

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2013

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated June 30, 2014. Our report includes explanatory paragraphs concerning footnotes to the financial statements for the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund, the CNMI Group Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission) and a certain Discretely Presented Component Unit (the Commonwealth Utilities Corporation) not being included in the financial statements and the financial statements of the Pension Trust Fund, the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College and the Commonwealth Healthcare Corporation not being audited. Our report includes a reference to other auditors who audited the financial statements of the Public School System and the Marianas Visitors Authority, as described in our report on the CNMI's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Commonwealth Ports Authority and the Commonwealth Development Authority which were 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 Public School System and the Marianas Visitors Authority. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 18 through 95), we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-011 through 2013-013 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 2013-001 through 2013-010 and 2013-014 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CNMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2013-012 and 2013-013.

The CNMI's Responses to Findings

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

Purpose of this Report

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

Deborah J. Louche LLC

June 30, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands' (CNMI) 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, 2013. The CNMI's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 18 through 95).

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the CNMI's financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the CNMI's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the CNMI's compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in items 2013-015 through 2013-042 the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding the following:

<i>Finding #</i>	<i>CFDA #</i>	<i>Program (or Cluster) Name</i>	<i>Compliance Requirement</i>
2013-015	10.551	Supplemental Nutrition Assistance Program	Cash Management
2013-016	10.551	Supplemental Nutrition Assistance Program	Reporting
2013-017	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions
2013-018	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions
2013-019	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Allowable Costs/Cost Principles
2013-042	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Equipment and Real Property Management
2013-020	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Procurement and Suspension and Debarment
2013-021	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Allowable Costs/Cost Principles
2013-041	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Allowable Costs/Cost Principles
2013-042	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Equipment and Real Property Management
2013-022	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Period of Availability of Federal Funds
2013-023	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Procurement and Suspension and Debarment
2013-024	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Reporting
2013-025	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Subrecipient Monitoring
2013-026	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Special Tests and Provisions
2013-041	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Allowable Costs/Cost Principles
2013-027	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Equipment and Real Property Management
2013-028	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Procurement and Suspension and Debarment
2013-042	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Equipment and Real Property Management
2013-029	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Reporting
2013-030	81.041	State Energy Program	Allowable Costs/Cost Principles
2013-041	81.041	State Energy Program	Allowable Costs/Cost Principles
2013-031	81.041	State Energy Program	Procurement and Suspension and Debarment
2013-032	81.041	State Energy Program	Reporting
2013-033	81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	Allowable Costs/Cost Principles
2013-041	81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	Allowable Costs/Cost Principles
2013-034	81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	Procurement and Suspension and Debarment
2013-035	81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	Reporting
2013-036	93.778	Medical Assistance Program	Activities Allowed or Unallowed
2013-037	93.778	Medical Assistance Program	Allowable Costs/Cost Principles
2013-041	93.778	Medical Assistance Program	Allowable Costs/Cost Principles
2013-038	93.778	Medical Assistance Program	Eligibility
2013-039	93.778	Medical Assistance Program	Matching, Level of Effort, Earmarking
2013-040	93.778	Medical Assistance Program	Reporting

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

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion on Each Major Federal Program paragraph, the CNMI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-43. Our opinion on each major federal program is not modified with respect to this matter.

The CNMI's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The CNMI's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the CNMI is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the CNMI's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 2013-018, 2013-026, 2013-028, 2013-033, 2013-038, 2013-039, 2013-041 and 2013-042 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 2013-014 through 2013-017, 2013-019 through 2013-025, 2013-027, 2013-029 through 2013-032, 2013-034 through 2013-037 and 2013-040 to be significant deficiencies.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements. We issued our report thereon dated June 30, 2014, which contained explanatory paragraphs concerning footnotes to the financial statements for the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund, the CNMI Group Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission) and a certain Discretely Presented Component Unit (the Commonwealth Utilities Corporation) not being included in the financial statements and the financial statements of the Pension Trust Fund, the Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College and the Commonwealth Healthcare Corporation not being audited. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 8 through 14) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic 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 Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Deloitte & Touche LLC

June 30, 2014

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2013

Federal Agency	Expenditures
U.S. Department of Agriculture	\$ 15,876,633
U.S. Department of Commerce	1,899,329
U.S. Department of Defense	82,863
U.S. Department of the Interior	7,262,586
U.S. Department of Justice	2,071,879
U.S. Department of Labor	1,803,150
U.S. Department of Transportation	2,175,467
Institute of Museum and Library Services	132,464
U.S. Environmental Protection Agency	2,848,150
U.S. Department of Energy	9,286,200
U.S. Department of Education	1,191,633
U.S. Department of Health and Human Services	31,968,147
U.S. Department of Homeland Security	4,437,989
Unallocated cash receipts/expenditures	<u>(811,205)</u>
TOTAL FEDERAL GRANTS FUND	<u>\$ 80,225,285</u>

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

Reconciliation:

Expenditures per above	\$ 80,225,285
Local match	<u>5,617,170</u>
	<u>\$ 85,842,455</u>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 86,583,899
Operating transfers out	783,389
Expenditures accrued through proposed audit adjustment in fiscal year 2013	<u>(1,524,833)</u>
	<u>\$ 85,842,455</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, 2013

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 2,644
10.170	Specialty Crop Block Grant Program - Farm Bill	28,847
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	115,948
10.551	Supplemental Nutrition Assistance Program	10,923,219
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	4,471,125
10.664	Cooperative Forestry Assistance	321,768
10.769	Rural Business Enterprise Grants	13,082
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>15,876,633</u>
U.S. DEPARTMENT OF COMMERCE		
11.YA132309CN0062	2010 Census	16,672
11.300	Investments for Public Works and Economic Development Facilities	96,326
11.419	Coastal Zone Management Administration Awards	757,802
11.426	Financial Assistance for National Centers for Coastal Ocean Science	(4,337)
11.429	Marine Sanctuary Program	119,919
11.437	Pacific Fisheries Data Program	165,483
11.454	Unallied Management Projects	64,819
11.463	ARRA - Habitat Conservation	102,266
11.467	Meteorologic and Hydrologic Modernization Development	65,997
11.482	Coral Reef Conservation Program	280,607
11.558	ARRA - State Broadband Data and Development Grant Program	233,775
TOTAL U.S. DEPARTMENT OF COMMERCE		<u>1,899,329</u>
U.S. DEPARTMENT OF DEFENSE		
12.600	Special Assistance	<u>82,863</u>
U.S. DEPARTMENT OF THE INTERIOR		
Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration Program	1,059,611
15.611	Wildlife Restoration and Basic Hunter Education	465,183
Subtotal Fish and Wildlife Cluster		1,524,794
15.615	Cooperative Endangered Species Conservation Fund	752,327
15.634	State Wildlife Grants	162,135
15.657	Endangered Species Conservation Recovery Implementation Funds	5,896
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands	2,261,125
	Compact Impact	2,321,975
15.904	Historic Preservation Fund Grants-In-Aid	231,387
15.916	Outdoor Recreation_Acquisition, Development and Planning	2,947
TOTAL U.S. DEPARTMENT OF THE INTERIOR		<u>7,262,586</u>
U.S. DEPARTMENT OF JUSTICE		
JAG Program Cluster:		
16.738	Edward Byrne Memorial Justice Assistance Grant Program	294,546
16.803	ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	294,825
Subtotal JAG Program Cluster		589,371
16.017	Sexual Assault Services Formula Program	12,537
16.523	Juvenile Accountability Block Grants	64,718
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	74,331
16.548	Title V_Delinquency Prevention Program	2,266

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, 2013

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF JUSTICE, CONTINUED		
16.575	Crime Victim Assistance	270,632
16.588	Violence Against Women Formula Grants	568,456
16.710	ARRA- Public Safety Partnership and Community Policing Grants	100,240
16.727	Enforcing Underage Drinking Laws Program	199,359
16.750	Support for Adam Walsh Act Implementation Grant Program	189,969
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>2,071,879</u>
U.S. DEPARTMENT OF LABOR		
WIA Cluster:		
17.258	WIA Adult Program	654,558
17.259	WIA Youth Activities	360,375
17.278	WIA Dislocated Worker Formula Grants	180,592
Subtotal WIA Cluster		1,195,525
17.235	Senior Community Service Employment Program	323,396
17.260	WIA Dislocated Workers	113,032
17.273	Temporary Labor Certification for Foreign Workers	11,078
17.504	Consultation Agreements	160,119
TOTAL U.S. DEPARTMENT OF LABOR		<u>1,803,150</u>
U.S. DEPARTMENT OF TRANSPORTATION		
Highway Safety Cluster:		
20.600	State and Community Highway Safety	688,946
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	735,335
Subtotal Highway Safety Cluster		1,424,281
20.Unknown	USDOT Unknown	1,035
20.218	National Motor Carrier Safety	250,347
20.500	Federal Transit_Capital Investment Grants	95,790
20.509	Formula Grants for Rural Areas	361,752
20.514	Public Transportation Research	2,500
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	39,762
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>2,175,467</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.310	Grants to States	132,464
U.S. ENVIRONMENTAL PROTECTION AGENCY		
66.040	State Clean Diesel Grant Program	42,756
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	2,617,664
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	2,757
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	71,937
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	113,036
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY		<u>2,848,150</u>
U.S. DEPARTMENT OF ENERGY		
81.041	State Energy Program	75,675
81.041	ARRA - State Energy Program	3,461,132
81.042	Weatherization Assistance for Low-Income Persons	160,243
81.042	ARRA - Weatherization Assistance for Low-Income Persons	64,702
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	5,524,448
TOTAL U.S. DEPARTMENT OF ENERGY		<u>9,286,200</u>

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, 2013

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF EDUCATION		
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	976,855
84.169	Independent Living_State Grants	11,414
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	31,800
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	49,223
84.224	Assistive Technology	103,763
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	18,578
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>1,191,633</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Aging Cluster:		
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	255,306
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	466,537
93.053	Nutrition Services Incentive Program	42,440
Subtotal Aging Cluster		<u>764,283</u>
Health Centers Cluster:		
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	141,204
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	383,651
Subtotal Health Centers Cluster		<u>524,855</u>
93.041	Special Programs for the Aging_Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	13,058
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	58,072
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	15,422
93.052	National Family Caregiver Support, Title III, Part E	104,970
93.069	Public Health Emergency Preparedness	278,072
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	388,216
93.110	Maternal and Child Health Federal Consolidated Programs	345,267
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	338,852
93.127	Emergency Medical Services for Children	164,769
93.136	Injury Prevention and Control Research and State and Community Based Programs	5,676
93.150	Projects for Assistance in Transition from Homelessness (PATH)	29,768
93.217	Family Planning_Services	140,678
93.236	Grants to States to Support Oral Health Workforce Activities	164,270
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	895,036
93.244	Mental Health Clinical and AIDS Service-Related Training Grants	18,703
93.251	Universal Newborn Hearing Screening	197,478
93.268	Immunization Cooperative Agreements	737,429
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	576,339
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	460,217
93.507	PPHF 2012 National Public Health Improvement Initiative	181,919
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	322,186

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, 2013

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED		
93.519	Affordable Care Act (ACA) Consumer Assistance Program Grants	12,354
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	55,439
93.556	Promoting Safe and Stable Families	203,946
93.568	Low-Income Home Energy Assistance	69,230
93.569	Community Services Block Grant	570,373
93.575	Child Care and Development Block Grant	2,094,732
93.590	Community-Based Child Abuse Prevention Grants	231,206
93.630	Developmental Disabilities Basic Support and Advocacy Grants	182,922
93.643	Children's Justice Grants to States	67,166
93.645	Stephanie Tubbs Jones Child Welfare Services Program	169,635
93.667	Social Services Block Grant	61,462
93.669	Child Abuse and Neglect State Grants	58,175
93.671	Family Violence Prevention and Services/Battered Women's Shelters_Grants to States and Indian Tribes	148,715
93.719	ARRA - State Grants to Promote Health Information Technology	183,576
93.723	ARRA - Prevention and Wellness - State, Territories and Pacific Islands	918
93.744	PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds	14,550
93.767	Children's Health Insurance Program	936,998
93.778	Medical Assistance Program	18,439,762
93.778	ARRA - Medical Assistance Program	135,365
93.889	National Bioterrorism Hospital Preparedness Program	304,488
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	479,267
93.917	HIV Care Formula Grants	49,281
93.940	HIV Prevention Activities_Health Department Based	138,628
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	4,565
93.958	Block Grants for Community Mental Health Services	57,509
93.959	Block Grants for Prevention and Treatment of Substance Abuse	248,705
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	79,431
93.991	Preventive Health and Health Services Block Grant	5,968
93.994	Maternal and Child Health Services Block Grant to the States	238,246
		<u>30,679,009</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
		<u>31,968,147</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
97.012	Boating Safety Financial Assistance	482,578
97.039	Hazard Mitigation Grant	19,972
97.042	Emergency Management Performance Grants	961,372
97.044	Assistance to Firefighters Grant	504,320
97.053	Citizens - Community Resilience Innovation Challenge	5,383
97.055	Interoperable Emergency Communications	24,041
97.056	Port Security Grant Program	526,705
97.067	Homeland Security Grant Program	703,192
97.073	State Homeland Security Program (SHSP)	508,180
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	369,811
97.089	Driver's License Security Grant Program	332,435
		<u>4,437,989</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		
	Unallocated cash receipts/expenditures	<u>(811,205)</u>
TOTAL FEDERAL GRANTS FUND		
		<u>\$ 80,225,285</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, 2013

<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	\$ 426,293
	FY04 Appropriations Act Grant	<u>3,825,206</u>
		4,251,499
	Less local match	<u>(294,889)</u>
	TOTAL CAPITAL PROJECTS FUND	<u>\$ 3,956,610</u>
Reconciliation:		
	Federal awards expenditures, as stated above	\$ 3,956,610
	Local match	<u>294,889</u>
		<u>\$ 4,251,499</u>
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 4,676,568
	Operating transfers out	465,330
	Expenditures accrued through proposed audit adjustment in fiscal year 2013	<u>(890,399)</u>
		<u>\$ 4,251,499</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, 2013

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Expenditures</u>
	U.S. DEPARTMENT OF TRANSPORTATION	
20.205	Highway Planning and Construction	\$ 2,484,771
	U.S. DEPARTMENT OF HOMELAND SECURITY	
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>108,729</u>
		2,593,500
	Unallocated	<u>-</u>
	TOTAL PUBLIC WORKS GRANTS FUND	<u><u>\$ 2,593,500</u></u>
Reconciliation:		
	Federal awards expenditures, as stated above	<u>\$ 2,593,500</u>
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 2,767,787
	Expenditures accrued through proposed audit adjustment in fiscal year 2013	<u>(174,287)</u>
		<u><u>\$ 2,593,500</u></u>
	GRAND TOTAL FEDERAL AWARDS	<u><u>\$ 86,775,395</u></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, 2013

(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 (USDOI)
- 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

(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, 2013

(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, 2013 basic financial statements; except that the Northern Mariana Islands Retirement Fund, the CNMI Group 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, 2013.

The CNMI's financial statements include the operations of the Commonwealth Ports Authority, the Northern Marianas Housing Corporation (a division of the Commonwealth Development Authority) and the Public School System which expended \$15,218,095, \$6,681,191 and \$28,579,881, respectively, in federal awards which are not included in the Schedule of Expenditures of Federal Awards during the year ended September 30, 2013. Our audit, described below, did not include the operations of the entities identified above as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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 2013, the CNMI has the following approved indirect cost rates:

Programs which directly charged utilities	2.86%
Programs not directly charging utilities	15.26%
ARRA programs which directly charged utilities	No rate
ARRA programs not directly charging utilities	No rate

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, 2013

(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 10.95 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|---|------------------------|
| 1. | Type of auditors' report issued: | Adverse and Unmodified |
| | 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: | |
| | CFDA | |
| | <u>Number</u> | <u>Name of Federal Program</u> |
| | 10.551 | Supplemental Nutrition Assistance Program |
| | 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| | 66.600 | Environmental Protection Consolidated Grants for the Insular Areas - Program Support |
| | 81.041 | State Energy Program |
| | 81.128 | ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG) |
| | 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: | \$2,603,262 |
| 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, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number	Findings	Refer Page #
2013-001	Revenues/Receipts - Tobacco Settlement Resources	20
2013-002 - 003	Purchases/Disbursements	21 - 22
2013-004	Cash and Cash Equivalents	23 - 24
2013-005	Receivables	25
2013-006	Advances	26
2013-007	Interfund Receivables and Payables	27
2013-008	Tax Rebates Payable	28 - 31
2013-009	Other Liabilities and Accruals	32
2013-010	Compensated Absences	33
2013-011	Fund Balance - Encumbrances	34 - 38
2013-012	Commonwealth Healthcare Corporation	39
2013-013	CNMI Local Noncompliance	40
2013-014	Schedule of Expenditures of Federal Awards	41

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2013-014	-	Schedule of Expenditures of Federal Awards	\$ -	41
2013-015	10.551	Cash Management	\$ -	42
2013-016	10.551	Reporting	\$ 18,524	43
2013-017	10.551	Special Tests and Provisions	\$ -	44
2013-018	10.551	Special Tests and Provisions	\$ 235,234	45
2013-019	10.557	Allowable Costs/Cost Principles	\$ -	46
2013-042	10.557	Equipment and Real Property Management	\$ -	90 - 92
2013-020	10.557	Procurement and Suspension and Debarment	\$ 1,969	47 - 48
2013-021	15.875	Allowable Costs/Cost Principles	\$ 34,154	49 - 50
2013-041	15.875	Allowable Costs/Cost Principles	\$ -	87 - 89
2013-042	15.875	Equipment and Real Property Management	\$ -	90 - 92
2013-022	15.875	Period of Availability of Federal Funds	\$ 20,146	51 - 52
2013-023	15.875	Procurement and Suspension and Debarment	\$ 64,922	53 - 56
2013-024	15.875	Reporting	\$ -	57
2013-025	15.875	Subrecipient Monitoring	\$ -	58 - 59
2013-026	15.875	Special Tests and Provisions	\$ 1,005,973	60
2013-041	66.600	Allowable Costs/Cost Principles	\$ -	87 - 89
2013-027	66.600	Equipment and Real Property Management	\$ -	61 - 62
2013-042	66.600	Equipment and Real Property Management	\$ -	90 - 92
2013-028	66.600	Procurement and Suspension and Debarment	\$ 2,524	63 - 64
2013-029	66.600	Reporting	\$ -	65
2013-030	81.041	Allowable Costs/Cost Principles	\$ 58,450	66
2013-041	81.041	Allowable Costs/Cost Principles	\$ -	87 - 89
2013-031	81.041	Procurement and Suspension and Debarment	\$ -	67
2013-032	81.041	Reporting	\$ -	68 - 69
2013-033	81.128	Allowable Costs/Cost Principles	\$ 93,904	70
2013-041	81.128	Allowable Costs/Cost Principles	\$ -	87 - 89
2013-034	81.128	Procurement and Suspension and Debarment	\$ 109,270	71 - 73
2013-035	81.128	Reporting	\$ -	74 - 76
2013-036	93.778	Activities Allowed or Unallowed	\$ 4,299	77
2013-037	93.778	Allowable Costs/Cost Principles	\$ 4,692	78 - 79
2013-041	93.778	Allowable Costs/Cost Principles	\$ -	87 - 89
2013-038	93.778	Eligibility	\$ 12,825	80 - 83
2013-039	93.778	Matching, Level of Effort, Earmarking	\$ 8,101,826	84 - 85
2013-040	93.778	Reporting	\$ -	86
2013-043	Nonmajor Programs	Procurement and Suspension and Debarment	\$ 520,179	93 - 95

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2013-001

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 2013, the CNMI recognized \$1,644,236 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 CNMI Single Audits for fiscal years 2009 through 2012.

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 2013 and will request documentation from the trustee regarding accrual amounts in future years.

Proposed Completion Date: Fiscal year 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Purchases/Disbursements

Finding No. 2013-002

Criteria: Expenditures should be recorded when incurred.

Condition: Tests of purchases/disbursements noted the following:

1. Of forty-five nonpayroll Federal Grants Fund expenditures tested aggregating \$2,243,130, five items totaling \$254,872 relate to the prior year.
2. Of fifty-six nonpayroll General Fund expenditures tested aggregating \$6,597,676, five items totaling \$385,290 relate to the prior year.
3. Of thirty-two nonpayroll Capital Projects Fund expenditures tested aggregating \$2,132,384, four items totaling \$289,744 relate to the prior year.
4. Of sixty-seven nonpayroll Special Revenue Fund expenditures tested aggregating \$1,776,986, three items totaling \$67,444 relate to the prior year.

The above conditions were corrected through proposed audit adjustments.

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 CNMI Single Audits for fiscal years 2003 through 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance, Department of Finance

Corrective Action: Upon review of details of the finding, we disagree with the finding for expenditures relating to voucher numbers 1103223, 1104841, 1101688, 1100874 and 1104417. The payment applications for these vouchers were received for processing after the fiscal year had ended. For the remaining voucher numbers 1100531, 1100871 and 1101238, a directive has been issued to Finance employees, effective immediately, to ensure payment applications are processed within the same fiscal year the expenditure was incurred.

Proposed Completion Date: Immediately.

Auditor Response: Expenditures should be recorded when incurred, not when payment applications are processed.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Purchases/Disbursements

Finding No. 2013-003

Criteria: An effective system of internal control requires relevant supporting documents to be filed and maintained properly.

Condition: Of fifty-six General Fund nonpayroll expenditures tested aggregating \$6,597,676, the following items were not supported by an invoice or journal voucher:

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>Document Type</u>	<u>Document No.</u>	<u>Amount</u>
1505	10/01/12	&&	245076	\$ (230,000)
1680	09/30/13	&&	242525	\$ 1,404,138
1680	10/01/12	&&	245076	\$ (859,606)
1680	09/30/13	&&	243234	\$ 276,135

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 the risk that expenditures recorded may not be valid. Further analysis and inquiry determined that the amounts pertain to the reversal of prior year adjusting entries and/or bank reconciling items for unposted checks and credit card fees.

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

Prior Year Status: The lack of procedures and controls to properly maintain files was reported as a finding in the CNMI Single Audit for fiscal year 2012.

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 FY2012 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, 2013

Cash and Cash Equivalents

Finding No. 2013-004

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

Condition: Tests of bank reconciliations noted the following:

1. Review and approval of the final bank reconciliation for the credit card account, bank code 11520, was not evident.
2. Bank reconciliations for the following accounts were prepared two to four months after fiscal year end.

<u>Bank Code</u>	<u>Account Name</u>
11140	Washington Rep. Imprest Fund
11150	Superior Court NMI Imprest Fund
11170	Guam Medical Referral Imprest Fund
11200	Tinian Imprest Fund
11210	Rota Imprest Fund
11220	Supreme Court Imprest Fund
11310	CHC Medical Referral
11420	Payroll Account
11430	General Fund
11450	Animal Health Imprest Fund
11480	CNMI Lottery Commission Imprest Fund
11520	CNMI Credit Card
11540	Capital Improvement Projects
11570	Federal Grants
11572	CNMI Government Federal Payroll
11820	Joeten-Kiyu Public Library
11830	Law Revision Commission Imprest Fund
11400	NMIT Rebate Trust Reconciliation
11130	LNO Hawaii - Medical Referral
11410	Special Disability Imprest Fund

3. The following cash accounts were confirmed by a bank but are not recorded:

<u>Reference</u>	<u>Bank Balance</u>
0003-9546	\$ 133,446
2037-78670	\$ 6,930

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

4. At September 30, 2013, the CNMI recorded cash clearing accounts of \$(82,611). These accounts are expected to be zero at fiscal year-end. An audit adjustment was proposed to correct \$(104,329) of the amount; however, correcting entries for the remaining \$21,718 could not be determined.
5. A bank reconciliation was not provided for the Superior Court - Saipan FHB bank account.
6. A bank account (Superior Court - First Hawaiian Bank) was not recorded. The September 30, 2012 balance was \$134,135 and there was no record of liquidation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No. 2013-004, Continued

Condition, Continued:

7. An Investment - PSS Bond Proceed account for \$200,086 is recorded but does not exist. Management did not consider the amounts sufficiently material to the financial statements to warrant an adjustment.

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.

Recommendation: We recommend that the CNMI adhere to established policies and procedures over timely reconciliation of bank accounts and that 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 CNMI Single Audits for fiscal years 2003 through 2012.

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 to resolve issues cited in the conditions.

Proposed Completion Date: Fiscal year 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Receivables

Finding No. 2013-005

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

Condition: As of September 30, 2013, the General Fund recorded returned checks receivable (account no. 1010.12800) of \$927,298, which is \$323,238 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 \$604,060.

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 CNMI Single Audits for fiscal years 2008 through 2012.

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, 2013

Advances

Finding No. 2013-006

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

Condition: As of September 30, 2013, the General Fund recorded advances to vendors of \$821,345, of which \$520,870 date to fiscal year 2012 and prior. An aging of vendor advances by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 167,262
2011	74,933
2010	64,383
2009	70,325
2008	32,140
2007	26,436
2006	46,441
2005	28,540
2004	<u>10,410</u>
	\$ <u>520,870</u>

Further, supplies and vehicles related to three advances tested, aggregating \$65,728 (ref. nos. 776655 PL, 1095832 PL and 1142155 PL), were received on or before September 30, 2013 and did not constitute valid advances. Management did not consider the amounts sufficiently material to the financial statements to warrant an 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 CNMI Single Audits for fiscal years 2008 through 2012.

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, 2013

Interfund Receivables and Payables

Finding No. 2013-007

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, 2013, 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>
Commonwealth Alien Deportation Fund	2042	\$ 19,544	\$ 19,544
FY1993 - 1994 CIP Project	4045	\$ 21,900	\$ 21,900
Non-resident Worker Fund	2034	\$ 322,312	\$ 322,312
2 nd Covenant Fund	4044	\$ 131,083	\$ 131,083

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 CNMI Single Audits for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The balances for these funds need 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: 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Tax Rebates Payable

Finding No. 2013-008

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, 2013, tax rebates payable aggregated \$32,651,389. The balance consists of the following:

Estimated 2013 liability based on fiscal year 2014 collections	\$ 6,802,180
Additional Child Tax Credit (ACTC)	11,779,901
2012 and prior rebates unpaid as of September 30, 2013	<u>19,772,089</u>
	<u>\$ 38,354,170</u>

Tests of the rebate payable accounts noted the following:

1. For unpaid tax year 2012 and prior rebates, we noted the following:
 - a. Of thirty-eight unmatched filings tested relating to individual and corporate tax rebate payables of \$6,018,640, the following were noted:
 - i. For two items totaling \$1,082,128, 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	C13-655	1120	\$ 58,128
2005	C13-361	1120	<u>1,024,000</u>
			<u>\$ 1,082,128</u>

- ii. Ten items totaling \$2,310,068 did not agree to tax returns by \$1,024,862. The variances were substantially due to pending deficiency letters and 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>
C13-182	2003	\$ 556,738	\$ 286,132	\$ 270,606
C13-744	2011	194,619	2,863	191,756
C13-769	2012	161,657	7,257	154,400
C13-104	2002	465,940	236,366	229,574
C13-105	2002	148,883	77,595	71,288
C13-364	2005	254,795	129,709	125,086
C13-743	2011	521,512	539,960	(18,448)

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No. 2013-008, 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>
I13-00006	2000	4,988	4,828	160
I13-34015	2009	800	400	400
I13-38142	2011	<u>136</u>	<u>96</u>	<u>40</u>
		\$ <u>2,310,068</u>	\$ <u>1,285,206</u>	\$ <u>1,024,862</u>

b. Of twenty-four assessed and matched filings tested relating to individual and corporate tax rebate payables of \$2,857,266, the following were noted:

i. For three items totaling \$1,396,869, 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>
C13-006	2000	\$ 98,869
C13-224	2003	649,000
C13-585	2007	<u>649,000</u>
		\$ <u>1,396,869</u>

ii. Four items totaling \$756,501 did not agree to tax returns by \$31,685 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>
C13-137	2002	\$ 111,688	\$ 119,956	\$ (8,268)
C13-068	2001	131,000	128,270	2,730
C13-242	2003	1,517	-	1,517
C13-734	2010	<u>512,296</u>	<u>539,960</u>	<u>(27,664)</u>
		\$ <u>756,501</u>	\$ <u>788,186</u>	\$ <u>(31,685)</u>

iii. The tax return was not provided for the following item:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C13-687	2009	\$ 78,621

Further, no interest is calculated or paid on overpayments. Additionally, no details or totals of rebate payables relating to tax years 1999 and prior are available from the Division of Revenue and Taxation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No. 2013-008, Continued

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, since the CNMI calculates an estimated tax liability based on the most current information, the amount recorded as tax rebate payable is their best estimate of what the CNMI owes the taxpayers. In addition, the CNMI has taken the conservative approach by recording unmatched return variances as liabilities until the items listed above are resolved. The effect is also mitigated by a corresponding permanent tax reserve to offset disputes or claims.

Recommendation: 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 CNMI Single Audits for fiscal years 2004 through 2012.

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.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No. 2013-008, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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, 2013

Other Liabilities and Accruals

Finding No. 2013-009

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

Condition: Tests of subsequent disbursements noted \$2,508,352 of unrecorded liabilities at September 30, 2013 as follows:

<u>Fund</u>	<u>Amount</u>
Federal	\$ 1,620,704
DOI Capital Projects	598,634
Nonmajor Capital Projects	174,289
General	<u>114,725</u>
	\$ <u>2,508,352</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 2013:

<u>Voucher No.</u>	<u>Amount</u>
643972	\$ 252,383
642050	100,000
1151065	22,304
1134732	1,795
651294	1,547
645162	850
1153407	332
1153408	<u>136</u>
	\$ <u>379,347</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: Lack of appropriate cut-off procedures and controls was reported as a finding in the CNMI Single Audits for fiscal years 2008 through 2012.

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, 2013

Compensated Absences

Finding No. 2013-010

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, 2013, compensated absences payable per the subsidiary ledger aggregated \$7,956,917. Of this amount, \$1,175,968 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$1,506,178 represents accrued leave in excess of the 45 days/360 hours limit. Additionally, the balance at September 30, 2013 is net of individual debit balances of \$124,849.

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 CNMI Single Audits for fiscal years 2008 through 2012.

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, 2013

Fund Balance - Encumbrances

Finding No. 2013-011

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: Tests of reserves for encumbrances noted the following:

1. For the DOI Capital Projects Fund encumbrances:

- a. At September 30, 2013, the subsidiary ledger balance of the DOI Capital Project Fund encumbrances of \$11,561,979 is net of debit balances of \$3,725,389. 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 \$443,065 higher 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 \$3,240,803 have been outstanding for more than five years. We did not evidence DOF review of long outstanding encumbrances.
- c. Of twenty DOI Capital Projects Fund encumbrances tested, aggregating \$5,705,808, 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#2	\$ 294,650
4045	4901	70169 OS	\$ 941,487
4045	4910	70152 OS CO#2	\$ 285,157
4045	4928	60002 OS	\$ 7,330
4045	4967	60333 OS	\$ 28,384
4052	5134	153 OS CO#4	\$ 101,561
4058	5634	486 OS	\$ 253,946
4058	5648	543 OS	\$ 1,385,277
4058	5654	534 OS	\$ 661,279
4058	5654	537 OS	\$ 398,000
4058	5663	535 OS	\$ 142,000

- 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#2	\$ 54,391	10/27/99
4045	4901	64320	70169 OS	\$ (245,591)	10/27/99
4045	4910	64320	70152 OS CO#2	\$ (139,225)	12/13/00
4045	4928	64320	60002 OS	\$ (64,910)	02/27/97
4045	4967	64320	60333 OS	\$ -	11/25/97
4052	5134	64320	153 OS CO#4	\$ -	06/30/06
4052	5145	64320	311 OS	\$ -	09/24/09

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No. 2013-011, 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>
4052	5165	64320	159 OS	\$ (239,351)	04/08/03
4052	5233	64520	439 OS	\$ 6,550	01/02/08
4058	5610	64280	468 OS CO#1	\$ 303,410	07/07/10
4058	5615	64520	476 OS	\$ 364,975	11/19/08
4058	5634	64080	486 OS	\$ 253,946	03/02/09
4058	5648	64320	543 OS	\$ 1,385,277	09/16/10
4058	5654	64030	534 OS	\$ 661,279	07/28/10
4058	5654	64050	537 OS	\$ 398,000	08/04/10
4058	5663	64280	535 OS	\$ 142,000	08/04/10

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

- iii. The following fiscal year 2013 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2013 encumbrances:

<u>Fund/Business Unit/ General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
5646.64100.64320	595 OS	1157357 OV	\$ 409,835
5679.64100.64320	609 OS	1156115 OV	\$ 25,682
C1300B.64100.64320	616 OS	1158577 OV	\$ 403

- 2. Of three Federal Grants Fund encumbrances tested aggregating \$608,103, the following were noted:
 - a. At September 30, 2013, the subsidiary ledger balance of the Federal Grants Fund encumbrances of \$1,846,624 differs from the general ledger balance of \$15,589,870. The general ledger balance was corrected for these differences through a proposed audit adjustment.
 - b. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of \$229,961 have been outstanding for more than five years. We did not evidence DOF review of long outstanding encumbrances.
- 3. Of six General Fund encumbrances tested aggregating \$592,843, the following were noted:
 - a. At September 30, 2013, the subsidiary ledger balance of the General Fund encumbrances of \$3,906,722 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 documents for the items below were not provided:

<u>Fund</u>	<u>Business Unit</u>	<u>Document Number</u>	<u>Encumbrance Amount</u>
1010	1160	545604 - OC	\$ 17,333
1010	1951	551761 - OD	\$ 210,000
1010	1975	298598 - OT	\$ 1,020

We were unable to verify if these are valid encumbrances at September 30, 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No. 2013-011, Continued

Condition, Continued:

- c. The following fiscal year 2013 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2013 encumbrances:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document Number</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
1010.1160.62060	545604 - OC	642778 PV	\$ 5,125
1010.1160.62060	545604 - OC	644158	\$ 5,300
1015.1505.62060	551637 - OC	1152944	\$ 30,000
1015.1505.62060	551637 - OC	1155441	\$ 20,000
1015.1505.62060	551637 - OC	1157453	\$ 20,000
1015.1505.62060	551637 - OC	1164434	\$ 20,000
1015.1505.62060	551637 - OC	1157452	\$ 10,000
1015.1505.62060	567084 - OC	1165012	\$ 20,000
1015.1505.62060	567084 - OC	1166752	\$ 30,000
1015.1505.62060	567084 - OC	1168293	\$ 30,000
1015.1505.62060	567084 - OC	1170015	\$ 30,000

This condition was corrected through a proposed audit adjustment.

4. Of thirteen Special Revenue Fund encumbrances tested, aggregating \$969,652, the following were noted:

- a. At September 30, 2013, the subsidiary ledger balance of the Special Revenue Fund encumbrances of \$1,628,657 differs from the general ledger balance of \$1,327,085. 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</u>	<u>Document Number</u>	<u>Encumbrance Amount</u>
2080	2083	528791 - OM	\$ 56,195
2080	2084	528792 - OM	\$ 55,007
2080	2082	557436 - OC	\$ 28,986
2300	2304F	280467 - OT	\$ 2,760
7067	7655	439417 - OF	\$ 990

- c. The following Special Revenue Fund encumbrance 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>
2080	2082	62060	476569 - OC	\$ 87,350	10/01/08
2300	2304F	62500	280467 - OT	\$ 2,760	02/01/10
7067	7655	64560	439417 - OF	\$ 990	06/02/05

This condition was corrected through a proposed audit adjustment.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No. 2013-011, Continued

Condition, Continued:

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

- a. At September 30, 2013, the subsidiary ledger balance of the Capital Project Fund encumbrances of \$9,681,288 is net of debit balances of \$94,228. 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 \$3,716,590 higher than the corrected subsidiary ledger balance. This condition was corrected through a proposed audit reclassification.
- b. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of \$1,312,835 have been outstanding for five years or more.
- c. Of twenty-three nonmajor Capital Projects Fund encumbrances tested, aggregating \$8,813,086, the following were noted:
 - i. The obligating/encumbering document for the items below was not provided:

<u>Fund</u>	<u>Business Unit</u>	<u>Document Number</u>	<u>Encumbrance Amount</u>
4042	4623	65 - OS	\$ 80,000
4042	4633	391 - OS	\$ 86,770
4043	T02054	561168 - OC	\$ 1,042,300
4043	T8516B	442129 - OC	\$ 14,493
4046	5643	70356 - OS	\$ 784,755

This condition was corrected through a proposed audit reclassification liquidating the encumbrance.

- ii. The following fiscal year 2013 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2013 encumbrances:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document Number</u>	<u>APV Reference</u>	<u>Amount</u>
4043.T02057.64670	556007-OC	1154885 PV	\$ 24,670
4043.T02057.64670	556007-OC	1155021	\$ 13,619
4043.T02057.64670	556007-OC	1158201	\$ 20,734
4043.T0205M.64670	559991-OC	1162723	\$ 35,247
4043.T0205X.64460	559159-OC	1154843	\$ 174,289
4043.T9205J.62060	532048-C	1158163	\$ 77,717

This condition was corrected through a proposed audit adjustment.

- iii. The following nonmajor Capital Projects Fund encumbrance did not indicate any activity for more than three years:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No. 2013-011, 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>
4042	4623	64280	65 - OS	\$ 80,000	02/21/07
4042	4633	64570	391 - OS	\$ 86,770	06/18/09
4043	T2205K	62060	384927 - OC	\$ 89,968	03/10/03
4043	T4205U	64670	437342 - OC	\$ (83,594)	06/07/06
4043	T85164	64670	333747 - OC	\$ 2,919,088	02/15/02
4043	T8516B	62480	442129 - OC	\$ 14,493	08/03/05
4046	5643	64040	70356 - OC	\$ 784,755	07/06/98

This condition was corrected through a proposed audit reclassification.

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 CNMI Single Audits for fiscal years 2009 through 2012.

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: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Commonwealth Healthcare Corporation

Finding No. 2013-012

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

Condition: CNMI Public Law 16-51 created the Commonwealth Healthcare Corporation (CHCC), which is responsible for providing healthcare services in the CNMI, as of October 1, 2011. Healthcare services had previously been accounted for within the General Fund of the CNMI. CHCC operates from the primary hospital building in the CNMI. As of September 30, 2013, 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.

Prior Year Status: The lack of coordination of the transfer of assets and liabilities by CNMI and CHCC officials was reported as a finding in the CNMI Single Audit for fiscal year 2012.

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 2015 if not sooner.

Proposed Completion Date: January 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

CNMI Local Noncompliance

Finding No. 2013-013

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

Condition: On September 30, 2012, the CNMI passed Public Law 17-85 as the Appropriations and Budget Authority Act of 2013. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2013.

	<u>Budgeted Level of Expenditures</u>	<u>Actual Expenditures</u>	<u>Over Expenditure</u>
Executive branch	\$ 40,025,415	\$ 41,951,914	\$ 1,926,499
Second Senatorial District - Tinian	\$ 4,646,051	\$ 4,801,761	\$ 155,710
Government utilities	\$ 6,000,853	\$ 10,329,916	\$ 4,329,063
Legislative branch	\$ 5,331,699	\$ 5,562,616	\$ 230,917
Third Senatorial District - Saipan	\$ 1,578,754	\$ 1,584,452	\$ 5,698
Office of the Public Auditor	\$ 791,274	\$ 1,753,366	\$ 962,092
Boards and commissions	\$ 527,772	\$ 549,589	\$ 21,817
Tourism (payment to Marianas Visitors Authority)	\$ 5,822,510	\$ 10,876,357	\$ 5,053,847
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund)	\$ 10,276,319	\$ 10,613,658	\$ 337,339
Health (payment to CHCC)	\$ 1,152,717	\$ 1,152,912	\$ 195
Judgments	\$ 9,900	\$ 10,000	\$ 100
Miscellaneous/continuing appropriations	\$ -	\$ 3,541,380	\$ 3,541,380

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 examine the issues causing the over expenditures and determine the propriety of budgeted 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 2012.

Auditee Response and Corrective Action Plan:

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

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. 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, 2013

Schedule of Expenditures of Federal Awards

Finding No. 2013-014

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 year ended September 30, 2013, includes an unallocated amount of \$811,205 for the Federal Grants Fund. The amount relates to unidentified grants revenue. 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 CNMI Single Audits for fiscal years 2011 and 2012.

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, 2013

Finding No.: 2013-015
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.551 Supplemental Nutrition Assistance Program
 Grant Number: 7NM4004NM
 Area: Cash Management
 Interest Liability: \$80
 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 twenty-seven transactions tested, eleven items (or 41%) 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>
1107498	\$ 711,735	10/26/12	10/08/12	11
1111820	\$ 63,956	12/14/12	10/25/12	33
1111823	\$ 614,065	12/17/12	11/05/12	27
1112460	\$ 184,976	12/17/12	11/05/12	27
1112463	\$ 650,993	01/07/13	12/18/12	13
1112464	\$ 155,649	01/07/13	12/18/12	13
1114019	\$ 674,163	01/30/13	01/02/13	17
1149417	\$ 547,041	09/20/13	08/01/13	33
1154083	\$ 198,339	09/20/13	08/01/13	33
1154088	\$ 654,586	10/21/13	09/04/13	30
1111203	\$ 17,500	02/14/13	01/17/13	17

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 \$180 and an interest liability of \$80 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.

Prior Year Status: The lack of procedures for timely disbursement of cash advanced from the grantor agency in accordance with the requirements of the CMIAA was reported as a finding in the CNMI Single Audit for fiscal year 2012.

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, 2013

Finding No.: 2013-016
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Reporting
Questioned Costs: \$18,524

Criteria: The memorandum of understanding (MOU) between the Food and Nutrition Service (FNS) and the CNMI Department of Community and Cultural Affairs for fiscal year 2013 states that accurate records shall be maintained of Program Income Account collections activity (including) balance amounts, and such shall be reported in the SF-269 'Remarks' section.

Condition: The CNMI Division of Nutrition Assistance Program (NAP) received \$18,524 in program income for fiscal year 2013 which was not reported in the SF-269.

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

Effect: The effect of the above condition is noncompliance with the MOU and questioned costs of \$18,524.

Recommendation: We recommend that the CNMI-NAP work with the CNMI Department of Finance to maintain accurate reporting requirements based on the MOU.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

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, 2013

Finding No.: 2013-017
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: The Nutrition Assistance Program's (NAP) Manual of Operations on Monitoring of Retailer Compliance, item J, states that on a quarterly basis, Retail and Redemption Unit personnel shall conduct a compliance visit on each of the top twenty stores appearing on the High Redeemer List within thirty days following the end of each quarter.

Condition: No visits were conducted on the High Redeemer List at the end of each quarter.

Cause: The cause of the above condition is the lack of personnel to conduct the required quarterly compliance visits.

Effect: The effect of the above condition is noncompliance with the Manual of Operations requirements. No questioned costs are presented as we are unable to quantify the extent of the noncompliance.

Recommendation: We recommend that the CNMI strengthen procedures so that compliance visits are performed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Elizabeth P. Olouachel, NAP Retail & Redemption Officer

Corrective Action: The NAP Retail & Redemption Unit agrees with the finding: Compliance Visits were not performed within the required thirty days following each ending quarter for Fiscal Year 2013.

It has been a difficult year for the Retail & Redemption Unit which employs three full-time personnel; one of which joined the unit in January 2013. At such time, the Retail & Redemption Unit had been back-logged with compliance visits due to a shortage of manpower. During the early months of the fiscal year, all three Retail & Redemption Unit personnel encountered unanticipated personal events such as death of a close family member; one personnel was diagnosed with a very serious illness requiring prolonged treatment and therapy; and a spouse needing constant care from the respective personnel due to a serious health condition requiring off-island surgery. All these personal events resulted in long durations of absence from work which for the most part caused the reason for the Retail & Redemption Unit not meeting the timeline requirements for conducting compliance visits.

The R&R Unit is presently fully functioning with all three personnel back on track devoting much time and attention to meet all unit requirements. With this, the Retail & Redemption Unit completed compliance visits for fiscal year 2013 on May 22, 2014.

Proposed Completion Date: May 22, 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-018
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Special Tests and Provisions
Questioned Costs: \$235,234

Criteria: According to the Memorandum of Understanding (MOU) between the Food and Nutrition Service (FNS) and the CNMI NAP Program, the CNMI shall develop a system for the recoupment of over issued benefits and to classify the type of errors for each over issuance or under issuance. The CNMI shall issue a notice to participants for claims for over issuance or under issuance. The CNMI shall collect and issue at least three reminder notices requiring repayment. Failure to respond, pay the claim, or request a fair hearing shall prompt the CNMI NAP Program to file a claim against the participant in the CNMI Superior Court, Small Claims Court. The CNMI shall develop a record system that maintains accurate data of notices and payment receipts.

Condition: Tests of the Automated Data Processing (ADP) System requirement to automatically cut off households from the Supplemental Nutrition Assistance Program (SNAP) at the end of their certification period unless the household is recertified determined participants whose authorization to participate (ATP) terminated due to income exceeding the maximum gross monthly income and over issued benefits totaling \$235,234; however, either no notices were issued or notices were not consistently being prepared. Thus, claims cannot be filed against participants.

Cause: The cause of the above condition is lack of procedures to monitor and file notices to participants for over issuances, promptly and timely.

Effect: The effect of the above condition is noncompliance with the MOU and questioned costs of \$235,234.

Recommendation: We recommend that the CNMI establish policies and procedures that include methods to file notices to participants promptly and timely.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Merced C. Muna, Supervisor, NAP Benefit Issuance & Claims Accountability (BICA) Unit

Corrective Action: Established policies and procedures are in place including methods to file notices to participants promptly and timely in the NAP Manual of Operations. As required, the BICA Unit issued two notices to the head of household for case no. 03114. The first notice which is the initial demand letter was mailed certified on May 19, 2014. The second notice which is the final demand letter was mailed certified on May 30, 2014. As a result of the final demand letter, the head of household for case no. 03114 reported to the BICA Unit on June 2, 2014 and signed a payment agreement to commence making monthly payments beginning July 2014.

Proposed Completion Date: May 30, 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-019
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Grant Number: 7NM700NM7
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

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 a variance between amount recorded against our expectation:

Indirect cost rate	2.86%
Expected indirect cost	\$ 27,330
Indirect cost per general ledger	<u>43,009</u>
Excess (shortage) of indirect cost charged over expected IC	\$ <u>15,679</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. No questioned cost is presented as the grantor approved use of a higher, proposed rate. However, excess indirect costs of \$15,679 represent returnable or claimable funds.

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance and Imelda Benavente, WIC Financial Manager

Corrective Action: The audit condition is misleading. The FY2013 indirect cost rate of 2.86% was only finalized and accepted by the CNMI on 06/17/14. The variance exists because DOF claimed indirect cost at the time of the FY2013 WIC NSA closeout based on the FY2013 proposed indirect cost rate of 4.06%. The WIC Program's grantor agency recommended and approved the use of the FY 2013 proposed rate as it was the most accurate and current rate available at the time.

According to the USDA, once the FY2013 indirect cost rate is finalized and approved, the claim should be revised and the CNMI may return or claim for the difference. The WIC Program will coordinate with DOF to ensure this adjustment is made.

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-020
 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: \$1,969

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 \$149,818, less than three quotations were obtained for three expenditures or (12%), totaling \$5,219.

<u>Business Unit</u>	<u>TA/Contract Number</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document Number</u>	<u>Amount</u>	<u>Questioned Costs</u>
A35570	T.A. 301127	62500	03/14/13	1116238	\$ 1,750	\$ 1,750
A35570	T.A. 301659	62500	04/26/13	1119798	219	219
A35570	P.O. 556,242	62680	05/29/13	232868	<u>3,250</u>	-
					<u>\$ 5,219</u>	<u>\$ 1,969</u>

No questioned costs are presented for document number 232868. Sole source procurement was utilized in the selection as the vendor printed food vouchers that were compatible with program software and was determined to be the least costly option. The condition is reportable as there was no attempt to obtain quotations.

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

Effect: The effect of the above condition is that WIC is not in compliance with procurement requirements and questioned costs of \$1,969 exist since projected questioned costs exceed \$10,000.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-020, 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: \$1,969

Prior Year Status: The lack of adherence to established policies and procedures regarding compliance with procurement requirements was reported as a finding in the CNMI Single Audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Imelda Benavente, WIC Financial Manager and Rosalia Julita R. Inos, WIC Office Manager

Corrective Action:

TA # 301127 - This procurement is for roundtrip airfare to the mainland for official travel. The WIC Program solicited quotations based on the most practical and cost-effective routes to and from the destination of travel. Accordingly, the travel authorization file included four quotations for two airline companies with recommended routes submitted by the travel agencies.

TA # 301659 - This procurement is for a roundtrip airfare to Rota. There were only two airlines that provided flight services to Rota at the time of this travel authorization request. The second quotation obtained was not filed with the travel authorization in error and thus, was not included for audit review.

PO # 556242 - This is a sole source procurement approved by the MSO Director of Procurement and Supply. The WIC Program procured with this vendor through sole source as this is the only vendor with an existing food instrument design that has already been tested for compatibility with the Arizona-in-Motion (AIM) data system.

Proposed Completion Date: Ongoing

Auditor Response:

TA # 301127 - Although there are only two airlines that consistently fly to and from Saipan, there are multiple airlines that offer travel from Hawaii or Japan. Quotations were not provided for travel from other airlines from these areas by the travel agency.

PO # 556242 - We did not note any attempt to seek additional quotations for the procurement of the vouchers. We can only assume the selection of Standard Register would be less costly. As competition could have been sought, the condition is reportable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-021
 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-2011-3, CNMI-CIP-2008-3, CNMI-CIP-2009-2 and CNMI-CIP-2010-2
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$34,154

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 \$17,873, of a population of \$262,068, 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>
5649A	08/10/13	403442	\$ 3,846

Actual expenditure charged to the Program for this Contracting Officer/Governor's Special Legal Counsel is \$1,923 (50% of the employee's gross pay). There is no time-effort study or other activity report to support a 50% cost allocation of the above employee. Questioned costs of \$1,923 are raised as the projected questioned costs exceed \$10,000.

2. Of fifty-two nonpayroll expenditures tested, aggregating \$2,490,030, of a population of \$3,694,542, we noted the following:
 - a. The ATP from the grantor was not provided for two nonpayroll expenditures or 4% related to construction costs.

<u>Business Unit</u>	<u>Obligating Document #</u>	<u>APV #</u>	<u>Questioned Costs</u>
5644	544	1148476	\$ 1,896
5644	544	1148476	<u>27,750</u>
			\$ <u>29,646</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-021, 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-2011-3, CNMI-CIP-2008-3, CNMI-CIP-2009-2 and CNMI-
CIP-2010-2
Area: Allowable Costs/Cost Principles
Questioned Costs: \$34,154

Condition, Continued:

- b. Travel expenditures (or 2% from 12/02/13 to 12/06/13 relating to obtaining a grant from the U.S. Department of Commerce Economic Development Administration) of \$2,585 for business unit 5652 for grant CNMI-CIP-2010-2 are not within the scope of work and budget approved by the grantor.

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 \$34,154 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 CNMI Single Audits for fiscal years 2011 and 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Virginia C. Villagomez, CIP Administrator and Kathryn Delafield, Legal Advisor, CNMI Water Task Force (WTF)

Corrective Action:

Condition 1: CIP agrees with this finding. We will adhere to applicable federal requirements to maintain records documenting employee time per applicable program served.

Condition 2: We agree with the finding and the Office of Capital Improvement has made efforts to comply with the recommendations made by the auditor.

The travel cost was erroneously charged to the wrong account. The Water Task Force is taking the necessary steps to credit the account that was billed and to debit the account that should have been charged for this expenditure.

Proposed Completion Dates:

Condition 1: Ongoing and has no completion date.
Condition 2: Immediately and September 30, 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-022
 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-2007-1, CNMI-CIP-2010-1 and CNMI-CIP-2008-3
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$20,146

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 nine awards tested aggregating \$3,537,722 of a population of \$3,956,610, we noted the following:

1. For three grants (or 33%), expenditures were incurred after the grant was expired. We were not provided grant extensions for the following grants:

<u>Business Unit</u>	<u>Grant Award Ref.</u>	<u>Grant Expiration Date</u>	<u>Expenditure Tested</u>	<u>Expenditure Incurred After Allowable Time Frame</u>	<u>Questioned Costs</u>
5224	CNMI-CIP-2007-1	09/30/12	\$ 131,404	\$ 11,674	\$ 11,674
5649	CNMI-CIP-2010-1	09/30/12	\$ 7,368	<u>5,394</u>	<u>5,394</u>
				\$ <u>17,068</u>	\$ <u>17,068</u>

2. For one grant (grant no. CNMI-CIP-2007-1) (or 11%) which expired on 09/30/12, the following expenditure under business unit 5664 was liquidated after 90 days from the grant expiration date. We were not provided a grant extension.

<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Clearance Date</u>	<u>Questioned Costs</u>
1142793	07/24/13	5969	11/06/13	\$ 3,078

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 \$20,146 exist.

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

Prior Year Status: The lack of established policies and procedures for the proper recording of expenditures incurred beyond the period of availability was reported as a finding in the CNMI Single Audit for fiscal year 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-022, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -
Capital Improvement Projects
Grant Numbers: CNMI-CIP-2007-1, CNMI-CIP-2010-1 and CNMI-CIP-2008-3
Area: Period of Availability of Federal Funds
Questioned Costs: \$20,146

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Virginia C. Villagomez, CIP Administrator and Kathryn Delafield, Legal Advisor, CNMI Water Task Force (WTF)

Corrective Action:

Condition 1: For business unit no. 5649, CIP disagrees with finding. OIA approved to transfer the expenditure within the grant performance period for grant no. CNMI-CIP-2010-1.

Condition 2: The CIP Office agrees with this finding and will adhere to the audit recommendation. This CIP Office will ensure stricter compliance to grant period of availability and will request for funding extension when necessary. The CIP Office will seek to ratify the particular questioned costs of \$3,078 from the grantor agency (DOI) immediately as drawdown was approved.

Proposed Completion Date: Immediately

Auditor Response:

Condition 1: Regarding business unit 5649, not all expenditures were properly transferred from 5649 to 5649A. The expenditures in question were incurred after the grant performance period expired; therefore, they would not be covered by the OIA approval.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-023
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: \$64,922

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.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (43 CFR Section 12.76(d)(4)(i)(A-D)) stipulates that "procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals and one of the following circumstances applies: A) The items is available only from a single source; B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation; C) The awarding agency authorizes noncompetitive proposals; or D) After solicitation of a number of sources, competition is determined inadequate." Furthermore, federal regulations stipulate that grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law. In accordance with Emergency Purchasing under NMIAC Section 70-30.3-230 (a) Notwithstanding any other provision of the regulations in this subchapter, the government may make emergency procurement when there exists a threat to public health, safety or welfare under emergency conditions. An emergency procurement must be as competitive as practicable under the circumstances. (b) A written justification of the basis for the emergency and for the selection of the particular contractor must be made by the official with expenditure authority. (c) If the P&S Director is satisfied, he shall state his approval in writing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-023, 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: \$64,922

Condition: Of fifty-two nonpayroll expenditures tested, aggregating \$2,490,030, of a population of \$3,694,542, 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 2013 for purchases of less than \$2,500 totaled \$81,652. Noncompliance and questioned costs result for those purchases of less than \$2,500.

For two expenditures (or 4%), price quotations were not obtained for the following which qualify under small purchase procedures:

<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-2010-2	TA 299757	\$ 1,790	1107567	5652	11/30/12
CNMI-CIP-2011-3	555863 OP	\$ 1,760	1114458	5649A	02/21/13

Of twenty-seven construction in progress (CIP) contracts tested, from nonpayroll expenditures tested aggregating \$2,490,030, of a population of \$3,694,542, the following were noted:

2. Five contracts (or 15%) 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-2011-3	5649A	577 OS
CNMI-CIP-2011-3	5664A	605 OS
CNMI-CIP-2011-3	5649A	513 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.

3. One contract or 4% (contract # 614-OS for \$61,372) for the purchase of a transformer was procured using emergency purchasing. Although justification was provided for the procurement method utilized, the justification did not contain the specific efforts made to obtain competition and what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. Only one quotation was provided. The total related fiscal year 2013 expenditures amounted to \$61,372.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-023, 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: \$64,922

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$64,922 exist for Conditions 1 and 3.

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 CNMI Single Audits for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Virginia C. Villagomez, CIP Administrator and Kathryn Delafield, Legal Advisor, CNMI Water Task Force (WTF)

Corrective Actions: We disagree with condition 1 and agree with conditions 2 and 3.

Condition 1: Condition 1 identifies the aggregate sum of \$81,652 as program expenditures in FY 2013 for purchases of less than \$2,500. The following is not supported with a worksheet to establish a position/disposition of the questioned costs of \$3,550.

As a general rule, the CNMI applies competitive procurement to a variety of small purchases, as bidding is not required for procurement under \$2,500. Further, grant no. CNMI-CIP-2011-3 for \$1,760 is an open account to publish invitations to bid and requests for proposals with the only daily newspaper. Therefore, cost is not the only criteria for procurement but frequency of publications as well.

For TA 299757, this is a travel authorization expenditure. The purchase was not made by the Water Task Force; however, as pointed out in the past, there are no required procurement procedures for small purchases under \$2,500 in the CNMI Procurement Regulations. The federal government requires that in administering federal funds, recipient states and other government entities follow their own procurement regulations. The federal government itself requires no competition for purchases under \$3,000 (41 USC 1902). We do try and get the best prices when possible and practicable.

Condition 2: CIP agrees with this finding. The CNMI has amended the contract template to include the requirement for federal access to contractor records. We will carefully review all new contracts to ensure that federal access to contractor provision records is included.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-023, 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: \$64,922

Auditee Response and Corrective Action Plan, Continued:

Condition 2, Continued:

For contract no. 480-OS, this contract was cited as a finding (2012-28) in the 2012 Single Audit. WTF responded as follows:

The contract cited, 480-OS was awarded in 2008 and did not include the required contract provisions for federal access to contractor records. A change order to the contract was issued in 2010 extending the contract and did not otherwise modify the terms of the contract.

We have included that language in the contract forms we use now, but this change order and underlying contract was processed without examining the document to ensure the provision was included. We will ensure that any change orders, renewals, and the older, out of date forms are carefully scrutinized and that all new contracts are double checked to ensure this provision is included.

Condition 3: CIP agrees with this finding. Although justification was in accordance for this type of procurement method, there was no effort sought to obtain competition. We will comply with procurement regulations and review its current regulations to conform to applicable federal laws should this type of procurement method arise in the future.

Proposed Completion Dates:

Conditions 2 and 3: Ongoing and has no completion date.

Auditor Response:

Condition1: Evaluation of proposals, bidding documents or the required number of quotations related to small purchases to document that other contractors were considered was not provided. Further, although the Program is in compliance with the CNMI procurement regulations, such regulations allow for restricted competition for purchases less than \$2,500. This appears to circumvent the intent of applicable federal procurement requirements, which is to provide for full and open competition regardless of price. Therefore, the finding is reportable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-024
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: OMIP-CNMI-WTF-2011-1
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-two grants tested aggregating \$3,824,436 of a population of \$3,956,610, we noted that for one grant (grant no. OMIP-CNMI-WTF-2011-1; business unit 5669) (or 5%), the required recipient share of \$47,028 was not reported on the Financial Status Report for the period ended December 31, 2013. In addition, the expenditure and drawdown of \$37,074 for PV 1135680 were traced to the accounting records, but were not reflected on the final Financial Status Report for the period ended December 31, 2013.

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.

Effect: The effect of the above condition is the lack of compliance with reporting requirements. No questioned costs are presented as the expenditures were allowed under the grant terms and conditions. Further, the required recipient share was met.

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.

Prior Year Status: The lack of established policies and procedures to accurately report and submit financial information on a timely basis was reported as a finding in the CNMI Single Audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa A. Larson, Secretary of Finance

Corrective Action: An amendment to the Federal Financial Report has been prepared for submission to reflect the inclusion of the non-federal cost share requirement capturing all the details of the expenditures for all sources of funding related to the grant OMIP-CNMI-WTF-2011-1 and 1A.

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-025
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-two nonpayroll expenditures tested aggregating \$2,490,030, of a population of \$3,694,542, \$190,042 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. Further, the Single Audit report of the subrecipient does not reveal questioned costs on the passed-through amount.

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 CNMI Single Audits for fiscal years 2009 through 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-025, 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 Persons: Virginia C. Villagomez, CIP Administrator and James R. Stump, CIP Contracting Officer

Corrective Action: We agree with the finding and the Office of Capital Improvement will comply with the recommendations made by the auditor. To comply with the subrecipient monitoring requirements, the Office of Capital Improvement has developed draft subrecipient monitoring procedures including a checklist and a subrecipient monitoring agreement to be implemented for all program pass-through grants that are affected by this requirement.

The subrecipient agreement was sent to NMC, CPA, CUC and CHCC by the Office of the Governor. The Office of Capital Improvement will conduct monitoring pursuant to the established policies and procedures upon receipt of the signed agreement.

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-026
 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-2007-1, CNMI-CIP-2008-3 and CNMI-CIP-2008-2
 Area: Special Tests and Provisions
 Questioned Costs: \$1,005,973

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 projects tested aggregating \$2,507,903 of a population of \$3,956,610, a leasehold agreement or other equivalent document evidencing that the CNMI has clear title or legal authority to use the land for the following projects was not provided:

<u>Business Unit</u>	<u>Project</u>	<u>Expenditure Tested</u>	<u>Questioned Costs</u>
5627	Tinian Landfill	\$ 346,563	\$ 346,563
5644	Tinian Landfill	\$ 29,646	29,646
5609	NMC facilities	\$ 171,964	171,964
5672	Tinian Harbor Fuel Dock	\$ 457,800	457,800
			<u>\$ 1,005,973</u>

Further, the scope of work and project budget signed by a certified architect or engineer was not provided for business units 5627 and 5644 above.

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.

Prior Year Status: 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 was reported as a finding in the CNMI Single Audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Virginia C. Villagomez, CIP Administrator and James R. Stump, CIP Contracting Officer

Corrective Action: We agree with the finding and the Office of Capital Improvement has made efforts to comply with the recommendations made by the auditor. We have provided the auditor with a letter of approval.

Proposed Completion Date: Immediately.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-027
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
Grant Number: M-00915609-0
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a control system must be developed to adequately safeguard property to prevent loss, damage, or theft. Any loss, damage, or theft shall be investigated.

Condition: Of forty-seven items tested, four (or 9%) could not be located as follows:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Cost</u>
04/13/05	ITEM-33492	Undetermined
05/07/08	MP-18036 CM	Undetermined
12/15/09	ITEM-46607	Undetermined
12/27/11	MP-24152 CM	\$ 124

We are unable to assess the overall cumulative monetary value of the deficiencies above; however, total capital outlays for fiscal years 2013, 2012 and 2011 were \$145,748, \$174,140 and \$199,827, respectively.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding applicable equipment and real property management requirements.

Effect: The effect of the above condition is noncompliance with the applicable equipment and real property management requirements. There are no questioned costs since the overall monetary value cannot be determined.

Recommendation: We recommend that the CNMI comply with applicable equipment and real property management policies and procedures.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Gloria S. Castro, Bureau of Environmental and Coastal Quality (BECQ) Administrative Service Manager

Corrective Action: Of the four items that could not be located by the auditor, BECQ found two of the items: a swivel chair (MP 18036 CM) and an LCD monitor (ITEM 46607).

In accordance with applicable equipment and real property management requirements, BECQ has developed a control system to adequately safeguard property to prevent loss, damage or theft through the implementation of the inventory bar coding database system. This system allows for tracking of inventory by its location, serial number or bar code number.

Only two items were not located by the auditor: a two and a half year old hand-held radio (MP-24152CM) with an original value of \$124 and a nine-year old battery backup (ITEM-33492).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-027, Continued
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
Grant Number: M-00915609-0
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

As we have stated in the past, USEPA has indicated that 40 CFR § 31.32(d) is inapplicable to BECQ, which is considered to be “the State”, as defined in 40 CFR § 31.3. Pursuant to 40 CFR § 31.32(b), 40 CFR § 31.32(d) clearly applies only to non-State grantees.

EPA guidelines for procurement developed for the CNMI confirm that “when procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds”. The applicable CNMI standards are found in the Property Management Policies and Procedures Manual dated January 8, 2003 and distributed by the CNMI Department of Finance.

In accordance with the manual, P&S does not control items with a value of less than \$1,000, except for specially designated items like firearms, digital cameras, handheld radios and cell phones. Moreover, P&S does not have room to store worthless government property such as nine-year old backup batteries.

Accordingly, BECQ has, with the exception of MP-24152CM, adhered to established policies and procedures regarding physical inventory counts of property.

Proposed Completion Date:

Auditor Response: The fixed assets could not be located when audit fieldwork was conducted. Also, these items have an “IV” or inventoried status in the list provided by P&S. Reconciliation should be performed. The finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-028
 Federal Agency: U.S. Environmental Protection Agency
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
 - Program Support
 Grant Number: M-00915609-0
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$2,524

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Grantor procurement guidelines also state that open or “blanket” purchase orders or contracts are authorized and encouraged for frequent-procured categories of items. Acceptable documentation for full and open competition under purchase orders can be demonstrated in one of two ways: open separate purchase orders in equal amounts with multiple vendors in the same category; or obtain quotes on a representative samples from multiple vendors and award the open purchase order to the vendor with the overall lowest price. 40 CFR Appendix A to Part 33 states that each procurement contract signed by an EPA financial assistance agreement recipient, including those for an identified loan under an EPA financial assistance agreement capitalizing a revolving loan fund, must include the following term and condition:

The contractor shall not discriminate on the basis of race, color, national origin or sex in the performance of this contract. The contractor shall carry out applicable requirements of 40 CFR Part 33 in the award and administration of contracts awarded under EPA financial assistance agreements. Failure by the contractor to carry out these requirements is a material breach of this contract which may result in the termination of this contract or other legally available remedies.

Condition: Tests of procurement and suspension and debarment requirements noted the following:

1. Of thirty-one nonpayroll expenditures tested, aggregating \$275,658, we noted five expenditures (16%) that did not meet federal procurement requirements nor grantor procurement guidelines.

<u>Document Type</u>	<u>Document No.</u>	<u>Contract No.</u>	<u>Date</u>	<u>Amount</u>	<u>Questioned Costs</u>
PV	627566	300200 OT	02/20/13	\$ 440	\$ 440
PV	1150208	304340 OT	09/19/13	84	84
PV	1101614	545560 OP	10/09/12	<u>598</u>	<u>2,000</u>
Total				\$ <u>1,122</u>	\$ <u>2,524</u>

2. Tests of seven grantee contracts (contract nos. 551568 OC, 551589 OC, 556615 OC, 518900 OC, 538598 OC, 544012 OC and 552031 OC) noted that all contracts do not contain the provision under 40 CFR Appendix A to Part 33.

Cause: The cause of the above conditions is lack of adherence to established policies and procedures regarding compliance with procurement requirements and the lack of procedures to include required contract clauses specific for the grant.

Effect: The effect of the above conditions is noncompliance with procurement requirements and with required contract provisions. Questioned costs of \$2,524 exist as the projected questioned costs exceed \$10,000.

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 as well as those specific for the grant are included.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-028, Continued
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
Grant Number: M-00915609-0
Area: Procurement and Suspension and Debarment
Questioned Costs: \$2,524

Auditee Response and Corrective Action Plan:

Name of Contact Person: Gloria S. Castro, BECQ Administrative Service Manager

Corrective Action:

Condition 1: BECQ ordinarily tries to get multiple quotations for purchases of goods and services. In making the above-referenced purchases, however, BECQ followed the CNMI procurement regulations and policies in place, which do not require obtaining quotations for travel. Transportation is not specifically addressed in the CNMI Procurement Regulations and DOF uses established, written DOF policies when procuring government travel.

In accordance with EPA's February 8, 2010 letter regarding the CNMI DEQ's approved procurement practices and in accordance with programmatic condition P4 of the cooperative agreement, the full and open competition requirement has been satisfied where EPA has approved travel expenses. In this case, EPA approved the travel expenses referenced-above, with respect to document 627566. Document 1150208 for \$84 refers to inter-island travel, which does not require EPA approval to satisfy the full and open competition requirement.

In accordance with procurement regulations and EPA's February 8, 2010 letter, BECQ has provided documentation for full and open competition for vehicle maintenance services and office supplies. DEQ had three separate open purchase orders with multiple vendors in equal amounts of \$2,000 for both vehicle maintenance and office supplies during FY2013. BECQ, however, does not necessarily award open purchase orders to multiple vendors in equal amounts and at the same time, unless the previous open orders have been expended.

Condition 2: All BECQ contracts already contain the following terms and conditions:

Contractor will comply...with Executive Order 11246 of September 24, 1965 entitled "Equal Employment Opportunity," as amended by Executive Order 11375 of October 13, 1967 and as supplemented in the Department of Labor regulations (41 CFR Chapter 60) (all contracts awarded in excess of \$10,000 by grantees and their contractors or subgrantees).

Executive Order 11246 requires non-discrimination by contractors on the basis of race, color, national origin or sex; however, BECQ will further add the language in 40 CFR Part 33 to contracts going forward to ensure non-discrimination.

Proposed Completion Date: Ongoing.

Auditor Response:

Condition 2: 40 CFR Part 33 requires specific terms and conditions regarding discrimination be included in contracts.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-029
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas
- Program Support
Grant Number: M-00915609-0
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with compliance supplement, the Program is required to submit an SF-425, Federal Financial Report that is accurately prepared.

Condition: During our test of reporting requirement, we noted program income earned by the program was not reported in the required fields of SF-425 as follows:

<u>Program Income Earned</u>	<u>Amount Expended</u>	<u>Unexpended Program Income</u>
\$ 293,796	\$ 211,533	\$ 82,263

Cause: The cause of the above condition is the lack of controls over compliance with reporting requirement.

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

Recommendation: We recommend that the Program take reasonable steps to ensure controls are working effectively to comply with applicable regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Gloria S. Castro, BECQ Administrative Service Manager

Corrective Action: In accordance with programmatic condition P2 of the cooperative agreement, BECQ retained and made available all program income generated to support the activities associated with the consolidated environmental program. BECQ maintained records which account for program income.

Accordingly, BECQ provided the EPA project officer an accounting of all program income received and a description of how those funds have or will be utilized to support the overall environmental program. Further reporting on the SF-425 is not required.

Proposed Completion Date: Ongoing.

Auditor Response: Federal Financial Report (SF-425) includes fields for reporting of program income earned as well as amounts expended. BECQ earned program income but no program income was reported. Programmatic condition does not state an exception to this reporting requirement. The finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-030
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Number: DE-EE0000220
Area: Allowable Costs/Cost Principles
Questioned Costs: \$58,450

Criteria: In accordance with applicable allowable costs requirements, costs must be supported by underlying accounting records.

Per the indirect cost rate agreement for fiscal year 2011, effective for fiscal year 2013, costs charged may not exceed 5.48% for ARRA funds with direct utilities and 4.98% with non-ARRA funds with direct utilities charged.

Condition: Tests of nonpayroll expenditures noted the following:

1. Of twenty-five items tested amounting to \$2,983,140, we noted the following variance:

<u>Fund</u>	<u>Business Unit</u>	<u>Object Number</u>	<u>General Ledger Date</u>	<u>Document Number</u>	<u>General Ledger Amount</u>	<u>Invoice Amount</u>	<u>Variance</u>
2022	E9041S	62060	12/13/12	1108635	\$ 39,950	\$ 36,950	\$ 3,000

2. Tests of indirect costs noted a difference in amount recorded against our expectation.

	<u>ARRA</u>
Indirect cost rate	5.48%
Expected indirect cost	\$ 13,759
Indirect cost per the general ledger	\$ 118,508
Administrative expense per the general ledger	<u>(49,299)</u>
Excess (shortage) of indirect cost charged over expected indirect cost	<u>\$ 55,450</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 \$58,450 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: Larrisa Larson, Secretary of Finance

Corrective Action: We agree with this finding and will develop policies and procedures to address issues in the conditions.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-031
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Number: DE-EE0000220
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

Criteria: Per CNMI Procurement regulation § 70-30.3-210, Competitive Sealed Proposals, “ When the official with expenditure authority determines in writing that the use of a competitive sealed bidding is either not practical or not advantageous to the government and receives the approval of the P&S Director, a contract may be entered into by competitive sealed proposals.”

Condition: Of twenty one samples amounting to \$2,154,655, we did not note a justification from the official with expenditure authority for contract 509766-OC.

No questioned cost is reported as full and open competition was performed for this contract.

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

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

Auditee Response and Corrective Action Plan

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We agree with this finding and will develop policies and procedures to address issues in the conditions.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-032
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Number: DE-EE0000220
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 for the quarter ended June 30, 2013:

	<u>Per 1512 ARRA</u>	<u>Per General Ledger</u>	<u>Variance</u>
Expenditures	\$ 16,530,808	\$ 16,549,021	\$ 18,213

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 general ledger expenditures are valid and this is a matter of underreporting 1512.

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

Prior Year Status: The lack of adherence to established policies and procedures regarding compliance with reporting requirements was reported as a finding in the CNMI Single Audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Thelma B. Inos

Corrective Action:

The Energy Division Program disagrees with the questioned cost finding on 1512 reporting relative to the preparation and review process. No submission of 1512 reports occur without first being reviewed and approved by the Director using data/document collected provided by DOF.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-032, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.041 State Energy Program
Grant Number: DE-EE0000220
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Please note the following conflicting information related to the Funds Status Report issued by DOF with respect to the variance on the 1512 reporting and the general ledger from DOF regarding the questioned cost amount:

- The amounts on the Funds Status Report from DOF ending 09/30/13 (dated 10/4/13) were the basis of completing and submitting our 1512 report.
- The amounts on the Funds Status Report ending 09/30/13 (dated 10/31/13), were revised to adjust the amounts previously indicated on the FSR above on personnel, fringe benefits and indirect cost amounting almost close to the questioned cost.

Please note that all final 1512 reports are submitted electronically through the 1512 reporting website within ten to fourteen days of the reporting period, with no opportunity to make necessary revisions, thereafter.

Proposed Completion Date: Because a notice was not issued informing recipients that Section 1512 reporting is no longer required after January 1, 2014, none is offered.

Auditor Response: DOF records do not agree with the ARRA 1512 report. Communications should have been made with DOF to confirm that amounts reported in the 1512 report reflect actual expenditures incurred in the related reporting period. As the difference between DOF records and the ARRA 1512 report could not be fully explained, the finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-033
Federal Agency: U.S. Department of Energy
CFDA Program: 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
Grant Number: DE-EE0000762
Area: Allowable Costs/Cost Principles
Questioned Costs: \$93,904

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 ARRA grants for fiscal year 2013; however indirect costs of \$93,904 were charged to business unit E0128A.

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 \$93,904 exist.

Recommendation: We recommend compliance with OMB Circular A-87.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Vincent S. Attao or Thelma B. Inos

Corrective Action: The Division of Energy is unable to truly offer any suggestion as it relies solely on DOF for guidance on the most appropriate and latest negotiated IDC rate. Conversely, we do feel that not charging any indirect cost based on an approved rate established prior to grant approval or latest known provisional IDC rate would adversely affect federal funds awarded to the CNMI.

Therefore, while we do agree with the finding as it relates to the questioned amount, we request the issue be brought to the attention of respective appropriate authorized representatives or agencies involved in making such determinations and decisions.

Proposed Completion Date: None provided. However, we would like to resolve such issues on or before the next reporting period or before July 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-034
Federal Agency: U.S. Department of Energy
CFDA Program: 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
Grant Number: DE-EE0000762
Area: Procurement and Suspension and Debarment
Questioned Costs: \$109,270

Criteria: In accordance with applicable federal regulations, grantee and subgrantee contracts must include a provision for federal access to contractor records. CNMI procurement regulations Section 3-103, subsection 6 states that the P&S Director shall promptly notify offerors when they are excluded from the competitive range or otherwise excluded from further consideration. The notice shall state the basis for the exclusion. Subsection 8 of the same regulation states that the P&S Director shall provide written notification to each unsuccessful offeror. Section 5-103, subsection 2 of the same regulation states that change orders on construction and A&E contracts which exceed 25% of the cumulative contract price shall automatically be procured through competitive procedures.

Condition: Tests of procurement for grantee contracts noted the following:

1. Three of four contracts (545426 OC, 534938 OC and 545427 OC) did not contain provisions for Byrd Anti-Lobbying Amendment and Debarment and Suspension. No questioned costs are presented as contracts were selected in accordance with procurement regulations, except for 545427-OC, the questioned cost for which is presented below.
2. For one (25%) of four contracts tested, the following were noted for contact no. 545427-OC amounting to \$435,120 awarded under RFP11-DPW/ED-099:
 - a. There was no evidence of notice to three offerors excluded from the competitive range in the procurement file.
 - b. There was no evidence of notice to the unsuccessful bidder in the procurement file.
 - c. Competitive procedures were not followed for change orders amounting \$180,320 (41%) that exceeds 25% of the cumulative contract price. Of the \$180,320 change order amount, \$109,270 was expended during fiscal year 2013.

Cause: The cause of the above condition is the lack of procedures to include required contract clauses, for offerors excluded from the competitive range and for unsuccessful bidder and change order processing and approval procedures.

Effect: The effect of the above condition is noncompliance with required contract provisions, local procurement regulations requirement and questioned costs of \$109,270 exist.

Recommendation: We recommend that the CNMI comply with procurement regulations. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-034, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
Grant Number: DE-EE0000762
Area: Procurement and Suspension and Debarment
Questioned Costs: \$109,270

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Vincent S. Attao or Thelma B. Inos

Corrective Action:

Condition 1: While the specific federal law was not stated, we believe the statements described below were sufficient at the time to meet the requirements of “Section 1352, Title 31 of the U.S. Code, and implemented at 15 CFR Part 28, for persons entering into a grant, cooperative agreement or contract over \$100,000 or a loan or loan guarantee over \$150,000 as defined at 15 CFR Part 28, Sections 28.105 and 28.110”:

Construction and Project Management

“All candidates must be familiar with the American Recovery and Reinvestment Act of 2009, inclusive of the Federal Acquisition Regulations, and relevant OMB circulars pertaining to the expenditure and reporting requirements for ARRA funds.”

Government Cool Roof Projects

“Vendors must be familiar with the American Recovery and Reinvestment Act of 2009, inclusive of Federal Acquisition Regulation, and the Buy America Provision and relevant OMB circulars pertaining to the expenditure and reporting requirements of ARRA funds.”

Please note that all types of competitive bids require all prospective contractors and suppliers to submit bid forms, as part of the bid submission, the following Buy America Certification and Statement forms:

1. ARRA Form 311 “Bidders Certification in compliance with Section 1605 “Buy America Provisions” of the ARRA of 2009”;
2. ARRA Form 314 “Contractor’s Acknowledgment in compliance with Section 1605” Buy America Provisions” of the ARRA of 2009; and
3. Statement of Compliance with the Buy American Provisions of the American Recovery and Reinvestment Act of 2009 (ARRA)

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-034, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
Grant Number: DE-EE0000762
Area: Procurement and Suspension and Debarment
Questioned Costs: \$109,270

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 2: We disagree with the following findings with respect to the questioned cost as it relates to contract number 545427-OC amounting \$254,800 awarded under RFP11-DPW/ED-099:

- a. The responsibility of notifying offerors of their exclusion from competitive range rests with the Division of Procurement and Supply;
- b. The responsibility of notifying the unsuccessful bidder rests with the Division of Procurement and Supply; and
- c. Because all the appropriate necessary signatures required for approval were acquired for procuring the additional work, we disagree with the findings. Copies of all the required documentation to support our actions were provided during the audit process.

As to the recommendations provided, we request the issues be addressed with the Division of Procurement and Supply.

Proposed Completion Date: None provided.

Auditor Response:

Condition 1: Contracts tested do not contain the required contract provision for Byrd Anti-Lobbying Amendment and Debarment and Suspension. The finding remains.

Condition 2c.: CNMI procurement regulations on change orders were not followed. The finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-035
 Federal Agency: U.S. Department of Energy
 CFDA Program: 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
 Grant Number: DE-EE0000762
 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 of Management and Budget.

In addition, in accordance with the compliance supplement, the Program is required to submit an SF-425, Federal Financial Report that is accurately prepared.

Condition: Based on total expenditures reported to the grantor for the year ended September 30, 2013, the following errors were noted during tests of reporting requirements:

1. The 1512 ARRA cumulative expenditures do not agree to the cumulative expenditures per the general ledger as follows:

<u>Cumulative Expenditures Per 1512 ARRA</u>	<u>Cumulative Expenditures Per General Ledger</u>	<u>Variance</u>
\$ 5,536,666	\$ 5,524,448	\$ 12,218

Further, we could not verify if the 1512 ARRA was reviewed prior to submission.

2. SF-425 cumulative indirect cost does not agree to the cumulative indirect cost per the general ledger as follows:

<u>Cumulative Indirect/ Administrative Cost Per SF-425 as of September 30, 2013</u>	<u>Cumulative Indirect/ Administrative Cost per the General Ledger as of September 30, 2013</u>	<u>Variance</u>
\$ 117,504	\$ 129,302	\$ 11,798

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-035, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
Grant Number: DE-EE0000762
Area: Reporting
Questioned Costs: \$-0-

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Vincent S. Attao or Thelma B. Inos

Corrective Action:

Condition 1: The EECBG Program disagrees with findings as it reflects 1512 reporting requirements relative to the preparation and review process. As stated in an earlier interview, no submission of 1512 reports occur without first being reviewed and approved by the Director using data collected and documented from project reports from Project and Construction Managers and financial status reports provided by DOF and are all made a part of respective EECBG activity files and made available and accessible for review by authorized appropriate agencies.

As to the variance identified, we understand it to be the adjustments made afterwards, as summarized in the Funds Status report issued by DOF, to reflect personnel cost and indirect charges made to the grant award for the period ending. Please note that all final 1512 reports are submitted electronically through the 1512 reporting website within ten to fourteen days of the reporting period, with no opportunity to make necessary revisions, thereafter.

Condition 2: In line with the preceding finding, the Division of Energy will work closely with the Federal Section of DOF to make all revisions, deemed necessary, in order to ensure all appropriate corrections are made to specific reporting periods before any request is made to our U.S. DOE Project Officer to reject all affected previously approved quarterly financial reports in order to make necessary corrections to SF-425 for re-approval.

Proposed Completion Date:

Condition 1: Because a notice was not issued informing recipients that Section 1512 reporting is no longer required, none is offered.

Condition 2: We propose to make all revisions necessary to complete the corrections to each affected reporting period by the next reporting period but not later than the end of July 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-035, Continued
Federal Agency: U.S. Department of Energy
CFDA Program: 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program
(EECBG)
Grant Number: DE-EE0000762
Area: Reporting
Questioned Costs: \$-0-

Auditor Response:

Condition 1: DOF records do not agree with the ARRA 1512 report. The variance cannot be specifically identified since no supporting documents were provided. The finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-036
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
 05-1305CQ5ADM and 05-1305CQ5MAP
 Area: Activities Allowed or Unallowed
 Questioned Costs: \$4,299

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

Condition: Of seventy-one expenditures tested, the provider agreement and license to practice medicine for one or (1%) service provider was not made available:

<u>General Ledger Date</u>	<u>Document Number</u>	<u>Effective Date</u>	<u>Document Not Provided</u>	<u>Amount</u>
09/25/13	1150875	Unknown	Agreement and license to practice medicine	\$ 4,299

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting service providers.

Effect: The effect of the above condition is noncompliance with activities allowed or unallowed requirements and questioned costs of \$4,299 exist since projected questioned costs exceed \$10,000.

Recommendation: We recommend that the CNMI file relevant documentation supporting service providers.

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 the supporting documents. Also, in previous years, we only gave the auditor a copy of the provider agreement contracts and not the supporting required documents.

Proposed Completion Date: N/A

Auditor Response: The service provider agreement and license to practice medicine was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-037
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
 05-1305CQ5ADM and 05-1305CQ5MAP
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$4,692

Criteria: In accordance with applicable allowable costs/cost principles requirements, rates billed by service providers must be within the allowable rates of the Medicare Part B, Dental Bureau and/or Pharmacy cost fee schedules.

Condition: Tests of expenditures noted the following:

1. Of seventy-one expenditures tested, the following rates for services provided and/or medication prescribed are either not listed or rates exceeded the allowable cost fee schedule.

General Ledger Date	Voucher Number	Quantity	Rate Per Service Provider	Rate Per Allowable Cost Fee Schedule	Amount Per Service Provider	Amount Per Allowable Cost Fee Schedule	Variance	Questioned Costs
11/23/12	1106825	1	\$ 196.56000	not listed	\$ 197	\$ -	\$ 197	\$ 108
12/21/12	1109517	1	\$ 95.00000	not listed	\$ 95	\$ -	\$ 95	52
12/28/12	1110028	270	\$ 0.72400	\$ 0.60520	\$ 195	\$ 163	\$ 32	32
01/09/13	1110753	1	\$ 176.98000	not listed	\$ 177	\$ -	\$ 177	97
01/11/13	1111166	30	\$ 0.54400	\$ 0.11840	\$ 16	\$ 4	\$ 12	12
01/18/13	1111744	36	\$ 5.00000	not listed	\$ 180	\$ -	\$ 180	99
01/28/13	1112440	1	\$ 187.06000	not listed	\$ 187	\$ -	\$ 187	103
03/11/13	1115827	30	\$ 0.35033	\$ 0.05252	\$ 11	\$ 2	\$ 9	5
03/11/13	1115827	18	\$ 31.75333	not listed	\$ 572	\$ -	\$ 572	315
03/11/13	1115827	30	\$ 5.07700	\$ 0.05580	\$ 152	\$ 2	\$ 150	83
03/11/13	1115827	5	\$ 11.78600	\$ 3.55000	\$ 59	\$ 18	\$ 41	23
03/11/13	1115827	100	\$ 0.64150	not listed	\$ 64	\$ -	\$ 64	35
03/11/13	1115827	30	\$ 0.59267	\$ 0.08977	\$ 18	\$ 3	\$ 15	8
03/11/13	1115827	30	\$ 7.07833	not listed	\$ 212	\$ -	\$ 212	117
03/11/13	1115827	30	\$ 7.07833	not listed	\$ 212	\$ -	\$ 212	117
03/11/13	1115827	60	\$ 0.29250	\$ 0.15500	\$ 17	\$ 9	\$ 8	4
03/11/13	1115827	500	\$ 0.01524	not listed	\$ 8	\$ -	\$ 8	4
03/11/13	1115827	120	\$ 0.05850	\$ 0.01882	\$ 7	\$ 2	\$ 5	3
03/11/13	1115827	60	\$ 0.70500	\$ 0.25711	\$ 42	\$ 15	\$ 27	15
03/11/13	1115827	180	\$ 0.04556	\$ 0.01882	\$ 8	\$ 3	\$ 5	3
03/11/13	1115827	50	\$ 0.68820	not listed	\$ 34	\$ -	\$ 34	19
03/11/13	1115827	30	\$ 0.84033	\$ 0.40120	\$ 25	\$ 12	\$ 13	7
03/12/13	1116020	30	\$ 1.14000	not listed	\$ 34	\$ -	\$ 34	19
03/12/13	1116027	1	\$ 902.00000	not listed	\$ 902	\$ -	\$ 902	496
03/14/13	1116302	1	\$ 176.06000	not listed	\$ 176	\$ -	\$ 176	97
03/14/13	1116337	2	\$ 51.72000	not listed	\$ 103	\$ -	\$ 103	57
03/20/13	1116737	1	\$ 60.00000	\$ 14.61000	\$ 60	\$ 15	\$ 45	25
03/20/13	1116737	1	\$ 38.00000	not listed	\$ 38	\$ -	\$ 38	21
03/20/13	1116737	1	\$ 187.06000	not listed	\$ 187	\$ -	\$ 187	103
03/20/13	1116737	1	\$ 248.42000	not listed	\$ 248	\$ -	\$ 248	136
03/20/13	1116737	1	\$ 90.00000	\$ 79.32000	\$ 90	\$ 79	\$ 11	6
05/08/13	1120780	15	\$ 0.54267	\$ 0.02217	\$ 8	\$ -	\$ 8	4
05/08/13	1120780	30	\$ 0.24867	\$ 0.09148	\$ 7	\$ 3	\$ 4	2
05/08/13	1120780	30	\$ 0.24433	\$ 0.08977	\$ 7	\$ 3	\$ 4	2
05/09/13	1120866	1	\$ 199.95000	not listed	\$ 200	\$ -	\$ 200	110
05/14/13	1121200	3	\$ 5.00000	not listed	\$ 15	\$ -	\$ 15	8
05/14/13	1121200	1	\$ 902.00000	not listed	\$ 902	\$ -	\$ 902	496
05/14/13	1121288	1	\$ 11.22000	not listed	\$ 11	\$ -	\$ 11	6
05/20/13	1121914	15	\$ 1.20733	\$ 1.12360	\$ 18	\$ 17	\$ 1	1
07/03/13	1135430	30	\$ 2.97300	not listed	\$ 89	\$ -	\$ 89	49
07/11/13	1136623	45	\$ 0.11378	\$ 0.02700	\$ 5	\$ 1	\$ 4	2
07/29/13	1144071	30	\$ 0.51833	not listed	\$ 16	\$ -	\$ 16	9
08/15/13	1146205	2	\$ 70.00000	not listed	\$ 140	\$ -	\$ 140	77
09/12/13	1149087	1	\$ 179.00000	\$ 76.03000	\$ 179	\$ 76	\$ 103	57

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-037, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
 05-1305CQ5ADM and 05-1305CQ5MAP
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$4,692

Condition, Continued:

General Ledger Date	Voucher Number	Quantity	Rate Per Service Provider	Rate Per Allowable Cost Fee Schedule	Amount Per Service Provider	Amount Per Allowable Cost Fee Schedule	Variance	Questioned Costs
09/12/13	1149117	60	\$ 0.14350	not listed	\$ 9	\$ -	\$ 9	5
09/12/13	1149117	15	\$ 0.98867	not listed	\$ 15	\$ -	\$ 15	8
09/12/13	1149117	16	\$ 3.28500	\$ 0.21801	\$ 53	\$ 3	\$ 50	28
09/12/13	1149117	60	\$ 0.12433	\$ 0.04797	\$ 7	\$ 3	\$ 4	2
09/12/13	1149117	10	\$ 1.67900	not listed	\$ 17	\$ -	\$ 17	9
09/12/13	1149117	30	\$ 0.33333	not listed	\$ 10	\$ -	\$ 10	6
09/12/13	1149117	18	\$ 5.56278	not listed	\$ 100	\$ -	\$ 100	55
09/12/13	1149117	30	\$ 0.23133	\$ 0.07565	\$ 7	\$ 2	\$ 5	3
09/12/13	1149117	30	\$ 0.15333	\$ 0.02468	\$ 5	\$ 1	\$ 4	2
09/24/13	1150556	25	\$ 0.39000	not listed	\$ 10	\$ -	\$ 10	6
09/25/13	1150875	1	\$ 120.92000	\$ 110.79000	\$ 121	\$ 111	\$ 10	6
								3,174
								(6)
								\$ 3,168

Less amount already questioned at Finding No. 2013-037 for voucher number 1150875

2. Of eight expenditures tested, the travel document for one (or 13%) expenditure was not provided.

Business Unit	General Ledger Date	Document Number	Amount
H27783	02/28/13	628147	\$ 1,524

Cause: The cause of the above condition is the lack of review to determine accuracy of rates billed by service providers and the lack of systematic filing of relevant travel documentation.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$4,692 exist since projected questioned costs exceed \$10,000.

Recommendation: We recommend that the CNMI established policies and procedures for the review to determine accuracy of rates billed by service providers and file relevant travel documentation.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We agree with this finding and will develop policies and procedures to address issues in the conditions.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-038
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
 05-1305CQ5ADM and 05-1305CQ5MAP
 Area: Eligibility
 Questioned Costs: \$12,825

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).

Additionally, the following documents are required to process the applicant’s application:

1. Birth certificate or passport for parents and birth certificate for all dependents listed
2. Marriage certificate, if married
3. Social security card for applicant and all dependents listed
4. Banking activities (savings and checking account statement)
5. Two current check stubs for all working applicants
6. Social security check stubs

Further, per Section III, E, 1, b (2) of the OMB Circular A-133 Compliance Supplement, the State or its designee shall use the income and eligibility verification system (IEVS) to verify eligibility using wage information available from such sources as the agencies administering Social Security Administration (SSA) and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits.

Condition: Tests of fifty-eight eligibility files noted the following:

1. For twenty-six recipients (or 49%), documentation to process and support the applicants’ applications were not in file.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Household Member Ref. No.</u>	<u>Documents Not Found in Tenant File and/or Discrepancies Noted</u>	<u>Questioned Costs</u>
13-009649-00	06/16/11	1	Affidavit of banking activities (savings or checking account statement)	\$ 598
17-012108-00	10/23/10 and 10/23/11	3 and 4	Birth certificate for member #3, last name for member #4 differs on the birth certificate, social security card, Medicaid card and vehicle registration	41
14-013135-00	10/03/11	2	Affidavit of banking activities (savings or checking account statement), social security card and court order approving legal guardianship for member #2	195
13-010290-01	06/16/11	1	Social security card	1,051
14-020108-00	02/22/12	1	Birth certificate or passport and social security card	73
			Marriage certificate and maiden name on the birth certificate differs from the name on the application and social security income report.	
			Recipient is an SSI recipient, however, questioned costs result as we were not able to confirm if recipient is the same person based on the identification documentation in file	
12-000744-00	05/10/11	1		3,369

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-038, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
 05-1305CQ5ADM and 05-1305CQ5MAP
 Area: Eligibility
 Questioned Costs: \$12,825

Condition, Continued:

<u>Case Number</u>	<u>Certification Effective</u>	<u>Household Member Ref. No.</u>	<u>Documents Not Found in Tenant File and/or Discrepancies Noted</u>	<u>Questioned Costs</u>
12-001087-00	03/15/11	3 and 4	Court order approving legal guardianship for member #3 and #4, only a general power of attorney from the biological parents are in file. No questioned costs result as expenditure tested is for the recipient who is an SSI recipient	-
16-010105-00	03/18/11	1	Check stub for social security income	6
15-014119-00	08/10/11	2	Court order approving legal guardianship for member #2, only a notarized legal guardianship from the biological parent	84
12-000571-00	06/24/11	1	Check stub for social security income	32
14-014621-01	06/03/11	2	Social security card for member #2. No questioned costs result as expenditure tested is for the recipient who is an SSI recipient	-
14-013091-00	08/15/11	1	Affidavit of banking activities (savings or checking account statement)	3,031
12-002328-00	03/27/12	1	Affidavit of banking activities (savings or checking account statement)	105
11-031517-00	03/20/12	1	Affidavit of banking activities (savings or checking account statement)	4
16-015460-00	10/10/12	1	Marriage certificate and affidavit of banking activities (savings or checking account statement)	4
11-019636-00	10/08/12	2	Birth certificate and social security card	639
15-014004-00	06/01/11	1	Only one check stub for parent's earned income in file	358
14-013135-00	10/03/12	2	Social security card and court order approving legal guardianship for member #2	1,534
30-025422-00	05/05/12	1, 2 and 3	Social security card for member #1 and court order approving legal guardianship for member #1 and #2	703
12-021060-00	01/03/12	1, 3 through 7	Birth certificate or passport for member #1 and court order approving legal guardianship for members #3 through #7, only notarized legal guardianship and special power of attorney from the biological parents	614
15-012187-00	09/13/11	1	Affidavit of banking activities (savings or checking statement)	10
11-030842-00	05/05/12	1	Affidavit of banking activities (savings or checking statement)	75
12-016167-00	10/28/11	1	Affidavit of banking activities (savings or checking statement)	148
30-002460-00	06/15/12	1	Birth certificate or passport and social security card	101
15-016039-00	11/03/11	1 and 2	The names of member #1 and #2 differ on the birth certificate and the social security card	41
15-002587-16	07/26/12	1	Affidavit of banking activities (savings or checking statement)	9
Total				\$ 12,825

2. For three recipients (or 5%), the resources for the following recipients 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>Certification Effective</u>	<u>Resources Per Third Party Verification/ As Declared</u>	<u>Resources Per Program</u>	<u>Variance</u>
11-015456-01	07/07/11	\$ 1,309	\$ -	\$ 1,309
12-000571-00	06/24/11	\$ 390	\$ 1	\$ 389
14-015419-00	06/30/11	\$ 51	\$ 52	\$ (1)

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-038, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
 05-1305CQ5ADM and 05-1305CQ5MAP
 Area: Eligibility
 Questioned Costs: \$12,825

Condition, Continued:

3. For two recipients (or 3%), income was incorrectly calculated. No questioned costs result as the recipients were determined to be eligible based on the correct calculations.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Income Per Third Party Verification/ As Declared</u>	<u>Income Per Program</u>	<u>Variance</u>
14-003021-01	03/31/11	\$ 1,433	\$ 1,145	\$ 288
15-020244-00	06/21/12	\$ 1,193	\$ 1,194	\$ (1)

4. For two recipients (or 3%), the application for Medicaid assistance was not dated. Therefore, we were not able to determine if the eligibility determination was performed within sixty days from the application date. No questioned costs result as the recipients are within the income limit.

<u>Case Number</u>	<u>Certification Effective</u>
11-022370-00	10/30/11
30-025422-00	05/05/12

5. Documentation on the immigration status of the spouse for one recipient (or 2%) (case number 12-001087-00), who is a non U.S. citizen and is receiving federal benefits was not in file. No questioned costs result as the expenditure tested was for the recipient.
6. The Program performs the following procedures to verify applicants' eligibility for Medicaid assistance:
- (a) For SSI recipients (disabled, deaf and aged), Medicaid provides the Social Security Administration (SSA) Office on a monthly basis, a list of Medicaid recipients who are receiving SSI benefits, for SSA to confirm the monthly benefits being received and whether the recipients are still receiving SSI benefits.
 - (b) For SS recipients (retirees and survivor benefits), Medicaid verifies the monthly income through the SSA income report obtained from the SSA office by the applicants or through the applicants' bank statements noting direct deposit amount from SSA. Otherwise, Medicaid would call the SSA office to verify the monthly income.
 - (c) Medicaid relies on the filed stamped copy of the applicants' CNMI Territorial Individual Income Tax Return provided by the applicants.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-038, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
05-1305CQ5ADM and 05-1305CQ5MAP
Area: Eligibility
Questioned Costs: \$12,825

Condition, Continued:

It appears that the IEVS system is only partially being used by the Program. No questioned costs result as we are not able to quantify noncompliance with implementing IEVS.

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.

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 and questioned costs of \$12,825 exist.

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

Prior Year Status: The lack of adequate control procedures to adhere to the eligibility application, determination and approval process and to obtain and update third party verifications was reported as a finding in the CNMI Single Audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

1. We disagree with the audit finding. We are using the SSI criteria and therefore, the audit finding is not part of the SSI criteria to submit the affidavit of savings account, checking accounts, power of attorney or court order approving legal guardian. Also, the applicants sign either the renewal application form or the new application form and are affirming that all information they have given in the renewal form or new application form is true and correct.

Proposed Completion Date: N/A

Auditor Response:

1. These documents are required to support the applicant's application per the required documents checklist. In addition, the dependent who is receiving Medicaid benefits is not the biological child of the primary participant. No documentation was provided to support that a power of attorney or a notarized legal guardianship signed by the biological parents is an acceptable document for the inclusion of non-biological dependents into the program.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-039
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
 05-1305CQ5ADM and 05-1305CQ5MAP
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$8,101,826

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	\$ 16,650,590
Divide by: 55% - federal share	<u>55%</u>
Total expenditure	30,273,800
Multiply by: 45% - local share	<u>45%</u>
Expected local match requirement	13,623,210
Less: actual local match per GL - CNMI	(5,521,384)
Less: actual local match per GL - CHCC	<u>-</u>
Deficiency	\$ <u><u>8,101,826</u></u>

We understand that CHCC, a public hospital, can contribute and certify its local public funds as representing expenditures eligible for matching. CHCC confirmed to have recorded \$1.8 million in local match; however, no certification document or other supporting schedule was provided to demonstrate compliance or whether the \$1.8 million is eligible for local match.

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 and questioned costs of \$8,101,826 exist.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-039, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL,
05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP,
05-1305CQ5ADM and 05-1305CQ5MAP
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$8,101,826

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.

Prior Year Status: The lack of established policies and procedures to determine compliance with the applicable matching requirements and lack of reconciliation between CHCC and the CNMI was reported as a finding in the CNMI Single Audit for fiscal year 2012.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. We have been constantly communicating with our grantor agency for guidance and we also have been coordinating with CHCC on the reconciliation. CHCC, a government hospital, utilizes the protocol outlined in the state plan to determine the allowable Medicaid hospital costs to be certified as public expenditures. Also, CHCC uses the CMS 2552 cost report for its Medicare program and submits the cost report each year to the Medicare contractor. We have an approved State Plan methodology for Inpatient, Outpatient and Emergency Services certified public expenditure (CPE) cost that was approved by CMS/Grantor Agency. What this means is that the CNMI Medicaid Agency will reimburse CHCC at cost for Medicaid inpatient, outpatient and emergency hospital services. Based on 42 CFR 433.51, incurred expenditures have to be recorded at CHCC and as our grantor agency accountant explained at our conference call with the auditor.

Proposed Completion Date: N/A

Auditor Response: The CNMI only recorded \$5,521,384 in local match per the general ledger compared to \$13,623,210 per expectation. In addition, for the \$1.8 million that CHCC confirmed to have recorded as local match, certification or an other supporting schedule was not provided to demonstrate compliance or whether the amount is eligible for local match.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-040
 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, 2013, we noted the following variances:

	<u>Per Certification</u>	<u>Per General Ledger</u>	<u>Variance</u>
CMS 64	\$ 19,141,834	\$ 18,575,126	\$ 566,708
SF-425:			
H1778D	\$ -	\$ 2,469	(2,469)
H3778D	\$ 4,870,061	\$ 4,946,309	<u>(76,248)</u>
			\$ <u>487,991</u>

Cause: The cause of the above condition is adjustments made subsequent to the submission of the CMS 64 and SF-425.

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 CNMI Single Audits for fiscal years 2002 through 2012.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding. Based on a fund balance report that we requested with our DOF, Finance & Accounting Section, it is showing cumulative expenditures of \$19,371,493 for all the Medicaid programs.

Proposed Completion Date: N/A

Auditor Response: Please refer to the condition above for the amounts reported to the grantor using CMS 64 and SF-425 certification and in comparison to the amount recorded in the general ledger.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-041
 CFDA Programs: USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
 USDOE 81.041 State Energy Program
 USDOE 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
 USHHS 93.778 Medical Assistance Program
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$-0-

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 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.

<u>CFDA No.</u>	<u>Estimated No. of Employees</u>	<u>Total Program Payroll Costs</u>
15.875	7	\$ 262,068
66.600	44	\$ 1,490,167
81.041	10	\$ 224,451
81.128	11	\$ 291,022
93.778	6	\$ 94,239

Cause: The cause of the above condition is the lack of awareness regarding required employee certifications and an inability to meet OMB reporting requirements.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements. No questioned cost is presented 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.

Prior Year Status: The lack of employee certifications was reported as a finding in the CNMI Single Audits for fiscal years 2009 through 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Person:

USDOJ 15.875: Virginia C. Villagomez, CIP Administrator
USEPA 66.600: Gloria S. Castro, BECQ Administrative Service Manager
USDOE 81.041: Thelma B. Inos

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-041, Continued
CFDA Programs: USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
USDOE 81.041 State Energy Program
USDOE 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
USHHS 93.778 Medical Assistance Program
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Name of Contact Person, Continued:

USDOE 81.128: Vincent S. Attao or Thelma B. Inos
USDOE 93.778: Larrisa Larson, Secretary of Finance and Helen C. Sablan, Medicaid Administrator

Corrective Action:

USDOJ 15.875: CIP agrees with this finding. We will adhere to applicable federal requirements to maintain records documenting employee time per the applicable program served.

USEPA 66.600: BECQ disagrees with this audit finding. BECQ employees that are federally-funded received prior approval from the grantor to have their time charged to the grant in accordance with its approved personnel cost allocation plan. See attached personnel listing. 2 CFR Part 225 (OMB Circular A-87), Appendix B to Part 225, Section 8.h (3), states the following:

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

USDOE 81.041: As cited in our responses to the Single Audit Findings for fiscal year 2011 and 2012, the Division of Energy (DOE) believes it has provided supporting documents necessary to satisfy this same finding to ensure compliance with reporting requirements. We have provided documentation evidencing our implementation of a new time summary sheet that obtains certifications from each employee for all hours worked and performed solely on a specific federal grant which are also reported and certified consistent with approved employee Notice of Personnel Actions, in compliance with the requirements of the grant award. Additionally, weekly reports required from each employee dating back to fiscal year 2009 supporting such certifications are available in file with the SEP Office for reference and inspection.

However, should this continue be an unacceptable form of certification, a newly developed Biannual Certification form proposed to meet and satisfy the requirements of OMB Circular A-87 should be considered.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-041, Continued
CFDA Programs: USDOJ 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
USDOE 81.041 State Energy Program
USDOE 81.128 ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)
USHHS 93.778 Medical Assistance Program
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

USDOE 81.128: The Division of Energy disagrees and strongly believes that the new time summary sheet that was implemented for the purpose of meeting the required certifications is sufficient enough to satisfy the requirements of 2 CFR Part 225, as outlined in Appendix B to Part 225.

If for any reason a determination is made stating the format is inadequate to meet the certification requirements of OMB Circular A-87, a proposed biannual certification form for which compliance may be met should be considered and determination, as recommended by the designated auditor.

USHHS 93.778: We disagree with the audit finding. All staff are working for one federal program only, the Medicaid program. Also, based on our CNMI General Waiver and Operational Plan, Part 6 - Financial Administration 6.3 - Cost Allocation -, currently, the CNMI Medicaid program is not required to have a cost allocation plan. At such time that a cost allocation plan may become necessary the Medicaid Agency will claim Federal Financial Participation for Medicaid costs in accordance with its approved cost allocation plan.

Proposed Completion Date:

USDOJ 15.875: Ongoing effort and has no completion date.
USEPA 66.600: Ongoing
USDOE 81.041: Immediately
USDOE 81.128: To be instituted in FY 2014.
USDOE 93.778: Ongoing

Auditor Response:

USDOE 81.128: The employee acknowledgement does not contain the certification requirement of OMB Circular A-87.

USHHS 93.778: The semi-annual employee certification was not provided.

USEPA 66.600: The requirement of OMB A-87 is a certification. The timesheet submitted indicates the hours performed and charged to the grant indicated, but it is not the same as an employee certifying that he/she performed those hours solely on the program.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-042
 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
 USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
 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 P&S 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.

<u>CFDA No.</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Grand Total</u>
10.557	\$ 80,031	\$ 1,809	\$ 46,888	\$ 128,728
15.875	\$ 104,272	\$ 298,354	\$ 85,067	\$ 487,693
66.600	\$ 145,748	\$ 174,140	\$ 199,827	\$ 519,715

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-042, Continued
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
USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Recommendation: We recommend that the CNMI maintain complete records of property and equipment acquired with grant funds, perform 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 CNMI Single Audits for fiscal years 2007 through 2012.

Auditee Response and Corrective Action Plan:

Name of Contact Persons:

USDA 10.557: Rosalia Julita R. Inos, WIC Office Manager
USDOI 15.875: Herman S. Sablan, Director of P&S

Corrective Actions:

USDA 10.557: The Department of Public Health transitioned to CHCC, effective October 1, 2011 and is now functioning as a semi-autonomous government agency. Accordingly, most of the transactions, procedures and processes previously performed by DOF were transitioned to CHCC. As a result of this transition, the WIC Program was unable to coordinate its annual inventory with P&S. There was also no basis for the WIC Program to reconcile its property records with P&S as all procurement requests were now being processed by CHCC Medical Supply Office (CHCC-MSO) and as a result, P&S is unable to update its property records with new WIC property acquisitions.

The WIC Program was informed by CHCC-MSO that it lacks the manpower to perform property management procedures and processes previously performed by P&S. Despite these transition challenges and pending the implementation of CHCC property management policies and procedures, the WIC Program will continue to maintain and update its property listings and conduct annual inventories. The WIC Program will ensure it periodically provides CHCC-MSO an updated listing of WIC property. The WIC Program will also seek training and technical assistance for its administrative staff to improve the documentation of WIC property records and performance of physical inventories for compliance with applicable property management requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-042, Continued
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
USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Actions, Continued:

USDOI 15.875: The equipment and real property management is being maintained by the CIP Office specifically for equipment purchased under the Capital Improvement Program (CIP). The CIP Office has extended procedures for recording equipment and real property for all projects funded by the program.

P&S through the CIP Office agrees with this finding as recommended. The CIP Office will continue to improve its property management by providing the P&S with equipment and/or real property listing, location, condition and disposition of such property.

In 2012, the CIP Office established a tracking sheet accounting for all equipment and/or real property acquired with DOI grant funds. The CNMI continues to seek improvements and will include required categories. Suitable inventory software is being sought to help manage P&S data with fewer staffing.

USEPA 66.600: In accordance with the CNMI Property Management Policies and Procedures, P&S is required 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.

Accordingly, BECQ has completed an inventory count of all BECQ property, and BECQ provided P&S the information and requested to reconcile the property records. However, due to staff shortages at P&S, P&S has not yet reconciled its record, although it has agreed to reconcile them by July 31, 2014.

Proposed Completion Dates:

USDA 10.557: Ongoing
USDOI 15.875: Immediately
USEPA 66.600: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-043
 CFDA Programs: USDOJ 15.615 Cooperative Endangered Species Conservation Fund
 USDOJ 15.875 Economic, Social, and Political Development of the Territories
 USHHS 93.217 Family Planning_Services
 USHHS 93.243 Substance Abuse and Mental Health Services_Projects of Regional and National Significance
 USHHS 93.889 National Bioterrorism Hospital Preparedness Program
 USDHS 97.073 State Homeland Security Program (SHSP)
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$520,179 (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 forty-five Federal Grants Fund nonmajor program nonpayroll expenditures tested aggregating \$2,243,130, relevant procurement documents supporting competitive procurement for the following contracts were 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>	<u>Questioned Costs</u>
93.889	H11889	550738-OC	1106387	\$ 10,077	\$ 10,077
93.243	H2243B	551661-OC	1121764	\$ 30,219	\$ 30,219
15.615	I1615B	438401-OC	1103236	\$ 236,402	\$ 236,402
93.217	H2217G	Unknown	1109160	\$ 28,344	\$ 28,344
97.073	J7073C	551416-OP	232242	\$ 17,947	\$ 17,947

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-043, Continued
 CFDA Programs: USDOJ 15.615 Cooperative Endangered Species Conservation Fund
 USDOJ 15.875 Economic, Social, and Political Development of the Territories
 USHHS 93.217 Family Planning_Services
 USHHS 93.243 Substance Abuse and Mental Health Services_Projects of Regional and National Significance
 USHHS 93.889 National Bioterrorism Hospital Preparedness Program
 USDHS 97.073 State Homeland Security Program (SHSP)
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$520,179 (See allocated amounts in the Effect)

Condition, Continued:

2. Of two DOI Capital Projects Fund nonpayroll expenditures tested aggregating \$197,190, 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	1116492	03/19/13	105716-OC	\$ 51,890
15.875	5234	1101472	10/05/12	105716-OC	\$ 145,300

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 Costs</u>
1	15.615	\$ 236,402
2	15.875	197,190
1	93.217	28,344
1	93.243	30,219
1	93.889	10,077
1	97.073	<u>17,947</u>
		\$ <u>520,179</u>

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 through 2012.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2013

Finding No.: 2013-043, Continued
CFDA Programs: USDOJ 15.615 Cooperative Endangered Species Conservation Fund
USDOJ 15.875 Economic, Social, and Political Development of the Territories
USHHS 93.217 Family Planning_Services
USHHS 93.243 Substance Abuse and Mental Health Services_Projects of Regional and National Significance
USHHS 93.889 National Bioterrorism Hospital Preparedness Program
USDHS 97.073 State Homeland Security Program (SHSP)
Area: Procurement and Suspension and Debarment
Questioned Costs: \$520,179 (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, 2013

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, 2013:

Questioned costs as previously reported:

Fiscal year 2012	\$ 6,620,692
Fiscal year 2011	4,223,661
Fiscal year 2010	5,483,038
Fiscal years 2009 and prior	<u>19,231,826</u>
	35,559,217
Questioned costs of fiscal year 2013 Single Audit	<u>10,288,891</u>
Unresolved questioned costs at September 30, 2013	\$ <u>45,848,108</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 18 through 95).



Office of the Secretary
Department of Finance



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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINANCIAL STATEMENT FINDINGS

- Finding No. 2011-01 - Corrective action was taken. See corrective action plan to Finding No. 2012-01.
- Finding No. 2011-02 - Not corrected. See corrective action plan to Finding No. 2013-001.
- Finding No. 2011-03 - Not corrected. See corrective action plan to Finding No. 2013-002.
- Finding No. 2011-06 - Not corrected. See corrective action plan to Finding No. 2013-004.
- Finding No. 2011-07 - Corrective action was taken. See corrective action plan to Finding No. 2012-06.
- Finding No. 2011-09 - Not corrected. See corrective action plan to Finding No. 2013-005.
- Finding No. 2011-10 - Corrective action was taken. See corrective action plan to Finding No. 2012-08.
- Finding No. 2011-11 - Not corrected. See corrective action plan to Finding No. 2013-006.
- Finding No. 2011-12 - Corrective action was taken. See corrective action plan to Finding No. 2012-10.
- Finding No. 2011-13 - Not corrected. See corrective action plan to Finding No. 2013-007.
- Finding No. 2011-14 - Corrective action was taken. See corrective action plan to Finding No. 2012-12.
- Finding No. 2011-15 - Not corrected. See corrective action plan to Finding No. 2013-008.
- Finding No. 2011-16 - Not corrected. See corrective action plan to Finding No. 2013-009.
- Finding No. 2011-17 - Not corrected. See corrective action plan to Finding No. 2013-010.
- Finding No. 2011-18 - Not corrected. See corrective action plan to Finding No. 2013-011.
- Finding No. 2011-20 - Not corrected. See corrective action plan to Finding No. 2013-014.
- Finding No. 2011-21 - Not corrected. See corrective action plan to Finding No. 2013-013.
- Finding No. 2011-22 - Corrective action was taken. See corrective action plan to Finding No. 2012-19.

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- Finding No. 2012-01 - Corrective action was taken.
 - Finding No. 2012-02 - Not corrected. See corrective action plan to Finding No. 2013-001.
 - Finding No. 2012-03 - Not corrected. See corrective action plan to Finding No. 2013-002.
 - Finding No. 2012-04 - Not corrected. See corrective action plan to Finding No. 2013-003.
 - Finding No. 2012-05 - Not corrected. See corrective action plan to Finding No. 2013-004.
 - Finding No. 2012-06 - Corrective action was taken.
 - Finding No. 2012-07 - Not corrected. See corrective action plan to Finding No. 2013-005.
 - Finding No. 2012-08 - Corrective action was taken.
 - Finding No. 2012-09 - Not corrected. See corrective action plan to Finding No. 2013-006.
 - Finding No. 2012-10 - Corrective action was taken.
 - Finding No. 2012-11 - Not corrected. See corrective action plan to Finding No. 2013-007.
 - Finding No. 2012-12 - Corrective action was taken.
 - Finding No. 2012-13 - Not corrected. See corrective action plan to Finding No. 2013-008.
 - Finding No. 2012-14 - Not corrected. See corrective action plan to Finding No. 2013-009.
 - Finding No. 2012-15 - Not corrected. See corrective action plan to Finding No. 2013-010.
 - Finding No. 2012-16 - Not corrected. See corrective action plan to Finding No. 2013-011.
 - Finding No. 2012-17 - Not corrected. See corrective action plan to Finding No. 2013-012.
 - Finding No. 2012-18 - Not corrected. See corrective action plan to Finding No. 2013-013.
 - Finding No. 2012-19 - Corrective action was taken.
 - Finding No. 2012-20 - Not corrected. See corrective action plan to Finding No. 2013-014.
 - Finding No. 2012-21 - Corrective action was taken.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- Finding No. 2011-28 - Corrective action was taken. See corrective action plan to Finding No. 2012-23.
 - Finding No. 2011-29 - Not corrected. See corrective action plan to Finding No. 2013-021.
 - Finding No. 2011-30 - Not corrected. See corrective action plan to Finding No. 2013-023.
 - Finding No. 2011-31 - Not corrected. See corrective action plan to Finding No. 2013-025.
 - Finding No. 2011-32 - Corrective action was taken. See corrective action plan to Finding No. 2012-33.
 - Finding No. 2011-36 - Corrective action was taken. See corrective action plan to Finding No. 2012-37.
 - Finding No. 2011-37 - Corrective action was taken. See corrective action plan to Finding No. 2012-38.
 - Finding No. 2011-41 - Not corrected. See corrective action plan to Finding No. 2013-040.
 - Finding No. 2011-42 - Corrective action was taken. See corrective action plan to Finding No. 2012-21 and Not corrected. See corrective action plan to Finding No. 2013-041.
 - Finding No. 2011-43 - Not corrected. See corrective action plan to Finding No. 2013-042.
 - Finding No. 2011-45 - Corrective action was taken. See corrective action plan to Finding No. 2012-46.
 - Finding No. 2011-46 - Corrective action was taken. See corrective action plan to Finding No. 2012-47.
 - Finding No. 2011-47 - Not corrected. See corrective action plan to Finding No. 2013-043.
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- Finding No. 2012-22 - Not corrected. See corrective action plan to Finding No. 2013-015.
- Finding No. 2012-23 - Corrective action was taken.
- Finding No. 2012-24 - Not corrected. See corrective action plan to Finding No. 2013-020.
- Finding No. 2012-25 - Not corrected. See corrective action plan to Finding No. 2013-021.
- Finding No. 2012-26 - Corrective action was taken.
- Finding No. 2012-27 - Not corrected. See corrective action plan to Finding No. 2013-022.
- Finding No. 2012-28 - Not corrected. See corrective action plan to Finding No. 2013-023.
- Finding No. 2012-29 - Not corrected. See corrective action plan to Finding No. 2013-024.
- Finding No. 2012-30 - Not corrected. See corrective action plan to Finding No. 2013-025.
- Finding No. 2012-31 - Not corrected. See corrective action plan to Finding No. 2013-026.
- Finding No. 2012-32 - Corrective action was taken.
- Finding No. 2012-33 - Corrective action was taken.
- Finding No. 2012-34 - Corrective action was taken.
- Finding No. 2012-35 - Not corrected. See corrective action plan to Finding No. 2013-032.
- Finding No. 2012-36 - Corrective action was taken.
- Finding No. 2012-37 - Corrective action was taken.
- Finding No. 2012-38 - Corrective action was taken.
- Finding No. 2012-39 - Not corrected. See corrective action plan to Finding No. 2013-041.
- Finding No. 2012-40 - Not corrected. See corrective action plan to Finding No. 2013-038.
- Finding No. 2012-41 - Not corrected. See corrective action plan to Finding No. 2013-039.
- Finding No. 2012-42 - Not corrected. See corrective action plan to Finding No. 2013-040.
- Finding No. 2012-43 - Not corrected. See corrective action plan to Finding No. 2013-041.
- Finding No. 2012-44 - Not corrected. See corrective action plan to Finding No. 2013-042.
- Finding No. 2012-45 - Corrective action was taken.
- Finding No. 2012-46 - Corrective action was taken.
- Finding No. 2012-47 - Corrective action was taken.
- Finding No. 2012-48 - Not corrected. See corrective action plan to Finding No. 2013-043.