

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2012

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

Honorable Eloy S. Inos
Governor
Commonwealth of the Northern Mariana Islands:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2012, which collectively comprise the CNMI's basic financial statements and have issued our report thereon dated February 27, 2014. Our report includes an explanatory paragraph concerning the correction of errors and a reference to other auditors, and was qualified due to the Northern Mariana Islands Retirement Fund not recording an allowance for uncollectible receivables, the CNMI Workers' Compensation Commission not including its obligation for estimated workers' compensation and special disability claims payable and the financial statements of the Commonwealth Healthcare Corporation not being audited. Except as discussed in the preceding sentence, 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. Other auditors audited the financial statements of the Commonwealth Utilities Corporation, the Northern Marianas College, the Public School System, the Marianas Visitors Authority, the Northern Mariana Islands Retirement Fund, the CNMI Group Health and Life Insurance Trust Fund, and the CNMI Workers' Compensation Commission, as described in our report on the CNMI's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

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

Internal Control Over Financial Reporting

Management of the CNMI is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the CNMI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CNMI'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 17 through 109), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-03, 2012-04, 2012-08, 2012-12, 2012-13, 2012-14, 2012-16, 2012-17, 2012-18 and 2012-20 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2012-01, 2012-02, 2012-05, 2012-06, 2012-07, 2012-09, 2012-10, 2012-11, 2012-15 and 2012-19 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CNMI'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-17, 2012-18, 2012-21, 2012-34, 2012-36 and 2012-48.

We noted certain matters that we reported to management of the CNMI in a separate letter dated February 27, 2014.

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

This report is intended solely for the information and use of management of the CNMI, others within the entity, 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

February 27, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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

Honorable Eloy S. Inos
Governor
Commonwealth of the Northern Mariana Islands:

Compliance

We have audited the Commonwealth of the Northern Mariana Islands' (CNMI's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the CNMI's major federal programs for the year ended September 30, 2012. The CNMI's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs (pages 17 through 109). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the CNMI's management. Our responsibility is to express an opinion on the CNMI's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the CNMI's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2012. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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 the CNMI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the CNMI's compliance with those requirements.

As described in items 2012-22 through 2012-48 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding cash management and equipment and real property management that are applicable to its Supplemental Nutrition Assistance Program (CFDA # 10.551) major program; allowable costs/cost principles, eligibility, equipment and real property management and procurement and suspension and debarment that are applicable to its Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA # 10.557) major program; allowable costs/cost principles, cash management, equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, reporting, subrecipient monitoring and special tests and provisions that are applicable to its Economic, Social, and Political Development of the Territories (CFDA # 15.875) major program; allowable costs/cost principles, cash management, equipment and real property management and procurement and suspension and debarment that are applicable to its Highway Planning and Construction (CFDA # 20.205) major program; allowable costs/cost principles, equipment and real property management, procurement and suspension and debarment and reporting that are applicable to its State Energy Program (CFDA # 81.041) major program; allowable costs/cost principles, period of availability of federal funds, reporting and subrecipient monitoring that are applicable to its State Fiscal Stabilization Fund Cluster (CFDA #s 84.394 and 84.397) major program; and allowable costs/cost principles, eligibility, matching, level of effort, earmarking and reporting that are applicable to its Medical Assistance Program (CFDA # 93.778) major program. Compliance with such requirements is necessary, in our opinion, for the CNMI to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the CNMI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-21 and 2012-45 through 2012-48.

Internal Control Over Compliance

Management of the CNMI 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 the CNMI's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-20, 2012-21, 2012-25, 2012-27, 2012-31, 2012-34, 2012-36, 2012-37, 2012-45 and 2012-48 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-22, 2012-23, 2012-24, 2012-26, 2012-28, 2012-29, 2012-30, 2012-32, 2012-33, 2012-35, 2012-38 through 2012-44, 2012-46 and 2012-47 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CNMI as of and for the year ended September 30, 2012, and have issued our report thereon dated February 27, 2014, which contained an explanatory paragraph concerning the correction of errors and a reference to other auditors, and was qualified due to the Northern Mariana Islands Retirement Fund not recording an allowance for uncollectible receivables, the CNMI Workers' Compensation Commission not including its obligation for estimated workers' compensation and special disability claims payable and the financial statements of the Commonwealth Healthcare Corporation not being audited. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the CNMI's financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 13) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

This report is intended solely for the information and use of management of the CNMI, others within the entity, 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.

Deville & Touche LLC

February 27, 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2012

Federal Agency	Expenditures
U.S. Department of Agriculture	\$ 17,367,160
U.S. Department of Commerce	2,930,211
U.S. Department of Defense	75,688
U.S. Department of the Interior	5,626,490
U.S. Department of Justice	2,034,651
U.S. Department of Labor	2,060,562
U.S. Department of Transportation	1,237,453
National Endowment for the Arts	(33,548)
Institute of Museum and Library Services	128,855
Small Business Administration	5,871
U.S. Environmental Protection Agency	2,422,389
U.S. Department of Energy	6,956,306
U.S. Department of Education	9,258,843
U.S. Department of Health and Human Services	23,829,581
U.S. Department of Homeland Security	4,810,380
Unallocated cash receipts/expenditures	<u>(1,025,094)</u>
TOTAL FEDERAL GRANTS FUND	<u>\$ 77,685,798</u>

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

Reconciliation:

Expenditures per above	\$ 77,685,798
Local match	<u>4,592,176</u>
	<u>\$ 82,277,974</u>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 81,016,053
Operating Transfers Out	<u>1,261,921</u>
	<u>\$ 82,277,974</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards
Federal Grants Fund
Year Ended September 30, 2012

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
10.025	Plant and Animal Disease, Pest Control and Animal Care	\$ 21,856
10.170	Specialty Crop Block Grant Program - Farm Bill	15,139
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	74,248
10.551	Supplemental Nutrition Assistance Program	12,389,840
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	4,680,319
10.664	Cooperative Forestry Assistance	186,866
10.769	Rural Business Enterprise Grants	(2,843)
10.914	Wildlife Habitat Incentive Program	575
10.950	Agricultural Statistics Reports	1,160
TOTAL U.S. DEPARTMENT OF AGRICULTURE		17,367,160
U.S. DEPARTMENT OF COMMERCE		
11.Unknown	USDOC Unknown	2,111
11.YA132309CN0062	2010 Census	581,318
11.419	Coastal Zone Management Administration Awards	997,314
11.426	Financial Assistance for National Centers for Coastal Ocean Science	3,771
11.429	Marine Sanctuary Program	49,254
11.437	Pacific Fisheries Data Program	242,654
11.454	Unallied Management Projects	53,107
11.463	ARRA - Habitat Conservation	390,024
11.467	Meteorologic and Hydrologic Modernization Development	56,617
11.482	Coral Reef Conservation Program	193,346
11.558	ARRA - State Broadband Data and Development Grant Program	360,695
TOTAL U.S. DEPARTMENT OF COMMERCE		2,930,211
U.S. DEPARTMENT OF DEFENSE		
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	11,401
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	64,287
TOTAL U.S. DEPARTMENT OF DEFENSE		75,688
U.S. DEPARTMENT OF THE INTERIOR		
15.605	Sport Fish Restoration Program	666,283
15.608	Fish and Wildlife Management Assistance	2,693
15.611	Wildlife Restoration and Basic Hunter Education	446,072
15.615	Cooperative Endangered Species Conservation Fund	60,637
15.634	State Wildlife Grants	52,486
15.657	Endangered Species Conservation Recovery Implementation Funds	6,857
15.875	Economic, Social, and Political Development of the Territories:	
	Development of TTPI Islands	1,556,241
	Compact Impact	2,533,366
15.904	Historic Preservation Fund Grants-In-Aid	301,855
TOTAL U.S. DEPARTMENT OF THE INTERIOR		5,626,490
U.S. DEPARTMENT OF JUSTICE		
16.017	Sexual Assault Services Formula Program	25,017
16.523	Juvenile Accountability Block Grants	33,996
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	60,277
16.548	Title V_Delinquency Prevention Program	11,820
16.575	Crime Victim Assistance	275,495
16.582	Crime Victim Assistance/Discretionary Grants	51,615
16.588	Violence Against Women Formula Grants	553,112

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund, Continued
 Year Ended September 30, 2012

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF JUSTICE, CONTINUED		
16.710	ARRA- Public Safety Partnership and Community Policing Grants	164,500
16.727	Enforcing Underage Drinking Laws Program	230,980
16.738	Edward Byrne Memorial Justice Assistance Grant Program	325,077
16.750	Support for Adam Walsh Act Implementation Grant Program	36,673
16.801	ARRA - Recovery Act - State Victim Assistance Formula Grant Program	36,283
16.803	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	229,806
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>2,034,651</u>
U.S. DEPARTMENT OF LABOR		
17.235	Senior Community Service Employment Program	413,630
17.258	WIA Adult Program	902,364
17.259	WIA Youth Activities	359,580
17.260	WIA Dislocated Workers	225,111
17.278	WIA Dislocated Worker Formula Grants	14,323
17.504	Consultation Agreements	145,554
TOTAL U.S. DEPARTMENT OF LABOR		<u>2,060,562</u>
U.S. DEPARTMENT OF TRANSPORTATION		
20.205	Highway Planning and Construction	2,135
20.218	National Motor Carrier Safety	272,311
20.600	State and Community Highway Safety	373,835
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	574,775
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	14,397
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>1,237,453</u>
NATIONAL ENDOWMENT FOR THE ARTS		
45.025	Promotion of the Arts_Partnership Agreements	(33,548)
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.310	Grants to States	127,261
45.312	National Leadership Grants	1,594
TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES		<u>128,855</u>
SMALL BUSINESS ADMINISTRATION		
59.061	State Trade and Export Promotion Pilot Grant Program	5,871
U.S. ENVIRONMENTAL PROTECTION AGENCY		
66.040	State Clean Diesel Grant Program	70,677
66.454	ARRA - Water Quality Management Planning	67,529
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	2,074,705
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	105,558
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	53,177
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	50,743
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY		<u>2,422,389</u>
U.S. DEPARTMENT OF ENERGY		
81.041	State Energy Program	165,103
81.041	ARRA - State Energy Program	4,279,504
81.042	ARRA - Weatherization Assistance for Low-Income Persons	353,612

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund, Continued
 Year Ended September 30, 2012

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF ENERGY, CONTINUED		
81.127	ARRA - Energy Efficient Appliance Rebate Program (EEARP)	22,056
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	2,136,031
TOTAL U.S. DEPARTMENT OF ENERGY		<u>6,956,306</u>
U.S. DEPARTMENT OF EDUCATION		
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	1,215,379
84.169	Independent Living_State Grants	38,406
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	50,650
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	46,785
84.224	Assistive Technology	110,481
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	18,300
84.390	ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act	4,413
84.394A	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	5,523,281
84.397A	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	967,421
84.410A	ARRA - Education Jobs Fund	1,283,727
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>9,258,843</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	8,092
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	179,115
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	402,579
93.052	National Family Caregiver Support, Title III, Part E	80,950
93.053	Nutrition Services Incentive Program	67,714
93.069	Public Health Emergency Preparedness	278,427
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	39,539
93.110	Maternal and Child Health Federal Consolidated Programs	284,676
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	178,050
93.127	Emergency Medical Services for Children	92,958
93.136	Injury Prevention and Control Research and State and Community Based Programs	11,002
93.150	Projects for Assistance in Transition from Homelessness (PATH)	27,750
93.217	Family Planning_Services	210,886
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	786,169
93.244	Mental Health Clinical and AIDS Service-Related Training Grants	46,235
93.251	Universal Newborn Hearing Screening	209,651
93.268	Immunization Cooperative Agreements	558,716
93.283	The Affordable Act: Centers for Disease Control and Prevention_ Investigations and Technical Assistance	576,255
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	249,380
93.507	PPHF 2012 National Public Health Improvement Initiative	111,057
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	165,100
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	11,502

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund, Continued
 Year Ended September 30, 2012

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED		
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	44,885
93.556	Promoting Safe and Stable Families	182,551
93.568	Low-Income Home Energy Assistance	117,524
93.569	Community Services Block Grant	567,317
93.575	Child Care and Development Block Grant	1,730,258
93.590	Community-Based Child Abuse Prevention Grants	198,897
93.630	Developmental Disabilities Basic Support and Advocacy Grants	186,693
93.631	Developmental Disabilities Projects of National Significance	25,814
93.643	Children's Justice Grants to States	55,925
93.645	Stephanie Tubbs Jones Child Welfare Services Program	143,230
93.667	Social Services Block Grant	54,356
93.669	Child Abuse and Neglect State Grants	66,563
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	128,114
93.712	ARRA - Immunization	64,376
93.719	ARRA - State Grants to Promote Health Information Technology	85,149
93.723	ARRA - Prevention and Wellness - State, Territories and Pacific Islands	24,052
93.767	Children's Health Insurance Program	898,682
93.778	Medical Assistance Program	13,253,872
93.778	ARRA - Medical Assistance Program	93,053
93.889	National Bioterrorism Hospital Preparedness Program	315,594
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	79,347
93.917	HIV Care Formula Grants	14,568
93.940	HIV Prevention Activities_Health Department Based	152,447
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	12,243
93.958	Block Grants for Community Mental Health Services	58,214
93.959	Block Grants for Prevention and Treatment of Substance Abuse	272,971
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	88,613
93.991	Preventive Health and Health Services Block Grant	30,978
93.994	Maternal and Child Health Services Block Grant to the States	307,492
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>23,829,581</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
97.012	Boating Safety Financial Assistance	606,349
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	9,636
97.039	Hazard Mitigation Grant	4,743
97.042	Emergency Management Performance Grants	510,924
97.044	Assistance to Firefighters Grant	744,580
97.053	Citizens - Community Resilience Innovation Challenge	29,233
97.055	Interoperable Emergency Communications	4,869
97.056	Port Security Grant Program	151,809
97.067	Homeland Security Grant Program	86,268
97.073	State Homeland Security Program (SHSP)	1,685,209
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	647,615
97.089	Driver's License Security Grant Program	329,145
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		<u>4,810,380</u>
Unallocated cash receipts/expenditures		<u>(1,025,094)</u>
TOTAL FEDERAL GRANTS FUND		<u>\$ 77,685,798</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Capital Projects Funds
 Year Ended September 30, 2012

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Expenditures</u>
	U.S. DEPARTMENT OF THE INTERIOR	
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects:	
	FY96 - FY02 Appropriations Act Grant	\$ 491,816
	FY04 Appropriations Act Grant	<u>5,709,286</u>
		6,201,102
	Less local match	<u>(529,789)</u>
	TOTAL CAPITAL PROJECTS FUND	<u>\$ 5,671,313</u>
Reconciliation:		
	Federal awards expenditures, as stated above	\$ 5,671,313
	Local match	<u>529,789</u>
		<u>\$ 6,201,102</u>
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 7,135,335
	Expenditures accrued in fiscal year 2012	<u>(934,233)</u>
		<u>\$ 6,201,102</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Public Works Grants Fund
 Year Ended September 30, 2012

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Expenditures</u>
	U.S. DEPARTMENT OF TRANSPORTATION	
20.205	Highway Planning and Construction	\$ 7,123,096
	U.S. DEPARTMENT OF HOMELAND SECURITY	
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>449,092</u>
		7,572,188
	Unallocated	<u>(1,113,312)</u>
	TOTAL PUBLIC WORKS GRANTS FUND	<u>\$ 6,458,876</u>
	GRAND TOTAL FEDERAL AWARDS	<u>\$ 89,815,987</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2012

(1) Scope of Review

The Commonwealth of the Northern Mariana Islands (CNMI) is a governmental entity governed by its own Constitution. All significant operations of the CNMI are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the CNMI's cognizant agency for the Single Audit.

Programs Subject to Single Audit

The Schedule of Expenditures of Federal Awards presents each federal program related to the following agencies:

- U.S. Department of Agriculture (USDA)
- U.S. Department of Commerce (USDOC)
- U.S. Department of Defense
- U.S. Department of Energy (USDOE)
- U.S. Department of Education (USED)
- U.S. Department of Health and Human Services (USHHS)
- U.S. Department of Homeland Security (USDHS)
- U.S. Department of the Interior (USDOJ)
- U.S. Department of Justice (USDOJ)
- U.S. Department of Labor (USDOL)
- U.S. Department of Transportation (USDOT)
- U.S. Environmental Protection Agency (USEPA)
- Institute of Museum and Library Services
- National Endowment for the Arts
- Small Business Administration

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the CNMI and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. For federal direct assistance grants, authorizations represent the total allotment or grant award received. All expenditures and capital outlays are reported as expenditures.

b. Reporting Entity

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2012

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the CNMI's reporting entity is defined in Note 1A to its September 30, 2012 basic financial statements; except that the Northern Mariana Islands Retirement Fund, the CNMI Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the CNMI, as defined above, for the year ended September 30, 2012.

c. Subgrantees

Certain program funds are passed through the CNMI to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees, outside of the CNMI's control, utilized the funds. However, the CNMI is considered to have responsibility for any questioned costs which could result from Single Audits of these entities.

d. Indirect Cost Allocation

For fiscal year 2012, the CNMI has no indirect cost negotiation agreement.

e. CFDA #15.875

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2012

(3) CFDA # 10.551

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents the U.S. Department of Agriculture (USDA) from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2012

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|---|-----------|
| 1. | Type of auditors' report issued: | Qualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified? | Yes |
| 4. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | | |
|-----|--|-------------|
| | Internal control over major programs: | |
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified? | 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. | Identification of major programs: | |
| | <u>CFDA</u> | |
| | <u>Number</u> <u>Federal Program</u> | |
| | 10.551 Supplemental Nutrition Assistance Program | |
| | 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children | |
| | 20.205 Highway Planning and Construction | |
| | 81.041 State Energy Program | |
| | State Fiscal Stabilization Fund Cluster: | |
| | 84.394 State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | |
| | 84.397 State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | |
| | 93.778 Medical Assistance Program | |
| | 15.875 Economic, Social, and Political Development of the Territories: | |
| | Capital Improvement Projects | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$2,694,480 |
| 11. | Auditee qualified as a low-risk auditee? | No |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

B. FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2012-01	Cash Flows	19
2012-02	Revenues/Receipts - Tobacco Settlement Resources	20
2012-03 - 04	Purchases/Disbursements	21 - 23
2012-05 - 06	Cash and Cash Equivalents	24 - 27
2012-07	Receivables	28
2012-08	Tax Receivables - Division of Customs	29
2012-09	Advances	30
2012-10	Travel Advances	31 - 32
2012-11	Interfund Receivables and Payables	33
2012-12	Retirement Contributions - General Fund	34
2012-13	Tax Rebates Payable	35 - 38
2012-14	Other Liabilities and Accruals	39
2012-15	Compensated Absences	40
2012-16	Fund Balance - Encumbrances	41 - 46
2012-17	Commonwealth Healthcare Corporation	47
2012-18 - 19	CNMI Local Noncompliance	48 - 51
2012-20	Schedule of Expenditures of Federal Awards	52 - 53
2012-21	Single Audit Reporting	54

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2012-20	-	Schedule of Expenditures of Federal Awards	\$ -	52 - 53
2012-21	-	Single Audit Reporting	\$ -	54
2012-22	10.551	Cash Management	\$ -	55 - 56
2012-44	10.551	Equipment and Real Property Management	\$ -	98 - 100
2012-43	10.557	Allowable Costs/Cost Principles	\$ -	94 - 97
2012-23	10.557	Eligibility	\$ -	57
2012-44	10.557	Equipment and Real Property Management	\$ -	98 - 100
2012-24	10.557	Procurement and Suspension and Debarment	\$ 22,502	58 - 60
2012-25	15.875	Allowable Costs/Cost Principles	\$ 541,126	61 - 63
2012-43	15.875	Allowable Costs/Cost Principles	\$ 13,105	94 - 97
2012-26	15.875	Cash Management	\$ -	64 - 65
2012-44	15.875	Equipment and Real Property Management	\$ -	98 - 100
2012-27	15.875	Period of Availability of Federal Funds	\$ 311,638	66 - 67
2012-28	15.875	Procurement and Suspension and Debarment	\$ 83,336	68 - 71
2012-29	15.875	Reporting	\$ -	72 - 73
2012-30	15.875	Subrecipient Monitoring	\$ -	74 - 75
2012-31	15.875	Special Tests and Provisions	\$ -	76
2012-43	20.205	Allowable Costs/Cost Principles	\$ 12,515	94 - 97
2012-32	20.205	Cash Management	\$ -	77 - 78
2012-44	20.205	Equipment and Real Property Management	\$ -	98 - 100
2012-33	20.205	Procurement and Suspension and Debarment	\$ 106,050	79 - 81
2012-43	81.041	Allowable Costs/Cost Principles	\$ -	94 - 97
2012-44	81.041	Equipment and Real Property Management	\$ -	98 - 100
2012-34	81.041	Procurement and Suspension and Debarment	\$ 1,494,329	82
2012-35	81.041	Reporting	\$ -	83 - 84
2012-43	84.394/84.397	Allowable Costs/Cost Principles	\$ -	94 - 97
2012-36	84.394/84.397	Period of Availability of Federal Funds	\$ 1,344,754	85
2012-37	84.394/84.397	Reporting	\$ -	86
2012-38	84.394/84.397	Subrecipient Monitoring	\$ -	87
2012-39	93.778	Allowable Costs/Cost Principles	\$ 13,837	88
2012-43	93.778	Allowable Costs/Cost Principles	\$ -	94 - 97
2012-40	93.778	Eligibility	\$ 51	89 - 90
2012-41	93.778	Matching, Level of Effort, Earmarking	\$ -	91 - 92
2012-42	93.778	Reporting	\$ -	93
2012-45	Nonmajor Programs	Allowable Costs/Cost Principles	\$ 803,260	101 - 102
2012-46	Nonmajor Programs	Allowable Costs/Cost Principles	\$ 134,030	103 - 104
2012-47	Nonmajor Programs	Allowable Costs/Cost Principles	\$ -	105
2012-48	Nonmajor Programs	Procurement and Suspension and Debarment	\$ 1,740,159	106 - 109

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Cash Flows

Finding No. 2012-01

Criteria: Sufficient cash flows should be maintained to meet current obligations and sustain efficient operations.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total assets	\$ 39,087,438	\$ 42,761,354	\$ 36,044,449	\$ 50,023,703	\$ 63,742,784
Total liabilities	\$ 112,383,427	\$ 387,056,847	\$ 352,769,340	\$ 322,606,682	\$ 299,614,851
Total fund deficit	\$ (73,295,989)	\$ (344,295,493)	\$ (316,724,891)	\$ (272,582,979)	\$ (235,872,067)
Total revenues	\$ 133,533,289	\$ 141,609,672	\$ 149,664,722	\$ 137,755,573	\$ 195,025,126
Total expenditures	\$ 131,318,837	\$ 161,726,526	\$ 194,871,222	\$ 182,674,263	\$ 224,417,008
Other financing sources (uses)	\$ 1,695,745	\$ (7,972,362)	\$ 1,064,588	\$ 8,207,778	\$ (7,228,815)

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

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

Recommendation: We recommend that the CNMI review its various functions to work diligently towards maintaining adequate cash flows to meet current obligations.

Prior Year Status: Inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The generation of revenue in the CNMI continues to be an issue affecting the ability to meet current obligations and sustain efficient operations. Cost cutting and program evaluation continue in an effort to operate the government at levels that will sustain efficient operations. Close collaboration with the Legislature to develop revenue generating bills for the CNMI continues in an effort to find more funds to address expenditures/obligations of the government.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2012-02

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

Condition: For fiscal year 2012, the CNMI recognized \$1,643,479 in tobacco settlement resources (TSR) revenues (ref. fund 7067; account 45640) based on cash received. The CNMI was unable to provide a relevant analysis or schedules to support compliance with GASB TB 2004-1.

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

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

Recommendation: We recommend the CNMI take reasonable steps to meet the requirements of GASB TB 2004-1.

Prior Year Status: The lack of established estimation techniques to determine accrued tobacco settlement receivables and revenues was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI has agreed to proposed audit adjustments for 2012 and will request documentation from the trustee regarding accrual amounts in future years.

Proposed Completion Date: Fiscal year 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Purchases/Disbursements

Finding No. 2012-03

Criteria: Expenditures should be recorded when incurred.

Condition: Our tests of purchases/disbursements noted the following:

1. Of fifty nonpayroll Federal Grants Fund expenditures tested aggregating \$2,067,740, the following items relate to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
H0110C	62060	1075289	\$ 14,500
H05561	62080	1006621	\$ 1,950
J07381	62250	1064004	\$ 3,822
J0044F	64580	1006628	\$ 328,524

This condition was corrected through a proposed audit adjustment.

2. Of fifty-one nonpayroll General Fund expenditures tested aggregating \$2,412,950, the following items relate to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
1532	64530	601115	\$ 200,000
1571	62260	616339	\$ 10,000
1026	62250	619637	\$ 2,042
1975	62060	602098	\$ 43,715
1694	62060	605322	\$ 7,166
1505	62060	1077968	\$ 30,000

This condition was corrected through a proposed audit adjustment.

3. Of nine nonpayroll General Fund travel expenditures tested aggregating \$338,533, the following item relates to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
1979	62500	600827	\$ 2,925

Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.

4. Of total expenditures tested under the Capital Projects Fund - nonmajor funds of \$56,036, the following item relates to the prior year:

<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
4637	64300	1053538	\$ 53,546

Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.

5. Of fifty-seven nonpayroll DOI expenditures tested aggregating \$3,626,684, the following items relate to the prior year:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-03, Continued

Condition, Continued:

<u>Grant Numbers</u>	<u>Business Unit No.</u>	<u>Account No.</u>	<u>Voucher No.</u>	<u>Amount</u>
CNMI-CP-2008-3	5626	64250	1007587	\$ 174
CNMI-CP-2006-1	5610	62060	1014030	50,104
CNMI-CP-2010-5	5668	64320	1014039	30,543
CNMI-CP-2008-4	5628	64320	1052326	36,968
CNMI-CP-2007-1	5667	64520	1053331	99,844
CNMI-CP-2008-3	5627	64280	1054438	267,111
CNMI-CP-2007-1	5612	64280	1057455	<u>152,010</u>
				\$ <u>636,754</u>

This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of established policies and procedures to timely recognize expenditures at the time services are rendered.

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

Recommendation: We recommend that expenditures be recorded in the correct period.

Prior Year Status: The lack of policies and procedures regarding the timely recognition of expenditures at the time services are rendered was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action: We agree with this finding and will develop policies and procedures to decrease the time between entry of expenditure and payment.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Purchases/Disbursements

Finding No. 2012-04

Criteria: An effective system of internal control includes that relevant supporting documents are filed and maintained properly.

Condition: Tests of nonpayroll expenditures noted the following:

1. Of fifty-one General Fund nonpayroll expenditures tested aggregating \$2,412,950, the supporting invoice requested or journal entry was not provided. Thus, we are unable to determine whether such expenditures are valid and relate to the fiscal year under audit. Details follow:

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document Type</u>	<u>Document No.</u>	<u>Amount</u>
1680	10/01/11	&&	237766	\$ (218,000)
1605	02/01/12	JE	9959	\$ 236,377
1033	09/30/12	JE	11284	\$ (348,200)
1680	09/30/12	&&	236602	\$ 1,238,710
1680	09/30/12	&&	236600	\$ (1,267,207)
1680	09/30/12	&&	236616	\$ 24,500
1680	09/30/12	&&	236618	\$ 320,572
1680	09/30/12	&&	236618	\$ 1,264,119
1680	09/30/12	&&	236619	\$ (211,832)

2. Of nine General Fund travel expenditures tested aggregating \$38,533, the supporting invoice requested or journal entry was not provided. Thus, we are unable to determine whether such expenditures are valid and relate to the fiscal year under audit. Details follow:

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document Type</u>	<u>Document No.</u>	<u>Amount</u>
1915	07/10/12	JE	225986	\$ 1,921

Cause: The cause of the above condition is the lack of procedures and controls to properly maintain files.

Effect: The effect of the above condition is potential risk that expenditures recorded are not valid since supporting documents were not provided.

Recommendation: We recommend that DOF file and maintain all relevant documentation supporting validity and recording of expenditures in the proper period.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action: The expenditures in question are year-end adjusting entries that reversed specific FY2011 audit adjustments. We will review our documentation procedures and develop a system for documenting the validity and recording of these expenditures.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Cash and Cash Equivalents

Finding No. 2012-05

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

Condition: Tests of bank reconciliations noted the following:

1. During the fiscal year ended September 30, 2012, bank reconciliations for the following accounts were prepared two to seven months after fiscal year end.

<u>Bank Code</u>	<u>Account Name</u>
11140	Washington Rep. Imprest Fund
11150	Superior Court NMI Imprest Fund
11420	Payroll Account
11430	General Fund
11450	Animal Health Imprest Fund
11480	CNMI Lottery Commission Imprest Fund
11520	CNMI Credit Card
11570	Federal Grants
11572	CNMI Govt Federal Payroll
11820	Joeten-Kiyu Public Library
11830	Law Revision Commission Imprest Fund
11130	LNO Hawaii - Medical Referral
11230	Food Stamps
11400	NMIT Rebate Trust Reconciliation
11410	Special Disability Imprest Fund

2. A bank reconciliation as of September 30, 2012 was not provided for bank code 11140.
3. The following cash account was confirmed by a bank but is not recorded:

<u>Reference</u>	<u>Bank Balance</u>
0003-9546	\$ 133,249

4. At September 30, 2012, the CNMI recorded cash clearing accounts of \$954,241. These accounts are expected to be zero at fiscal year end. An audit adjustment was proposed to correct \$932,523 of the amount; however, correcting entries for the remaining \$21,718 could not be determined.
5. Bank confirmation was not provided for one bank account.

<u>Bank</u>	<u>Account Name</u>	<u>Account Balance</u>
First Hawaiian Bank	Superior Court	\$ 134,135

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-05, Continued

Recommendation: We recommend that the CNMI adhere to established policies and procedures over timely reconciliation of bank accounts and that book reconciling items be timely adjusted. Further, we recommend that all cash accounts be recorded and that cash clearing accounts be adjusted and reconciled at fiscal year-end. In addition, we recommend that the CNMI follow-up with financial institutions to verify that confirmations are filled out properly and timely sent.

Prior Year Status: The lack of adequate policies and procedures related to timely preparation of bank reconciliations was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Martha Camacho, Manager, Accounting Reconciliation and Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action:

- Condition 1: DOF acknowledges that timely reconciliation has been an issue for several years. The primary cause has been due to a lack of adequate staff to reconcile accounts in a timely manner. This has changed and the section is now fully staffed and trained. In FY2012, the staff made significant progress and were able to reconcile all CNMI bank accounts and reconciliations are now being performed in a timely manner.
- Condition 2: A bank reconciliation for bank code 11140 was not performed as the account is now dormant and had no activity in 2012.
- Condition 3: The Reconciliation Branch is researching this matter and will record it once research is completed.
- Condition 4: Due to untimely reconciliation, it is difficult to determine the cause of the \$21,718 discrepancy. Review of records will continue to determine the cause and reconciliation will be conducted in a timely manner to reduce/prevent these types of discrepancies from occurring.
- Condition 5: The account at First Hawaiian Bank was opened by the Superior Court without DOF knowledge and statements have never been forwarded to DOF by the bank or the Court. Action is being taken to turn over bank statements and amend the signature card.

Proposed Completion Date:

- Condition 1: Fiscal year 2013.
Condition 2: Ongoing.
Condition 3: Fiscal year 2013.
Condition 4: Ongoing.
Condition 5: Fiscal year 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Cash and Cash Equivalents

Finding No. 2012-06

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

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

1. At September 30, 2012, \$783,375 of checks were held by the Division of Treasury. The breakdown by account is as follows:

<u>Bank Account GL No.</u>	<u>Account Name</u>	<u>Number of Checks</u>	<u>Amount</u>
1010.11430	General Fund	87	\$ 376,929
1010.11572	Federal Payroll Account	79	88,045
7063.11400	Rebate Trust Fund	<u>1,240</u>	<u>318,401</u>
		<u>1,406</u>	\$ <u>783,375</u>

The Division of Treasury did not prepare a list of checks held at year-end. The above were reflected as outstanding checks in the September 30, 2012 bank reconciliations. Management did not consider the amounts sufficiently material to the financial statements to warrant an adjustment.

2. Additionally, the following were noted:
 - a. One thousand, two hundred forty rebate trust fund checks held, aggregating \$310,181 included in the Rebate Trust Fund, represent unreleased checks and checks returned by the post office. The checks have dates ranging from December 2000 through September 2012. Of this amount, \$57,254 was reported as outstanding checks in the September 30, 2012 reconciliation and as such, the Division of Treasury does not appear to have monitored these returned checks.
 - b. Eighty-seven general fund checks held, aggregating \$376,929 included in the General Fund, represent unreleased checks and checks returned by the post office. The checks have dates ranging from October 2007 through September 2012. Of this amount, \$331,259 was reported as outstanding checks in the September 30, 2012 reconciliation and as such, the Division of Treasury does not appear to have monitored these returned checks.
 - c. Seventy-five federal grants checks held, aggregating \$87,290 included in the Federal Grants Fund, represent unreleased checks and checks returned by the post office. The checks have dates ranging from September 2011 through September 2012. Of this amount, \$81,653 was reported as outstanding checks in the September 30, 2012 reconciliation and as such, the Division of Treasury does not appear to have monitored these returned checks.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-06, Continued

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

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

Prior Year Status: The lack of policies and procedures to monitor issued, unreleased and returned checks, the lack of policies and procedures to post all manual checks to the general ledger and the failure to timely address cash-related issues was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Asuncion Agulto, CNMI Treasurer

Corrective Action:

Condition 1: The CNMI Division of Treasury will institute a procedure to mail out all printed checks prior to the end of the fiscal year. The Treasurer will also prepare a schedule of any unmailed checks which should only include the last few days of the fiscal year.

Condition 2: Checks are considered outstanding until they clear at the bank or are voided in the system. Checks returned by the post office are held while attempts are made to contact the payee. In the event that a payee is not reached, that check is voided once it becomes stale dated. As this communication takes time and research, some time may pass from issuance to delivery to a payee once a check is returned to DOF by the post office.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Receivables

Finding No. 2012-07

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

Condition: As of September 30, 2012, the General Fund recorded returned checks receivable (account no. 1010.12800) of \$915,434, which is \$311,374 higher than the subsidiary ledger. A reconciliation of the difference was not available. Further, the returned check subsidiary ledger was not timely prepared as it was only updated upon audit request.

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

Effect: The effect of the above condition is the possibility of misstatements of returned checks; however, this effect is mitigated by a corresponding allowance for uncollectible accounts of \$589,837.

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

Prior Year Status: The lack of periodic reconciliation of returned checks was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Martha Camacho, Manager, Accounting Reconciliation and Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action: We agree with the finding and will establish a process of periodic reconciliations of returned checks receivable.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Tax Receivables - Division of Customs

Finding No. 2012-08

Criteria: Excise tax collections should occur when the shipped items are transferred to taxpayers.

Condition: Outstanding tax receivables (including penalty and interest) were identified as of November 19, 2013 according to the Director of the Division of Customs, as follows:

<u>Description</u>	<u>Amount</u>
Tax	\$ 3,984,187
Interest	200,864
Penalty	<u>207,924</u>
Total	\$ <u>4,392,975</u>

The CNMI could not provide a listing of outstanding tax receivables as of September 30, 2012. The above receivables are not recorded in the CNMI general ledger.

Cause: The cause of the above condition is lack of established policies and procedures to monitor outstanding excise tax receivables.

Effect: The effect of the above condition is potential lost revenues.

Recommendation: We recommend that all receivables be timely collected.

Prior Year Status: The lack of established policies and procedures to monitor outstanding excise tax receivables was reported as a finding in the Single Audit of the CNMI for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jose Mafnas, Director, Customs Services

Corrective Action: Taxpayers have thirty days to pay their taxes after picking up shipments so there will always be a receivable balance. Currently, there is an ongoing effort to collect outstanding receivables including holding of all future shipments until outstanding receivables are addressed with Customs management. Aggressive collection efforts continue and are ongoing.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Advances

Finding No. 2012-09

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

Condition: As of September 30, 2012, the General Fund recorded advances to vendors of \$1,085,397, of which \$535,695 date to fiscal year 2011 and prior. An aging of vendor advances by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 178,537
2010	100,393
2009	79,870
2008	41,874
2007	47,163
2006	46,751
2005	30,464
2004	<u>10,643</u>
	\$ <u>535,695</u>

Further, two advances tested, aggregating \$78,768 (ref. nos. 501525 PL and 995293 PL), for the purchase of supplies and vehicles were received on or before September 30, 2012 and did not constitute valid advances. This condition was corrected through a proposed audit adjustment.

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

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

Recommendation: We recommend that advances to vendors be monitored and be timely adjusted upon receipt of related goods and/or services. Further, we recommend review of existing procedures related to advances for those goods and/or services likely to be received within a short period of time.

Prior Year Status: The lack of adherence to established policies and procedures to update advances upon receipt of related goods and/or services was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action: We believe that policies and procedures in place will address the problem of advances on the books for lengthy periods of time. Work continues on this finding to improve the timeliness of adjustments.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Travel Advances

Finding No. 2012-10

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

Condition: As of September 30, 2012, the General Fund recorded travel advances of \$1,473,357, the majority of which were outstanding and unliquidated for more than ninety days. Travel advance details included credit balances of \$63,345.

Additionally, of three travel advances tested, the travel voucher supporting subsequent liquidation and invoices were not available. The three employees are not employed by the CNMI as of September 30, 2012.

<u>Employee Number</u>	<u>Travel Advance at September 30, 2012</u>
100502	\$ 307
167386	\$ 6,884
710785	\$ 145

Further, travel authorizations for two employees were not provided:

<u>Employee Number</u>	<u>Travel Advance Not Authorized</u>
100502	\$ 257
167386	\$ 1,214

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

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

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

Prior Year Status: Liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2009 and 2011 and in our previous management letter for fiscal year 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-10, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action: DOF has a policy of collecting outstanding advances and travel expenses through the use of payroll deductions to recover money from travel. DOF has also made it a practice to maintain these balances for certain periods of time because of the possibility and frequency of employees returning to government service. Upon returning to government service, payroll deductions begin again. In addition, prior to payment of any outstanding leave balances, an employee must submit a clearance sheet showing that they have no outstanding balances at the DOF travel section, as well as any other sections of government where money may be owed. If an employee attempts to cash in their leave balances, the outstanding amount will be deducted from the leave balance and recovered for the government.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Interfund Receivables and Payables

Finding No. 2012-11

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

Condition: As of September 30, 2012, the general fund recorded payables to the following funds for which repayment is not expected within a reasonable time due to lack of available cash.

<u>Receivable Fund</u>	<u>Fund No.</u>	<u>Interfund Amount</u>	<u>Uncollectible</u>
Non-resident Worker Fund	2034	\$ 166,762	\$ 166,762

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

Effect: The effect of the above condition is the possible misstatement of interfund balances. Audit adjustments were proposed to reduce related interfund receivables for the amount deemed uncollectible through transfers to the General Fund.

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

Prior Year Status: Failure to track specific funds received, the lack of a plan to repay such funds, and the lack of available cash flow was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The balance for this fund needs to be reviewed as revenues have declined drastically since the U.S. immigration takeover. We will accept the recommendation regarding audit adjustments for these balances and will review the status in the following year.

Proposed Completion Date: 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Retirement Contributions - General Fund

Finding No. 2012-12

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

Condition: As of September 30, 2012, the CNMI recorded a contribution liability of \$169,731,280 of which \$167,397,985 dates back to fiscal year 2011 and prior. An aging of the outstanding contribution liability by fiscal year is as follows:

2012	\$ 2,333,295
2011	12,055,463
2010	8,766,263
2009	14,725,353
2008	17,090,767
2007 and prior	<u>114,760,139</u>
	\$ <u>169,731,280</u>

The Fund recorded total receivables from the CNMI, including penalties and interest, of \$267,089,307 as of September 30, 2012. Conversely, the CNMI recorded penalties and interest on unpaid contributions of \$50,372,932 due to the Fund. An audit adjustment was proposed to agree the total CNMI liability to the receivable recorded by the Fund as of September 30, 2012.

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

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

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

Prior Year Status: The lack of compliance with Public Law 6-17, Section 8342 was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI Government has reached a Settlement Agreement with NMIRF after several years of litigation regarding this balance. An arrangement has been reached to address funding of NMIRF and is being followed. Discussions with the auditors about adjustments to CNMI financial records and financial statements need to begin now that these issues have been resolved between the agencies.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Tax Rebates Payable

Finding No. 2012-13

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

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

Condition: At September 30, 2012, tax rebates payable aggregated \$36,580,743. The balance consists of the following:

Estimated 2012 liability based on fiscal year 2012 collections	\$ 6,285,900
Additional Child Tax Credit (ACTC)	7,660,212
2011 and prior rebates unpaid as of September 30, 2012	<u>22,634,631</u>
	<u>\$ 36,580,743</u>

Tests of the rebate payable accounts noted the following:

1. For unpaid tax year 2011 and prior rebates, we noted the following:
 - a. Of forty unmatched filings tested relating to individual and corporate tax rebate payables of \$6,060,988, the following were noted:
 - i. For seven items totaling \$1,488,013, the rebate amount in the tax return was left blank due to taxpayer error and is pending review by the Division of Revenue and Taxation as follows:

<u>Tax Year</u>	<u>Assigned No.</u>	<u>Type</u>	<u>Rebate Payable Per Detailed Reports</u>
2009	C-0012	1120	\$ 211,500
2001	C-0027	1120	113,056
2003	C-0037	1120	78,683
2009	C-0051	1120	48,477
2009	C-0121	1120	11,863
2005	C12-0001	1120	1,024,000
2001	I-16476	1040	<u>434</u>
			<u>\$ 1,488,013</u>

- ii. Twelve items totaling \$2,285,868 did not agree to tax returns by \$753,651. The variances were substantially due to pending deficiency letters and review and evaluation by the Division of Revenue and Taxation. Details are as follows:

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Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-13, Continued

Condition, Continued:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C-0004	2011	\$ 521,512	\$ 539,960	\$ (18,448)
C-0010	2005	254,795	129,709	125,086
C-0014	2010	174,150	202,750	(28,600)
C-0017	2006	148,883	77,595	71,288
C-0043	2010	62,254	25,191	37,063
C-0062	2010	38,934	(1,238)	40,172
C-0179	2004	4,496	-	4,496
C-0344	2000	24,055	448	23,607
C12-0005	2002	465,940	236,366	229,574
C12-0003	2003	556,738	286,132	270,606
I-03393	2009	26,785	27,682	(897)
I-10905	2004	<u>7,326</u>	<u>7,622</u>	<u>(296)</u>
		\$ <u>2,285,868</u>	\$ <u>1,532,217</u>	\$ <u>753,651</u>

b. Of thirty-one assessed and matched filings tested relating to individual and corporate tax rebate payables of \$3,430,564, the following were noted:

i. For three items totaling \$1,301,815, the rebate amount in the tax return was left blank and a different tax form was used. Details are as follows:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C12-0502	2003	\$ 649,000
C12-0406	2007	649,000
C-0598	2001	<u>3,815</u>
		\$ <u>1,301,815</u>

ii. Five items totaling \$668,854 did not agree to tax returns by \$342,664 pending review and evaluation by the Division of Revenue and Taxation. Details are as follows:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C-0348	2010	\$ 500,578	\$ 547,769	\$ (47,191)
C-0409	2006	41,514	(187,491)	229,005
C-0465	2004	22,116	(22,116)	44,232
C-0505	2003	101,181	-	101,181
I-25551	2008	<u>3,465</u>	<u>(11,972)</u>	<u>15,437</u>
		\$ <u>668,854</u>	\$ <u>326,190</u>	\$ <u>342,664</u>

2. Of fourteen accounts totaling \$642,233 uploaded to the JDE system for payment, the following were noted:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-13, Continued

Condition, Continued:

- a. No details or totals of rebate payables relating to tax years 1999 and prior are available from the Division of Revenue and Taxation.
- b. Two items (document nos. 523907 and 539275) could not be verified as properly included in the detailed schedules due to incomplete or failed detail download.

Further, no interest is calculated or paid on overpayments.

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

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

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

Prior Year Status: A lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2011.

Auditee Response and Corrective Action Plan:

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

Corrective Action: In fiscal year 2009, the Division of Revenue and Taxation (DRT) implemented a rebate payable review procedure. Currently, technical personnel conduct reviews at least twice a year. The review of the summary and detailed reports includes tracing of amounts and verification of totals. In addition, samples are judgmentally selected for tracing to the tax return.

The CNMI Tax System has a payable processing routine to determine the reasonableness of payables based on pre-established threshold amounts and for returns with an initial status showing a tax due or payment made on a return. A second level of review shows the rebate payable amount as indicated on the return versus the amount of rebate in the rebate payable report. Any discrepancy outside a pre-established threshold amount would be flagged for review and resolution before a payment is made.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-13, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

DRT has implemented the Electronic Document Management System (EDMS) that will eventually scan and image every return (including OCR/ICR) filed with DRT. The EDMS will permanently image and store the images in a database for future retrieval and reproduction. The images can be retrieved based on certain search and retrieval criterias (taxpayer name, tax period, tax form, etc.) The hard copies will be permanently filed/stored until ordered disposed by the Secretary of Finance.

The EDMS will become the standard method to access and review information on returns unless special circumstances require retrieval of the hard copy.

Due to budgetary constraints, DRT experienced a set-back in the scanning and imaging process. This project is ongoing.

As part of DRT's payable processing routines, the CNMI Tax System software is designed to compare the summary of tax liabilities against the summary of all payment credits and the recorded rebate payable to determine any significant discrepancy based on established threshold amounts. The payable subsystem will automatically flag any payable that falls outside the threshold amount and classify the payable as "Requires Review". A report can be generated and the examination branch is tasked to conduct the review.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Other Liabilities and Accruals

Finding No. 2012-14

Criteria: An effective system of internal control includes policies and procedures to record liabilities in the appropriate fiscal year.

Condition: During tests of subsequent disbursements, we noted \$1,642,777 of unrecorded liabilities at September 30, 2012. Details by fund are as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 931,483
DOI Capital Projects	678,748
Nonmajor Special Revenue	<u>32,546</u>
	<u>\$ 1,642,777</u>

The above condition was corrected through a proposed audit adjustment.

Further, supporting invoices requested were not provided for the following expenditures, and we are unable to determine whether such expenditures relate to fiscal year 2012:

<u>Voucher No.</u>	<u>Amount</u>
628561	\$ 3,734
631828	1,000
621899	100,000
619868	16,355
620351	672
623952	33,915
625850	<u>100,000</u>
	<u>\$ 255,676</u>

Cause: The cause of the above condition is the lack of appropriate cut-off procedures and controls.

Effect: The effect of the above condition is a misstatement of liabilities and expenditures.

Recommendation: We recommend that DOF implement appropriate policies and procedures to record liabilities in the correct fiscal year. We further recommend that DOF file and maintain all relevant supporting documents.

Prior Year Status: A lack of appropriate cut-off procedures and controls was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Bernadita Palacios, Director Division of Finance & Accounting

Corrective Action: We agree with the finding and will review cut-off procedures and controls.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Compensated Absences

Finding No. 2012-15

Criteria: Accrued annual leave is limited to 45 days or 360 hours, as amounts in excess of 45 days transfer to sick leave at the end of the leave year. Further, an effective system of internal control requires that accrued annual leave for employees who are separated from the entity are identified and reviewed for validity. The payroll records should be timely updated for annual leave balances that do not represent valid obligations.

Condition: At September 30, 2012, compensated absences payable per the subsidiary ledger aggregated \$7,490,986. Of this amount, \$1,198,781 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$641,208 represents accrued leave in excess of the 45 days/360 hours limit. Additionally, the balance at September 30, 2012 is net of individual debit balances of \$119,746.

The above condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of adequate procedures and controls to determine that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records.

Effect: The effect of the above condition is the misstatement of compensated absences payable and related expenditures.

Recommendation: We recommend DOF record compensated absences payable representing valid obligations.

Prior Year Status: The lack of adequate procedures and controls to determine that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Eloida Macaranas, Payroll Supervisor and Bernadita Palacios, Director Division of Finance & Accounting

Corrective Action: Review of leave balances is underway to determine validity of balances in the system. CNMI regulations require DOF to maintain leave balances for a specific period of time in the event that former employees return to government service. Adjustments are also necessary for those with excess of maximum balances which will be transferred to sick leave on an annual basis. We agree with the audit adjustments above.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Fund Balance - Encumbrances

Finding No. 2012-16

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

Condition: Our tests of reserves for encumbrances noted the following:

1. For the U.S. Department of the Interior (DOI) Capital Projects Fund encumbrances:
 - a. At September 30, 2012, the subsidiary ledger balance of the DOI Capital Project Fund encumbrances of \$8,605,302 is net of debit balances of \$2,507,115. Debit balances result when the original encumbrance is not directly debited or when debits are recorded related to expenditures for which encumbrances were never established. Debit balances also result through encumbrance cancellations and/or contract change orders. The subsidiary ledger balance was corrected for these debit balances resulting in a general ledger control account which was \$3,399,652 lower than the corrected subsidiary ledger balance. This condition was corrected through a proposed audit reclassification.
 - b. An aging of the reserve for encumbrances, excluding debit balances, by fiscal year indicates encumbrances of \$1,495,323 have been outstanding for more than five years. We did not evidence DOF review of long outstanding encumbrances.
 - c. Of thirty-eight DOI Capital Projects Fund encumbrances tested, aggregating \$3,673,103, the following exceptions were noted:
 - i. The obligating/encumbering document for the items below were not provided:

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document Number</u>	<u>Encumbrance Amount</u>
4044	4863	304837 OS CO#3	\$ (125,000)
4044	4843	60048 OS	\$ 15,126
4045	4912	60385 OS	\$ 32,542
4045	4972	70233 OS	\$ 273,272
4045	4901	70169 OS	\$ 941,487
4045	4901	70169 OS	\$ 491,005
4045	4910	70152 OS	\$ 399,512
4058	5654	534 OS	\$ 661,279
4058	5654	537 OS	\$ 398,000
4058	5634	486 OS	\$ 253,946
4058	5634	487 OS	\$ 96,240
4058	5656	525 OS CO#2	\$ 189,999
4058	5648	543 OS	\$ 1,385,277

- ii. The following DOI Capital Projects Fund encumbrances did not indicate any activity for more than three years:

<u>Fund</u>	<u>Business Unit No.</u>	<u>General Ledger Account No.</u>	<u>Document Number</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4044	4863	62060	304837 OS CO#3	\$ 54,391	07/20/00
4044	4843	64320	60048 OS	\$ 15,126	11/30/96
4045	4912	64280	60385 OS	\$ 9,646	11/30/96
4045	4972	64320	70233 OS	\$ (94,851)	09/30/98
4045	4936	64320	59 OS	\$ (316,674)	06/12/02
4045	4901	64320	70169 OS	\$ (245,591)	10/28/03

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-16, Continued

Condition, Continued:

<u>Fund</u>	<u>Business Unit No.</u>	<u>General Ledger Account No.</u>	<u>Document Number</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4045	4803	64590	220 OS	\$ 41,600	06/11/03
4045	4781	64320	40 OS	\$ (31,174)	09/05/00
4045	4910	64320	70152 OS	\$ (139,225)	12/20/00
4049	5834	64320	400 OS	\$ 93,209	06/30/06
4052	5212	64050	454842 OC	\$ 3,210	05/27/08
4052	5165	64320	159 OS	\$ (239,351)	11/06/02
4052	5136	64320	194 OS	\$ (658,476)	04/16/08
4052	5151	64320	309 OS CO#1	\$ 26,335	08/14/06
4052	5158	64280	382 OS CO#1	\$ 76,448	12/18/07
4052	5145	64320	311 OS	\$ -	09/29/09
4052	5206	64280	371 OS CO#1	\$ 20,237	09/21/06
4058	5654	64030	534 OS	\$ 661,279	07/28/10
4058	5654	64050	537 OS	\$ 398,000	08/04/10
4058	5634	64080	486 OS	\$ 253,946	03/02/09
4058	5634	64080	487 OS	\$ 96,240	03/02/09
4058	5648	64320	543 OS	\$ 1,385,277	09/16/10
4058	5615	64520	462 OS	\$ (198,420)	11/09/07
4058	5615	64520	476 OS	\$ 364,975	11/19/08
4058	5654	64590	536 OS	\$ 249,800	08/04/10
4058	5615	64520	456 OS	\$ (323,366)	03/09/09

The debit balances in this condition are included in the total debit balance corrected in Condition 1.a.

- iii. The following variance was noted between the amount initially recorded and the actual obligating document:

<u>Fund/Business Unit</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Obligating Document</u>	<u>Variance</u>
5136.64100.64320	194-OS	\$ 810,440	\$ 6,715,433	\$ (5,904,993)
5151.64100.64320	309-OS CO#1	\$ 13,168	\$ 13,162	\$ 6
5145.64200.64320	311-OS	\$ -	\$ 550,000	\$ (550,000)

- iv. The following fiscal year 2012 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2012 encumbrances:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
5627.64100.64280	544-OS	1148146 PV	\$ 191,743
5611.64100.64320	578-OS	1104419 PV	\$ 44,490
5601.64100.64320	595-OS	1102366 PV	\$ 19,256

2. Of five Federal Grants Fund encumbrances tested, aggregating \$412,243, the following were noted:

- a. At September 30, 2012, the subsidiary ledger balance of Federal Grants Fund encumbrances of \$1,548,209 differs from the general ledger balance of \$15,589,870. The general ledger balance was corrected for these differences through a proposed audit reclassification.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-16, Continued

Condition, Continued:

- b. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of \$223,282 have been outstanding for more than five years. We did not evidence DOF review of long outstanding encumbrances.
- c. The following fiscal year 2012 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2012 encumbrances:

<u>Fund/Business Unit/ General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
2022.E9041S.62060	523543-OC	1123343 PV	\$ 72,942
2022.E9041S.62060	546206-OC	1104424 PV	\$ 777,700

This condition was corrected through a proposed audit reclassification.

- d. The following variances exist between the amounts encumbered and expectations due to various fiscal year 2013 expenditures that were already deducted from the fiscal year 2012 encumbrances.

<u>Fund/Business Unit/ General Ledger Account No.</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
2020.D2608C.62060	547078-OC	\$ 59,577	\$ 74,470	\$ (14,893)
2022.E9041S.62060	523543-OC	\$ 117,912	\$ 199,101	\$ (81,189)

This condition was corrected through a proposed audit reclassification.

- e. The obligating/encumbering document for the item below was not provided:

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document No.</u>	<u>Encumbrance Amount</u>
2020	P5600D	504574-OP	\$ 600

- 3. Of six General Fund encumbrances tested, aggregating \$367,396, the following were noted:

- a. At September 30, 2012, the subsidiary ledger balance of General Fund encumbrances of \$1,746,981 differs from the general ledger balance of \$4,624,095. The general ledger balance was corrected for these differences through a proposed audit reclassification.
- b. The obligating/encumbering document for the item below was not provided:

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document No.</u>	<u>Encumbrance Amount</u>
1010	1050	552004-OM	\$ 100,000

We were unable to verify if this is a valid encumbrance at September 30, 2012.

- c. The following fiscal year 2012 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2012 encumbrances:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-16, Continued

Condition, Continued:

<u>Fund/Business Unit/ General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
1010.1050.62660	552004-OM	624987 PV	\$ 500
1010.1975.62060	527431-OC	623436	\$ 9,900
1010.1975.62060	527431-OC	623437	\$ 9,900
1010.1975.62060	527431-OC	623438	\$ 9,900
1010.1975.62060	527431-OC	624539	\$ 9,900
1010.1975.62060	298910-OT	624683	\$ 62
1015.1505.62060	551637-OC	1108641	\$ 20,000
1015.1505.62060	551637-OC	1116181	\$ 20,000
1015.1505.62060	551637-OC	1123896	\$ 20,000
1015.1505.62060	551637-OC	1125282	\$ 20,000
1015.1505.62060	551637-OC	1145652	\$ 20,000
1015.1505.62060	551637-OC	1148777	\$ 30,000
1015.1505.62060	551637-OC	1151177	\$ 30,000
1015.1505.62060	551637-OC	1151237	\$ 30,000
1015.1505.62060	551637-OC	1111705	\$ 20,000
1015.1505.62060	551637-OC	1118498	\$ 20,000

This condition was corrected through a proposed audit reclassification.

- d. The following variance exists between amounts encumbered and expectations due to various fiscal year 2013 expenditures that were already deducted from fiscal year 2012 encumbrances:

<u>Fund/Business Unit/ General Ledger Account No.</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
1010.1050.62660	552004-OM	\$ 100,000	\$ 99,500	\$ (500)

This condition was corrected through a proposed audit reclassification.

4. Of three Special Revenue Fund encumbrances tested, aggregating \$148,412, the following were noted:

- a. At September 30, 2012, the subsidiary ledger balance of Special Revenue Fund encumbrances of \$1,327,085 differs from the general ledger balance of \$610,521. The general ledger balance was corrected for these differences through a proposed audit reclassification.

- b. The obligating/encumbering document for the item below was not provided:

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document No.</u>	<u>Encumbrance Amount</u>
2080	2084	528792-OM	\$ 55,007

- c. The following encumbrance did not indicate any activity for more than three years:

<u>Fund</u>	<u>Business Unit No.</u>	<u>General Ledger Account</u>	<u>Document Number</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
2080	2082	62060	476569-OC	\$ 87,350	10/01/08

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-16, Continued

Condition, Continued:

This condition was corrected through a proposed audit reclassification.

5. Tests of nonmajor Capital Projects Fund encumbrances noted the following:

- a. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of \$1,283,752 have been outstanding for five years or more.
- b. Of eight nonmajor Capital Projects Fund encumbrances tested aggregating \$1,491,932, the following were noted:
 - i. The obligating/encumbering document for the item below was not provided:

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document No.</u>	<u>Encumbrance Amount</u>
4042	4633	390-OS	\$ 39,430

This condition was corrected through a proposed audit reclassification.

- ii. The following fiscal year 2012 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2012 encumbrances:

<u>Fund/Business Unit/ General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4043.T5205K.64670	487609-OC	1107950 PV	\$ 31,830
4043.T9205J.62060	532048-OC	1108285 PV	\$ 22,648

This condition was corrected through a proposed audit reclassification.

- iii. The following variance was noted between the amount initially recorded and the actual obligating document:

<u>Fund/Business Unit</u>	<u>Obligating Document No.</u>	<u>Per General Ledger</u>	<u>Per Obligating Document</u>	<u>Variance</u>
4043.T5205K.64670	487609-OC CO #1	\$ 174,696	\$ 58,546	\$ 116,150

This condition was corrected through a proposed audit reclassification.

- iv. The following encumbrances did not indicate any activity for more than three years:

<u>Fund</u>	<u>Business Unit No.</u>	<u>General Ledger Account</u>	<u>Document Number</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4043	T2205K	64670	384927-OC	\$ 89,968	03/17/03
4043	T85164	64670	333747-OC	\$ 2,919,088	02/20/02

This condition was corrected through a proposed audit reclassification.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-16, Continued

Cause: The cause of the above condition is the lack of established policies and procedures to monitor recorded reserves for encumbrances and inadequate file maintenance.

Effect: The effect of the above condition is the potential misstatement of the reserve for encumbrances.

Recommendation: We recommend that DOF support all encumbrances with encumbering documents and update encumbrances for actual expenditures. Additionally, we recommend that long outstanding encumbrances and debit balances be examined for validity. We further recommend that DOF take reasonable steps to timely adjust the subsidiary ledger and include only valid encumbrances at year end.

Prior Year Status: The lack of policies and procedures to monitor recorded reserves for encumbrances and inadequate file maintenance was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We agree that encumbrances need to be reviewed and adjusted and we are in the process of reviewing and correcting these balances, including reconciling advance payments and travel encumbrances with the outstanding advance accounts.

Proposed Completion Date:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Commonwealth Healthcare Corporation

Finding No. 2012-17

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

Condition: CNMI Public Law 16-51 created the Commonwealth Healthcare Corporation (CHCC), which is responsible for providing healthcare services in the CNMI, as of October 1, 2011. Healthcare services had previously been accounted for within the General Fund of the CNMI. CHCC operates from the primary hospital building in the CNMI. As of September 30, 2012, fixed asset transfers to CHCC had not been recorded by the CNMI and transfers of receivables, inventory and obligations had not been documented by CNMI and CHCC officials.

Cause: The cause of the above condition is the lack of coordination of the transfer of assets and liabilities by CNMI and CHCC officials.

Effect: The effect of the above condition is that the CNMI government-wide financial statements reflect fixed assets in use by CHCC and the agreement of transfer of receivables, inventory and obligations have not been documented.

Recommendation: We recommend that the CNMI and CHCC determine which fixed assets to transfer to CHCC and document this transfer. We also recommend that the transfer of receivables, inventory and obligations as of October 1, 2011 be documented in writing between the two parties.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: Pursuant to Public Law 16-51 that created CHCC, the CNMI and CHCC have been working to transition CHCC from the Executive Branch to an independent corporation. On December 11, 2013, CHCC submitted a report of capital assets to transition from the CNMI to CHCC. On December 18, 2013, the CNMI agreed to that transition of the assets specified in that communication. Finalization of this transfer is expected to occur by January 2014 if not sooner.

Proposed Completion Date: January 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

CNMI Local Noncompliance

Finding No. 2012-18

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

Condition: On September 26, 2011, the CNMI passed Public Law 17-55 as the Appropriations and Budget Authority Act of 2012. On June 4, 2012, Public Law 17-74 was enacted to amend Section 710 of Public Law 17-55 which transferred \$5,000,000 originally appropriated to the Department of Public Health to CHCC for Medicaid reimbursements. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2012.

	<u>Budgeted Level of Expenditures</u>	<u>Actual Expenditures</u>	<u>Over Expenditure</u>
Government Utilities	\$ 4,567,626	\$ 8,126,836	\$ 3,558,210
Independent Programs:			
Coastal Resources Management	\$ -	\$ 6,145	\$ 6,145
La Fiesta Lease	\$ 198,000	\$ 408,911	\$ 210,911
Humanities Council	\$ 366	\$ 25,515	\$ 25,149
Ayuda Network	\$ 11,486	\$ 26,752	\$ 15,266
Disability Dev PL 10-4	\$ -	\$ 193,492	\$ 193,492
Flame Tree Festival	\$ -	\$ 214,182	\$ 214,182
National Governors Association	\$ 46,035	\$ 46,500	\$ 465
Tourism	\$ 5,939,336	\$ 7,444,838	\$ 1,505,502
Health	\$ 4,640,816	\$ 5,181,479	\$ 540,663
Education	\$ 29,619,462	\$ 30,169,462	\$ 550,000
Debt Service	\$ 8,429,000	\$ 8,530,534	\$ 101,534
Disaster Expenditures	\$ -	\$ 300	\$ 300
Miscellaneous/Continuing Appropriations	\$ -	\$ 2,712,887	\$ 2,712,887
Unallocated Adjustments	\$ -	\$ 2,400	\$ 2,400

Cause: The cause of the above condition is the authorization of expenditures in excess of budget allotments.

Effect: The effect of the above condition is the over-expenditure of amounts in excess of budget allotments.

Recommendation: We recommend that DOF authorize expenditures only within budgeted allotment levels.

Prior Year Status: Over-expenditures in excess of budget allotments was reported as a finding in the CNMI Single Audits for fiscal years 2000 through 2011.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-18, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The CNMI agrees with the finding with regards to balances for government utilities and health. Adjusting entries are needed for many of these balances, including La Fiesta Lease, education and tourism. Balances need to be adjusted to record in the correct year of payment and remove legislative mandates such as hotel occupancy and beverage container taxes that are mandated by law, but not part of the budget appropriation.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

CNMI Local Noncompliance

Finding No. 2012-19

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the CNMI procurement regulations state that bidding is not required, but is encouraged for procurement over \$2,500 and under \$10,000. The official with expenditure authority must obtain price quotations from at least three vendors and base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations obtained must be written, documented and submitted to the Division of Procurement and Supply (P&S) Director for approval.

Condition: Our tests of nonpayroll expenditures noted the following:

1. Of fifty-one General Fund nonpayroll expenditures tested aggregating \$2,412,950, procurement documents evidencing full and open competition could not be provided as follows:

<u>Business Unit No.</u>	<u>Obligating Document No.</u>	<u>General Ledger Date</u>	<u>APV No.</u>	<u>General Ledger Amount</u>
1975	Unknown	11/14/11	602098	\$ 43,715
1100	530390-OC	02/22/12	606689	3,000
1978	Unknown	04/20/12	610400	13,750
1972	357982-OC	05/03/12	611203	42,359
1978	Unknown	05/31/12	610833	3,362
1978	Unknown	07/05/12	614303	10,000
1972	357982-OC	08/30/12	617883	33,915
1975	Unknown	09/30/12	619690	<u>(2,667)</u>
				\$ <u>147,434</u>

2. Of fifteen Special Revenue Fund nonpayroll expenditures tested aggregating \$180,928, the related procurement documents for contract no. 474876-OC were not provided for two disbursements (or 62%) of \$116,000 (PV nos. 1059174 and 1080995).

Cause: The cause of the above condition is the failure to enforce adherence to established CNMI procurement regulations, the lack of awareness and incorporation of applicable regulations and lack of controls over small purchase procedures and change orders.

Effect: The effect of the above conditions is noncompliance with procurement requirements.

Recommendation: We recommend that the CNMI comply with procurement regulations. We also recommend that the CNMI make efforts to obtain competition and provide documentation that other contractors and sources were considered.

Prior Year Status: Failure to enforce adherence to established CNMI procurement regulations, the lack of awareness and incorporation of applicable regulations and lack of controls over small purchase procedures and change orders was reported as a finding in the CNMI Single Audit for fiscal year 2011.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-19, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman S. Sablan, Director of P&S

Corrective Action: Consolidated filing of contract documents continues to be a problem due to the number of locations where information is stored. P&S will continue to work to comply with procurement regulations, as well as maintain better files.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Schedule of Expenditures of Federal Awards

Finding No. 2012-20

Criteria: In accordance with applicable federal regulations, the auditee shall prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

Condition: The SEFA for the period ended September 30, 2012, includes unallocated amounts of \$1,025,094 and \$1,113,312 for the Federal Grants Fund and the Public Works Grants Fund, respectively. The amounts relate to unidentified grants revenue and miscellaneous adjustments. Related CFDA or other identifying numbers could not be provided.

Cause: The cause of the above condition is the lack of awareness and incorporation of applicable regulations.

Effect: The effect of the above condition is noncompliance with the federal requirements on the SEFA. No questioned costs are presented as the amounts are negative.

Recommendation: We recommend that CNMI prepare the SEFA in accordance with the above federal requirements.

Prior Year Status: The lack of awareness and incorporation of applicable regulations on the SEFA was reported as a finding in the Single Audit of the CNMI for fiscal year 2011.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No. 2012-20, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The lack of adequate accounting personnel within DOF contributed to this finding. Staff training is ongoing to fill in gaps caused by the loss of key personnel.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Single Audit Reporting

Finding No. 2012-21

Criteria: The Single Audit Act Amendments of 1996 requires an entity that expends a total amount of Federal awards equal to or in excess of \$500,000 in any fiscal year to have a single audit made for such fiscal year. The entity shall transmit the reporting package, which shall include the entity's financial statements, schedule of expenditures of Federal awards, corrective action plan, and auditor's reports to the Federal clearinghouse and make it available for public inspection nine months after the end of the period audited, or within a longer timeframe as authorized by the Federal agency when the nine-month timeframe would place an undue burden on the entity.

Condition: The CNMI did not transmit the 2012 audit reporting package to the Federal Audit Clearinghouse within the required timeline.

Cause: The cause of the above condition is primarily due to turnover in management and the lack of adequate human resources within the accounting function of the Department of Finance.

Effect: The effect of the above condition is noncompliance with the Single Audit Act Amendments of 1996.

Recommendation: We recommend that the CNMI require compliance with the above criteria.

Prior Year Status: The lack of timely transmittal of the annual audit reporting package was reported as a finding in the Single Audit of the CNMI for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: Delays in completion of the NMIRF audit, which is a key component unit having significant impact on the CNMI's financial statements and the lack of adequate accounting personnel within DOF contributed to this delay. A settlement agreement has been reached with NMIRF and in future audits, NMIRF will be considered part of the CNMI Government which will prevent this from occurring again. Training continues for existing staff to improve work on future audits.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-22
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.551 Supplemental Nutrition Assistance Program
 Grant Number: 7NM4004NM
 Area: Cash Management
 Interest Liability: \$204
 Questioned Costs: \$-0-

Criteria: In accordance with applicable cash management requirements, when there is no Treasury-State agreement, the allowable clearance pattern is three business days.

Condition: Of thirty-seven transactions tested, twenty items (or 54%) were paid after the allowable clearance patterns from the date federal funds were credited to the CNMI's account as follows:

<u>Document Number</u>	<u>Amount</u>	<u>Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
1060703	\$ 814,620	12/15/11	12/01/11	7
1062358	\$ 66,007	12/15/11	12/01/11	7
1078127	\$ 708,275	07/11/12	05/02/12	47
1079598	\$ 56,814	07/11/12	05/02/12	47
1079602	\$ 252,210	08/09/12	07/03/12	24
1081139	\$ 60,567	08/09/12	07/03/12	24
1081142	\$ 599,704	09/14/12	08/02/12	28
1099156	\$ 92,639	09/14/12	08/02/12	28
1099159	\$ 45,004	09/14/12	08/02/12	28
1099161	\$ 288,863	10/09/12	08/24/12	29
1096124	\$ 780,488	10/26/12	09/12/12	29
1079602	\$ 489,265	08/09/12	07/03/12	24
1099161	\$ 330,142	10/09/12	08/24/12	29
1104183	\$ 169,858	10/09/12	08/24/12	29
6974	\$ 528	11/18/11	11/08/11	5
1006604	\$ 18,050	12/05/11	10/28/11	23
1055308	\$ 18,050	02/03/12	01/05/12	18
1075787	\$ 18,050	07/18/12	07/03/12	8
1052466	\$ 4,809	01/10/12	12/01/11	25
1073256	\$ 2,347	06/22/12	06/04/12	11

Cause: The cause of the above condition is the lack of procedures for timely disbursement of cash advanced from the grantor agency in accordance with the requirements of the CMIAA.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. Interest earned on the advances is \$304 and an interest liability of \$204 exists; however, no questioned costs result as the projected interest liability is less than \$10,000.

Recommendation: We recommend that DOF comply with the clearance pattern specified in applicable cash management requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-22, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Cash Management
Interest Liability: \$204
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance and Asuncion Agulto, Treasurer

Corrective Action: Delays in completion of the Treasury-State agreement (TSA) is the result of the lack of adequate accounting personnel with DOF. A contractor was hired to assist with the completion of the TSA and train staff to comply with the CMIAA.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-23
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number: 7NM700NM7
Area: Eligibility
Questioned Costs: \$-0-

Criteria: In accordance with applicable eligibility requirements, a rights and obligations document must be signed by the certifier and income verifier.

Condition: Our tests of seventy-five participants noted that a rights and obligations document for two participants (or 3%) was not signed by the certifier:

<u>Food Instrument No.</u>	<u>WIC ID No.</u>	<u>Issue Date</u>	<u>Date Used</u>	<u>Amount Tested</u>
634507	10010007057	09/26/11	11/21/11	\$ 19
637211	10010011049	10/03/11	12/06/11	\$ 94

Cause: The cause of the above condition is lack of controls over the eligibility process.

Effect: The effect of the above condition is noncompliance with eligibility requirements and the possible use of federal funds for ineligible individuals. No questioned cost is presented because all other case file documents show that the participants meet the eligibility requirements. However, the finding is considered reportable since the projected questioned costs exceed \$10,000.

Recommendation: We recommend that WIC complete case files supporting eligibility determinations.

Prior Year Status: The lack of controls over the eligibility process was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Ruth Sablan, WIC Clinic Manager

Corrective Action: Starting earlier this year, the front desk staff at the end of the day will review the daily files for all necessary signatures.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-24
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
 Grant Number: 7NM700NM7
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$22,502

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the CNMI procurement regulations state the following:

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the Procurement and Supply (P&S) Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.

Condition: Of twenty-five samples tested, totaling \$77,428, we noted ten expenditures or (40%), totaling \$32,592, that did not meet federal procurement requirements.

Business Unit No.	TA/Contract Number	Object	General Ledger Date	Document Number	Amount	Questioned Costs
A25570	P.O. 541709	62300	07/11/12	230955	\$ 6,550	\$ -
A25570	TA 295169-OT	62500	12/27/11	1056378	1,738	1,738
A25570	TA 295925	62500	03/26/12	1065312	219	-
A25570	TA 297290	62500	06/11/12	1075015	84	-
A25570	TA 298023	62500	07/19/12	1078485	2,129	2,129
A25570	TA29884	62500	09/12/12	1094335	1,793	1,793
A25570	P.O. 541709	62680	07/11/12	230955	2,837	-
A15570	P.O. 537804	63010	02/01/12	230309	6,052	6,052
A15570	P.O. 539313	63050	04/27/12	230583	9,690	9,690
A25570	P.O. 541104	63070	02/08/12	230327	<u>1,100</u>	<u>1,100</u>
					\$ <u>32,192</u>	\$ <u>22,502</u>

No questioned costs are presented for Document Number 230955 since procurement documentation from a third party indicates the selected vendor would likely be the least costly option.

No questioned costs are presented for Document Numbers 1065312 and 1075015 since airfare to Rota and Tinian would be consistent regardless of travel agency.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with procurement requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-24, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number: 7NM700NM7
Area: Procurement and Suspension and Debarment
Questioned Costs: \$22,502

Effect: The effect of the above condition is that WIC is not in compliance with procurement requirements and questioned costs of \$22,502.

Recommendation: We recommend that WIC take reasonable steps to comply with applicable regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Imelda Benavente, WIC Financial Manager

Corrective Action:

Document # 230955: Justification for procurement of FI Vouchers and freight charges with Standard Register was included in the RFP purpose. Furthermore, sole source justification obtained from the Arizona WIC Program (through an Intergovernmental Agreement for the CNMI WIC Program's use of the Arizona-in-Motion data system) was emailed for audit review on December 5, 2013.

Document #s 1065312 and 1075015: The WIC Program processes travel authorizations for Rota and Tinian twice each month. It is therefore not practical to obtain price quotations each time we process travel authorizations for Rota and Tinian as the airfare rates normally remain unchanged for a long period of time. Any updates to Rota and Tinian airfare rates are communicated to us by the travel agency and is included in a permanent file.

Furthermore, WIC selects travel agency and routes not based on price but based on what can meet current WIC Program needs based on clinic schedule and flight/seat availability to ensure we provide required clinic services to these islands while not hampering Saipan WIC Clinic operations.

Document #s 1056378, 1078485 and 1094335: For the finding on questioned costs for airfare cited for inadequate competitive pricing, the WIC Program exerts efforts to obtain competition and price quotations from two available travel agencies that accept government travel requests for available airlines and reasonable routes from Saipan to the final destination for each official travel plan. The cheapest airline and route is selected and forwarded to the Department of Finance - Travel Section for review and approval. The WIC Program was informed by the Department of Finance - Travel Section that there is an existing memorandum of understanding (MOU) with an airline company that provides a discounted rate for the CNMI government. Thus, the cost of airfare based on other connecting flights provided by other airlines to the final travel destination normally costs more. Accordingly, the Department of Finance - Travel Section approves the cheaper airfare obtained through the discounted rate provided by this existing MOU.

Document # 230309: WIC Program received one of three price quotations requested. The two other vendors did not respond.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-24, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number: 7NM700NM7
Area: Procurement and Suspension and Debarment
Questioned Costs: \$22,502

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Document # 230583: The sole source justification dated September 7, 2011 for the procurement of hospital-grade breast pumps and accessories with Medela was emailed for audit review on December 5, 2013. The CNMI WIC Program is a participating entity under the Western States Contracting Alliance (WSCA) for the bid and procurement of breast pumps with Medela according to a Master Price Agreement under Washington Contract No. 01910. The CNMI WIC Program's Participating Addendum for this WSCA contract was approved by the Director of Procurement and Supply as a participating State Procurement Officer on April 25, 2011. A copy of the Participating Addendum was emailed for audit review on December 5, 2013.

Document # 230327: The WIC Program requested for price quotations from three vendors and only two vendors responded. The procurement of micro cuvettes with Marianas Medical Center is based on the lower of the two price quotations received.

Proposed Completion Date: Ongoing.

Auditor Response:

Document # 230955: The justification obtained from the Arizona WIC Program indicates that other vendors could be available and only assumes that the selection of Standard Register would be less costly. As competition could have been sought, the condition is reportable.

Document # 230583: We noted there are other breast pump providers with Master Price Agreements under Washington Contract No. 01910. There was no evidence that the other providers were considered prior to using sole source procurement.

Document #s 1056378, 1078485 and 1094335: Although an MOU exists, there was no evidence in file indicating how the vendor was selected.

Document #s 1065312 and 1075015: An adequate number of quotations were not provided and only one travel agency was used for all flights to Rota and Tinian during the fiscal year.

Document #s 230309 and 230327: An adequate number of quotations were not provided. The CNMI Procurement Regulations requirement is to "obtain price quotations from at least three (3) vendors." When only three solicitations are sent, and less than three quotations are obtained, the expectation is for other solicitations to be sent until the procurement requirements are satisfied in promotion of competition.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-25
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Grant Numbers: CNMI-CIP-2010-1 and CNMI-CIP-2008-3
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$541,126

Criteria: In accordance with OMB Circular A-87, costs to be allowable under federal awards should be consistent with policies and procedures that apply uniformly to both federal awards and other activities of the governmental unit. Payroll expenditures must be supported by activity reports signed by the employee, principal investigator, or responsible official(s) to verify that the work was performed. Further, if an employee spends less than 100% of his or her time on one federal program, the employee is required to maintain contemporaneous records documenting the time per applicable program served, unless an alternative method has been authorized by the funding agency.

In addition, based on the grant terms and conditions, expenditures should be supported by an Authorization to Proceed (ATP) from the grantor prior to incurrence of costs or commencement of the project.

Condition: Our tests of expenditures noted the following:

1. Of seven payroll expenditures tested aggregating \$56,508, of a population of \$294,011, we noted the following:

- a. For one payroll expenditure (or 14%), no time card or activity report was provided.

<u>Business Unit</u>	<u>Pay Period Ended</u>	<u>Employee No.</u>	<u>Gross Pay</u>
5649	01/14/12	403442	\$ 3,846

Actual expenditure charged to the Program for this Contracting Officer/Governor's Special Legal Counsel is \$2,885 (75% of the employee's gross pay). There is no time-effort study or other activity report to support a 75% cost allocation of the above employee. Questioned costs of \$2,885 are raised as the projected questioned costs exceed \$10,000.

- b. For four payroll expenditures (or 57%), time cards were not signed by the employee. No questioned cost is presented because the timesheet was approved by the Program Administrator.

<u>Business Unit</u>	<u>Pay Period Ended</u>	<u>Employee No.</u>	<u>Gross Pay</u>
5649	07/14/12	100877	\$ 1,385
5649	11/05/11	518175	\$ 865
5649	12/31/11	100230	\$ 1,185
5649	04/07/12	100235	\$ 1,481

- c. For one payroll expenditure (or 14%), an annual leave form was not approved by the immediate supervisor. Questioned costs of \$37 are raised as the projected questioned costs exceed \$10,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-25, Continued
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Grant Numbers: CNMI-CIP-2010-1 and CNMI-CIP-2008-3
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$541,126

Condition, Continued:

<u>Business Unit</u>	<u>Pay Period Ended</u>	<u>Employee No.</u>	<u>Hours of Leave Taken</u>
5649	12/31/11	100230	2

2. Of fifty-seven nonpayroll expenditures tested, aggregating \$3,626,684, of a population of \$5,321,230, the ATP from the grantor was not provided for two nonpayroll expenditures.

<u>Business Unit</u>	<u>Obligating Document #</u>	<u>APV #</u>	<u>Questioned Costs</u>
5627	544	1097313	\$ 271,093
5627	544	1054438	<u>267,111</u>
			\$ <u>538,204</u>

Cause: The cause of the above condition is the lack of adherence to applicable federal requirements.

Effect: The effect of the above conditions is noncompliance with applicable allowable costs/cost principles requirements, and questioned costs of \$541,126 exist.

Recommendation: We recommend that the CNMI comply with applicable federal requirements.

Prior Year Status: The lack of adherence to applicable federal requirements was reported as a finding in the Single Audit of the CNMI for fiscal year 2011.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1a: We agree with the finding that there were no records to support the 75% payroll cost allocation of employee no. 403442. To resolve this finding, the employee will be required to submit time reports to support the payroll cost allocation charged to the Program similar to the time reports submitted by the project managers.

Condition 1b: We agree with the finding that the timecards were not signed and a reminder has been issued to all employees funded by the Program to avoid a delayed pay status.

Condition 1c: We agree with the finding and a memorandum has been issued to all employees to secure an approved leave application prior to taking leave.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-25, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Grant Numbers: CNMI-CIP-2010-1 and CNMI-CIP-2008-3
Area: Allowable Costs/Cost Principles
Questioned Costs: \$541,126

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 2: We agree with the finding that an ATP was not secured from the grantor prior to expenditure of funds. The CIP Program will obtain approval from the grantor to resolve this finding.

Proposed Completion Dates:

Condition 1a: December 31, 2013
Condition 1b: Immediately
Condition 1c: Immediately
Condition 2: December 31, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-26
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
 Capital Improvement Projects
 Area: Cash Management
 Interest Liability: \$83
 Questioned Costs: \$-0-

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of federal funds and the payout of funds for program cost should be minimized.

Condition: Of sixty-five transactions tested aggregating \$3,683,192 of a population of \$5,615,242, forty-four items (or 68%) were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's account as follows:

<u>Grant Agreement</u>	<u>Business Unit</u>	<u>APV No.</u>	<u>Check No.</u>	<u>Actual Clearing Date Per Bank Statement</u>	<u>General Ledger Amount</u>	<u>No. of Days Elapsed</u>
CNMI-CIP-2008-3	5626	1007587	5238	02/14/12	\$ 1,000	23
CNMI-CIP-2009-2	5636	1072454	5406	07/04/12	\$ 13,100	95
CNMI-CIP-2011-3	5649A	1072457	5367	06/07/12	\$ 7,547	6
CNMI-CIP-2009-2	5637	1075097	5520	10/26/12	\$ 36,677	64
CNMI-CIP-2007-1	5611	1075901	5422	07/20/12	\$ 64,601	7
CNMI-CIP-2010-5	5668	1075904	5407	07/02/12	\$ 43,095	93
CNMI-CIP-2011-3	5649A	1075906	5409	07/19/12	\$ 7,102	6
CNMI-CIP-2010-4	5659	1077310	5431	08/10/12	\$ 194,342	15
CNMI-CIP-2009-2	5636	1077970	5451	08/10/12	\$ 24,050	9
CNMI-CIP-2010-5	5668	1078360	5434	08/06/12	\$ 104,314	2
CNMI-CIP-2010-5	5668	1078393	5437	08/06/12	\$ 3,900	2
CNMI-CIP-2007-1	5612	1078712	5444	08/07/12	\$ 56,300	2
CNMI-CIP-2007-1	5667	1078727	5462	08/23/12	\$ 88,252	5
CNMI-CIP-2007-1	5664	1079841	5483	10/01/12	\$ 81,813	24
CNMI-CIP-2007-1	5667	1080865	5468	09/19/12	\$ 44,405	2
CNMI-CIP-2010-5	5668	1080932	5473	09/27/12	\$ 88,896	4
CNMI-CIP-2009-2	5637	1081204	5476	10/05/12	\$ 45,058	5
CNMI-CIP-2010-5	5668	1084651	5486	10/01/12	\$ 1,150	3
CNMI-CIP-2006-1	5610	1014030	5277	03/02/12	\$ 50,104	7
CNMI-CIP-2010-2	5652	1014034	5246	02/07/12	\$ 2,066	8
CNMI-CIP-2010-5	5668	1014039	5260	02/29/12	\$ 30,543	16
CNMI-CIP-2008-4	5628	1052326	5252	02/14/12	\$ 55,452	366
CNMI-CIP-2007-3	5673	1052488	5262	02/29/12	\$ 18,600	5
CNMI-CIP-2008-3	5627	1054438	5287	05/07/12	\$ 267,111	51
CNMI-CIP-2010-2	5652	1055270	5246	02/07/12	\$ 88,474	8
CNMI-CIP-2010-5	5668	1055272	5247	02/09/12	\$ 295,296	2
CNMI-CIP-2007-1	5612	1057455	5276	03/06/12	\$ 152,010	9
CNMI-CIP-2010-2	5652	1058693	5246	02/07/12	\$ 132,218	7
CNMI-CIP-2010-5	5668	1059163	5305	04/04/12	\$ 36,730	41
CNMI-CIP-2007-1	5611	1059253	5281	02/29/12	\$ 93,404	5
CNMI-CIP-2009-2	5674	1060963	5397	06/25/12	\$ 35,209	7
CNMI-CIP-2009-3	5647	1060963	5289	03/06/12	\$ 95,615	7
CNMI-CIP-2010-5	5668	1061623	5280	02/28/12	\$ 41,916	4
CNMI-CIP-2010-2	5652	1061703	5290	03/14/12	\$ 69,843	12
CNMI-CIP-2010-5	5668	1062761	5300	04/03/12	\$ 2,400	17
CNMI-CIP-2011-3	5649A	1063355	5315	04/05/12	\$ 5,189	7
CNMI-CIP-2010-5	5668	1063937	5314	05/16/12	\$ 52,127	37
CNMI-CIP-2009-2	5636	1065381	5326	04/09/12	\$ 8,333	33
CNMI-CIP-2009-2	5637	1069617	5349	05/22/12	\$ 42,990	21
CNMI-CIP-2009-3	5847	1056427	5254	02/23/12	\$ 27,882	1
CNMI-CIP-2010-5	5662	1078916	5461	08/20/12	\$ 1,440	11

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-26, Continued
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
 Capital Improvement Projects
 Area: Cash Management
 Interest Liability: \$83
 Questioned Costs: \$-0-

Condition, Continued:

<u>Grant Agreement</u>	<u>Business Unit</u>	<u>APV No.</u>	<u>Check No.</u>	<u>Actual Clearing Date Per Bank Statement</u>	<u>General Ledger Amount</u>	<u>No. of Days Elapsed</u>
CNMI-CIP-2010-5	5668	1069835	5346	05/11/12	\$ 88,779	11
CNMI-CIP-2008-2	5629	1014033	5629	03/01/12	\$ 47,259	17
CNMI-CIP-2007-1	5611	1075901	5611	02/29/12	\$ 70,644	5

Cause: The cause of the above condition is the lack of monitoring procedures to determine that cash advances from the grantor agency are disbursed in a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. Interest earned on the advances is \$183 and an interest liability of \$83 exists; however, no questioned costs result from this condition as the projected interest liability is less than \$10,000.

Recommendation: We recommend that the CNMI establish internal controls over cash management to comply with applicable requirements.

Auditee Response and Corrective Action Plan:

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

Corrective Action: DOF will establish monitoring procedures to ensure funds drawn down from the grantor are received and disbursed promptly.

Proposed Completion Date: December 31, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-27
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$311,638

Criteria: In accordance with applicable period of availability requirements, expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of seventeen awards tested aggregating \$4,094,834 of a population of \$5,615,242, we noted the following:

- For five grants (or 29%), expenditures were incurred after the grant expired. We were not provided grant extensions for the following grants:

Business Unit	Grant Award Ref.	Grant Expiration Date	Expenditure Tested	Expenditure Incurred After Allowable Time Frame	Questioned Costs
5610	CNMI-CIP-2006-1	12/31/11	\$ 60,054	\$ 9,950	\$ 9,950
5224	CNMI-CIP-2007-1	09/30/12	\$ 131,404	4,421	4,421
5669	OMIP-CNMI-WTF-2011-1	12/31/11	\$ 104,012	104,012	104,012
5222	CNMI-CIP-2006-1	09/30/10	\$ 811	1,440	-
5666	DA-CNMI-2009-2	07/30/11	\$ 18,957	<u>14,535</u>	-
				\$ <u>134,358</u>	\$ <u>118,383</u>

Questioned costs were not raised for business units 5222 and 5666 as no drawdown of federal funds occurred.

- For one grant (grant no. CNMI-CIP-2009-3) (or 1%) which expired on 09/30/11, the following expenditures under business unit 5647 were liquidated after 90 days from the grant expiration date. We were not provided a grant extension.

PV No.	General Ledger Date	Check No.	Clearance Date	Questioned Costs
1079841	08/06/12	5464	09/10/12	\$ 21,737
1014028	10/19/11	5254	02/23/12	16,195
1056427	12/22/11	5254	02/23/12	27,882
1060963	02/09/12	5289	03/06/12	15,913
1060963	02/09/12	5289	03/06/12	95,615
1062393	02/23/12	5341	05/04/12	<u>15,913</u>
				\$ <u>193,255</u>

Cause: The cause of the above condition is the lack of established policies and procedures for the proper recording of expenditures incurred beyond the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements, and questioned costs of \$311,638 exist.

Recommendation: We recommend that the CNMI comply with period of availability requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-27, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Area: Period of Availability of Federal Funds
Questioned Costs: \$311,638

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: Two time extensions were granted for grant no. CNMI-CIP-2006-1, business unit 5222. The first extension was through 12/31/10 and the second was through 03/31/11.

Condition 2: The CNMI agrees that grant extensions should be more timely processed. We will attempt to be timelier in requesting extensions. It should be noted that all of the expenditures were subsequently approved for payment by the grantor agency.

The CIP Office will ensure extensions are secured for grants that are expiring for projects that will be completed past the expiration of the performance period.

Proposed Completion Date: Immediately

Auditor Response:

Condition 1: Expenditure charged to business unit 5222 was incurred on 02/28/12 which was after the grant expiration date of 03/31/11. Therefore, the finding is reportable.

Condition 2: No grantor-approved extension was provided to us.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-28
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Area: Procurement and Suspension and Debarment
Questioned Costs: \$83,336

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the CNMI procurement regulations state the following:

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- Bidding is not required for procurement under \$2,500.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented, and submitted to the Procurement and Supply (P&S) Director for approval.
- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirement shall not be artificially divided so as to constitute a small purchase.
- Price or cost to the government shall be included as an evaluation factor in every solicitation of proposals, including professional services.
- Grantee and subgrantee contracts must include, among others, provisions for federal access to contractor's records.

Condition: Of fifty-seven nonpayroll expenditures tested, aggregating \$3,626,684, of a population of \$5,321,230, the following were noted:

1. CNMI procurement procedures allow for restricted competition for purchases of less than \$2,500. This procedure appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition in the procurement of federally funded property and services. Program expenditures in FY 2012 for purchases of less than \$2,500 totaled \$83,336. Noncompliance and questioned costs result for those purchases of less than \$2,500.

For three expenditures (or 5%), price quotations were not obtained for the following which qualify under small purchase procedures:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-28, Continued
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$83,336

Condition, Continued:

<u>Grant Number</u>	<u>Obligating Document No.</u>	<u>Purchase Order Amount</u>	<u>APV #</u>	<u>BU</u>	<u>General Ledger Date</u>
CNMI-CIP-2010-5	542289 OP	\$ 2,400	1062761	5668	02/29/12
CNMI-CIP-2010-5	549674 OP	\$ 2,166	1084651	5668	09/04/12
CNMI-CIP-2008-3	529971 OP	\$ 2,500	1007587	5626	10/12/11
CNMI-CIP-2010-5	546703 OP	\$ 2,400	1078916	5668	07/24/12

Of twenty-six construction in progress (CIP) contracts tested, from nonpayroll expenditures tested aggregating \$3,626,684 of a population of \$5,321,230, the following were noted:

2. Eight contracts (or 31%) did not contain provisions for federal access to contractor records:

<u>Grant Number</u>	<u>Business Unit No.</u>	<u>Contract No.</u>
CNMI-CIP-2006-1	5610	559 OS
CNMI-CIP-2011-3	5649A	577 OS
CNMI-CIP-2007-1	5612	472 OS
CNMI-CIP-2009-3	5647	564 OS
CNMI-CIP-2009-2	5637	571 OS
CNMI-CIP-2010-4	5659	551 OS
CNMI-CIP-2009-2	5636	480 OS
CNMI-CIP-2008-3	5627	544 OS

No questioned costs result as contracts were selected in accordance with procurement regulations. Further, contracts contain provisions that the Public Auditor of the CNMI has access to examine records of the contractor and subcontractor.

3. Two contracts (or 8%) did not contain provisions for termination for cause and convenience:

<u>Grant Number</u>	<u>Business Unit No.</u>	<u>Contract No.</u>
CNMI-CIP-2009-3	5647	564 OS
CNMI-CIP-2010-4	5659	551 OS

No questioned costs result as contracts were selected in accordance with procurement regulations.

Cause: The cause of the above condition is the failure to comply with applicable procurement regulations and the absence of competitive procurement for items less than \$2,500.

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$83,336 exist for Condition 1.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-28, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Area: Procurement and Suspension and Debarment
Questioned Costs: \$83,336

Recommendation: We recommend that the CNMI comply with procurement regulations and review its current procurement regulations to conform with applicable federal laws and seek guidance from the grantor agency regarding the application of restricted competition for transactions meeting the \$2,500 threshold.

Prior Year Status: The lack of compliance with procurement regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 through 2011.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: There is no requirement for quotations for purchases under \$2,500 in the CNMI procurement regulations, and federal law allows procurement to follow local law. Thus, we disagree that any findings be made concerning the first two listed purchases. Further, the first purchase order (PO # 542289) was for engineering services. Engineering services are based on relevant experience not price. In fact, the CNMI prohibits selection of engineering services solely based on price. The second purchase order was for fuel purchases using the vendor selected by the CNMI government for its vehicle fleet. The price paid was the same obtained by the CNMI at bid. Thus, we use bid information on selection. The third purchase order was for newspaper publication services. There are two publication companies in the CNMI and both have fixed rates. We selected the publication with the lowest rates.

The Water Task Force will ensure that quotations are obtained for any purchases of \$2,500 or more and will try to ensure competition when available and in compliance with the CNMI.

Condition 2: The CNMI has amended the contract template to include the requirement for federal access to contractor records.

Condition 3: The contract template has been amended to include provisions that address termination for cause and convenience.

The CIP Office is currently utilizing the amended contract that addresses the requirement for federal access to contractor records and also included provisions addressing termination for cause and convenience.

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-28, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Area: Procurement and Suspension and Debarment
Questioned Costs: \$83,336

Auditor Response:

Condition 1: Evaluation of proposals, bidding documents or required number of quotations related to small purchases to document that other contractors were considered, was not provided for testing. Further, although the Program is in compliance with the CNMI procurement regulations, such regulations allow for restricted competition for purchases less than \$2,500. These appears to circumvent the intent of applicable Federal procurement requirements, which is to provide full and open competition regardless of price. Therefore, the finding is reportable.

Regarding engineering services, we agree that relevant experience is key in the selection process. No solicitation documentation or evaluation documentation was provided to show that other engineers were considered or evaluated before selecting a vendor to provide design consultation for the AGA Water System/Well Isolation project.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-29
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
 Capital Improvement Projects
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: In accordance with grant terms and conditions, a Financial Status Report and a narrative project status report will be submitted semi-annually for the periods beginning January 1 and ending June 30, and beginning July 1 and ending December 31. Further, an effective system of internal control requires accurate financial information, agreed to accounting records, be presented on status reports.

Condition: Of twenty-three grants tested aggregating \$3,683,192 of a population of \$5,615,242, the following were noted:

1. For two grants (grant nos. CNMI-CIP-2009-2; business unit 5674 and MA-CNMI-2012-2; business unit 5688) (or 8%), the Financial Status Reports and narrative project status was not submitted for the period ended December 31, 2012.
2. For one grant (grant no. OMIP-CNIM-WTF-2011-1; business unit 5669) (or 4%), the required recipient share of \$34,671 was not reported on the Financial Status Report for the period ended December 31, 2012.
3. For one grant (grant no. CNMI-CIP-2009-3; business unit 5647) (or 4%), the expenditure and drawdown below were traced to the accounting records, but were not reflected on the final Financial Status Report for the period ended December 31, 2012:

<u>Document Number</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Clearance/Drawdown Receipt Date</u>	<u>Questioned Costs</u>
PV # 1079841	08/06/12	5464	09/10/12	\$ 21,737
DD # 2012-217	08/14/12		08/14/12	(21,737)
				\$ _____

Cause: The cause of the above condition is the lack of established policies and procedures to accurately report and submit financial information on a timely basis. No questioned costs are presented as the expenditures were allowed under the grant terms and conditions. Further, the required recipient share was met in Condition 2 above.

Effect: The effect of the above condition is the lack of compliance with reporting requirements.

Recommendation: We recommend that steps be taken to determine that information reported to the grantor is based on accurate financial records and that required reports be timely submitted.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-29, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: We agree with this finding and the CIP Office will submit the Financial Status Report for grant no. CNMI-CIP-2009-2, business unit 5674 to the grantor agency on the December 31, 2013 reporting period.

Condition 2: The CNMI will assist to obtain the required recipient share of expenditure on the financial status report.

Condition 3: The CIP Office will amend grant no. CNMI-CIP-2009-3, business unit 5647 Financial Status Report to include all expenditures.

Additionally, the CIP Office will ensure to timely submit reports.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-30
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Grant Number: CNMI-CIP-2008-2
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Criteria: Pass-through entities must establish and implement subrecipient monitoring policies and procedures. Further, in accordance with OMB Circular A-133, Part III Compliance Requirements - Subrecipient Monitoring, a pass-through entity is responsible for:

- At the time of the award, identifying the subrecipient of the federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements.
- Monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition: Of fifty-seven nonpayroll expenditures tested aggregating \$3,626,684, of a population of \$5,321,230, \$47,259 relates to subrecipient expenditures. The following were noted:

1. A subrecipient agreement was not executed for business unit no. 5629.
2. For one contract (no. 519 OS) under business unit no. 5629, a certification from the subrecipient that procurement was in accordance with applicable regulations was not evident.

In addition, a listing of all subrecipients and amounts passed through was not provided for testing.

Cause: The cause of the above condition is failure to enforce compliance with subrecipient monitoring requirements.

Effect: The effect of the above condition is the lack of compliance with subrecipient monitoring requirements. No questioned costs result as the related subrecipient costs were allowable under the grant award terms and conditions.

Recommendation: We recommend the CNMI comply with subrecipient monitoring requirements.

Prior Year Status: Noncompliance with subrecipient monitoring requirements was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 through 2011.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-30, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Grant Number: CNMI-CIP-2008-2
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

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

Corrective Action: To comply with subrecipient monitoring requirements, the Office of Capital Improvement finalized a subrecipient monitoring agreement which was forwarded to the entities for review and acceptance. A follow-up will be necessary to ensure the agreement is signed and monitoring is conducted periodically.

Proposed Completion Date: December 31, 2013

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-31
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
 Capital Improvement Projects
 Grant Number: CNMI-CIP-2008-3
 Area: Special Tests and Provisions
 Questioned Costs: \$-0-

Criteria: Grant terms and conditions specified under grant awards/agreements should be complied with. The grant awards contain provisions that the grantee present evidence to OIA that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land upon which new capital improvement projects are to be constructed.

Condition: Of twenty-three projects tested aggregating \$3,683,192 of a population of \$5,615,242, a leasehold agreement or other equivalent document evidencing that the CNMI has clear title or legal authority to use the land for the following project was not provided:

<u>Business Units</u>	<u>Project</u>	<u>Expenditure Tested</u>	<u>Questioned Costs</u>
5627	Tinian Landfill	\$ 538,204	\$ 538,204
	Less costs already questioned in previous Finding No. 2012-25		(538,204)
			\$ _____

Cause: The cause of the above condition is the lack of systematic filing of evidence that the CNMI has clear title or legal authority to use the land for construction projects and a written approval from the grantor.

Effect: The effect of the above condition is noncompliance with the grant terms and conditions.

Recommendation: We recommend the CNMI properly maintain and file leasehold agreements or other equivalent documents evidencing that the CNMI has clear title or legal authority to use the land for construction projects.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The Office of Capital Improvement disagrees with the finding since the project was at the design phase and authority to proceed was obtained in consultation with the representatives of the U.S. Department of Defense, that clear land title or legal use of land will be issued upon approval of the design.

Proposed Completion Date: Upon design approval.

Auditor Response: As raised and confirmed from the auditee response on Finding 2012-25, Condition 2, the Authority to Proceed was not secured from the grantor prior to expenditures for the architectural and engineering design phase of the project. Further, as per the grant terms and conditions, “the grantee shall present evidence to OIA that the CNMI has clear title, leasehold agreement, or other legal authority for use of land upon which new capital improvement projects are to be constructed”. Such certification documents should be submitted prior to any design and construction activity. Therefore, the finding is reportable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-32
 Federal Agency: U.S. Department of Transportation
 CFDA Program: 20.205 Highway Planning and Construction
 Grant Number: CM-NH-0010(002), CM-NH-0011(001), CM-NH-0031(004), CM-NH-0031(012), CM-NH-0031(013), CM-NH-0031(014), CM-NH-0033(021), CM-NH-0036(003), CM-NH-0075(008) and CM-NH-0201(001)
 Area: Cash Management
 Interest Liability: \$169
 Questioned Costs: \$-0-

Criteria: In accordance with applicable cash management requirements, the time elapsed between the receipt of Federal funds and the payout of funds for program costs should be minimized.

Condition: For thirty (or 71%) of forty-two transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days, ranging from 1 to 148 days as follows:

<u>Document Number</u>	<u>Amount</u>	<u>Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
1065176	\$ 26,627	05/17/12	04/13/12	22
1069446	\$ 482,900	05/08/12	05/03/12	1
1070817	\$ 909,344	05/08/12	05/03/12	1
1077696	\$ 302,308	07/19/12	07/12/12	3
1061362	\$ 42,054	03/13/12	03/06/12	3
1069610	\$ 29,895	11/22/12	11/14/12	4
1061360	\$ 215,672	03/23/12	03/06/12	11
1078416	\$ 80,271	12/06/12	11/14/12	14
1057937	\$ 25,894	02/13/12	02/02/12	5
1076315	\$ 124,925	08/28/12	05/24/12	66
1076316	\$ 91,156	08/28/12	05/24/12	66
1054455	\$ 58,460	02/15/12	01/10/12	24
1054628	\$ 140,572	02/15/12	01/10/12	24
1071781	\$ 467,730	05/16/12	05/03/12	7
1075108	\$ 127,516	11/29/12	05/03/12	148
1075108	\$ 119,549	11/29/12	05/03/12	148
1006590	\$ 16,721	12/09/11	11/08/11	21
1065406	\$ 19,664	05/15/12	03/06/12	48
1079362	\$ 16,730	09/03/12	08/09/12	15
1071780	\$ 267,361	05/16/12	03/06/12	49
1071779	\$ 258,800	05/16/12	03/06/12	49
1061596	\$ 88,515	02/14/12	01/10/12	23
1061596	\$ 111,667	02/14/12	01/10/12	23
1057763	\$ 14,916	03/26/12	02/02/12	35
1061353	\$ 132,860	03/13/12	03/06/12	3
1061356	\$ 164,721	03/13/12	03/06/12	3
1069444	\$ 517,274	05/08/12	05/03/12	1
1077696	\$ 278,517	07/19/12	07/12/12	3
1095898	\$ 100,960	11/14/12	11/02/12	6
1061707	\$ 329,916	03/13/12	03/06/12	3

Cause: The cause of the above condition is lack of monitoring procedures to determine that cash advances from the grantor agency are disbursed within a timely manner.

Effect: The effect of the above condition is noncompliance with cash management requirements. An interest liability of \$169 exists; however, no questioned costs result from this condition as the projected interest liability is less than \$10,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-32, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Grant Number: CM-NH-0010(002), CM-NH-0011(001), CM-NH-0031(004), CM-NH-0031(012), CM-NH-0031(013), CM-NH-0031(014), CM-NH-0033(021), CM-NH-0036(003), CM-NH-0075(008) and CM-NH-0201(001)
Area: Cash Management
Interest Liability: \$169
Questioned Costs: \$-0-

Recommendation: We recommend that the CNMI establish internal controls over cash management that determine compliance with applicable requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Martin C. Sablan, DPW Secretary and Asuncion Agulto, Treasurer

Corrective Action: Drawdowns for these funds are done by DPW and payments are made by DOF. DOF and DPW will develop procedures to minimize the time elapsed between the drawdown of funds and the requests for payments.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-33
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Grant Numbers: CM-NH-0010(002), CM-NH-0011(001), CM-NH-0031(004), CM-NH-0031(012), CM-NH-0031(013), CM-NH-0031(014), CM-NH-0033(021), CM-NH-0036(003), CM-NH-0075(008) and CM-NH-0201(001)
Area: Procurement and Suspension and Debarment
Questioned Costs: \$106,050

Criteria: In accordance with applicable federal regulations, grantee and subgrantee contracts must include provision for federal access to contractor records. Contractors shall not be allowed to continue working beyond the expiration term of an original contract in the absence of an approved new contract or change order. Change orders shall be processed using the procedures for processing new contracts.

Condition: Tests of grantee and subgrantee contracts noted the following:

1. Twelve of thirteen contracts (or 92%) (nos. 533007 OC, 536164 OC, 536166 OC, 539191 OC, 416052 OC, 503673 OC, 508828 OC, 504887 OC, 487609 OC, 521210 OC, 509239 OC and 541287 OC) did not contain provisions for federal access to contractor's records. No questioned costs are presented as contracts were selected in accordance with procurement regulations.
2. Federal grantor approval was not evident for two change orders as follows:

<u>Contract No.</u>	<u>Change Order No.</u>	<u>Amount</u>
521210 OC	CO #4	\$ 45,000
487609 OC	CO #1	<u>58,546</u>
		\$ <u>103,546</u>

3. For one airfare (document no. 1061311) of \$2,504, price quotations evidencing competitive procurement could not be provided.

Cause: The cause of the above condition is the lack of procedures to include required contract clauses and of controls over small purchase and change order processing and approval procedures.

Effect: The effect of the above condition is noncompliance with required contract provisions, and questioned costs of \$106,050 exist.

Recommendation: We recommend that the CNMI comply with the above criteria. Specifically, we recommend that the CNMI establish procedures that will determine whether all required federal contract provisions are included. We further recommend that the CNMI continue to monitor timely processing and approval of change orders and improve its filing system.

Prior Year Status: The lack of procedures to include required contract clauses and failure to comply with applicable procurement regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2010 and 2011.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-33, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Grant Numbers: CM-NH-0010(002), CM-NH-0011(001), CM-NH-0031(004), CM-NH-0031(012), CM-NH-0031(013), CM-NH-0031(014), CM-NH-0033(021), CM-NH-0036(003), CM-NH-0075(008) and CM-NH-0201(001)
Area: Procurement and Suspension and Debarment
Questioned Costs: \$106,050

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Martin Sablan, Secretary of Public Works, Vicente C. Cabrera, Acting Director of Technical Services Division and Sonya P. Dancoe, P.E., Highway Administrator

Corrective Action:

Condition 1: Provisions for federal access to project records are applicable to active contracts associated with a project. In addition, this provision does not apply to CMNH-0075(008) which is an established program administrative code used to charge program administrative salaries for authorized highway staff.

Project numbers CM-NH-0010(012), CM-NH-0031(004), CM-NH-0031(013), CM-NH-0031(014) and CM-NH-0031(021) have been completed and will not require corrective actions.

Project number CM-NH-0075(008) is not associated with a project and will not require corrective actions.

Project numbers CM-NH-0011(001), CM-NH-0031(012), CM-NH-0036(003) and CMNH-0201(001) are active projects and will require corrective actions. DPW has initiated the amendment/change order process on all active contracts to include this provision. Based on the same audit finding last year, the federal grantor required that DPW issue amendments/change orders to all active projects to add provision regarding federal access to records. DPW has initiated no cost change orders of active projects to include Article 7 in the contract agreement for all open contracts. Our federal grantor has given us a deadline of December 31, 2013.

Condition 2: Federal grantor approval was obtained for contract no. 521210-OC CO#4 in the amount of \$45,000 through an email communication between FHWA representative and DPW's Project Coordinator on April 26, 2012. DPW believes this email communication provides grantor's stamp approval to proceed with the change order in lieu of a memo to project file to avoid future audit findings.

For contract no. 487609-OC CO#1 in the amount of \$58,546, grantor approval was obtained.

Based on the above response, we believe corrective action is to require a stamped and signed approval from the federal grantor prior to proceeding with the proposed changes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-33, Continued
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Grant Numbers: CM-NH-0010(002), CM-NH-0011(001), CM-NH-0031(004), CM-NH-0031(012), CM-NH-0031(013), CM-NH-0031(014), CM-NH-0033(021), CM-NH-0036(003), CM-NH-0075(008) and CM-NH-0201(001)
Area: Procurement and Suspension and Debarment
Questioned Costs: \$106,050

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 3: Prior to this finding, DPW was not clear on federal regulations applicability to travel purchases. It is our understanding based on follow-up communication with the auditor assigned to our program that competitive procurement by the awardee is required for any purchase including airfare. This means that quotes must be produced to show effort that purchases are made by securing quotes from other vendors.

Proposed Completion Date:

Condition 1: Change orders to address this finding are currently being processed and will be completed for all affected contracts by December 31, 2013. All contracts for new projects will include the statement regarding provisions for federal access to contractor's records as adopted by DPW to address the same finding based on the previous audit.

Condition 2: Ongoing.

Condition 3: DPW Highway Section will consult with the federal grantor to provide guidance and clarification with respect to this finding. In moving forward, DPW will comply with the requirement to secure competitive quotes from available vendors when procuring airline tickets. It should be noted that in the CNMI, there are currently two travel agents that accept government purchase orders.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-34
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Numbers: DE-EE000220
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,494,329

Criteria: In accordance with applicable ARRA requirements, construction projects funded by federal grants are required to include the Buy-American clause within the contract.

Condition: Of twenty-eight expenditures tested amounting to \$2,914,463, contract no. 523543-OC of \$1,494,329 (or 4%) did not satisfy the requirements of the Buy-American clause.

Cause: The cause of the above condition is the lack of controls to comply with federal ARRA requirements.

Effect: The effect of the above condition is noncompliance with grant requirements, and questioned costs of \$1,494,329 exist.

Recommendation: We recommend management include all provisions required by federal grant awards in contracts and/or project specifications.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Thelma B. Inos, Director, Division of Energy

Corrective Action Plan: While it is correct that project contracts do not specifically include a Buy-American clause, the Division of Energy believes that sufficient information on file are available for further inspection and investigation to determine that all projects awarded were done in accordance with and in compliance with such requirement. For instance, all bids require submission of Statements of Certifications of Section 1605 of the ARRA of 2009 from bidders and proposers who receive approval from Project Managers prior to ordering items or equipment for all projects and verification upon receipt of all items and or equipment in order to determine compliance with such provisions.

Proposed Completion Date: FY2014

Auditor Response: A Certification of Compliance with Section 1605 of the ARRA of 2009 was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-35
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Number: DE-EE000220
Area: Reporting
Questioned Costs: \$-0-

Criteria: Section 1512 of the ARRA Act requires each recipient that received recovery funds from a Federal agency to submit a report not later than ten days after the end of each quarter. The report shall contain the following: (1) the total amount of recovery funds received from the Agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; (3) a detailed list of all projects or activities for which recovery funds were expended or obligated; and (4) detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006, allowing aggregate reporting on awards below \$25,000 or to individuals, as prescribed by the Director of the Office Management and Budget.

Condition: The following error was noted during our test of reporting requirements:

	<u>Per 1512 ARRA</u>	<u>Per General Ledger</u>	<u>Variance</u>
Expenditures	\$ 4,512,667	\$ 4,279,504	\$ 233,163

Further, we noted that the preparation and review process for the 1512 report was not documented. We were not able to verify if the report was reviewed.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding compliance with reporting requirements.

Effect: The effect of the above condition is that the Program is not in compliance with reporting requirements. No questioned costs result as the funds drawn down correspond with expenditures recorded in the general ledger.

Recommendation: We recommend that the Program take reasonable steps to comply with applicable regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Thelma B. Inos, Director, Division of Energy

Corrective Action Plan: The Division of Energy disagrees with this finding and states that all Section 1512 reports were submitted electronically and timely, based on financial reports received from DOF, in accordance with the ARRA requirements. With respect to Section 1512 reports, prior to June 2012, the Office of Integrated Professional Solutions, LLC was responsible for submitting the reports. Since then, the Division of Energy has taken the responsibility of preparing and submitting such reports electronically for review and approval by the U.S. Department of Energy and is unaware of any notice of deficiency regarding the variance. However, the Division of Energy will work closely with DOF to address and hopefully resolve this matter.

Proposed Completion Date: FY2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-35, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Number: DE-EE000220
Area: Reporting
Questioned Costs: \$-0-

Auditor Response: DOF records do not agree with the ARRA 1512 report. The ARRA 1512 report should be supported by reliable records. As the difference between DOF records and the ARRA 1512 report could not be explained, the finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-36
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
 Grant Numbers: S394A090054 and S397A090054
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$1,344,754

Criteria: In accordance with applicable period of availability of federal funds requirements, expenditures should be obligated and liquidated within the grant period as stated in the grant terms and conditions.

Condition: Of thirty-four expenditures tested totaling \$6,490,702, nine expenditures (or 26%) were liquidated outside the grant period and an approved grant extension was not evident.

<u>Business Unit</u>	<u>Document Number</u>	<u>Date Cleared</u>	<u>Liquidation Period End</u>	<u>Amount</u>
SEDNMC	219978	01/05/12	12/31/11	\$ 383,513
SEDNMC	220005	01/10/12	12/31/11	81,224
SEDPSS	219979	01/04/12	12/31/11	245,275
SEDPSS	219980	01/05/12	12/31/11	38,563
SEDPSS	219981	01/05/12	12/31/11	198,861
SEDPSS	219982	01/05/12	12/31/11	6,384
SEDPSS	219983	01/05/12	12/31/11	226,229
SEDPSS	219983	01/10/12	12/31/11	67,962
S10FMS	220009	08/13/12	06/30/12	96,743
				<u>\$ 1,344,754</u>

Cause: The cause of the above condition is the lack of established policies and procedures requiring grant funds be obligated and liquidated within the grant period.

Effect: The effect of the above condition is the lack of compliance with period of availability requirements, and questioned costs of \$1,344,754 exist.

Recommendation: We recommend the CNMI establish policies and procedures requiring grant funds to be obligated and liquidated within the grant period.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sheryl Sizemore, Office of Grants Management

Corrective Action: We agree with this finding and will develop policies and procedures to address obligation and liquidation within the grant period.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-37
 Federal Agency: U.S. Department of Education
 CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
 Grant Numbers: S394A090054 and S397A090054
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: Section 1512 of the ARRA Act, requires each recipient that received recovery funds from a Federal agency to submit a report not later than ten days after the end of each quarter. The report shall contains the following: (1) the total amount of recovery funds received from the Agency; (2) the amount of recovery funds received that were expended or obligated to projects or activities; (3) a detailed list of all projects or activities for which recovery funds were expended or obligated; and (4) detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006, allowing aggregate reporting on awards below \$25,000 or to individuals, as prescribed by the Director of the Office of Management and Budget.

Condition: Our tests of the ARRA 1512 reports submitted by the CNMI to the U.S. Department of Education noted variances as follows:

<u>Period Ended</u>	<u>Grant Award Number</u>	<u>Grant Amount</u>	<u>Budget Period</u>	<u>Accumulated Expenditures Per ARRA 1512</u>	<u>Accumulated Expenditures Per General Ledger</u>	<u>Variance</u>
03/31/12	S394A090054	\$ 36,346,681	10/15/09-09/30/10	\$ 36,346,681	\$ 37,158,131	\$ (811,450)
06/30/12	S397A090054	\$ 8,086,914	10/15/09-09/30/10	\$ 8,077,428	\$ 8,136,124	\$ (58,596)

Additionally, total expenditures recorded and drawn down by the CNMI exceeded the grant amount by \$957,403.

Cause: The cause of the above condition is the lack of reconciliation between expenditures submitted in the Section 1512 report and expenditures recorded in the general ledger and lack of procedures to monitor grant funds.

Effect: The effect of the above condition is noncompliance with the Section 1512 reporting requirements. No questioned cost is presented at this finding because amounts are already included in the questioned costs at 2012-36.

Recommendation: We recommend that the CNMI establish policies and procedures that require information reported to the grantor be based on actual financial records.

Prior Year Status: Noncompliance with the Section 1512 reporting requirements was reported as a finding in the Single Audit of the CNMI for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sheryl Sizemore, Office of Grants Management

Corrective Action: We agree with this finding and will develop policies and procedures to address the lack of reconciliation.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-38
Federal Agency: U.S. Department of Education
CFDA Program: 84.394/84.397 State Fiscal Stabilization Fund Cluster
Grant Numbers: S394A090054 and S397A090054
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Criteria: Pass-through entities must establish and implement subrecipient monitoring policies and procedures. Further, in accordance with applicable subrecipient monitoring requirements, a pass-through entity is responsible for:

- At the time of the award, identifying to the subrecipient the federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements.
- Monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition: Of \$5,523,281 in nonpayroll expenditures tested, drawdown requests to the CNMI of \$2,376,836 in expenditures incurred for two subrecipients were not supported by invoices, contracts or equivalent documents supporting the expenditures. No questioned costs are presented since there are separate OMB A-133 reports with no questioned costs, and expenditures are in compliance with the subrecipient agreement between the CNMI and the subrecipient.

Cause: The cause of the above condition is the failure to enforce compliance with subrecipient monitoring requirements.

Effect: The effect of the above condition is the lack of compliance with subrecipient monitoring requirements.

Recommendation: We recommend the CNMI comply with subrecipient monitoring requirements.

Prior Year Status: Failure to enforce compliance with subrecipient monitoring requirements was reported as a finding in the Single Audits of the CNMI for fiscal years 2010 and 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sheryl Sizemore, Office of Grants Management

Corrective Action: We agree with this finding and will develop policies and procedures to address the issue of noncompliance.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-39
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1205CQ5MAP, 05-1205CQ5ADM, 05-1205CQACI, 05-1205CQHIT
and 05-1205CQ1935
Area: Allowable Costs/Cost Principles
Questioned Costs: \$13,837

Criteria: In accordance with applicable allowable costs/cost principles requirements, indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Additionally, the results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. The agreed upon rates shall be made available to all Federal agencies for their use.

Condition: Tests of indirect costs noted that there was no effective indirect cost rate agreement for fiscal year 2012.

<u>Fund</u>	<u>Object No.</u>	<u>Amount</u>
2020	62790	\$ 13,837

Cause: The cause of the above condition is the untimely filing of the indirect cost rate agreement.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirement, and questioned costs of \$13,387 exist.

Recommendation: We recommend that the CNMI implement procedures to comply with the above criteria.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sheryl Sizemore, Office of Grants Management

Corrective Action: The Office of Grants Management is a new division within the CNMI Government and has assumed responsibility for the indirect cost (IDC) rate agreement. This office has been undergoing training and working with a contractor to learn how to develop an IDC proposal and timely file IDC agreements.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-40
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
 05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
 05-1105CQDEXT and 05-1105CQ1935
 Area: Eligibility
 Questioned Costs: \$51

Criteria: In accordance with Part 2 of the Medicaid Revised Operational Plan, applicants must be eligible based on the criteria set forth in the Revised Operational Plan prior to receiving Medicaid assistance.

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

Condition: Tests of sixty-four eligibility files noted the following:

1. For five recipients (or 8%), the resources were incorrectly calculated. No questioned costs result as the recipients were determined to be eligible based on the correct calculations.

<u>Case Number</u>	<u>Resources Per Third Party Verification</u>	<u>Resources Per Program</u>	<u>Variance</u>
14-022185-00	\$ 1,639	\$ 1,106	\$ 533
11-001682-13	\$ 64	\$ 56	\$ 8
17-022261-00	\$ 3	\$ 7	\$ (4)
14-015586-00	\$ -	\$ 3	\$ (3)
11-015654-00	\$ -	\$ 1	\$ (1)

2. For fifteen recipients (or 23%), income were incorrectly calculated. No questioned costs result as the recipients were determined to be eligible based on the correct calculations.

<u>Case Number</u>	<u>Income Per Third Party Verification</u>	<u>Income Per Program</u>	<u>Variance</u>
20-011844	\$ 368	\$ 130	\$ 238
17-013074-18	\$ 1,545	\$ 2,509	\$ (964)
14-030572	\$ 1,132	\$ 1,135	\$ (3)
15-23858	\$ 242	\$ 85	\$ 157
11-010986-00	\$ 1,364	\$ 1,652	\$ (288)
14-022185-00	\$ 1,116	\$ 1,403	\$ (287)
13-002373-00	\$ 1,316	\$ 917	\$ 400
16-030150-00	\$ 1,312	\$ 1,605	\$ (293)
11-015602-00	\$ 745	\$ 984	\$ (239)
13-002373-00	\$ 1,316	\$ 917	\$ 400
14-023047-00	\$ 1,155	\$ 275	\$ 880
11-016266-00	\$ 1,181	\$ 1,171	\$ 10
14-015550-00	\$ 793	\$ 932	\$ (139)
15-019876-00	\$ 521	\$ 93	\$ 428
14-015586-00	\$ 781	\$ 726	\$ 55

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-40, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
05-1105CQDEXT and 05-1105CQ1935
Area: Eligibility
Questioned Costs: \$51

Condition, Continued:

3. For one recipient (or 2%), case number 16-030150-00, the resources eligibility verification was completed on 12/07/11; however, a copy of the bank statement was only updated through 02/28/10. Evidence that this document was further updated during the eligibility review is not evident. No questioned costs result as the recipient is determined to be eligible.
4. The Program paid for medical expenses for one recipient (or 2%) whose alien permanent residence card expired on 08/22/11.

<u>Case Number</u>	<u>Service/Visit Date</u>	<u>Amount Paid</u>
14-014619-00	10/01/11	\$ <u>92</u>
	Federal share (55%)	\$ <u>51</u>

Cause: The cause of the above condition is the lack of adequate control procedures to adhere to the eligibility application, determination and approval process, to obtain and update third party verifications and failure to timely complete eligibility determination review.

Effect: The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and possible use of federal funds for ineligible individuals. Questioned costs of \$51 exist since projected costs exceed \$10,000.

Recommendation: We recommend that the CNMI Medicaid Office establish strict procedures to adhere to the eligibility application, determination and approval process, to obtain and update third party verifications and timely completion of eligibility determination review.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: We agree with the audit finding.

Condition 2: We agree with the audit finding.

Condition 3: We agree with the audit finding.

Condition 4: We agree with the audit finding.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-41
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
 05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
 05-1105CQDEXT and 05-1105CQ1935
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$-0-

Criteria: In accordance with the applicable matching requirements, federal funds are required to be matched by local funds at the ratio of 55% federal and 45% local. Furthermore, in accordance with 42 CFR 433.51, Public Funds may be considered as the State's matching share if they meet both of the following conditions:

- a. The public funds are appropriated directly to the State or local Medicaid agency, or are transferred from other public agencies to the State or local agency and under its administrative control, or certified by the contributing public agency as representing expenditures eligible for matching.
- b. The public funds are not Federal funds, or are Federal funds authorized by Federal law to be used to match other Federal funds.

Condition: Based on accounting records pertaining to local public funds appropriated directly to the CNMI Medicaid Agency and considered as the State's matching share, the actual local match appears deficient, as follows:

Federal expenditures	\$ 13,252,627
Divide by: 55% - federal share	<u>55%</u>
Total expenditure	24,095,685
Multiply by: 45% - local share	<u>45%</u>
Expected local match requirement	10,843,058
Less: actual local match per GL - CNMI	(3,442,123)
Less: actual local match per GL - CHCC	<u>(4,458,438)</u>
Deficiency	\$ <u>2,942,497</u>

We understand that the Commonwealth Healthcare Corporation (CHCC), a public hospital, can contribute and certify its local public funds as representing expenditures eligible for matching; however, no certification document or other supporting schedule was provided to demonstrate compliance.

Cause: The cause of the above condition is the lack of established policies and procedures to determine compliance with the applicable matching requirements and lack of reconciliation between CHCC and the CNMI.

Effect: The effect of the above condition is noncompliance with applicable matching requirements. No questioned costs are presented as we are aware that CHCC recorded at least \$8.9 million in local expenditures for hospital services that could represent contributed public funds eligible for local matching.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-41, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1105CQ5MAP, 05-1105CQ5ADM, 05-1105CQEXTN,
05-1105CQPRTD, 05-1105CQARRA, 05-1105CQACAI,
05-1105CQDEXT and 05-1105CQ1935
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$-0-

Recommendation: We recommend that the CNMI seek guidance from the grantor and comply with applicable matching requirements. Also, the CNMI should coordinate with CHCC to periodically determine and monitor certified, non-Federal expenditures eligible for matching.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding. We have an approved State Plan methodology for inpatient, outpatient and emergency services certified public expenditure (CPE) cost that was approved by the grantor agency. What this means is that the CNMI Medicaid Agency will reimburse CHCC at cost for Medicaid inpatient, outpatient and emergency hospital services. CHCC, a government hospital, uses the CMS-2552 cost report for its Medicare program and submits this cost report each year to the Medicare contractor. CHCC will utilize the protocol outlined in the state plan to determine the allowable Medicaid hospital costs to be certified as public expenditures. Based on 42 CFR 433.51, incurred expenditures have to be recorded at the Provider.

Also, there was a conference call between the grantor agency accountant, the Medicaid Administrator and the auditor and the grantor agency accountant explained that CHCC as a provider is responsible for recording the expenditures.

Proposed Completion Date: N/A

Auditor Response: We understand the State Plan methodology and CHCC's responsibilities. The finding is considered reportable because neither the required certified public expenditure documentation nor any other supporting schedule was provided to us to indicate the actual cost for Medicaid inpatient, outpatient and emergency hospital services.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-42
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1205CQ5MAP, 05-1205CQ5ADM, 05-1205CQACI, 05-1205CQHIT
and 05-1205CQ1935
Area: Reporting
Questioned Costs: \$-0-

Criteria: Section 4.4 of the CNMI's Revised Medicaid Operational Plan requires the Medicaid Agency to submit required reports on an accrual basis, based on financial records maintained by the centralized accounting office (DOF).

Condition: Based on total expenditures reported to the grantor for the year ended September 30, 2012 using the CMS 64 Certification, total federal expenditures reported amounted to \$13,943,774. The actual expenditures per the general ledger amounted to \$13,346,926, resulting in a variance of \$596,848.

Cause: The cause of the above condition is adjustments made subsequent to the submission of the CMS 64.

Effect: The effect of the above condition is noncompliance with Section 4.4 of the Medicaid Operational Plan. The funds drawn down, however, correspond with expenditures recorded in the general ledger; therefore, no questioned costs result from this condition.

Recommendation: We recommend that steps be taken to determine that information reported to the grantor is based on actual financial records.

Prior Year Status: Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2011.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding. At the end of each quarter, we request the detailed expenditures report from DOF. Therefore, the information reported to the grantor is based on the CNMI's financial records. The auditor should review that report instead for each quarter when they conduct the audit since it is on an accrual basis and therefore, will never be the same. As noted by the auditor that the total expenditures reported to the grantor for the year ended September 30, 2012 using the CMS 64 certification, total federal expenditures reported amounted to \$13,943,774 and the actual expenditures per the general ledger amounted to \$13,346,926. The cumulative expenditure amount per the FY2012 fund status does not match what was noted by the auditor.

Proposed Completion Date: N/A

Auditor Response: A reconciliation between expenditures reported in the CMS 64 and the general ledger was not provided. Expenditures recorded per the general ledger, which we obtained from DOF, do not agree with the expenditures reported in the CMS 64 prepared by the Medicaid Office. Further, the cumulative expenditures per the FY2012 fund status do not agree with the SEFA provided by DOF. FY2012 fund status does not include expenditures for business units H1778A and H1778B.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-43
CFDA Programs: USDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
USDOI 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Questioned Costs: \$13,105
USDOT 20.205 Highway Planning and Construction
Questioned Costs: \$12,515
USDOE 81.041 State Energy Program
USED 84.394/84.397 State Fiscal Stabilization Fund Cluster
USHHS 93.778 Medical Assistance Program
Area: Allowable Costs/Cost Principles

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required from employees working for one federal program. Further, in accordance with OMB Circular A-87, costs, to be allowable under federal awards, should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

Condition: Tests of personnel expenses noted the following:

1. Tests of employee activities noted that required certifications are not being obtained for employees working full-time on specific federal programs. Although employees are signing off on timecards or timesheets evidencing hours worked on a federal program, the sign off does not indicate if the employee actually performed activities solely for the one federal program. This condition applies to all major programs tested, except for CFDA #10.551 and CFDA #10.557.
2. On March 11, 2009, Public Law 16-32 was enacted which provided for employer retirement contributions of 11% for all government employees, including autonomous agencies and public corporations. On June 29, 2009, Civil Action (CA) No. 06-0367 ordered the CNMI to pay an employer contribution rate of 16% beginning with the payroll period ended August 14, 2009. The employer contribution rate was re-adjusted and the CNMI was ordered to remit employer contribution rates of 20% effective with the payroll period ended November 7, 2009. On November 10, 2010, the CNMI was ordered to remit the employer contribution rate of 30% effective October 1, 2010.

The CNMI accrued employer contributions at the actuarial rate of 37.3909% for employees under the defined benefit plan; however, salaries and wages funded from the general fund and locally generated revenue sources were remitted to the Northern Mariana Islands Retirement Fund at 30% pursuant to CA No. 06-0367. The employer retirement contributions attributable to employees whose salaries and wages are federally funded were charged to the federal awards at 37.3909%, except for CFDA # 10.551 (Supplemental Nutrition Assistance Program) which was charged at 30%. During fiscal year 2012, the total employer retirement contributions charged to major programs amounted to \$330,926. The estimated difference for the U.S. Department of the Interior and the U.S. Department of Transportation major programs in employer retirement contributions should correct rates be charged is \$25,620 as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-43, Continued
 CFDA Programs: USDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
 USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Questioned Costs: \$13,105
 USDOT 20.205 Highway Planning and Construction
 Questioned Costs: \$12,515
 USDOE 81.041 State Energy Program
 USED 84.394/84.397 State Fiscal Stabilization Fund Cluster
 USHHS 93.778 Medical Assistance Program
 Area: Allowable Costs/Cost Principles

Condition, Continued:

<u>CFDA No.</u>	<u>Retirement Contribution Per General Ledger</u>	<u>Retirement Contribution Per Expectation</u>	<u>Questioned Costs</u>
15.875	\$ 66,299	\$ 53,194	\$ 13,105
20.205	<u>63,315</u>	<u>50,800</u>	<u>12,515</u>
	\$ <u>129,614</u>	\$ <u>103,994</u>	\$ <u>25,620</u>

The estimated difference in employer retirement contributions should correct rates be charged for all other major programs was less than \$10,000 and thus is not reported.

Cause: The cause of the above condition is the lack of awareness regarding required employee certifications, the enactment of Public Law No. 16-32, inadequate cash flows to meet current obligations and an inability to meet OMB reporting requirements.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements and questioned costs of \$25,620. No questioned cost is presented for condition 1 due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the CNMI require certifications from employees on a semi-annual basis evidencing that employees' are certifying time charged for federal related activities only. We further recommend compliance with OMB Circular A-87.

Prior Year Status: The lack of employee certifications was reported as a finding in the Single Audits of the CNMI for fiscal years 2009 through 2011, charging federal award amounts in excess of remittances and inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance, Fabian M. Ulloa, WIC Vendor Management Coordinator, Thelma B. Inos, Director, Division of Energy, Larrisa Larson, Secretary of Finance

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-43, Continued
CFDA Programs: USDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Questioned Costs: \$13,105
USDOT 20.205 Highway Planning and Construction
Questioned Costs: \$12,515
USDOE 81.041 State Energy Program
USED 84.394/84.397 State Fiscal Stabilization Fund Cluster
USHHS 93.778 Medical Assistance Program
Area: Allowable Costs/Cost Principles

Auditee Response and Corrective Action Plan, Continued:

USDA 10.557

Condition 2: During the period under review, DOF managed all employer retirement contributions for employees under the defined benefit plan whose salaries and wages are federally funded. Thus, the CNMI WIC Program should not be held accountable for the remittance of 37.3909% of the federal awards to the Northern Mariana Islands Retirement Fund. These responsibilities were held, managed and controlled by DOF.

USDOJ 15.875, USDOT 20.205, USED 84.394/84.397 and USHHS 93.778

We disagree that the difference between the actuarial rate and the budgetary rate should be questioned costs. This issue is a prospective one as new grant agreements are negotiated. Public Law 16-32 and previous laws that budgeted less than the actuarial rate for locally funded employees have always specified that the difference remains a liability of the CNMI Government. The retirement fund has not allowed employees to retire and received annuity unless their employer contributions have been paid in full. For employees funded under federal grants, we discussed this issue with our grantor agencies and NAP has been the only agency that has included less than the actuarial rate in their grant agreements. This would require NAP employees only to be allowed to retire and receive an annuity after their deficient employer contributions are paid. This would transfer the obligation from the Federal agency to local funding. We feel the issue of non-uniformity in this case is NAP or other Federal agencies if they choose to go the same route.

USDOE 81.041

Condition 1: The Division of Energy submits that although employees are not certifying hours performed on a specific federal program, hours of each employee are reported and certified consistent with the approved Notice of Personnel Action and provides assurance that work hours performed by employees with salaries funded under the SEP-ARRA (Grant No. DE-EE000220) only work under such specific grant award and is in compliance with the requirements and terms of the grant award. Accordingly, the Division of Energy has developed a summary spreadsheet for each grant award to track hours performed by each employee, that also requires certification of the hours performed from each employee to ensure further compliance with reporting requirements. With respect to the questioned costs relating to the government retirement contributions, the Division of Energy requests further clarification on the questioned costs relative to the State Energy Program as it only makes contributions for one employee.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-43, Continued
CFDA Programs: USDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
Questioned Costs: \$13,105
USDOT 20.205 Highway Planning and Construction
Questioned Costs: \$12,515
USDOE 81.041 State Energy Program
USED 84.394/84.397 State Fiscal Stabilization Fund Cluster
USHHS 93.778 Medical Assistance Program
Area: Allowable Costs/Cost Principles

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date:

USDA 10.557: December 6, 2013
USDOJ 15.875: N/A
USDOT 20.205: N/A
USED 84.394/84.397: N/A
USHHS 93.778: N/A
USDA 81.041: FY 2014

Auditor Response:

USDOJ 15.875, USDOT 20.205, USED 84.394/84.397 and USHHS 93.778

Federal regulations require that costs charged to federal awards should be consistent with policies, regulations and procedures that apply uniformly to both federal awards and to other activities of the governmental unit. The difference in retirement contributions paid from federal grants and local funds represents inequality and thus, noncompliance with federal requirements exists. The retirement charge should be applied uniformly over all funds and should not discriminate against federal funding sources. We were not provided written approvals from grantor agencies to apply a higher contribution rate for Federally-funded employees.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-44
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
USDA 10.557 Special Supplemental Nutrition Program for Women,
Infants, and Children
USDOI 15.875 Economic, Social, and Political Development of the
Territories - Capital Improvement Projects
USDOT 20.205 Highway Planning and Construction
USDOE 81.041 State Energy Program
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a physical inventory of property must be taken and results reconciled with property records at least every two years.

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

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

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

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

1. There is no documentation that a complete physical inventory of equipment and property and reconciliation with P&S records was performed over the last two fiscal years.
2. Property records maintained by the programs have missing information or did not include some of the required information, such as serial or identification number, source of the property, who holds title, percentage of federal participation in the cost of the property, and use and condition of the property.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to reconcile property records.

Effect: The effect of the above condition is noncompliance with the applicable equipment management requirements. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-44, Continued
 CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
 USDA 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
 USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 USDOT 20.205 Highway Planning and Construction
 USDOE 81.041 State Energy Program
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

Effect, Continued:

<u>CFDA No.</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Grand Total</u>
10.551	\$ 12,152	\$ 360	\$ 15,790	\$ 28,302
10.557	\$ 1,809	\$ 46,888	\$ 53,417	\$ 102,114
15.875	\$ 298,354	\$ 85,067	\$ 235,167	\$ 618,588
20.205	\$ 119,580	\$ -	\$ -	\$ 119,580
81.041	\$ 225	\$ 110,827	\$ 23,673	\$ 134,725

Recommendation: We recommend that the CNMI maintain complete records of property and equipment acquired with grant funds, perform physical inventories, and comply with applicable property management policies and procedures.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to reconcile property records was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Walter Macaranas, NAP Administrator, Rosalia Julita R. Inos, WIC Office Manager, Virginia C. Villagomez, CIP Program Administrator and Thelma B. Inos, Director, Division of Energy

Corrective Action:

USDA 10.551: NAP initiated its physical inventory of property and equipment for FY2012 in September 2013 and is currently at the end stage of completion. On December 10, 2013, the Property Management Branch of P&S has been notified of a tentative schedule to arrange an onsite review and inspection of NAP properties in order to reconcile records to conform with applicable management policies and procedures.

USDA 10.557

Condition 1: Since the induction of the CNMI WIC Program to the Department of Public Health, P&S has not held an annual inventory or random audits of property held by the Program. With the transition of the Department of Public Health to the Commonwealth Healthcare Corporation, the Medical Supply Office (MSO) of the Commonwealth Healthcare Corporation lacks the capacity to perform physical inventories due to lack of resources, i.e. staffing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-44, Continued
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
USDA 10.557 Special Supplemental Nutrition Program for Women,
Infants, and Children
USDOJ 15.875 Economic, Social, and Political Development of the
Territories - Capital Improvement Projects
USDOT 20.205 Highway Planning and Construction
USDOE 81.041 State Energy Program
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

USDA 10.557, Continued

Condition 2: This is an ongoing project as the CNMI WIC Program is working diligently to gather and maintain a complete record of all inventories and other required information including transfers and disposal of properties and equipment acquired with grant funds to the CNMI WIC Program as applicable with Property Management Policies and Procedures.

USDA 15.875: The equipment and property management of the Program is being maintained by the Office of Capital Improvement designated to each of the analyst. The CIP Office upon completion of a project with purchased equipment/property promptly informs P&S to ensure the units are tagged and recorded; however, P&S is back logged with requests. The CIP Office will follow through with P&S to properly tag equipment promptly within thirty days of a project completion.

USDA 81.041: The Division of Energy agrees that our documentation of physical inventory of equipment and property require other information to be recorded and submits that it will revise its existing spreadsheets to include other information such as serial and or identification number, source of the property, who holds title to such property, percentage of federal participation in the cost of the property, and use and condition. A copy of the existing inventory of equipment and property listing from P&S is available at the Division of Energy office for the transactions that occurred during the period stated in the finding.

Proposed Completion Date:

USDA 10.551: December 31, 2013
USDA 10.557: June 2014
USDA 15.875: December 31, 2013
USDA 81.041: FY 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-45
CFDA Program: Nonmajor Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: \$803,260 (See allocated amounts in the Condition.)

Criteria: In accordance with applicable allowable costs/cost principles requirements, indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Additionally, the results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. The agreed upon rates shall be made available to all Federal agencies for their use.

Condition: Tests of indirect costs noted that there was no effective indirect cost rate agreement for fiscal year 2012.

<u>CDFA #</u>	<u>Amount</u>
11.419	\$ 40,446
11.463	27,781
15.605	21,873
15.611	13,674
17.235	10,970
17.258	42,805
17.259	17,057
17.260	10,626
66.600	136,784
84.224	10,043
93.110	24,128
93.217	14,635
93.243	33,964
93.251	19,084
93.283	21,206
93.505	10,905
93.507	11,280
93.569	26,592
93.575	66,163
93.889	31,648
93.940	15,526
93.959	10,775
93.994	27,863
97.073	120,437
97.074	<u>36,994</u>
Total	\$ <u>803,260</u>

Cause: The cause of the above condition is the untimely filing of the indirect cost rate agreement.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirement and questioned costs of \$803,260.

Recommendation: We recommend that the CNMI implement procedures to comply with the above criteria.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-45, Continued
CFDA Program: Nonmajor Programs
Area: Allowable Costs/Cost Principles
Questioned Costs: \$803,260 (See allocated amounts in the Condition.)

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sheryl Sizemore, Office of Grants Management

Corrective Action: **Corrective Action:** The Office of Grants Management is a new division within the CNMI Government and has assumed responsibility for the indirect cost (IDC) rate agreement. This office has been undergoing training and working with a contractor to learn how to develop an IDC proposal and timely file IDC agreements.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-46
 CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards
 USDO I 15.605 Sport Fish Restoration Program
 USDO I 15.611 Wildlife Restoration and Basic Hunter Education
 USDO I 15.875 Economic, Social, and Political Development of the Territories - Development of TTPI Islands and Compact Impact
 USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
 USED 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
 USED 84.390 ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act
 USHHS 93.268 Immunization Cooperative Agreements
 USHHS 93.712 ARRA - Immunization
 USDHS 97.042 Emergency Management Performance Grants
 USDHS 97.073 State Homeland Security Program (SHSP)
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$134,030 (See allocated amounts in the Condition.)

Criteria: In accordance with OMB Circular A-87, costs, to be allowable under federal awards, should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

Condition: On March 11, 2009, Public Law 16-32 was enacted which provided for employer retirement contributions of 11% for all government employees, including autonomous agencies and public corporations. On June 29, 2009, Civil Action (CA) No. 06-0367 ordered the CNMI to pay an employer contribution rate of 16% beginning with the payroll period ending August 14, 2009. The employer contribution rate was re-adjusted and the CNMI was ordered to remit employer contribution rates of 20% effective with the payroll period ending November 7, 2009. The employer contribution rate increased to 30% effective October 1, 2010.

The CNMI accrued employer contributions at the actuarial rate of 37.3909% for employees under the defined benefit plan; however, salaries and wages funded from the general fund and locally generated revenue sources were remitted to the Northern Mariana Islands Retirement Fund at 30% pursuant to CA No. 06-0367. The employer retirement contributions attributable to employees whose salaries and wages are federally funded were charged to the federal awards at 37.3909%, except for CFDA # 10.551 (Supplemental Nutrition Assistance Program) which was charged at 30%. During fiscal year 2012, the total employer retirement contributions charged to federal awards amounted to \$1,588,521. The estimated difference in employer retirement contributions should correct rates be charged to federal awards is \$134,030 as follows:

<u>CFDA No.</u>	<u>Retirement Contribution Per General Ledger</u>	<u>Retirement Contribution Per Expectation</u>	<u>Questioned Costs</u>
11.419	\$ 93,746	\$ 75,216	\$ 18,530
15.605/15.611	84,180	67,540	16,640
66.600	203,056	162,919	40,137
84.126/84.390	104,173	83,582	20,591
93.268/93.712	61,604	49,427	12,177
97.042	58,972	47,315	11,657
97.073	<u>72,335</u>	<u>58,037</u>	<u>14,298</u>
	\$ <u>678,066</u>	\$ <u>544,036</u>	\$ <u>134,030</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-46, Continued
CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards
USDOI 15.605 Sport Fish Restoration Program
USDOI 15.611 Wildlife Restoration and Basic Hunter Education
USDOI 15.875 Economic, Social, and Political Development of the Territories - Development of TTPI Islands and Compact Impact
USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
USED 84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
USED 84.390 ARRA - Rehabilitation Services - Vocational Rehabilitation Grants to States, Recovery Act
USHHS 93.268 Immunization Cooperative Agreements
USHHS 93.712 ARRA - Immunization
USDHS 97.042 Emergency Management Performance Grants
USDHS 97.073 State Homeland Security Program (SHSP)
Area: Allowable Costs/Cost Principles
Questioned Costs: \$134,030 (See allocated amounts in the Condition.)

Condition, Continued:

In addition, the employer retirement contribution charged to CFDA # 15.875 amounted to \$40,953 while the retirement contribution per expectation amounted to \$53,141, resulting in a variance of \$(12,188).

Cause: The cause of the above condition is the enactment of Public Law No. 16-32 and inadequate cash flows to meet current obligations.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements and questioned costs of \$134,030.

Recommendation: We recommend compliance with the criteria.

Prior Year Status: Charging federal award amounts in excess of remittances and inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2008 through 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI Government continues to maintain its position that the difference between the actuarial rate and the budgetary rate should not be a questioned cost. As the CNMI has entered into a Settlement Agreement with the NMIRF.

Proposed Completion Date: Ongoing.

Auditor Response: Federal regulations require that costs charged to federal awards should be consistent with policies, regulations and procedures that apply uniformly to both federal awards and to other activities of the governmental unit. The difference in retirement contributions paid from federal grants and local funds represents inequality and thus, noncompliance with federal requirements exists. The retirement charge should be applied uniformly over all funds and should not discriminate against federal funding sources.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-47
 Federal Agencies: U.S. Department of Health and Human Services
 CFDA Programs: 93.912 Rural Health Care Services Outreach, Rural Health Network
 Development and Small Health Care Provider Quality Improvement
 Program
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$-0-

Criteria: Effective controls require that disbursements be supported with invoices prior to recording.

Condition: Our tests of nonpayroll expenditures noted that for fifty nonpayroll Federal Grants Fund items tested aggregating \$2,067,740, the supporting accounts payable voucher, invoice, journal vouchers, and relevant documents for the following were not available:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Voucher No.</u>	<u>General Ledger Date</u>	<u>Amount</u>
Unknown	2999	237766	10/01/11	\$ (116,768)
Unknown	2999	237766	10/01/11	\$ (242,337)
Unknown	2000	237769	09/30/12	\$ (125,103)
Unknown	2002	237766	10/01/11	\$ (300,000)
93.912	CHH2912B	225596	06/21/12	\$ 513,891

No questioned costs are reported as specific federal awards could not be determined. Journal voucher no. 225596 relates to a journal entry reversal and thus, no questioned costs will be reported.

Cause: The cause of the above condition is failure to follow controls over the disbursement process.

Effect: The effect of the above condition is noncompliance with effective controls.

Recommendation: We recommend that the CNMI file and maintain all relevant documentation supporting validity.

Prior Year Status: Failure to follow controls over the disbursement process was reported as a finding in the Single Audit of the CNMI for fiscal year 2011.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: Documents related to this cost will be located to address this cost. In addition, policies and procedures will be developed to ensure that disbursements are supported with proper and relevant documentation.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-48
CFDA Programs: USDOJ 15.875 Economic, Social, and Political Development of the Territories
USDOT 20.600 State and Community Highway Safety
USDOE 81.128 Energy Efficiency and Conservation Block Grant Program (EECBG)
USHHS 93.110 Maternal and Child Health Federal Consolidated Programs
USHHS 93.912 Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program
USDHS 97.044 Assistance to Firefighters Grant
USDHS 97.074 Law Enforcement Terrorism Prevention Program (LETPP)
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,740,159 (See allocated amounts in the Effect.)

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the CNMI procurement regulations state the following:

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- When special circumstances require the expedited procurement of goods or services, the expedited procurement shall be as competitive as possible under the circumstances.
- Bidding is not required for procurement under \$2,500.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The official with expenditure authority must obtain price quotations from at least three vendors and base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations obtained must be written, documented, and submitted to the P&S Director for approval.
- A written justification for sole source procurement shall be prepared by the official with expenditure authority. The written sole source justification shall contain the following: a) the specific unique capabilities of the contractor selected; b) the specific reasons why such unique capabilities are required for the particular procurement; c) what specific efforts were made to obtain competition and d) what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. Moreover, generalized statements are not adequate and documents to support the statements justifying the sole source procurement are mandatory.

Condition: Tests of nonmajor program nonpayroll expenditures and nonmajor capital asset additions noted the following:

1. Of fifty Federal Grants Fund nonmajor program nonpayroll expenditures tested aggregating \$2,067,740, the following were noted:
 - a. The relevant procurement documents supporting competitive procurement for the following contracts were not provided:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-48, Continued
 CFDA Programs: USDOJ 15.875 Economic, Social, and Political Development of the Territories
 USDOT 20.600 State and Community Highway Safety
 USDOE 81.128 Energy Efficiency and Conservation Block Grant Program (EECBG)
 USHHS 93.110 Maternal and Child Health Federal Consolidated Programs
 USHHS 93.912 Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program
 USDHS 97.044 Assistance to Firefighters Grant
 USDHS 97.074 Law Enforcement Terrorism Prevention Program (LETPP)
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$1,740,159 (See allocated amounts in the Effect.)

Condition, Continued:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>	<u>Questioned Costs</u>
20.600	T26004	298660-OT	1087204	\$ 2,921	\$ 2,921
20.600	T26007	545428-OC	1099479	\$ 23,000	\$ 23,000
81.128	E0128A	546210-OC	1096111	\$ 467,597	\$ 467,597
81.128	E0128A	546210-OC	1096118	\$ 296,427	\$ 296,427
93.110	H0110C	546818-OM	1075289	\$ 14,500	\$ 14,500
93.912	CHH2912B	548837-OM	1079849	\$ 32,259	\$ 32,259
97.044	J0044F	534464-OC	1006628	\$ 328,524	\$ 328,524
97.074	J7074C	539974-OC	1075898	\$ 289,143	\$ 289,143

- b. For one contract which was procured through small purchases, we did not note the required number of quotations to be considered competitive:

<u>CFDA #</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>	<u>Questioned Costs</u>
15.875	I1875V	541560-OP	1069465	\$ (626)	\$ -

2. Of two locally funded DOI Capital Projects Fund nonpayroll expenditures tested aggregating \$285,793, the related procurement documents were not provided; thus, we were unable to determine whether such expenditures followed procurement regulations. Details are as follows:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Date</u>	<u>Obligating Document No.</u>	<u>Amount</u>
15.875	5234	1080625	08/09/12	105716-OC	\$ 140,823
15.875	5234	1084251	08/29/12	105716-OC	\$ 144,965

3. Of two Capital Projects Fund nonmajor program nonpayroll expenditures tested, aggregating \$56,036, the following were noted:

- a. The relevant procurement documents supporting competitive procurement for the following contract was not provided:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>
Unknown	4637	469-OS	1053538	\$ 53,546

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-48, Continued
 CFDA Programs: USDOJ 15.875 Economic, Social, and Political Development of the Territories
 USDOT 20.600 State and Community Highway Safety
 USDOE 81.128 Energy Efficiency and Conservation Block Grant Program (EECBG)
 USHHS 93.110 Maternal and Child Health Federal Consolidated Programs
 USHHS 93.912 Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program
 USDHS 97.044 Assistance to Firefighters Grant
 USDHS 97.074 Law Enforcement Terrorism Prevention Program (LETPP)
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$1,740,159 (See allocated amounts in the Effect.)

Condition, Continued:

No questioned costs are reported as specific federal awards could not be determined.

- b. The number of quotations sought did not make for open and full competition:

<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>
Unknown	3731C	548468-OP	1079239	\$ 2,490

No questioned costs are reported as specific federal awards could not be determined.

Cause: The cause of the above condition is the lack of compliance with applicable procurement regulations and the absence of competitive procurement for items above \$2,500.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs exist, as follows:

<u>Condition #</u>	<u>CFDA #</u>	<u>Questioned Cost</u>
1.a. and 2	15.875	\$ 285,788
1.a.	20.600	\$ 25,921
1.a.	81.128	\$ 764,024
1.a.	93.110	\$ 14,500
1.a.	93.912	\$ 32,259
1.a.	97.044	\$ 328,524
1.a.	97.074	\$ 289,143

Recommendation: We recommend that the CNMI's Procurement and Supply Division verify that applicable procurement regulations are adhered to and that all relevant procurement documents are maintained and filed accordingly.

Prior Year Status: The lack of compliance with applicable procurement regulations and the absence of competitive procurement for items above \$2,500 were reported as a finding in the Single Audits of the CNMI for fiscal years 2010 and 2011.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2012

Finding No.: 2012-48, Continued
CFDA Programs: USDOJ 15.875 Economic, Social, and Political Development of the Territories
USDOT 20.600 State and Community Highway Safety
USDOE 81.128 Energy Efficiency and Conservation Block Grant Program (EECBG)
USHHS 93.110 Maternal and Child Health Federal Consolidated Programs
USHHS 93.912 Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program
USDHS 97.044 Assistance to Firefighters Grant
USDHS 97.074 Law Enforcement Terrorism Prevention Program (LETPP)
Area: Procurement and Suspension and Debarment
Questioned Costs: \$1,740,159 (See allocated amounts in the Effect.)

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We will address this finding with the various grantor agencies.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2012

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2012:

Questioned costs as previously reported:

Fiscal year 2011	\$ 4,223,661
Fiscal year 2010	5,483,038
Fiscal years 2009 and prior	<u>19,231,826</u>
	28,938,525

Questioned costs of fiscal year 2012 Single Audit 6,620,692

Unresolved questioned costs at September 30, 2012 \$ 35,559,217

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 17 through 109).



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2011. Findings related to questioned costs of \$24,714,864 from fiscal year 2010 and prior Single Audits have not been resolved.

FINANCIAL STATEMENT FINDINGS

- Finding No. 2011-01 - Not corrected. See corrective action plan to Finding No. 2012-01.
- Finding No. 2011-02 - Not corrected. See corrective action plan to Finding No. 2012-02.
- Finding No. 2011-03 - Not corrected. See corrective action plan to Finding No. 2012-03.
- Finding No. 2011-04 - Corrective action was taken.
- Finding No. 2011-05 - Corrective action was taken.
- Finding No. 2011-06 - Not corrected. See corrective action plan to Finding No. 2012-05.
- Finding No. 2011-07 - Not corrected. See corrective action plan to Finding No. 2012-06.
- Finding No. 2011-08 - Corrective action was taken.
- Finding No. 2011-09 - Not corrected. See corrective action plan to Finding No. 2012-07.
- Finding No. 2011-10 - Not corrected. See corrective action plan to Finding No. 2012-08.
- Finding No. 2011-11 - Not corrected. See corrective action plan to Finding No. 2012-09.
- Finding No. 2011-12 - Not corrected. See corrective action plan to Finding No. 2012-10.
- Finding No. 2011-13 - Not corrected. See corrective action plan to Finding No. 2012-11.
- Finding No. 2011-14 - Not corrected. See corrective action plan to Finding No. 2012-12.
- Finding No. 2011-15 - Not corrected. See corrective action plan to Finding No. 2012-13.
- Finding No. 2011-16 - Not corrected. See corrective action plan to Finding No. 2012-14.
- Finding No. 2011-17 - Not corrected. See corrective action plan to Finding No. 2012-15.
- Finding No. 2011-18 - Not corrected. See corrective action plan to Finding No. 2012-16.
- Finding No. 2011-19 - Corrective action was taken.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FINANCIAL STATEMENT FINDINGS, CONTINUED

- Finding No. 2011-20 - Not corrected. See corrective action plan to Finding No. 2012-20.
- Finding No. 2011-21 - Not corrected. See corrective action plan to Finding No. 2012-18.
- Finding No. 2011-22 - Not corrected. See corrective action plan to Finding No. 2012-19.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- Finding No. 2011-23 - Corrective action was taken.
- Finding No. 2011-24 - Corrective action was taken.
- Finding No. 2011-25 - Corrective action was taken.
- Finding No. 2011-26 - Corrective action was taken.
- Finding No. 2011-27 - Corrective action was taken.
- Finding No. 2011-28 - Not corrected. See corrective action plan to Finding No. 2012-23.
- Finding No. 2011-29 - Not corrected. See corrective action plan to Finding No. 2012-25.
- Finding No. 2011-30 - Not corrected. See corrective action plan to Finding No. 2012-28.
- Finding No. 2011-31 - Not corrected. See corrective action plan to Finding No. 2012-30.
- Finding No. 2011-32 - Not corrected. See corrective action plan to Finding No. 2012-33.
- Finding No. 2011-33 - Corrective action was taken.
- Finding No. 2011-34 - Corrective action was taken.
- Finding No. 2011-35 - Corrective action was taken.
- Finding No. 2011-36 - Not corrected. See corrective action plan to Finding No. 2012-37.
- Finding No. 2011-37 - Not corrected. See corrective action plan to Finding No. 2012-38.
- Finding No. 2011-38 - Corrective action was taken.
- Finding No. 2011-39 - Corrective action was taken.
- Finding No. 2011-40 - Corrective action was taken.
- Finding No. 2011-41 - Not corrected. See corrective action plan to Finding No. 2012-42.
- Finding No. 2011-42 - Not corrected. See corrective action plan to Finding Nos. 2012-21 and 2012-43.
- Finding No. 2011-43 - Not corrected. See corrective action plan to Finding No. 2012-44.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

- Finding No. 2011-44 - Corrective action was taken.
- Finding No. 2011-45 - Not corrected. See corrective action plan to Finding No. 2012-46.
- Finding No. 2011-46 - Not corrected. See corrective action plan to Finding No. 2012-47.
- Finding No. 2011-47 - Not corrected. See corrective action plan to Finding No. 2012-48.