annual review of the utility allowance schedule.

Effect: The effect of the above condition is noncompliance with the provisions of CFR Part 24 Section 982.517(c)(1). Since updated utility schedules are not available, the amount of questioned costs is not determinable.

Recommendation: We recommend that NMHC implement monitoring procedures to ensure that the required annual review of the utility allowance schedule is performed.

Prior Year Status: The lack of monitoring to ensure that the required annual review of the utility allowance schedule is performed was reported as a finding in the Single Audit of CDA for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Melinda P. Babauta, Acting Manager

Corrective Action: NMHC will implement monitoring procedures to ensure that the required annual review of the utility allowance schedule is being performed and will be followed through by the PHD manager.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - HOME Investment Partnerships Program (Nonmajor Program)
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2008-42

Criteria: HOME loans extended to eligible participants should be monitored and accounted for.

Condition: Beginning in fiscal year 2006, NMHC has recorded receivables for HOME loans under a deferment agreement. Prior to fiscal year 2006, NMHC had not recorded receivables for loans under a deferment agreement. At September 30, 2008, NMHC is in the process of determining the cumulative amount of loans under the deferment agreement prior to fiscal year 2006.

Cause: The cause of the above condition is that NMHC understood that loans under deferment agreements should not be recorded since repayment of these deferred loans is not expected.

Effect: The effect of the above condition is that loans under deferment agreements may not be properly accounted for or presented in the financial reports.

Recommendation: We recommend that NMHC determine with the grantor agency whether NMHC should record deferred HOME loans under a deferment agreement.

Prior Year Status: Lack of monitoring of loans under deferment agreement was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesse S. Palacios, Manager, Mortgage & Credit Division and Roger A. Dris, Chief Accountant

Corrective Action: NMHC will take reasonable steps to record deferred HOME loan receivables and monitor HOME loans under a deferment agreement by recording all deferred home loan receivables every end of the month and that the loan accountant will reconcile for check and balance with the loan specialist.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2008

U.S. Department of Housing and Urban Development
Special Tests and Provisions - HOME Investment Partnerships Program (Nonmajor Program)
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2008-43

Criteria: Under NMHC's policies and procedures for Homeowner Rehabilitation, HOME loan applicants that have been determined eligible for financial assistance and have proven a lack of financial resources for repayment of their direct loan may have monthly loan payments deferred for a period of up to fifteen years. Further, borrowers with a deferment agreement shall be required to be annually re-certified as eligible to continue receiving a deferment during any potential deferment period.

Condition: NMHC did not perform the required annual recertification for borrowers with deferment agreements.

Cause: The cause of the above condition is an oversight by NMHC management in ensuring compliance with established policies and procedures for Homeowner Rehabilitation.

Effect: The effect of the above condition is noncompliance with established policies and procedures for Homeowner Rehabilitation.

Recommendation: We recommend NMHC management ensure that the annual recertification of borrowers with deferment agreements is performed.

Prior Year Status: Failure to perform annual recertifications of borrowers with deferment agreements was reported as a finding in the Single Audits of CDA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesse S. Palacios, Manager, Mortgage & Credit Division

Corrective Action: The Mortgage & Credit Division will place all deferred loan clients on a separate ledger to ensure effective annual recertification and monitoring. The ledger will include the name of the client, address, contact number(s), effective date of the deferred loan agreement, amount of the deferment, and the recertification compliance date. A separate report will then be shared with the Fiscal Division upon completion of the recertification process.

Proposed Completion Date: November 30, 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2008

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, 2008:

Questioned costs as previously reported	\$ 14,617
Questioned costs of fiscal year 2008 Single Audit	<u>539,308</u>
Unresolved questioned costs at September 30, 2008	\$ <u>553,925</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 82).



COMMONWEALTH DEVELOPMENT AUTHORITY

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Summary of Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007:

FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

- Finding No. 2007-1 - Not corrected. See corrective action plan to Finding No. 2008-1.
- Finding No. 2007-2 - Not corrected. See corrective action plan to Finding No. 2008-2.
- Finding No. 2007-3 - Not corrected. See corrective action plan to Finding No. 2008-3.
- Finding No. 2007-4 - Not corrected. See corrective action plan to Finding No. 2008-4.
- Finding No. 2007-5 - Corrective action was taken.
- Finding No. 2007-6 - Corrective action was taken.
- Finding No. 2007-7 - Not corrected. See corrective action plan to Finding No. 2008-5.
- Finding No. 2007-8 - Corrective action was taken.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

- Finding No. 2007-9 - Not corrected. See corrective action plan to Finding No. 2008-6.
- Finding No. 2007-10 - Corrective action was taken.
- Finding No. 2007-11 - Not corrected. See corrective action plan to Finding No. 2008-15.
- Finding No. 2007-12 - Not corrected. See corrective action plan to Finding No. 2008-17.
- Finding No. 2007-13 - Corrective action was taken.
- Finding No. 2007-14 - Corrective action was taken.
- Finding No. 2007-15 - Corrective action was taken.
- Finding No. 2007-16 - Corrective action was taken.
- Finding No. 2007-17 - Corrective action was taken.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT, CONTINUED**

- Finding No. 2007-18 - Corrective action was taken.
- Finding No. 2007-19 - Corrective action was taken.
- Finding No. 2007-20 - Not corrected. See corrective action plan to Finding No. 2008-34.
- Finding No. 2007-21 - Not corrected. See corrective action plan to Finding No. 2008-42.
- Finding No. 2007-22 - Not corrected. See corrective action plan to Finding No. 2008-43.
- Finding No. 2007-23 - Not corrected. See corrective action plan to Finding No. 2008-38.
- Finding No. 2007-24 - Not corrected. See corrective action plan to Finding No. 2008-39.
- Finding No. 2007-25 - Corrective action was taken.
- Finding No. 2007-26 - Not corrected. See corrective action plan to Finding No. 2008-13.
- Finding No. 2007-27 - Not corrected. See corrective action plan to Finding No. 2008-40.
- Finding No. 2007-28 - Not corrected. See corrective action plan to Finding No. 2008-41.