

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2014

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, 2014, 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 29, 2015. Our report includes explanatory paragraphs concerning the correction of errors and going concern, and was modified due to our inability to determine the propriety of the Commonwealth Healthcare Corporation's receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense), the financial statements of the Northern Mariana Islands Settlement Fund not being included in the financial statements and the financial statements for the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund) not being audited. Our report includes a reference to other auditors who audited the financial statements of the Commonwealth Utilities Corporation, Marianas Public Land Trust, the Northern Marianas College, 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, the Commonwealth Development Authority and the Commonwealth Healthcare Corporation 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 Commonwealth Utilities Corporation, the Marianas Public Land Trust, the Northern Marianas College, 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 17 through 127), 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 2014-001 through 2014-004, 2014-008, 2014-009, 2014-012 and 2014-013 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 2014-005 through 2014-007, 2014-010, 2014-011 and 2014-014 through 2014-016 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 2014-014 and 2014-015.

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.

DeVito & Janske LLC

June 29, 2015

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, 2014. 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 17 through 127).

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, 2014. 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 2014-018, 2014-20 through 2014-022, 2014-024 through 2014-032, 2014-034 through 2014-036, 2014-038 through 2014-040, 2014-042, 2014-044, 2014-045 and 2014-047 through 2014-052 in 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>
2014-018	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions
2014-020	11.419	Coastal Zone Management Administration Awards	Allowable Costs/Cost Principles
2014-051	11.419	Coastal Zone Management Administration Awards	Allowable Costs/Cost Principles
2014-021	11.419	Coastal Zone Management Administration Awards	Equipment and Real Property Management
2014-052	11.419	Coastal Zone Management Administration Awards	Equipment and Real Property Management
2014-022	11.419	Coastal Zone Management Administration Awards	Period of Availability of Federal Funds
2014-024	11.419	Coastal Zone Management Administration Awards	Program Income
2014-025	11.419	Coastal Zone Management Administration Awards	Reporting
2014-026	11.419	Coastal Zone Management Administration Awards	Special Tests and Provisions
2014-027	11.482	Coral Reef Conservation Program	Allowable Costs/Cost Principles
2014-051	11.482	Coral Reef Conservation Program	Allowable Costs/Cost Principles
2014-028	11.482	Coral Reef Conservation Program	Matching, Level of Effort, Earmarking
2014-029	11.482	Coral Reef Conservation Program	Period of Availability of Federal Funds
2014-030	11.482	Coral Reef Conservation Program	Procurement and Suspension and Debarment
2014-031	11.482	Coral Reef Conservation Program	Reporting
2014-032	11.482	Coral Reef Conservation Program	Special Tests and Provisions
2014-052	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Equipment and Real Property Management
2014-034	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Procurement and Suspension and Debarment
2014-035	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Subrecipient Monitoring
2014-036	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Special Tests and Provisions
2014-051	20.205	Highway Planning and Construction	Allowable Costs/Cost Principles
2014-052	20.205	Highway Planning and Construction	Equipment and Real Property Management
2014-051	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Allowable Costs/Cost Principles
2014-038	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Equipment and Real Property Management
2014-052	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Equipment and Real Property Management
2014-039	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Procurement and Suspension and Debarment
2014-040	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	Reporting
2014-042	93.575	Child Care and Development Block Grant	Eligibility
2014-044	93.575	Child Care and Development Block Grant	Reporting
2014-045	93.575	Child Care and Development Block Grant	Special Tests and Provisions
2014-047	93.778	Medical Assistance Program	Allowable Costs/Cost Principles
2014-051	93.778	Medical Assistance Program	Allowable Costs/Cost Principles
2014-048	93.778	Medical Assistance Program	Eligibility
2014-049	93.778	Medical Assistance Program	Reporting
2014-050	93.778	Medical Assistance Program	Special Tests and Provisions

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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-016, 2014-017, 2014-019, 2014-23, 2014-033, 2014-037, 2014-041, 2014-043, 2014-046, 2014-051, 2014-052 and 2014-053 regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-016	None	None	Other – SEFA
2014-017	10.551	Supplemental Nutrition Assistance Program	Cash Management
2014-019	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions
2014-023	11.419	Coastal Zone Management Administration Awards	Procurement and Suspension and Debarment
2014-033	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Period of Availability of Federal Funds
2014-037	20.205	Highway Planning and Construction	Procurement and Suspension and Debarment
2014-041	93.575	Child Care and Development Block Grant	Allowable Costs/Cost Principles
2014-043	93.575	Child Care and Development Block Grant	Equipment and Real Property Management
2014-046	93.778	Medical Assistance Program	Activities Allowed or Unallowed
2014-051	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Allowable Costs/Cost Principles
2014-052	10.551	Supplemental Nutrition Assistance Program	Equipment and Real Property Management
2014-052	93.575	Child Care and Development Block Grant	Equipment and Real Property Management
2014-053	97.036	Disaster Grants - Public Assistance	Reporting

Our opinion on each major federal program is not modified with respect to these matters.

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 2014-018, 2014-20 through 2014-022, 2014-024 through 2014-032, 2014-034 through 2014-036, 2014-038 through 2014-040, 2014-042, 2014-044, 2014-045 and 2014-047 through 2014-052 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 2014-017, 2014-019, 2014-23, 2014-033, 2014-037, 2014-041, 2014-043, 2014-046, 2014-051 and 2014-052 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, 2014, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements. We issued our report thereon dated June 29, 2015, which contained explanatory paragraphs concerning the correction of errors and going concern, and was modified due to our inability to determine the propriety of the Commonwealth Healthcare Corporation's receivables, inventories, due to/from CNMI, accounts payable, due to related parties, accrued payroll, accrued taxes and other liabilities and related revenues, expenses and nonoperating income (expense), the financial statements of the Northern Mariana Islands Settlement Fund not being included in the financial statements and the financial statements for the Pension Trust Fund (comprised of the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund) 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 13) 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 29, 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2014

Federal Agency	Expenditures
U.S. Department of Agriculture	\$ 10,845,183
U.S. Department of Commerce	1,809,196
U.S. Department of Defense	85,193
U.S. Department of the Interior	5,045,396
U.S. Department of Justice	1,602,788
U.S. Department of Labor	1,570,511
U.S. Department of Transportation	2,755,728
U.S. National Endowment for the Arts	123,322
Institute of Museum and Library Services	95,155
U.S. Environmental Protection Agency	2,479,439
U.S. Department of Energy	2,319,615
U.S. Department of Education	1,012,629
U.S. Department of Health and Human Services	25,163,091
U.S. Department of Homeland Security	3,758,213
Unallocated cash receipts/expenditures	<u>(261,645)</u>
TOTAL FEDERAL GRANTS FUND	<u>\$ 58,403,814</u>

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

Reconciliation:	
Expenditures per above	\$ 58,403,814
Local match	<u>6,444,838</u>
	<u>\$ 64,848,652</u>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 64,049,307
Operating transfers out	890,641
Expenditures accrued through proposed audit adjustment in fiscal year 2014	<u>(91,296)</u>
	<u>\$ 64,848,652</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, 2014

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
10.170	Specialty Crop Block Grant Program - Farm Bill	\$ 28,997
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	87,289
10.551	Supplemental Nutrition Assistance Program	10,310,765
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	(23,411)
10.664	Cooperative Forestry Assistance	421,512
10.676	Forest Legacy Program	7,798
10.914	Wildlife Habitat Incentive Program	12,233
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>10,845,183</u>
U.S. DEPARTMENT OF COMMERCE		
11.YA132309CN0062	2010 Census	17,647
11.300	Investments for Public Works and Economic Development Facilities	23,220
11.307	Economic Adjustment Assistance	52,055
11.419	Coastal Zone Management Administration Awards	817,470
11.437	Pacific Fisheries Data Program	249,540
11.454	Unallied Management Projects	61,033
11.482	Coral Reef Conservation Program	482,800
11.558	ARRA - State Broadband Data and Development Grant Program	105,431
TOTAL U.S. DEPARTMENT OF COMMERCE		<u>1,809,196</u>
U.S. DEPARTMENT OF DEFENSE		
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	981
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	84,212
TOTAL U.S. DEPARTMENT OF DEFENSE		<u>85,193</u>
U.S. DEPARTMENT OF THE INTERIOR		
Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration Program	1,006,246
15.611	Wildlife Restoration and Basic Hunter Education	409,764
Subtotal Fish and Wildlife Cluster		1,416,010
15.615	Cooperative Endangered Species Conservation Fund	67,542
15.634	State Wildlife Grants	118,005
15.657	Endangered Species Conservation Recovery Implementation Funds	5,269
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands	1,305,719
	Compact Impact	1,930,443
15.904	Historic Preservation Fund Grants-In-Aid	201,851
15.916	Outdoor Recreation_Acquisition, Development and Planning	557
TOTAL U.S. DEPARTMENT OF THE INTERIOR		<u>5,045,396</u>
U.S. DEPARTMENT OF JUSTICE		
16.Unknown	State Justice Institute	50,000
16.017	Sexual Assault Services Formula Program	15,702
16.523	Juvenile Accountability Block Grants	26,484
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	62,256
16.550	State Justice Statistics Program for Statistical Analysis Centers	31,398
16.575	Crime Victim Assistance	303,707
16.588	Violence Against Women Formula Grants	658,909
16.727	Enforcing Underage Drinking Laws Program	94,193
16.738	Edward Byrne Memorial Justice Assistance Grant Program	203,968
16.750	Support for Adam Walsh Act Implementation Grant Program	156,171
TOTAL U.S. DEPARTMENT OF JUSTICE		<u>1,602,788</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, 2014

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF LABOR		
	WIA Cluster:	
17.258	WIA Adult Program	526,817
17.259	WIA Youth Activities	346,019
17.278	WIA Dislocated Worker Formula Grants	217,108
	Subtotal WIA Cluster	1,089,944
17.235	Senior Community Service Employment Program	267,412
17.260	WIA Dislocated Workers	7
17.273	Temporary Labor Certification for Foreign Workers	67,724
17.504	Consultation Agreements	145,424
	TOTAL U.S. DEPARTMENT OF LABOR	1,570,511
U.S. DEPARTMENT OF TRANSPORTATION		
20.600	State and Community Highway Safety	1,821,016
20.218	National Motor Carrier Safety	136,583
20.500	Federal Transit_Capital Investment Grants	63,832
20.509	Formula Grants for Rural Areas	713,107
20.514	Public Transportation Research	4,447
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	16,743
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION	2,755,728
U.S. NATIONAL ENDOWMENT FOR THE ARTS		
45.025	Promotion of the Arts_Partnership Agreements	123,322
INSTITUTE OF MUSEUM AND LIBRARY SERVICES		
45.310	Grants to States	95,155
U.S. ENVIRONMENTAL PROTECTION AGENCY		
66.040	State Clean Diesel Grant Program	26,677
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	2,341,234
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	76,452
66.804	Underground Storage Tank Prevention, Detection and Compliance Program	14,728
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	20,348
	TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY	2,479,439
U.S. DEPARTMENT OF ENERGY		
81.041	State Energy Program	64,732
81.041	ARRA - State Energy Program	811,201
81.042	Weatherization Assistance for Low-Income Persons	108,332
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	1,335,350
	TOTAL U.S. DEPARTMENT OF ENERGY	2,319,615
U.S. DEPARTMENT OF EDUCATION		
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	815,919
84.169	Independent Living_State Grants	46,458
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	35,429
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	(21,729)
84.224	Assistive Technology	119,722
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	16,830
	TOTAL U.S. DEPARTMENT OF EDUCATION	1,012,629

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, 2014

CFDA #	Federal Agency/Program	Expenditures
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	174,704
93.045	Special Programs for the Aging_ Title III, Part C_ Nutrition Services	305,142
93.053	Nutrition Services Incentive Program	44,154
	Subtotal Aging Cluster	<u>524,000</u>
93.041	Special Programs for the Aging_ Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	3,136
93.042	Special Programs for the Aging_ Title VII, Chapter 2_ Long Term Care Ombudsman Services for Older Individuals	3,061
93.043	Special Programs for the Aging_ Title III, Part D_ Disease Prevention and Health Promotion Services	5,150
93.052	National Family Caregiver Support, Title III, Part E	77,303
93.127	Emergency Medical Services for Children	144,872
93.136	Injury Prevention and Control Research and State and Community Based Programs	15,860
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	503,628
93.519	Affordable Care Act (ACA) Consumer Assistance Program Grants	112,652
93.556	Promoting Safe and Stable Families	292,118
93.568	Low-Income Home Energy Assistance	225,406
93.569	Community Services Block Grant	407,825
93.575	Child Care and Development Block Grant	2,277,288
93.590	Community-Based Child Abuse Prevention Grants	181,874
93.630	Developmental Disabilities Basic Support and Advocacy Grants	235,611
93.643	Children's Justice Grants to States	9,377
93.645	Stephanie Tubbs Jones Child Welfare Services Program	266,023
93.667	Social Services Block Grant	50,544
93.669	Child Abuse and Neglect State Grants	46,656
93.671	Family Violence Prevention and Services/ Domestic Violence Shelter and Supportive Services	118,458
93.719	ARRA - State Grants to Promote Health Information Technology	390,691
93.767	Children's Health Insurance Program	643,704
93.778	Medical Assistance Program	18,638,959
93.778	ARRA - Medical Assistance Program	(11,105)
		<u>24,639,091</u>
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	<u>25,163,091</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
97.012	Boating Safety Financial Assistance	918,626
97.042	Emergency Management Performance Grants	653,137
97.044	Assistance to Firefighters Grant	324,579
97.056	Port Security Grant Program	1,327
97.067	Homeland Security Grant Program	745,894
97.073	State Homeland Security Program (SHSP)	600,128
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	264,507
97.089	Driver's License Security Grant Program	250,015
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY	<u>3,758,213</u>
	Unallocated cash receipts/expenditures	<u>(261,645)</u>
	TOTAL FEDERAL GRANTS FUND	<u>\$ 58,403,814</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, 2014

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF THE INTERIOR		
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects:	
	FY96 - FY02 Appropriations Act Grant	\$ 691,650
	FY04 Appropriations Act Grant	<u>7,037,947</u>
	TOTAL CAPITAL PROJECTS FUND	<u>\$ 7,729,597</u>
Reconciliation:		
	Federal awards expenditures, as stated above	<u>\$ 7,729,597</u>
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 7,317,700
	Operating transfers out	23,331
	Expenditures accrued in fiscal year 2013	<u>388,566</u>
		<u>\$ 7,729,597</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, 2014

CFDA #	Federal Agency/Program	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION		
20.205	Highway Planning and Construction	\$ 5,090,564
U.S. DEPARTMENT OF HOMELAND SECURITY		
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>98,802</u>
TOTAL PUBLIC WORKS GRANTS FUND		<u>\$ 5,189,366</u>
Reconciliation:		
Federal awards expenditures, as stated above		<u>\$ 5,189,366</u>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)		\$ 5,015,080
Expenditures accrued in fiscal year 2013		<u>174,286</u>
		<u>\$ 5,189,366</u>
GRAND TOTAL FEDERAL AWARDS		<u>\$ 71,322,777</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, 2014

(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)
- U.S. National Endowment for the Arts
- 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, 2014

(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, 2014 basic financial statements; except that the Northern Mariana Islands Settlement Fund, the Northern Mariana Islands Retirement Fund and the CNMI Group Health and Life Insurance Trust Fund, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the CNMI, as defined above, for the year ended September 30, 2014.

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), the Northern Marianas College, the Public School System and the Commonwealth Healthcare Corporation which expended \$9,459,084, \$11,419,771, \$8,990,608, \$30,319,671 and \$11,765,932, respectively, in federal awards which are not included in the Schedule of Expenditures of Federal Awards during the year ended September 30, 2014. 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 2014, the CNMI has the following approved indirect cost rates:

Federal programs which require the use of a restricted rate as defined by 34 CFR 75.563 and 76.563	2.40%
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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2014

(2) Summary of Significant Accounting Policies, Continued

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.

(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 0.64 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

- | | | |
|-----|--|-------------|
| | Internal control over major programs: | |
| 5. | Material weakness(es) identified? | Yes |
| 6. | Significant deficiency(ies) identified? | Yes |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes |
| 9. | Identification of major programs: | |
| | <u>CFDA</u> | |
| | <u>Number</u> <u>Name of Federal Program</u> | |
| | 10.551 Supplemental Nutrition Assistance Program | |
| | 11.419 Coastal Zone Management Administration Awards | |
| | 11.482 Coral Reef Conservation Program | |
| | 20.205 Highway Planning and Construction | |
| | 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support | |
| | 93.575 Child Care and Development Block Grant | |
| | 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: | \$2,139,683 |
| 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, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Reference Number	Findings	Refer Page #
2014-001	External Financial Reporting	19
2014-002	Revenue/Receipts - Tobacco Settlement Resources	20
2014-003-004	Cash and Cash Equivalents	21 - 25
2014-005-006	Receivables	26 - 27
2014-007	Advances	28 - 29
2014-008	Tax Rebates Payable	30 - 32
2014-009	Other Liabilities and Accruals	33
2014-010	Compensated Absences	34
2014-011	Fund Balance - Encumbrances	35 - 38
2014-012	Commonwealth Healthcare Corporation	39
2014-013	CNMI Workers' Compensation Commission	40
2014-014-015	CNMI Local Noncompliance	41 - 43
2014-016	Schedule of Expenditures of Federal Awards	44 - 45

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2014-016	-	Schedule of Expenditures of Federal Awards	\$ -	44 - 45
2014-017	10.551	Cash Management	-	46 - 47
2014-018-019	10.551	Special Tests and Provisions	\$ 270,373	48 - 50
2014-052	10.551	Equipment and Real Property Management	-	123 - 126
2014-020	11.419	Allowable Costs/Cost Principles	\$ 12,681	51 - 54
2014-021	11.419	Equipment and Real Property Management	-	55 - 56
2014-022	11.419	Period of Availability of Federal Funds	-	57
2014-023	11.419	Procurement and Suspension and Debarment	\$ 2,550	58 - 59
2014-024	11.419	Program Income	\$ 154,788	60 - 61
2014-025	11.419	Reporting	-	62
2014-026	11.419	Special Tests and Provisions	\$ 62,739	63 - 67
2014-051	11.419	Allowable Costs/Cost Principles	-	119 - 122
2014-052	11.419	Equipment and Real Property Management	-	123 - 126
2014-027	11.482	Allowable Costs/Cost Principles	\$ 3,468	68 - 69
2014-028	11.482	Matching, Level of Effort, Earmarking	\$ 160,789	70 - 71
2014-029	11.482	Period of Availability of Federal Funds	-	72 - 73
2014-030	11.482	Procurement and Suspension and Debarment	\$ 13,223	74 - 75
2014-031	11.482	Reporting	-	76
2014-032	11.482	Special Tests and Provisions	\$ 111,309	77 - 78
2014-051	11.482	Allowable Costs/Cost Principles	-	119 - 122
2014-033	15.875	Period of Availability of Federal Funds	\$ 4,896	79 - 80
2014-034	15.875	Procurement and Suspension and Debarment	\$ 1,060,520	81 - 86
2014-035	15.875	Subrecipient Monitoring	-	87 - 88
2014-036	15.875	Special Tests and Provisions	-	89 - 91
2014-051	15.875	Allowable Costs/Cost Principles	\$ 1,923	119 - 122
2014-052	15.875	Equipment and Real Property Management	-	123 - 126
2014-037	20.205	Procurement and Suspension and Debarment	-	92
2014-051	20.205	Allowable Costs/Cost Principles	-	119 - 122
2014-052	20.205	Equipment and Real Property Management	-	123 - 126
2014-038	66.600	Equipment and Real Property Management	-	93 - 94
2014-039	66.600	Procurement and Suspension and Debarment	\$ 12,912	95 - 97
2014-040	66.600	Reporting	-	98 - 99
2014-051	66.600	Allowable Costs/Cost Principles	-	119 - 122
2014-052	66.600	Equipment and Real Property Management	-	123 - 126
2014-041	93.575	Allowable Costs/Cost Principles	\$ 36,634	100 - 101
2014-042	93.575	Eligibility	\$ 10,242	102 - 104
2014-043	93.575	Equipment and Real Property Management	-	105
2014-044	93.575	Reporting	-	106
2014-045	93.575	Special Tests and Provisions	-	107
2014-052	93.575	Equipment and Real Property Management	-	123 - 126
2014-046	93.778	Activities Allowed or Unallowed	\$ 327,131	108 - 109
2014-047	93.778	Allowable Costs/Cost Principles	\$ 15,757	110 - 112
2014-048	93.778	Eligibility	\$ 105,299	113 - 116
2014-049	93.778	Reporting	-	117
2014-050	93.778	Special Tests and Provisions	-	118
2014-051	93.778	Allowable Costs/Cost Principles	-	119 - 122
2014-053	Nonmajor Program	Reporting	\$ 1,386,970	127

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

External Financial Reporting

Finding No. 2014-001

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 61, *the Financial Reporting Entity: Omnibus*, requires the financial statements of the reporting entity to include financial statements of component units for which the primary government is financially accountable or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: CNMI management determined that the Northern Mariana Islands Settlement Fund (NMISF) is a component unit of the CNMI; however, as of September 30, 2014, the CNMI's financial statements do not include the financial statements of NMISF.

Cause: The cause of the above condition is the lack of audited financial statements of NMISF.

Effect: The effect of the above condition is noncompliance with GASB Statement No. 61 and an adverse opinion on the financial statements of the CNMI.

Recommendation: We recommend that the CNMI obtain audited financial statements of NMISF for inclusion in the CNMI's financial statements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: After consultation with the CNMI's auditors, NMISF was determined to be a component unit of the CNMI. NMISF was notified of this determination in March 2015 and initiated an audit as of 09/30/14 shortly thereafter. The audit has not been completed as of the date of the CNMI audit and no draft financial statements have been provided by NMISF. The CNMI expects NMISF audits for future years to be completed in time for inclusion of audited financial statements in the CNMI audit.

Proposed Completion Date: FY2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2014-002

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 2014, the CNMI recognized \$1,684,766 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 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI accepted proposed audit adjustments for FY2014 and will establish estimation techniques to determine accrued tobacco settlement receivables and revenues and record the transactions in the accounting records in future years.

Proposed Completion Date: FY2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Cash and Cash Equivalents

Finding No. 2014-003

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

Condition: Tests of bank reconciliations noted the following:

1. Bank reconciliations for the following accounts were prepared two to four months after fiscal year end.

<u>Bank Code</u>	<u>Account Name</u>
11150	Superior Court NMI Imprest Fund
11170	Guam Medical Referral Imprest Fund
11220	Supreme Court Imprest Fund
11310	CHC Medical Referral
11420	Payroll Account
11430	General 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

2. Bank reconciling items for the following accounts were not recorded in the general ledger at September 30, 2014:

<u>Bank Code</u>	<u>Account Name</u>	<u>Amount of Reconciling Items</u>
11170	Guam Medical Referral Imprest Fund	\$ 460
11420	Payroll Account	\$ (1,333,139)
11430	General Fund	\$ 63,629,633
11480	CNMI Lottery Commission Imprest Fund	\$ 43,257
11520	CNMI Credit Card	\$ (64,522,053)
11570	Federal Grants	\$ (225,191)
11572	CNMI Government Federal Payroll	\$ 1,333,136
11410	Special Disability Imprest Fund	\$ 740

The above condition was corrected through a proposed audit adjustment.

3. The adjusted bank balance for the following bank account does not agree to the general ledger:

<u>Bank Account GL No.</u>	<u>Adjusted Bank Balance</u>	<u>Balance Per General Ledger</u>	<u>Variance</u>
1010.11610	\$ 400,041	\$ 500,001	\$ (99,960)

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-003, Continued

Condition, Continued:

4. The following cash accounts maintained by the Superior Court are not recorded in the general ledger:

<u>Account Name</u>	<u>Bank Balance at September 30, 2014</u>
Office of the Clerk of Court Civil	\$ 518,030
Office of the Clerk of Court Criminal	\$ 76,457
Office Clerk Court Superior Court	\$ 134,015

An audit adjustment was proposed to record the above cash accounts.

5. At September 30, 2014, the CNMI recorded cash clearing accounts of \$191,227. These accounts are expected to be zero at fiscal year-end. An audit adjustment was proposed to correct \$212,945 of the amount; however, correcting entries for the remaining \$21,718 could not be determined. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.
6. At September 30, 2014, the CNMI recorded a cash account (GL #1010.11280) of \$24,593 related to returned checks that should have been recorded to the General Fund bank account (GL #1010.11430). An audit adjustment was proposed to reclassify the amount to the General Fund account.
7. At September 30, 2014, the CNMI recorded a \$131,368 cash account (GL #1010.11980) related to federal grants offset against CNMI's payable to the National Oceanic and Atmospheric Administration. Correcting entries could not be determined. Management did not consider the amount 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.

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 2013.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-003, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The CNMI Department of Finance (DOF) agrees that reconciliations should occur in a timely manner and is performing the reconciliations in as timely a manner as possible. Bank statements normally are received one month after the month closes at the earliest. Upon receipt of the bank statement, the reconciliation process begins. DOF will establish targets for completion for each of its accounts as a benchmark and work to stay within those targets for each of its accounts.

Proposed Completion Date: FY 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Cash and Cash Equivalents

Finding No. 2014-004

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

Condition: Tests of cut-off and bank reconciliations noted the following:

1. At September 30, 2014, \$457,559 of checks was held by the Division of Treasury. Of this amount, \$448,707 was reported as outstanding.

<u>Bank Code</u>	<u>Account Name</u>	<u>Check Dates</u>	<u>No. of Checks</u>	<u>Amount of Unreleased Checks</u>	<u>Amount Reported as Outstanding Checks</u>
11430	General Fund	October 2013 to September 2014	32	\$ 45,598	\$ 44,798
11570	Federal Fund	June 2014 to September 2014	28	84,042	84,042
11540	Capital Improvement Project	September 26, 2014	1	3,803	3,803
11420	General Payroll Account	July 2014 to September 2014	98	283,772	275,720
11572	Federal Payroll Account	September 30, 2014	<u>42</u>	<u>40,344</u>	<u>40,344</u>
			<u>201</u>	<u>\$ 457,559</u>	<u>\$ 448,707</u>

The above condition was corrected through proposed audit adjustments.

Additionally, the following were noted:

- a. Twelve General Fund (bank code 11430) and three NMTIT Rebate Trust Fund (bank code 11400) account checks, aggregating \$962,871, represent voided checks. The checks have dates ranging from July 2007 through September 2014. Of this amount, we noted the following:
 1. Approval to void six checks was not evident. Additionally, these checks were recorded as void in the general ledger in previous years; however, the physical checks were voided in fiscal year 2014:

<u>Bank Code</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Date Recorded as Void in the General Ledger</u>	<u>Amount</u>
11430	403112	05/08/13	05/08/13	\$ 403,474
11430	406268	08/29/13	08/29/13	\$ 406
11430	406273	08/29/13	08/29/13	\$ 5,166
11430	401166	03/20/13	03/20/13	\$ 908
11430	406267	08/29/13	08/29/13	\$ 108
11430	397453	11/30/12	11/30/12	\$ 3,190

2. Three checks were recorded as stale dated in the general ledger in a previous year; however, the physical checks were voided in fiscal year 2014:

<u>Bank Code</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>	<u>Date Recorded as Stale Dated in the General Ledger</u>
11430	385082	11/14/11	\$ 300	06/13/13
11400	256058	11/15/07	\$ 132	11/06/09
11400	250505	07/19/07	\$ 94	12/11/08

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-004, Continued

Condition, Continued:

- b. For forty outstanding checks tested, aggregating \$688,293, six were reported as outstanding as of year-end; however, the checks cleared the bank prior to September 30, 2014:

<u>Bank Code</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Date Cleared the Bank</u>	<u>Amount</u>
11420	696608	08/29/14	09/11/14	\$ 1,986
11420	697295	08/29/14	09/08/14	\$ 9,296
11420	696525	08/29/14	09/03/14	\$ 6,709
11420	696610	08/29/14	09/03/14	\$ 5,784
11420	698179	08/29/14	09/05/14	\$ 318
11420	697337	08/29/14	09/02/14	\$ 932

Cause: The cause of the above condition is the lack of policies and procedures to adequately monitor issued, unreleased, cancelled, stale dated and voided checks.

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Asuncion Agulto, Treasurer

Corrective Action: The Division of Treasury will establish policies and procedures to adequately monitor issued, unreleased, cancelled and voided checks. Included in the policy will be a standard to ensure timely voiding of checks.

Proposed Completion Date: FY 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Receivables

Finding No. 2014-005

Criteria: Receivables should be identified, recorded and reconciled. Further, transfers of assets from component units should be documented.

Condition: Section 8.1 of the Settlement Agreement for Civil Case No. 09-000023 assigns the CNMI rights to collect deficient employer defined benefit contributions and related costs as of August 6, 2013 from autonomous agencies. As of September 30, 2014, the Northern Mariana Islands Retirement Fund confirmed the transfer of receivables from autonomous agencies of \$46,051,656 to the CNMI. The CNMI has not obtained details of these receivables and has not assessed collectability. In addition, no written document supported the transfer. The transfer has not been recorded as of September 30, 2014. No audit adjustment was proposed due to the uncertainty of collection.

Cause: The cause of the above condition is the lack of established policies and procedures to identify, record and reconcile valid receivables and the lack of written documentation supporting the transfer of receivables.

Effect: The effect of the above condition is possible unrecorded receivables.

Recommendation: We recommend that policies and procedures be established to identify, record and reconcile valid receivables. Further, we recommend coordination with NMIRF to document the transfer.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: The CNMI will establish policies and procedures to identify, record and reconcile valid receivables. Work is currently underway to not only identify the receivables owed by this transfer, but also collect on these receivables.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Receivables

Finding No. 2014-006

Criteria: Receivables should be reconciled, assessed and monitored for collectability.

Condition: Public Law 9-66 requires public corporations or other autonomous agencies to pay to the CNMI Treasurer an amount no less than one percent of their total operations budget, and such funds will be deposited into a special account within the CNMI general fund to be solely used for the operations and activities of the Office of the Public Auditor (OPA). Receivables related to one percent of OPA fees recorded in the general ledger and reported in a schedule obtained from OPA did not agree to payables recorded in corresponding component units' financial statements. Further, collectability of these receivables was not assessed at year-end. Additionally, consideration of the application of the statute of limitations to these receivables has not occurred.

<u>Component Unit (CU)</u>	<u>Receivables Per OPA Schedule</u>	<u>Payables Reported in CU's Financial Statements</u>	<u>Difference</u>	<u>Comments</u>
Commonwealth Healthcare Corporation	\$ 1,326,133	\$ 1,147,691	\$ 178,442	
Northern Marianas College	1,416,464	-	1,416,464	not reported in CU's financial statements
Commonwealth Ports Authority	3,359,779	725,561	2,634,218	
Commonwealth Utilities Corporation	11,863,319	6,646,790	5,216,529	
Commonwealth Development Authority	46,296	-	46,296	not reported in CU's financial statements
	<u>\$ 18,011,991</u>	<u>\$ 8,520,042</u>	<u>\$ 9,491,949</u>	

As of September 30, 2014, receivables related to OPA fees are fully allowed for.

Cause: The cause of the above condition is the lack of established policies and procedures to reconcile receivables and to assess collectability.

Effect: The effect of the above condition is a possible misstatement of receivables and related revenue.

Recommendation: We recommend that the CNMI record receivables based on the updated calculation and reconcile to payable balances recorded by component units.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Larrisa Larson, Secretary of Finance, Michael Pai, Public Auditor and Edward Manibusan, Attorney General

Corrective Action: On June 12, 2015, OPA issued a letter to resolve some areas that had developed in attempts by OPA to collect on the 1% owed. In this letter, OPA stated that unobligated balances in the OPA budget revert to the General Fund and, therefore, collection efforts on arrears become the responsibility of the Central Government. OPA also stated that the arrears could be used to partially offset the amounts owed by the CNMI to CUC, as had been done in 2003 via an MOA with CUC. OPA further stated that there was ambiguity in the language of the law and they will be working on legislation to clarify these ambiguities. In that same letter, OPA assigned all rights, if any, to the arrears to DOF. DOF is currently reviewing this letter and will collaborate with OPA and the Office of the Attorney General to determine collectability of all arrears due to the CNMI. Further, DOF will also work with OPA on the legislation to ensure that agencies comply with the law and the mandated 1%.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Advances

Finding No. 2014-007

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

Condition: Tests of vendor advances noted the following:

1. As of September 30, 2014, the General Fund recorded vendor advances of \$865,310, of which \$491,449 date to fiscal year 2013 and prior. An aging of vendor advances by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 50,918
2012	102,305
2011	71,719
2010	53,919
2009	70,325
2008	32,140
2007	24,732
2006	46,441
2005	28,540
2004	<u>10,410</u>
	\$ <u>491,449</u>

2. Of two advances tested aggregating \$147,375, one for \$3,500 (ref. no. 865166 PL) for the purchase of supplies, was received before September 30, 2014 and did not constitute a valid advance. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment. In addition, a disbursement of \$143,875 (check no. 27566) was made after September 30, 2014. This condition was corrected through a proposed audit adjustment.

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

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

Recommendation: We recommend that vendor advances 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 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-007, Continued

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 stale dated advances. Work continues on this finding to improve the timeliness of adjustments. Allowance for uncollectible advances of \$496,675 more than offset 2013 and prior open advances.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Tax Rebates Payable

Finding No. 2014-008

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, 2014, tax rebates payable aggregated \$43,048,353. The balance consists of the following:

Estimated 2014 liability based on fiscal year 2014 collections	\$ 4,413,089
American Opportunity Tax Credit (AOTC)	24,505
Additional Child Tax Credit (ACTC)	6,389,763
2013 and prior rebates unpaid as of September 30, 2014	<u>32,220,996</u>
	<u>\$ 43,048,353</u>

Tests of rebate payable accounts noted the following:

1. For unpaid tax year 2013 and prior rebates, we noted the following:
 - a. Of twenty-nine unmatched filings relating to individual and corporate tax rebate payables of \$4,274,187, the following were noted:
 - i. Eight totaling \$789,767 did not agree to tax returns by \$78,426. The variances were substantially due to miscalculation of rebate taxes and pending amended returns.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C105	2002	\$ 148,883	\$ 77,595	\$ 71,288
C192	2003	10,312	15,768	(5,456)
C711	2010	43,581	12,936	30,645
C738	2011	521,512	539,960	(18,448)
C813	2013	7,909	(2,421)	10,330
I-25775	2006	9,400	9,650	(250)
I-33795	2009	896	496	400
I-37458	2011	<u>47,274</u>	<u>57,357</u>	<u>(10,083)</u>
		<u>\$ 789,767</u>	<u>\$ 711,341</u>	<u>\$ 78,426</u>

- ii. The tax return was not provided for C279 for tax year 2004 with a rebate payable of \$88,044.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-008, Continued

Condition, Continued:

- b. Of twenty-one assessed and matched filings tested relating to individual and corporate tax rebate payables of \$2,677,865, the following were noted:
- i. Six totaling \$658,998 did not agree to tax returns by \$43,438 pending review and evaluation by the Division of Revenue and Taxation.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C14-137	2002	\$ 111,688	\$ 119,956	\$ (8,268)
C728	2010	512,296	547,769	(35,473)
I-2426	2001	8,325	10,313	(1,988)
I-6213	2003	1,469	(3,361)	4,830
I-32920	2008	23,723	23,484	239
I-38565	2011	<u>1,497</u>	<u>4,275</u>	<u>(2,778)</u>
		<u>\$ 658,998</u>	<u>\$ 702,436</u>	<u>\$ (43,438)</u>

- ii. Tax returns were not provided for the following items:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C070	2001	\$ 46,096
C155	2002	\$ 29,175
C633	2008	\$ 7,659

2. Further, no interest is calculated or paid on overpayments. Additionally, no details or totals of rebate payables relating to tax years 2010 and prior are available from the Division of Revenue and Taxation.

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 current information, the amount recorded as tax rebate payable is a best estimate. In addition, the CNMI has taken the approach of recording unmatched return variances as liabilities until the items listed above are resolved. The effect is also mitigated by a corresponding permanent tax reserve to offset disputes or claims.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No. 2014-008, Continued

Recommendation: We recommend that policies and procedures be established requiring periodic review of tax rebate payable reports to assess the 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 2013.

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. 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, 2014

Other Liabilities and Accruals

Finding No. 2014-009

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 \$1,278,118 of unrecorded General Fund liabilities at September 30, 2014. This condition was corrected through a proposed audit adjustment.

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.

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 2013.

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, 2014

Compensated Absences

Finding No. 2014-010

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, 2014, compensated absences payable per the subsidiary ledger aggregated \$8,388,711. Of this amount, \$1,230,300 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$1,026,259 represents accrued leave in excess of the 45 days/360 hours limit. The balance at September 30, 2014 is net of individual debit balances of \$132,343.

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 is reviewed for validity and the lack of timely update 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 valid charges in compensated absences payable.

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 2013.

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, 2014

Fund Balance - Encumbrances

Finding No. 2014-011

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 encumbrance reserves noted the following:

1. For DOI Capital Projects Fund encumbrances:
 - a. At September 30, 2014, the subsidiary ledger for DOI Capital Project Fund encumbrances of \$20,782,386 is net of \$2,522,312 of debit balances. 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 from encumbrance cancellations and/or contract change orders. The subsidiary ledger balance was corrected for debit balances resulting in a general ledger control account which was \$8,777,342 lower than the corrected subsidiary ledger balance. This condition was corrected through a proposed audit reclassification.
 - b. An aging of the reserve for encumbrances, excluding debit balances, by fiscal year indicates encumbrances of \$2,321,967 have been outstanding for more than five years. We did not evidence DOF review of long outstanding encumbrances.
 - c. Of sixteen DOI Capital Projects Fund encumbrances tested, aggregating \$13,418,611, the following exceptions were noted:
 - i. The following DOI Capital Projects Fund encumbrances recorded in general ledger account no. 64100 did not indicate activity for more than three years:

<u>Fund</u>	<u>Business Unit No.</u>	<u>Document Number</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
4049	5834	400 OS	\$ 93,209	02/13/08
4058	5615	452 OS	\$ 89,981	10/22/08
4058	5634	487 OS	\$ 96,240	03/02/09
4058	5654	534 OS	\$ 661,279	07/28/10
4058	5654	536 OS	\$ 249,800	08/04/10
4058	5648	543 OS	\$1,385,277	09/16/10

- ii. The following fiscal year 2014 expenditures were not accrued at year-end but had been deducted from the related encumbrance:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4052/5225/64100.64280	624 OS	1204403	\$ 69,722
4058/5646/64100.64320	595 OS	1200936	\$ 95,085
4058/5646/64100.64320	595 OS	1204395	\$ 104,601
4058/5679/64100.64320	609 OS	1203301	\$ 429,333
4058/5659A/64100.64320	632 OS	1201195	\$ 169,997

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-011, Continued

Condition, Continued:

2. Tests of Federal Grants Fund encumbrances noted the following:
 - a. At September 30, 2014, the subsidiary ledger balance of the Federal Grants Fund encumbrances of \$7,138,478 differs from the general ledger balance of \$15,589,870. The general ledger was corrected for these differences through a proposed audit adjustment.
 - b. An aging of the encumbrance reserve by fiscal year indicates \$150,362 have been outstanding for more than five years. We did not see evidence of DOF review of long outstanding encumbrances.
 - c. One (document no. 581337) of six Federal Grants Fund encumbrances tested, aggregating \$1,255,877, has related fiscal year 2014 expenditures of \$654,987 that were not deducted.
3. At September 30, 2014, the subsidiary ledger balance of General Fund encumbrances of \$3,748,289 differs from the general ledger balance of \$4,624,095. This difference was corrected through a proposed audit reclassification.
4. Of twenty Special Revenue Fund encumbrances tested, aggregating \$4,117,035, the following were noted:
 - a. At September 30, 2014, the subsidiary ledger balance of the Special Revenue Fund encumbrances of \$5,039,346 differs from the general ledger balance of \$1,327,085. The difference was corrected through a proposed audit reclassification.
 - b. An aging of the encumbrance reserve by fiscal year indicates \$167,237 have been outstanding for more than five years. We did not see evidence of DOF review of long outstanding encumbrances.
 - c. The following fiscal year 2014 expenditures were not accrued at year-end but had been deducted from the related encumbrance:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
2043/3399H/62470	582537 OP	1201135	\$ 2,500
2080/2082/62060	535967 OC	1200962	\$ 7,658
2080/2082/62060	535967 OC	1200964	\$ 7,658
2080/2082/62060	564732 OC	1200609	\$ 20,411
2080/2082/62060	564732 OC	1200959	\$ 20,411
2080/2082/62060	564732 OC	1204463	\$ 20,411
2080/2082/62060	569246 OC	1200611	\$ 31,356
2080/2082/62470	582875 OC	1204573	\$ 33,700
2030/3022/63020	552899 OC	661331	\$ 32,320

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-011, Continued

Condition, Continued:

- d. The following Special Revenue Fund encumbrances did not indicate 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>
2030	3042F	62060	522686 OC	\$ 3,000	02/24/11
2030	3027	63050	527821 OA	\$ 100,957	12/22/10

This condition was corrected through a proposed audit reclassification.

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

- a. At September 30, 2014, the subsidiary ledger balance of encumbrances of \$7,220,969 differs from the GL balance of \$13,397,878. The difference was corrected through a proposed audit reclassification.
- b. An encumbrance aging by fiscal year indicates \$1,305,525 have been outstanding for five years or more.
- c. Of eighteen encumbrances tested, aggregating \$6,216,555, the following were noted:
- i. The following encumbrances did not indicate 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>
4043	T85164	64100	333747 OC	\$ 879,707	02/20/02
4043	T2205K	62060	384927 OC	\$ 49,483	03/10/03
4046	5643	64100	70356 OS	\$ 24,389	07/06/98

This condition was corrected through a proposed audit reclassification.

- ii. The following fiscal year 2014 expenditures were not accrued at year-end but had been deducted from the applicable encumbrances:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
4043/T9205J/62060	532048 OC	1207837	\$ 22,852
4043/T0205M/64670	559991 OC	1211634	\$ 246,033
4043/T9205J/64670	561168 OC	1204626	\$ 356,081
4043/T4205K/64100	571916 OC	1207838	\$ 41,035
4043/T4205L/62060	572808 OC	1204628	\$ 14,960
4043/T4205H/64100	575536 OC	1202462	\$ 40,050
4043/T02050/64670	575542 OC	12058280	\$ 27,597

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-011, Continued

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

Effect: The effect of the above condition is the potential misstatement of disclosure requirements relative to the reserve for encumbrances and may result in incorrect budgetary financial statements.

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

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 2013.

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, 2014

Commonwealth Healthcare Corporation

Finding No. 2014-012

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

Condition: CNMI Public Law 16-51 created the Commonwealth Healthcare Corporation (CHCC), which is responsible for providing healthcare services in the CNMI, as of October 1, 2011. Healthcare services had previously been accounted for within the General Fund. As of September 30, 2014, transfers of receivables, inventory and obligations had not been documented.

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

Effect: The effect of the above condition is the potential lack of transfer of valid assets and liabilities.

Recommendation: We recommend that the transfer of receivables, inventory and obligations as of October 1, 2011 be documented in writing between the CNMI and CHCC.

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 Audits for fiscal years 2012 and 2013.

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. Fixed asset transfers have been documented and receivables, inventory and obligations will be documented in the coming year.

Proposed Completion Date: 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

CNMI Workers' Compensation Commission

Finding No. 2014-013

Criteria: Transfers of assets and liabilities from component units should be documented. In addition, an effective system of internal control over financial reporting includes maintenance of a separate general ledger system that records transactions and generates timely, reliable, and relevant financial information.

Condition: On November 9, 2012, Public Law 17-88, transferred administrative functions of the CNMI Workers' Compensation Commission (WCC) from the Northern Mariana Islands Retirement Fund to the CNMI Department of Commerce. CNMI management determined that WCC be included within its Special Revenue Funds. As of September 30, 2014, transfer of WCC's cash and cash equivalents, certificates of deposit, investments and receivable accounts were not documented or recorded within CNMI's financial statements.

In addition, tests of WCC accounts noted the following:

1. The CNMI does not maintain a separate general ledger for WCC funds. Accordingly, WCC's fiscal year 2014 transactions were not recorded, reconciled and monitored.
2. September 30, 2014 bank reconciliations were not prepared for two WCC cash accounts aggregating \$308,144.
3. WCC maintains an investment with a market value of \$1,090,777 as of September 30, 2014; however, an investment policy was not provided.

Audit adjustments were proposed to record the transfer of WCC's assets and to record WCC's transactions during fiscal year 2014.

Cause: The cause of the above condition is the lack of coordination of the transfer of WCC accounts between NMIRF and the CNMI and the lack of established procedures over financial reporting.

Effect: The effect of the above condition is the possible misstatement of WCC's funds.

Recommendation: We recommend that transfer of WCC's assets be documented in writing and the CNMI establish or assign separate general ledger accounts for WCC funds. Further, bank reconciliations should be prepared for all cash accounts. Lastly, we recommend that an investment policy be established.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We agree with the recommendations and have established the accounting structure for WCC. Bank reconciliations will be incorporated into the regular reconciliation process. We will review current CNMI investment policies as they apply to WCC.

Proposed Completion Date: 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

CNMI Local Noncompliance

Finding No. 2014-014

Criteria: Chapter 2, Section 8411 of Public Law No. 8-11, Government Ethics Code Act of 1992, requires the following reporting individual(s) to file by May 1 of each year, a verified written statement of financial interests, unless the reporting individual(s) have already filed a statement in that calendar year:

1. Elected Commonwealth Official;
2. Appointed Commonwealth Official and Judicial Officer;
3. Commonwealth Public Employee who receives additional compensation either for professional services rendered to, or as an independent contractor for the Commonwealth Government;
4. An Elected Commonwealth Official at the time of taking his/her oath of office;
5. A person whose appointment to office is subject to confirmation by the legislature at the time when his or her name is submitted to the legislature for consideration; and
6. Any other person at the time he or she becomes a reporting individual

Further, Section 8414 of the Public Law requires the Director of Finance to certify to the Public Auditor a list (current as of the prior January 1) of the names and mailing addresses of the persons described in Section 8411 who are required to file a statement of financial interests, no later than February 1 of each year.

Condition: The certified listing of the names and mailing addresses of the individuals who are required to file a statement of financial interests covering calendar year 2014, has not been submitted to the CNMI Public Auditor. Accordingly, we were unable to determine whether the following government employees filed or are required to file a written statement of financial interests pursuant to Public Law No. 8-11.

<u>Business Unit</u>	<u>Employee No.</u>
1033	101757
1050	102422
1100	402505
1490	102218
1690	339031
1762	101666
6030G	316187
3386	400756

Cause: The cause of the above condition is the lack of established policies and procedures to comply with Public Law No. 8-11.

Effect: The effect of the above condition is noncompliance with Public Law No. 8-11.

Recommendation: We recommend that the certified listing of the names and mailing addresses of the individuals who are required to file a statement of financial interests be submitted to the CNMI Public Auditor in accordance with Public Law No. 8-11.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-014, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: DOF will establish policies and procedures to improve tracking of individuals and compliance with this deadline.

Proposed Completion Date: FY 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

CNMI Local Noncompliance

Finding No. 2014-015

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

Condition: On September 18, 2013, the CNMI passed Public Law 18-18 as the Appropriations and Budget Authority Act of 2014. On July 1, 2014, the CNMI passed Public Law 18-53 as the Supplemental Appropriations Act of 2014 (the Supplemental Act). The Supplemental Act identified resources of \$12,386,000 for operations and activities and to meet fiscal year 2014 CNMI obligations to the Northern Mariana Islands Settlement Fund. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2014.

	Budgeted Level of Expenditures	Actual Expenditures	Over Expenditure
Executive branch	\$ 40,732,366	\$ 47,701,502	\$ 6,969,136
Government utilities	\$ -	\$ 3,310,875	\$ 3,310,875
Office of the Public Auditor	\$ 1,464,398	\$ 1,667,327	\$ 202,929
Boards and commissions	\$ 604,976	\$ 614,668	\$ 9,692
Tourism (payment to Marianas Visitors Authority)	\$ 8,490,149	\$ 8,894,439	\$ 404,290
Judgments	\$ 7,921	\$ 421,875	\$ 413,954
Debt service	\$ 8,554,000	\$ 12,946,899	\$ 4,392,899
Disaster expenditures	\$ -	\$ 25,633	\$ 25,633
Miscellaneous/continuing appropriations	\$ -	\$ 1,488,210	\$ 1,488,210

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 expenditures in excess of budget allotments.

Recommendation: We recommend that DOF examine issues attendant to the over expenditures and assess the propriety of budgeted levels.

Prior Year Status: Expenditures in excess of budget allotments was reported as a finding in the CNMI Single Audits for fiscal years 2000 through 2013.

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. Adjusting entries are needed for many of these balances. Balances need to be adjusted to record the correct year of payment and remove legislative mandates such as hotel occupancy and beverage container taxes that are mandated by law, but are 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, 2014

Schedule of Expenditures of Federal Awards

Finding No. 2014-016

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 September 30, 2014 SEFA includes an unallocated amount of \$261,645 for the Federal Grants Fund. The amount relates to unidentified grant revenue. CFDA or other identifying numbers could not be provided for the difference.

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 federal SEFA requirements. No questioned costs are presented as the amounts are negative.

Recommendation: We recommend that the SEFA be prepared in accordance with 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 through 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No. 2014-016, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Larrisa Larson, Secretary of Finance

Corrective Action: We will review SEFA preparation procedures in order to meet federal requirements. 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: 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-017
 Federal Agency: U.S. Department of Agriculture
 CFDA Program: 10.551 Supplemental Nutrition Assistance Program
 Grant Number: 7NM4004NM
 Area: Cash Management
 Interest Liability: \$224
 Questioned Costs: \$-0-

Criteria: Terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed. Additionally, the CMIAA states that the CNMI shall be liable for interest on refunds from the date the refund is credited to the CNMI's account until the date the refund is debited from the CNMI's account for program purposes. The allowable clearance pattern is four days.

Further, a written policy should exist that includes, 1) those programs covered by the agreement, 2) the method of funding to be used, 3) the method used to calculate interest, and 4) procedures for determining check clearing patterns. In addition, compliance with Treasury-State agreements should be reviewed.

Condition: Of twenty-seven transactions tested, thirteen (or 48%) were paid after the allowable clearance pattern:

<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>
1155512	\$ 607,683	11/26/13	10/21/13	32
1157328	\$ 556,651	12/23/13	11/04/13	45
1157322	\$ 115,878	11/26/13	10/21/13	32
1160901	\$ 185,938	12/23/13	11/04/13	45
1160904	\$ 695,723	05/07/14	01/03/14	120
1184656	\$ 531,482	06/16/14	05/05/14	38
1192574	\$ 196,805	06/16/14	05/05/14	38
1192577	\$ 691,576	07/14/14	06/04/14	36
1194944	\$ 42,165	07/14/14	06/04/14	36
1194947	\$ 556,044	08/14/14	07/02/14	39
1198741	\$ 71,336	08/14/14	07/31/14	10
1202803	\$ 654,987	10/29/14	09/03/14	52
1156713	\$ 11,667	01/14/14	12/31/13	10

Cause: The cause of the above condition is the lack of procedures governing timely disbursement of cash in accordance with CMIAA requirements.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. Interest earned on the advances is \$324 and an interest liability of \$224 exists; however, no questioned costs result as the projected interest liability is less than \$10,000.

Recommendation: We recommend compliance with clearance patterns specified in the CMIAA.

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 Audits for fiscal years 2012 and 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-017, Continued
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551 Supplemental Nutrition Assistance Program
Grant Number: 7NM4004NM
Area: Cash Management
Interest Liability: \$224
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

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

Corrective Action: The USDA NAP approved the draw-down of estimated food stamp issuance so that funds would be available when benefits were issued to recipients. We will review the Treasury State agreement to determine if it needs to be amended.

Proposed Completion Date: 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-018
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: \$-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 for the quarter ended September 30, 2014.

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

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

Recommendation: We recommend that procedures be strengthened and compliance visits be performed.

Prior Year Status: The lack of required documents from retailers to conduct quarterly compliance visits was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Elizabeth Palacios-Olouachel, Retail & Redemption Officer

Corrective Action: The Retail & Redemption Unit (RRU) agrees with the finding that the compliance visits for the fourth quarter High Redeemer List were not performed during the fiscal year.

Each quarter consists of three months. The retailer has 30 days after the quarter ends to file its business gross revenue tax return to the Division of Revenue and Taxation. The retailer has the first week of the following month to report their gross income to NAP. After retailers submit their quarterly income to the RRU, the RRU then prepares the Retailer's High Redeemer List and identifies the top twenty redeemers, prepares the Retailer's Redemption Record for file and for the retailer's copy before proceeding with the compliance visits.

Due to delays with retailers complying with the Division of Revenue and Taxation requirements, the RRU is unable to timely perform its duties and responsibilities as required.

Proposed Completion Date: Compliance visits for fourth quarter 2014 were performed and completed on December 5, 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-019
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: \$270,373

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 \$270,373 could not be performed because either no notices were issued or notices were not consistently 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 \$270,373.

Recommendation: We recommend that policies and procedures be established that include methods that promptly and timely file participant notices..

Prior Year Status: The lack of procedures to monitor and promptly and timely file notices to participants for over issuances was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

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

Corrective Action: Due to a lack of personnel, there are only two staff in the Claims, Issuance and Collection Section who devote their time to the monthly distribution of benefits during the first week of each month and the reporting of Authorization to Participate coupons by manually calculating and verifying each booklet to be distributed and issued.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-019, Continued
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: \$270,373

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Requests for overtime to work on claims were not successful. Upon hiring of new personnel, we will work to bring claims up to date. I recommend that the Claims Section be separate from the Benefit Issuance and Coupons Section so that personnel can dedicate 100% of their time to the claim process.

Proposed Completion Date: September 30, 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-020
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$12,681

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

In accordance with the grants terms and condition, for awards in which the Federal share of the project exceeds \$100,000, transfer of funds among direct cost categories must be approved in writing by the Grants Officer when the cumulative amount of such transfers exceed 10 percent of the total Federal and non-Federal funds authorized by the Grants Officer. This transfer authority does not authorize the recipient to create new budget categories within an approved budget unless the Grants Officer has provided prior approval.

Condition: Tests of expenditures noted the following:

1. Of fifty-six payroll expenditures aggregating \$75,507, of a population of \$591,106, the following were noted:

a. For ten (or 18%), we were not provided an approved leave form for the following employee annual and/or sick leave.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Type</u>	<u>Leave Dates</u>	<u>Questioned Costs</u>
103209	10/05/13	Annual	10/03/13	\$ 17
676763	10/19/13	Annual	10/17/13 and 10/18/13	7
402142	10/19/13	Annual	10/07/13	5
402142	11/02/13	Annual	10/25/13 and 10/28/13	19
101268	11/16/13	Annual	11/08/13	36
814740	12/14/13	Annual	12/02/13	8
559395	12/28/13	Annual	12/27/13	23
373557	12/28/13	Annual	12/26/13	46
402142	10/19/13	Sick	10/18/13	67
103207	02/08/14	Sick	01/31/14	<u>34</u>
				\$ <u>262</u>

b. One (or 2%) compensatory time-off taken was not supported by a time-off form which indicates time earned and approval from an immediate supervisor.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Date</u>	<u>Questioned Costs</u>
676763	10/05/13	09/28/13	\$ 43

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-020, Continued
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$12,681

Condition, Continued:

- c. For two (or 4%), employee timecards do not justify that the employee worked for the Program (related timecards were blank or the employee did not time in or out). We were not provided documents evidencing that employees worked for the Program.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Questioned Costs</u>
814740	06/14/14	\$ 1,212
167651	06/28/14	<u>154</u>
		\$ <u>1,366</u>

2. Of twenty-five nonpayroll expenditures tested aggregating \$59,462, of a population of \$232,052, the following were noted:

- a. For one (or 4%) funded by grant no. NA11NOS4190153, the approved grant application and budget for task 306-3 (Permitting and Federal Consistency) does not include utility charges; however, the program charged \$7,000 to business unit C1419E (PV # 1195328; dated 08/25/14) related to the task. Also, we were not provided grantor approval to reprogram funds and create new budget categories within the previously approved budget of task 306-3.
- b. For one (or 4%) funded by grant no. NA12NOS4190178, the approved grant application and budget does not include costs for chairs; however, program income was used to purchase chairs totaling \$4,010 (PV # 236422; dated 09/29/14).
- c. Two (or 8%) expenditures related to \$10,444 of moving expenses (PV #s 1184164 and 1191030) were approved by the grantor to be charged to business unit C2419G (NA12NOS4190178) and were charged to business units C1419I (NA11NOS4190153) and C8419P (prior year program income account). Such expenditures were not transferred to appropriate accounts and we were not provided approved journal vouchers. No questioned costs result as the expenditures were approved by the grantor in the Program's reprogramming request.

Cause: The cause of the above condition is the lack of control over review and approval of employee timecards, timesheets, leave forms and compensatory time-off forms, the lack of systematic filing of documents and the lack of adherence to applicable award terms and conditions.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-020, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Allowable Costs/Cost Principles
Questioned Costs: \$12,681

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$12,681 exist for Conditions 1(a), 1(b), 1(c), 2(a) and 2(b).

Recommendation: We recommend that procedures be implemented to comply with the above criteria.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, Division of Coastal Resources Management (DCRM), Frank M. Rabauliman, Administrator, Bureau of Environmental and Coastal Quality (BECQ) and Eloida Macaranas, Payroll Supervisor

Corrective Action:

Condition 1: In response to these findings, BECQ-DCRM is taking appropriate actions to implement procedures to comply with payroll and nonpayroll expenditure management and reporting to correct the causes of these findings moving forward. BECQ-DCRM will implement and comply with CNMI regulations to include: ensuring that all timecards are signed, flex-time requests are filed and approved, timecard adjustments are documented, and any other required information is included to ensure completion of and necessary support of time records. Timekeeping will be managed to meet federal and CNMI requirements. BECQ-DCRM corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

Condition 2a: The grantor approved expenditure of funds to cover utility charges in the initial grant allocation request. Funds were reprogrammed for PV # 1195328 using the 10% rule to cover additional utility charges, and program income was applied to pay the outstanding balance. Use of program income does not result in a cost impact to the Program for audit assessment purposes.

Condition 2b: BECQ-DCRM was informed by the NOAA liaison that program income secured by CRM "is not NOAA grant money" and "is free for the CRM Program to utilize as it sees fit. NOAA has no interest or stake in the independent CRM program income" and that program income "is NOT considered federal funds". Accordingly, DCRM treated program income as such. If this guidance is incorrect, BECQ-DCRM will adjust existing policies and implement new policies to address any relevant Federal requirements moving forward. Use of program income does not constitute a cost impact to the Program for audit assessment purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-020, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Allowable Costs/Cost Principles
Questioned Costs: \$12,681

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 2c: As noted, these expenditures were approved by the grantor, and vouchers are included. Program income from C8419P was used for a portion of this expenditure. BECQ-DCRM was informed by the NOAA liaison that program income secured by DCRM "is not NOAA grant money" and "is free for the CRM Program to utilize as it sees fit. NOAA has no interest or stake in the independent CRM program income" and that program income "is NOT considered federal funds". Accordingly, DCRM treated program income as such. If this guidance is incorrect, BECQ-DCRM will adjust existing policies and implement new policies to address any relevant Federal requirements moving forward. Use of program income does not result in a cost impact to the Program for audit assessment purposes.

Proposed Completion Date: September 1, 2015

Auditor Response:

Condition 2a: The approved grant application and budget does not include an allocation for utilities for Task 306-3. Further, per the grant terms and conditions, the 10% threshold does not authorize the recipient to create new budget categories within an approved budget unless the Grants Officer has provided prior approval. We were not provided with grantor approval; thus, this condition is reportable.

Condition 2b: We understand that NOAA provided the quoted guidance in an email dated August 19, 2010. However, in a recent email dated June 8, 2015, NOAA clarified that 15 CFR Part 24 expressly states that program income must be used for grant purposes.

Condition 2c: A memo dated 04/07/15 that was submitted to the Acting Director of Finance was only a journal voucher request to transfer the expenditures but this was neither approved nor entered in the JD Edwards system.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-021
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
 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: Tests of twenty-nine capital assets noted the following:

1. Eleven (or 38%) could not be located:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Cost</u>
09/12/97	US-31028CM	\$ 250
07/25/00	US-34078CM	15,000
07/26/02	MP-03649CM	180
07/29/03	MP-05979CM	478
07/14/04	MP-08624CM	2,847
08/22/05	MP-10912CM	210
11/03/05	ITEM-35733	442
09/20/07	MP-15722CM	360
10/29/10	MP-22895CM	1,598
04/01/11	MP-23139CM	2,348
09/26/12	MP-25272CM	535
		<u>\$ 24,248</u>

2. One \$21,200 item (or 3%) (FA-00144US) was included in the property listing and was indicated to be in working condition but is unserviceable and cannot be used for Program activities.
3. We were not provided a list of items disposed and surveyed in fiscal year 2014.

We are unable to assess the overall cumulative monetary value of the deficiencies above; however, total capital outlays for fiscal years 2014, 2013, 2012, 2011 and prior were \$13,766, \$6,338, \$48,531, \$18,174 and \$369,189, respectively.

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

Effect: The effect of the above condition is noncompliance with applicable equipment and real property management requirements. No questioned costs result since the overall monetary value could not be determined.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-021, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Herman Sablan, Director, P&S

Corrective Action: In response to these findings, BECQ-DCRM is taking appropriate actions to implement procedures to comply with applicable CNMI equipment and real property management policies and procedures. To begin this process, BECQ-DCRM has submitted a letter to the Office of Procurement requesting a detailed listing of all property that is current listed and being controlled. Corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

Proposed Completion Date: Ongoing, by September 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-022
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Grant Number: NA11NOS4190153
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$-0-

Criteria: Expenditures should be incurred within grant performance period. The grantee should liquidate all obligations incurred under the award no later than 90 days after the end of the funding period.

Condition: Of seven subsequent grant expenditures tested aggregating \$43,918, of a total population of \$80,581, two (or 29%) were liquidated after 90 days of the grant expiration date.

<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Bank Clearance Date</u>	<u>Amount</u>
236913	12/12/14	28856	01/06/15	01/23/15	\$ 9,498
1206563	12/16/14	28800	12/31/14	01/13/15	<u>20,964</u>
					\$ <u>30,462</u>

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

Effect: The effect of the above condition is the lack of compliance with period of availability requirements. No questioned costs result as the applicable Federal funds were not received as of 09/30/14.

Recommendation: We recommend compliance with period of availability requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

Corrective Action: BECQ-DCRM makes every effort to process payments to vendors on a timely basis through CNMI P&S procedures. We will continue to work closely with DOF to ensure that checks are processed in a timely manner, but ultimately DOF is charged with the issuance of payments necessary to liquidate outstanding accounts. In response to this finding, BECQ-DCRM will continue to make efforts to expedite the processing of all subcontracts and expenditures in order to liquidate funds within the period of availability of Federal funds. BECQ-DCRM corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

Proposed Completion Date: Ongoing, SOP update anticipated by September 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-023
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$2,550

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, 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: For seven (or 28%) of twenty-five nonpayroll expenditures tested aggregating \$59,462, of a population of \$232,052, only one quotation was provided for the following:

	<u>Grant Number</u>	<u>Obligating Document No.</u>	<u>Amount</u>	<u>Questioned Costs</u>	<u>APV No.</u>	<u>Business Unit</u>	<u>General Ledger Date</u>
1.	NA13NOS4190148	306334 OT	\$ 2,550	\$ 2,550	1164458	C3419D	03/12/14
2.	NA13NOS4190148	308214 OT	2,126	-	1188718	C3419K	07/03/14
3.	NA12NOS4190178	562639 OP	941	-	1152262	C2419D	10/04/13
4.	NA11NOS4190153	574863 OP	209	-	1196023	C1419K	08/27/14
5.	NA13NOS4190148	571837 OP	844	-	1163116	C3419K	02/26/14
6.	NA12NOS4190178	567621 OP	1,624	-	1155086	C2419L	11/08/13
7.	NA11NOS4190153	573287 OP	<u>867</u>	<u>-</u>	1172035	C1419C	06/06/14
			<u>\$ 9,161</u>	<u>\$ 2,550</u>			

For items 2 through 7 above, no questioned costs are presented because CNMI is technically compliant with CNMI procurement procedures, which do not require 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. Transaction details for fiscal year 2014 do not demonstrate an equitable distribution among available vendors.

Cause: The cause of the above condition is 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, 2014

Finding No.: 2014-023, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Procurement and Suspension and Debarment
Questioned Costs: \$2,550

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$2,550 as the projected questioned cost exceeds \$10,000.

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Herman Sablan, Director, P&S

Corrective Action: BECQ-DCRM will continue its practice of obtaining three price quotations from various vendors and will base its selection on competitive price and quality for procurement of goods and services valued at \$2,500 to \$10,000. For small purchases not exceeding the amount established herein, BECQ-DCRM will require at least two price quotations from vendors in order to provide for full and open competition as appropriate and feasible. BECQ-DCRM corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

Proposed Completion Date: Ongoing, SOP update anticipated by September 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-024
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Grant Number: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
 Area: Program Income
 Questioned Costs: \$154,788

Criteria: In accordance with applicable Federal requirements, grantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments from the grantor.

Condition: Program income as of 09/30/14 was not expended for Program activities and projects prior to obligating grant funds:

<u>Business Unit</u>	<u>Beginning of Grant Period</u>	<u>Program Income for the Period Ended 09/30/14</u>	<u>Program Expenditures for the Period Ended 09/30/14</u>	<u>Unspent</u>
C8419P	10/01/07	\$ 317,115	\$ 300,917	\$ 16,198
C9419K	10/01/08	\$ 77,000	\$ 65,917	11,083
C0419K	10/01/09	\$ 46,400	\$ 38,389	8,011
C0419U	10/01/10	\$ 38,230	\$ 30,888	7,342
C1419K	10/01/11	\$ 73,575	\$ 53,145	20,430
C2419L	10/01/12	\$ 52,984	\$ 28,129	24,855
C3419L	10/01/13	\$ 74,219	\$ 7,350	<u>66,869</u>
				\$ <u>154,788</u>

Cause: The cause of the above condition is the lack of adherence with program income requirements.

Effect: The effect of the above condition is noncompliance with program income requirements and questioned costs of \$154,788.

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

Corrective Action: BECQ-DCRM was informed by the NOAA liaison that “NOAA has no interest or stake in the independent CRM program income” and that program income “is NOT considered federal funds”. Accordingly, DCRM treated program income as such. If this guidance is incorrect BECQ-DCRM will adjust existing policies and implement new policies to address any relevant Federal requirements moving forward. As noted, no questioned costs result from this occurrence.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-024, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Number: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Program Income
Questioned Costs: \$154,788

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: Ongoing.

Auditor Response: 15 CFR Part 24 expressly states that program income must be used for the purposes and under the conditions of the grant agreement.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-025
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Number: NA11NOS4190153
Area: Reporting
Questioned Costs: \$-0-

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

Condition: Tests of reporting requirements noted that program income was not reported in the required fields:

Grant number	NA11NOS4190153
Reporting period end date tested	9/30/2014
Program income earned	\$ 73,575
Program income expended	(53,145)
Unexpended program income	\$ <u>20,430</u>

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

Effect: The effect of the above condition is noncompliance with reporting requirements. No questioned costs result as the amount was already questioned at Finding No. 2014-024.

Recommendation: We recommend that controls be implemented to comply with the criteria.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

Corrective Action: Moving forward, BECQ-DCRM will take reasonable steps to implement controls to comply with applicable reporting regulations by coordinating with DOF to ensure inclusion of program income in the SF-425 submission.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-026
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Special Tests and Provisions
Questioned Costs: \$62,739

Criteria: The Program must comply with grant Special Award Conditions (SAC):

1. In accordance with SAC #3 of NA11NOS4190153 and SAC #5 of NA12NOS4190178, for awards that provide federal funds for collection or production of geospatial data, the recipient will provide relevant information to NOAA as early as practicable before data collection commences.

This information will be shared with the National Oceanic and Atmospheric Administration (NOAA) office(s) having an interest in these types of data and the appropriate NOAA staff will work with the recipient to ensure the data and the planned acquisition activities are registered in Geospatial One-Stop (geodata.gov) and comply with OMB Circular A-16, Coordination of Geographic Information and Related Spatial Data Activities.

The Program shall document all new geospatial data it collects or produces using the metadata standards developed by the Federal Geospatial Data Committee (FGDC), and make that standardized documentation electronically accessible to NOAA, if requested.

2. In accordance with SAC #5 of NA11NOS4190153, within 30 days of receipt of this award, the Program will provide NOAA/Office of Coastal Resources Management (OCRM) detailed scopes of work for all the technical positions that are funded with federal Coastal Zone Management (CZM) funds. The scopes of work shall include but not be limited to the products or outputs expected of each of these positions, and the minimum eligibility requirements for each position.
3. In accordance with SAC #6 of NA11NOS4190153, SAC #7 of NA12NOS4190178 and SAC #13 of NA13NOS4190148, prior to hiring any staff in the Program with federal CZM funds, the program shall consult with NOAA/OCRM.
 - a. providing to the NOAA federal program officer for review and approval, a detailed scope of work for the vacant/new position including but not limited to minimum eligibility requirements for the position and the products and outputs expected of staff occupying that position; and
 - b. provide to the NOAA federal program officer for review and input, the resume, curriculum vitae, or other application documents needed to determine the eligibility of the top three candidates being considered for the position. Also, prior to promoting or transferring staff into Program positions that are being paid with federal CZM funds, the program shall consult with NOAA/OCRM to ensure that transferred staff meet the eligibility requirements for that position. Failure to consult with NOAA/OCRM on hires, transfers or promotions of persons in positions being paid for with federal CZM funds may disqualify the Program from using federal CZM funds to pay the salary or fringe of that position.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-026, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Special Tests and Provisions
Questioned Costs: \$62,739

Criteria, Continued:

4. In accordance with SAC #9 of NA12NOS4190178, task 306-5 fiscal year 2012 funds shall not be expended until a detailed scope of work outlining specific outcomes of this GIS task has been submitted to NOAA/OCRM for review and approval. The detailed scope of work must be submitted within 30 days of the start of this award.
5. In accordance with SAC #3 of NA12NOS4190178 and SAC #12 of NA13NOS4190148, the Program shall make available an amount of funds necessary for new or revised tasks that are negotiated, as a result of findings and recommendations in any 312 evaluation issued during the period covered by the award.
6. In accordance with SAC #8 of NA12NOS4190178, funds in the amount of \$10,000 for task 306-2, Marine Protected Area Law Enforcement Compliance Training shall not be expended until the Program submits additional details to NOAA/OCRM for review and approval. These shall include formalized budget details, travel details, and training deliverables.
7. In accordance with SAC #14 of NA12NOS4190178, a detailed budget is required for the other costs category. This should also describe the basis of this cost estimate.
8. In accordance with SAC #6 of NA13NOS4190148, funds in the amount of \$37,800 in Section 306 and \$16,200 in Section 309 cannot be expended for other budget class costs until the recipient can demonstrate that payments for communication, utilities-power, office rental and other rental costs are not included in indirect costs being charged to the award.
9. In accordance with SAC #7 of NA13NOS4190148, funds in the amount \$31,982 shall not be expended for fringe benefits for task 306-04 until the recipient can justify or demonstrate the expense of \$31,982 in fringe benefits for the Chief Enforcement officer.

Condition: Tests of the above conditions noted the following:

1. Data collected from the beginning of the grant until 09/30/14 was not submitted to the Federal Program Officer as of the test date. No questioned costs result as we are unable to assess the monetary value of the deficiency.
2. For grant NA11NOS4190153 dated 08/25/11, the scope of work for technical positions were not submitted within the thirty day timeline. No questioned costs result as we are unable to assess the monetary value of the deficiencies above.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-026, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Special Tests and Provisions
Questioned Costs: \$62,739

Condition, Continued:

3. We were not provided a detailed scope of work, a resume, a curriculum vitae, or other application documents submitted to the grantor for a transferred employee (employee # 795793). Questioned costs of \$8,369 relate to the employee's salary from the date of hire (02/24/14).
4. We were not provided a detailed scope of work submitted and approved by the grantor related to task 306-5 (C2419H). No questioned costs result as there was a related negative expenditure incurred in fiscal year 2014.
5. We were not provided a fiscal year 2015 budget, reprogramming request or program income allotment advice that indicated that the Program made funds available for new and revised tasks as a result of findings and recommendations in the 312 evaluation released in January 2015. No questioned costs result as we are unable to assess the monetary value of the deficiency.
6. We were not provided evidence that required formalized budget details, travel details and training deliverables were accepted and approved by the grantor prior to incurrence of the following costs for task 306-2 (C2419E):

<u>Date</u>	<u>PV #</u>	<u>Amount</u>
04/03/14	1166412	\$ 3,840
04/17/14	1167715	96
03/17/14	1164716	436
03/25/14	1165354	296
03/25/14	1165331	1,124
04/29/14	1168505	1,138
04/29/14	1168508	1,138
04/29/14	1168642	1,141
		<u>\$ 9,209</u>

7. We were not provided a detailed budget submitted and approved by the grantor required for the other costs category of grant no. NA12NOS4190178. Total fiscal year 2014 expenditures charged to the other costs category are \$26,415.

<u>Other Costs</u>	<u>Actual Fiscal Year 2014 C2419K</u>	<u>Actual Fiscal Year 2014 C2419D</u>
Insurance (62280)	\$ -	\$ 2,172
Fuel (63030)	1,200	5,923
Utilities (62710)	-	13,374
Communication (62250)	-	-
Printing (62300)	215	1,059
Repairs and Maintenance (62660)	-	2,472
Advertising (62030)	-	-
	<u>\$ 1,415</u>	<u>\$ 25,000</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-026, Continued
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.419 Coastal Zone Management Administration Awards
 Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
 Area: Special Tests and Provisions
 Questioned Costs: \$62,739

Condition, Continued:

8. The supplemental SAC related to task 306 and 309 (other costs) was not submitted prior to the incurrence of communication and utilities-power costs below:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>PV #</u>	<u>Amount</u>
C3419D	12/20/13	1157847	\$ 96
C3419D	12/26/13	1158187	1,253
C3419D	12/26/13	1158188	355
C3419D	01/14/14	1159478	350
C3419D	01/14/14	1159486	817
C3419D	01/21/14	1159922	97
C3419D	01/23/14	1160326	243
C3419D	02/26/14	1163188	191
C3419D	04/04/14	1166579	94
C3419D	04/16/14	1167561	183
C3419D	05/08/14	1169333	3,030
C3419D	05/22/14	1170466	179
C3419D	08/07/14	1193694	89
C3419D	08/20/14	1195126	984
C3419D	09/10/14	1197296	54
C3419K	03/11/14	1164339	<u>1,200</u>
			<u>\$ 9,215</u>

9. The supplemental SAC related to task 306-04 was not submitted prior to incurrence of fringe benefits for employee #103207. Total fringe benefits for the employee are \$9,531.

Cause: The cause of the above condition is the lack of controls over the requirements and the lack of established policies and procedures to maintain documents to support compliance with the requirements.

Effect: The effect of the above condition is noncompliance with special tests and provision requirements and questioned costs of \$62,739 as follows:

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ -
2	-
3	8,369
4	-
5	-
6	9,209
7	26,415
8	9,215
9	<u>9,531</u>
	<u>\$ 62,739</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-026, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.419 Coastal Zone Management Administration Awards
Grant Numbers: NA11NOS4190153, NA12NOS4190178 and NA13NOS4190148
Area: Special Tests and Provisions
Questioned Costs: \$62,739

Recommendation: We recommend procedures be implemented to monitor compliance with grant special award conditions.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

Corrective Action: Moving forward, BECQ-DCRM will take reasonable steps to implement controls to comply with all applicable Special Award Conditions. BECQ-DCRM corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

Proposed Completion Date: Ongoing. SOP update anticipated by September 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-027
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.482 Coral Reef Conservation Program
 Grant Numbers: NA11NOS4820009 and NA13NOS4820010
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$3,468

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit. Furthermore, the approved grant application specifies the allowable tasks in line item budgets.

Condition:

1. Tests of thirty-eight payroll expenditures aggregating \$46,452, of a population of \$251,790, noted the following:

a. Three (or 8%) timecards were not signed by employees. We were not provided evidence that the employees certified their time as correct. No questioned costs result as the immediate supervisor certified the employee time.

<u>Employee No.</u>	<u>Payroll Period Ended</u>
793891	05/17/14
710912	07/12/14
793891	06/14/14

b. For one (or 3%), we were not provided an approved leave form for annual leave taken by an employee.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Date</u>	<u>Questioned Costs</u>
816110	12/14/13	12/04/13	\$ 7

c. One (or 3%) approved leave taken was reflected as regular time per the timesheet and the payroll register. No questioned costs result as the payroll expenditure was supported by an approved leave form.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Date</u>
710912	07/12/14	07/10/14

d. Three (8%) employee timecards did not justify that the employee worked for the program (the related timecards were blank or the employee did not time/in or out). We were not provided documents evidencing that the employee worked for the program on the specified dates below:

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Dates in Question</u>	<u>Questioned Costs</u>
372818	04/05/14	03/25/14 through 03/28/14, 03/31/14, 04/01/14 and 04/02/14	\$ 750
372818	09/20/14	09/12/14, 09/18/14 and 09/19/14	346
816110	07/26/14	09/22/14	<u>115</u>
			\$ <u>1,211</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-027, Continued
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.482 Coral Reef Conservation Program
 Grant Numbers: NA11NOS4820009 and NA13NOS4820010
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$3,468

Condition, Continued:

- e. Two (5%) compensatory time-off taken was not supported by time-off forms indicating time earned and approval from the immediate supervisor.

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Questioned Costs</u>
775055	10/05/13	\$ 763
775055	12/28/13	<u>87</u>
		\$ <u>850</u>

2. For one (or 4%) of twenty-five non-payroll expenditures tested aggregating \$116,119, of a population of \$195,802, we noted that the approved grant application and budget for task 1 (CNMI Coordination and Representation) does not include travel for the Marine Biologist. However, we noted that the program charged \$1,400 to BU# C2482A (PV #s 1167804 and 1169224) related to the task. Also, we were not provided with grantor approval for the specific activity.

Cause: The cause of the above condition is the lack of control over review and approval of employee timecards and compensatory time and leave forms.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$3,468 for Conditions 1.b., 1.d., 1.e. and 2 as projected questioned costs exceed the \$10,000 threshold.

Recommendation: We recommend procedures be implemented to comply with the above criteria.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Eloida Macaranas, Payroll Supervisor

Corrective Action: In response to these findings, BECQ-DCRM is taking appropriate action to correct moving forward. BECQ-CRM will make sure to handle timekeeping accordingly. We will implement and comply with CNMI regulations to ensure that all timecards are signed, flex-times are filed and approved, adjustments are documented and any other information to support completion of support of time records.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-028
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Grant Numbers: NA11NOS4820009 and NA13NOS4820010
Area: Matching, Level of Effort, Earmarking
Questioned Costs: \$160,789

Criteria: In accordance with the cooperative agreement for NA11NOS4820009 and NA13NOS4820010, the recipient's share of costs is \$130,000 and \$65,600 respectively, for the year ended September 30, 2014.

In accordance with 15 CFR Part 24 Subpart C Section 24.24, costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantees or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. To the extent feasible, volunteer services will be supported by the same methods that the organization uses to support the allocability of regular personnel costs.

Condition: Tests of matching requirements noted deficiencies in the required recipient share for the period ended 09/30/14:

	<u>NA11NOS4820009</u>	<u>NA13NOS4820010</u>
Required matching contribution	\$ 130,000	\$ 65,600
Actual match per test	<u>34,811</u>	<u>-</u>
	<u>\$ 95,189</u>	<u>\$ 65,600</u>

Further, we noted the following:

1. Represented personnel match of \$29,100 for NA13NOS4820010 was based on budget and allocation percentages and was not supported by actual time logs and timesheets of employees that support actual time spent on the project.
2. Tests of volunteer services of \$114,302 for NA11NOS4820009 noted the following:
 - a. We were not provided a list of events and related sign-up sheets or applications for \$57,962 of volunteer services.
 - b. The Program applied a \$12 rate per hour to value 4,695 hours of volunteer services which is more than 100% of the minimum wage in the CNMI throughout the duration of the project. We were not provided a cost study or the basis of the \$12 rate.
3. We were not provided schedules or a breakdown of expenditures or documents supporting the recipient's share of costs for the following grants:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-028, Continued
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.482 Coral Reef Conservation Program
 Grant Numbers: NA11NOS4820009 and NA13NOS4820010
 Area: Matching, Level of Effort, Earmarking
 Questioned Costs: \$160,789

Condition, Continued:

<u>Nature of Match</u>	<u>NA11NOS4820009</u>	<u>NA13NOS4820010</u>
Supplies	\$ 1,083	\$ 1,800
Contractual services	750	-
Transportation and travel	2,327	18,200
Maintenance	1,064	16,000
Media services	5,000	-
Insurance	335	-
Utilities	-	500
Total	\$ <u>10,559</u>	\$ <u>36,500</u>

Cause: The cause of the above condition is the lack of established policies and procedures to facilitate compliance with matching, level of effort, and earmarking requirements.

Effect: The effect of the above condition is noncompliance with matching, level of effort, and earmarking requirements and questioned costs of \$160,789.

Recommendation: We recommend compliance with the above criteria.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

Corrective Action: The grant recipient had not been advised that the match needed to be documented in this extensive manner. Moving forward, recipients and partners will be diligent in documenting the in-kind match, and will include match updates in their standing semi-annual progress reports.

Proposed Completion Date: Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-029
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Grant Numbers: NA11NOS4820009
Area: Period of Availability of Federal Funds
Questioned Costs: \$-0-

Criteria: Expenditures should be incurred within the performance period as specified in grant agreements. The grantee should liquidate all obligations incurred under the award no later than ninety days after the end of the funding period.

Condition: Of thirteen subsequent expenditures tested aggregating \$156,982, of a total population of \$201,081 for the grant that expired on September 30, 2014, the following were noted:

1. One (or 7%) was obligated after the period of performance and was liquidated ninety days after the grant expiration date:

<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Bank Clearance Date</u>	<u>Amount</u>
1204559	11/18/14	28790	12/31/14	not yet cleared	\$ 10,000

2. Four (or 31%) were liquidated ninety days after the grant expiration date.

<u>PV No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Date</u>	<u>Bank Clearance Date</u>	<u>Amount</u>
1206319	12/15/14	28788	12/31/14	02/05/15	\$ 64,250
1206385	12/15/14	28788	12/31/14	02/05/15	64,250
1200660	10/02/14	28108	11/17/14	01/09/15	2,430
1203850	11/07/14	28789	12/31/14	01/23/15	3,420
					<u>\$ 134,350</u>

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

Effect: The effect of the above condition is noncompliance with period of availability requirements. No questioned costs result as the specified federal funds were not received as of 09/30/14.

Recommendation: We recommend that compliance with period of availability requirements occur.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Agnes Cepeda, Federal Grants Supervisor

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-029, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Grant Numbers: NA11NOS4820009
Area: Period of Availability of Federal Funds
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: BECQ-DCRM makes every effort to process payments to vendors on a timely basis through the CNMI Procurement and Supply procedures. We will continue to work closely with DOF to ensure that checks are processed timely, but, ultimately, DOF is charged with the issuance of payments necessary to liquidate outstanding accounts.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-030
 Federal Agency: U.S. Department of Commerce
 CFDA Program: 11.482 Coral Reef Conservation Program
 Grant Numbers: NA11NOS4820009 and NA13NOS4820010
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$13,223

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, 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 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: For eleven (or 44%) of twenty-five nonpayroll expenditures tested, aggregating \$116,119, of a total population of \$195,802, only one quotation was provided for the following:

	<u>Grant Number</u>	<u>Obligating Document #</u>	<u>Amount</u>	<u>Questioned Costs</u>	<u>APV #</u>	<u>BU</u>	<u>General Ledger Date</u>
1.	NA13NOS4820010	TA 308031	\$ 242	\$ -	1186715	C3482F	06/25/14
2.	NA11NOS4820009	TA 307245	460	-	1167804	C2482A	04/17/14
3.	NA11NOS4820009	574480 OP	615	-	1187285	C2482F	06/27/14
4.	NA11NOS4820009	579840 OP	1,000	-	1195262	C2482D	08/22/14
5.	NA13NOS4820010	572539 OP	2,000	-	1163392	C3482H	02/28/14
6.	NA11NOS4820009	TA 309593	2,221	-	1197897	C2482A	09/15/14
7.	NA13NOS4820010	TA 309592	2,227	-	1197894	C3482A	09/15/14
8.	NA11NOS4820009	576264 OP	2,473	-	1188700	C2482F	07/03/14
9.	NA13NOS4820010	TA 304963	4,200	4,200	1155484	C3482A	11/15/13
10.	NA11NOS4820009	TA 309696	4,250	4,250	1198776	C2482J	09/19/14
11.	NA11NOS4820009	TA 305221	<u>4,773</u>	<u>4,773</u>	1155571	C2482A	01/04/14
			<u>\$ 24,461</u>	<u>\$ 13,223</u>			

For items 1 through 8 above, no questioned costs are presented because the CNMI is technically compliant with CNMI procurement procedures, which do not require 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. Transaction details for fiscal year 2014 do not demonstrate an equitable distribution among available vendors.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-030, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Grant Numbers: NA11NOS4820009 and NA13NOS4820010
Area: Procurement and Suspension and Debarment
Questioned Costs: \$13,223

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

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$13,223.

Recommendation: We recommend that compliance with procurement regulations occur.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Herman Sablan, Director, P&S

Corrective Action:

When procuring property under federal grants, the state follows the same policies and procedures it uses for procurements for its non-federal funds. In reference to the four (4) purchase orders: 579840 OP, 576264 OP, 572539 OP, 574480 OP, all questionable purchase orders are for procurement valued below \$2,500, thus, not exceeding the amount established herein of \$2,500 to \$10,000 to obtain three (3) quotations as required by the CNMI procurement regulations and policy.

In making purchases referenced by obligating documents numbered: TA 309696, TA 304963, TA 305221, TA 307245, TA 308031, TA 309592, and TA 309593, referenced in these findings, 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 established uses, or written DOF policies when procuring government travel.

Proposed Completion Date: Ongoing

Auditor Response:

Although the Program is in compliance with 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, 2014

Finding No.: 2014-031
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Grant Numbers: NA11NOS4820009
Area: Reporting
Questioned Costs: \$-0-

Criteria: A final comprehensive Federal Financial Report must be submitted, within ninety days after award expiration. The report shall cover the entire project period from the start date through the end date of the original award, or approved extended end date of the award, and must include the cumulative total of indirect costs charged to the award.

An effective system of internal control includes policies and procedures so that transactions reported as federally funded costs and recipient share of expenditures are substantiated by accounting records.

Condition: Tests of final Federal Financial Reports for grant no. NA11NOS4820009 noted that the recipient's share of expenditures of \$108,754 is not supported by detailed schedules or invoices and billing statements supporting the final SF-425 submitted.

Cause: The cause of the above condition is the lack of conformance with existing procedures that require adequate documentation supporting federal financial reports.

Effect: The effect of the above condition is noncompliance with applicable reporting requirements. No questioned costs result as the related matching requirement is questioned at Finding 2014-028.

Recommendation: We recommend that procedures be strengthened to maintain adequate accounting records supporting the recipient's share of expenditures.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Agnes Cepeda, Federal Grants Supervisor

Corrective Action: BECQ-DCRM will work closely with DOF to ensure the reporting of all program income earned and expended on the Federal Financial Report (SF-425) is timely submitted and transactions reported are substantiated by accounting records.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-032
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Grant Numbers: NA11NOS4820009 and NA13NOS4820010
Area: Special Tests and Provisions
Questioned Costs: \$111,309

Criteria: The Program agrees to comply with Special Award Conditions (SAC) of the grants as follows:

1. In accordance with SAC # 4 of grant no. NA11NOS4820009, for any Coral Reef Conservation Program (CRCP) award that provides federal funds for collection or production of geospatial data (e.g., GIS data layers), the recipient will comply, to the maximum extent practicable, with Executive Order 12906-Coordinating Geographic Data Acquisition and Access: the National Spatial Data Infrastructure, Federal Register Vol. 59, Number 71, pp. 17671-17674. The award recipient shall document all new geospatial data it collects or produces using the metadata standards developed by the Federal Geospatial Data Center, and make that standardized documentation electronically accessible to CRCP for incorporation into Coral Reef Information System.

Data collected through the support of this funding opportunity must be provided to the Federal Program Officer within one year of collection. The specific format of the collected/submitted data is project-dependent and may include raw data and/or summary data. Requirements for all submitted data will be specified by the Federal Program Officer (e.g., Excel, Access, GIS shape files, etc.). The submitted data shall be accompanied by a description of the type of information contained in each data field, what is commonly referred to as a "data dictionary".

2. In accordance with SAC # 10 of grant no. NA13NOS4820010, no federal funds shall be expended on any projects that involve the collection of environmental data and information until the recipient has submitted and obtained NOAA/CRCP approval for a Data and Information Sharing Plan (DISP). A DISP explains how data and information collected or created under NOAA grants or cooperative agreements will "be made visible, accessible, and independently understandable to general users, free of charge or at minimal cost, in a timely manner (typically no later than two years after the data is collected or created), except where limited by law, regulation policy or by security requirements." The provision of a DISP by grant recipients is a new NOAA-wide requirement (NOAA Administrative Order 212-15) that was implemented in 2012 and requires that award recipients submit a DISP of no more than two pages as part of the application for this competition (see the Federal Funding Opportunity, Section IV(B) Content and Form of Application, element 13). NOAA's approval of the DISP must be satisfied before the award commences, but not later than November 1, 2013. The CRCP will work with applicants in the meantime to ensure that they are able to fulfill this requirement and make data and information products resulting from their federally-funded project widely available.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-032, Continued
Federal Agency: U.S. Department of Commerce
CFDA Program: 11.482 Coral Reef Conservation Program
Grant Numbers: NA11NOS4820009 and NA13NOS4820010
Area: Special Tests and Provisions
Questioned Costs: \$111,309

Condition: Tests of grant conditions noted the following:

1. Data collected from the beginning (10/01/11) to the end of the grant period (09/30/14) was not submitted to the Federal Program Officer as of the test date.
2. The DISP was submitted on 01/28/15 and has not been approved or accepted by the grantor as of the test date. Total expenditures incurred during fiscal year 2014 attendant to the long-term monitoring program (business unit no. C3482F) are \$111,309.

Cause: The cause of the above condition is the lack of monitoring of SAC and the lack of established policies and procedures to comply with special conditions.

Effect: The effect of the above condition is noncompliance with special tests and provisions requirements and questioned costs of \$111,309. No questioned costs result from Condition 1 as we are unable to quantify the effect of the noncompliance.

Recommendation: We recommend that the CNMI establish controls and procedures to monitor compliance with a grant's SAC.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Frances Castro, Director, DCRM and Frank M. Rabauliman, Administrator, BECQ

Corrective Action: Moving forward, grant recipients will establish controls and procedures to monitor compliance and deadlines with a grant's SAC. We will work closely with the granting agency to timely comply with SAC criteria.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-033
 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 and CNMI-CIP-2010-4
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$4,896

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 \$2,460,437 of a population of \$7,753,220, we noted the following:

- Two grants (grant nos. CNMI-CIP-2007-1 and CNMI-CIP-2010-4) (or 22%) expired on 09/30/13 and 09/30/14, respectively and the following expenditures were liquidated after 90 days of the grant expiration date.

Business Unit	Grant No.	PV No.	Check No.	Check Date	Days Beyond Liquidation	Amount	Questioned Costs
5617	CNMI-CIP-2007-1	1162858	6104	03/17/14	76	\$ 1,088	\$ 1,088
5617	CNMI-CIP-2007-1	1164692	6127	04/01/14	91	544	544
5617	CNMI-CIP-2007-1	1164694	6127	04/01/14	91	544	544
5617	CNMI-CIP-2007-1	1171416	6333	09/19/14	262	544	544
5617	CNMI-CIP-2007-1	1171419	6333	09/19/14	262	544	544
5617	CNMI-CIP-2007-1	1191016	6333	09/19/14	262	544	544
5617	CNMI-CIP-2007-1	1195292	6333	09/19/14	262	544	544
5617	CNMI-CIP-2007-1	1195293	6333	09/19/14	262	544	544
5659	CNMI-CIP-2010-4	1194456	6320	09/02/14	72	33,862	-
Total						\$ 38,758	\$ 4,896

Regarding check number 6320, although the check was written within the period of availability, it was not released until 03/13/15. Therefore, liquidation occurred after the 12/31/14 expiration date. However, no questioned cost results for this item since the grantor subsequently approved the late liquidation.

- Two expenditures were obligated but have not been liquidated after 90 days of the grant expiration date. No questioned costs result as associated drawdowns have not been made.

Grant No.	Grant Expiration Date	PV No.	PV Date	Amount
CNMI-CIP-2007-1	09/30/13	1200638	10/02/14	\$ 544
CNMI-CIP-2010-4	09/30/14	1198291	09/16/14	\$ 66,730

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-033, 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 and CNMI-CIP-2010-4
Area: Period of Availability of Federal Funds
Questioned Costs: \$4,896

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$4,896. Although known questioned costs are below \$10,000, the projected questioned cost exceeds the threshold; therefore, this finding is reportable.

Recommendation: We recommend compliance with period of availability requirements.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: The Office of Capital Improvement Program has attained the time extension for expenditures beyond the initial grant expiration date for BU 5659 for the Tinian medical equipment.

Condition 2: The Office of Capital Improvement Program obligated PV#1198291 in the amount of \$66,730 dated 9/16/14. A grant extension was necessary to drawdown the funds required to liquidate this obligation. Drawdown was approved by the grantor and check processed on 3/17/15.

In addition, the Office of Capital Improvement Program is developing policies and procedures to ensure compliance with period of availability requirements.

Proposed Completion Date: Immediate

Auditor Response: In accordance with 43 CFR 12.70 (d) (2), grantees or subgrantees must obtain prior approval of the awarding agency whenever it is anticipated that there is a need to extend the period of availability of funds. Further, 43 CFR 12.43 states that prior approval means documentation evidencing consent prior to incurring the specific cost. Grantor approval to extend the CNMI-CIP-2010-4 grant until 03/01/15 was received on 05/29/15 only after we identified the deficiency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-034
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: \$1,060,520

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 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-034, 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: \$1,060,520

Criteria, Continued:

In addition, in accordance with 70-30.3-305, the P&S Director and the Technical Services Division of the Department of Public Works (DPW) shall jointly maintain files of current statements of qualifications of architect-engineer firms. After public announcement of requirement for architect-engineer services, current statements shall be reviewed together with those that may be submitted by other firms in response to the announcement. Discussions shall be conducted with at least three (3) of the firms regarding the contract requirements and technical approach and selection made therefrom, in order of preference, of no less than three (3) firms determined to be the most highly qualified to perform the services required. Fee proposals may be solicited upon public announcement; however, this information shall not be considered in the selection of the most highly qualified firms. Such fee proposals may be used by the P&S Director in determining a fair and reasonable contract price.

In accordance with Emergency Purchasing under CNMI Procurement regulations Section 3-107 (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.

Condition: Of twenty-one nonpayroll expenditures tested aggregating \$6,307,529, of a population of \$7,523,025, the following were noted:

1. Four contracts (or 19%) did not contain provisions for federal access to contractor records:

<u>Grant No.</u>	<u>Business Unit</u>	<u>Contract No.</u>
CNMI-CIP-2009-2	5637	571 OS
CNMI-CIP-2013-7	5649B	606 OS
CNMI-CIP-2013-2	5659A	634 OS
CNMI-CIP-2008-3	5627	544 OS

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-034, 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: \$1,060,520

Condition, Continued:

2. One contract (or 5%) (business unit 5649B; contract no. 606-OS with a \$52,000 contract price) to provide architectural and engineering services, was procured through a request for qualification (RFQ). A written justification noted that the selection was based on the fact that the vendor is the only certified architect who submitted an RFQ. All other proposers were certified engineers. However, the RFQ specified that either a certified architect or a certified engineer would qualify. Further, although justification was provided for selection of the vendor, we were not provided documentation to support the vendor evaluation process including a review of qualification statements and discussions with qualified firms as required by 70-30.3-305 of the Procurement Regulations. Total related federal expenditures incurred for fiscal year 2014 are \$74,946.
3. For four contracts (or 19%) for procurement of architectural and engineering services, discussions were not conducted with the required number of architectural and engineering firms regarding contract requirements and the technical approach as required by the 70-30.3-305 (c). Further, procurement files do not contain documentation that current statements of qualifications of architect and engineering firms from P&S and the Technical Services Division of the Department of Public Works were reviewed along with those that may be submitted by other firms in response to the announcement to meet the required number of proposals:

<u>Grant No.</u>	<u>Business Unit</u>	<u>Contract No.</u>	<u>FY 2014 Expenditures</u>
CNMI-CIP-2009-2	5659A	610 OS	\$ 76,646
CNMI-CIP-2013-7	5679A	630 OS	58,000
CNMI-CIP-2013-2	5624	613 OS	588,305
CNMI-CIP-2008-3	5690	617 OS	<u>232,200</u>
		Total	<u>\$ 955,151</u>

4. For one expenditure (or 5%), price quotations from at least three vendors were not obtained for PV # 1159629 (grant no. CNMI-CIP-2011-3, business unit 5664A) for \$2,999.
5. For one architect & engineering contract (or 5%) (contract #617), emergency procurement was used for change order # 2 to procure construction management service that increased the contract cost by \$233,600 or 74% of the original contract price. This procurement was not in accordance with 70-30.3-230, Emergency Procurement. Written justification (dated 03/12/14) does not support that the demand for the requirement will not permit a delay resulting from competitive proposals. Further, the procurement does not meet any of the circumstances under 43 CFR Section 12.76(d)(4)(i)(A-D) to qualify for noncompetitive procurement method. Total federal expenditures incurred for contract # 617, change order # 2 is \$27,424.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-034, 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: \$1,060,520

Cause: The cause of the above condition is failure to comply with applicable procurement regulations.

Effect: The effect of the above condition is noncompliance with procurement regulations, and questioned costs of \$1,060,520.

<u>Condition</u>	<u>Questioned Costs</u>
2	\$ 74,946
3	955,151
4	2,999
5	<u>27,424</u>
	\$ <u>1,060,520</u>

Recommendation: We recommend that compliance with procurement regulations occur.

Prior Year Status: The lack of compliance with procurement regulations was reported as a finding in the CNMI Single Audits for fiscal years 2009 and 2010.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: The Office of Capital Improvement Program agrees with this finding. To implement corrective action, our office has initiated discussions with the Attorney General's Office to set standards to include applicable laws, regulations and provisions in contracts for future use.

Condition 2: The Proposal Opening Summary Sheet of 12/03/12 reveals three (3) proposers responding to the RFQ. RFQ13-GOV-008 entitled "RFQ for Provisions of Architect and Engineering Services". All (3) three proposers were evaluated according to the set evaluation criteria(s), selected and awarded two of the three to be most qualified. Selection criteria 1) Past Experience as Project Manager 70% 2) Interview 30%.

Statements of qualifications were reviewed by the Contracting Officer and pre-qualified all three proposers and awarded two contracts on as-needed basis; One Engineer and one Architect. The justification stated "no other candidate was a registered architect" and perhaps an advantage to the CIP Office. At the time, it was a sensible decision to capture 2 distinct professionals that can provide and maximize project efficiency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-034, 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: \$1,060,520

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Going forward, the CIP office has implemented evaluation procedures in procuring project managers that will ensure fairness in the selection process and compliance with procurement regulations.

Proposed Completion Date: Immediate

Condition 3: For contract no. 613 OS, business unit 5624, the Proposal Opening Summary Sheet dated 03/20/13 revealed two proposers responding to the RFQ. Both proposers were evaluated according to the set evaluation criteria(s) and one was selected to be most qualified.

For the remaining contracts, although these procurements did not meet the required number (3) of architectural and engineering services responses, it is incumbent that the CIP Office render a decision to meet project accomplishments and award a contract to the most qualified firm. Furthermore, it is a practice of CIP to further comply with the silence of procurement regulations in dealing with less than three proposers by relying on the Board of Professional Licensing list of professionals and Certifications of Authority (COA) Registry which lists 34 COAs. It is our intention to adopt such registry in compliance with future audit findings.

Condition 4: The CIP office obtained three (3) price quotations for PV # 1159629. Please see attachment.

Condition 5: During design, the Program planned to have periodic inspections performed and reporting by the Project Manager. At this stage, we would not have known the complexity and immediate need of a Construction Manager. At the conclusion of the design work, the CIP Office strategically discussed and decided to procure a Construction Management Team and hence, the justification letter dated March 12, 2014. The CIP Office did comply with procurement regulations with respect to procuring under emergency circumstances.

Proposed Completion Date:

Condition 1: Immediate

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-034, 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: \$1,060,520

Auditor Response:

- Condition 2: We were not provided documentation to support the vendor evaluation process, including a reviews of qualification statements and discussions with qualified firms as required by 70-30.3-305 of the Procurement Regulations. Thus, the finding remains.
- Condition 3: In accordance with 70-30.3-305, statements from the firms who responded to the announcement should be reviewed together with current statements of qualifications from DPW so discussions could be conducted with at least three architect-engineering firms. We were not provided evidence that current statements from DPW or from the Board of Professional Licensing were reviewed or considered to meet the required number of architect-engineering firms. Thus, the finding remains.
- Condition 4: Quotations from other vendors were lower than the quoted price of the selected vendor. We were not provided evidence that the quotations and written justification on vendor selection were submitted and approved by the P&S Director. Thus, the finding remains.
- Condition 5: Although justification was provided and approved, the written justification does not support procurement under emergency condition in accordance with NMIAC 70-30.3-230 and does not support that the emergency will not permit a delay resulting from competitive proposals to comply with 43 CFR Section 12.76(d)(4)(i)(b). Further, we noted that there was no effort sought to obtain competition in accordance with NMIAC Section 70-30.3-230 (a) on change order #2. Thus, the finding is reportable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-035
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-2014-2, CNMI-CIP-2013-3, CNMI-CIP-2013-1, CNMI-CIP-2013-6, CNMI-CIP-2012-8, CNMI-CIP-2012-7, CNMI-CIP-2011-1 and CNMI-CIP-2010-3
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: Tests of subrecipient monitoring noted the following:

1. A subrecipient agreement was executed with Commonwealth Utilities Corporation (CUC) on 12/12/14 for subgrants from 2010 to 2014.
2. No control procedures are in place to monitor CUC's compliance with applicable laws, regulations, and provisions of contracts and grant agreements. Further, no monitoring procedures are performed to verify that subrecipient reimbursement requests are allowed and that required financial status and narrative reports are accurate and timely submitted.
3. CUC is a component unit of the CNMI and separately satisfies the requirements of OMB Circular A-133; however, such report was not available as of fieldwork. Therefore, we are unable to determine subgrant amounts for FY 2014. Based on CUC's data collection forms for the past three years, annual expenditures under CFDA 15.875 approximated \$3M for FY 2013, \$4.8M for FY 2012, and \$8.9M for FY 2011.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-035, 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-2014-2, CNMI-CIP-2013-3, CNMI-CIP-2013-1, CNMI-CIP-2013-6, CNMI-CIP-2012-8, CNMI-CIP-2012-7, CNMI-CIP-2011-1 and CNMI-CIP-2010-3
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Effect: The effect of the above condition is the lack of compliance with subrecipient monitoring requirements. No questioned costs result as we are unable to quantify the extent of the noncompliance.

Recommendation: We recommend compliance with subrecipient monitoring requirements.

Prior Year Status: Noncompliance with subrecipient monitoring requirements was reported as Finding Nos. 2009-42, 2010-32, 2011-31, 2012-30 and 2013-025 in the CNMI Single Audits for fiscal years 2009 through 2013, respectively.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

- Condition 1: We agree with this finding that the subrecipient monitoring agreement was executed with the Commonwealth Utilities Corporation on 12/12/14 for subawarded grants from 2010 to 2014.
- Condition 2: We agree with this finding. To implement corrective action, we will develop control procedures to monitor compliance of subrecipients to ensure the applicable laws, regulations, and provisions of contracts and grant agreements are within the terms and conditions with federal awards.
- Condition 3: We agree with this finding. To implement corrective action, we will obtain copies of all SF-425s for projects listed as part of the attachment to the subrecipient monitoring agreement for the auditors to test compliance. We will also require the subrecipient to provide all drawdown requests to the grantee whenever they are submitted to the grantor to ensure drawdowns made are consistent with the payment requests and the level of work accomplished.

Proposed Completion Date: September 30, 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-036
 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-2013-2 and CNMI-CIP-2008-2
 Area: Special Tests and Provisions
 Questioned Costs: \$0

Criteria: The following grant terms and conditions are applicable:

1. For construction activities on new sites, the grantee shall 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.
2. Any substantial change in the project budget must be submitted to the Grant Manager. The project revisions shall not be implemented until the OIA Grant Manager sends written approval to the CNMI.

Condition: Of eighteen projects tested aggregating \$6,321,729 of a population of \$7,523,025, we noted the following:

- a. For one (or 6%), there is no leasehold agreement or other equivalent evidence that the CNMI had clear title or legal authority prior to using the land for the following project, which commenced in September 2013.

<u>Business Unit</u>	<u>Project</u>	<u>Grant Award Ref.</u>	<u>FY 2014 Federal Expenditures</u>
5659A	Tinian Health Center Renovations	CNMI-CIP-2013-2	\$ 220,928

However, no questioned cost is presented as the land certification document was subsequently obtained on 06/03/15.

- b. For one (or 6%) (business unit 5629, grant no. CNMI-CIP-2008-2), grantor approval to reprogram the budget from construction to architect and engineering for \$335,178 was not obtained prior to the revision in FY 2014. Fiscal year 2014 expenditures related to the reprogrammed funds are \$56,562.

However, no questioned cost is presented as grantor approval was subsequently obtained on 04/14/15.

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 has obtained written approval from the grantor.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-036, 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-2013-2 and CNMI-CIP-2008-2
Area: Special Tests and Provisions
Questioned Costs: \$0

Recommendation: Monitoring controls over compliance with applicable special tests and provisions requirements contained in grant terms and conditions should be strengthened. Responsible personnel should not approve program charges for new construction unless required certifications are obtained and presented to OIA. The responsible personnel should not implement budget revisions unless written approval from the OIA Grant Manager is documented.

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 has obtained 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 Person: Virginia C. Villagomez, CIP Administrator

Corrective Action:

Condition a: The Office of Capital Improvement Program made efforts to obtain land certification for the specified project to ensure compliance to the audit findings. The Tinian Health Center Improvements is a renovation project of an existing government facility. The Capital Improvement Office proceeded with the renovations and improvements under the assumption that the Confirmation Deed granted by the Trust Territory of the Pacific Islands, Office of the High Commissioner, dated November 08, 1980, and later provided by the Tinian Health Center through the Department of Public Lands (DPL), was sufficient as evidence of land title. To further justify the land ownership by the C.N.M.I government, the Capital Improvement Office obtained a Land Certification, dated June 03, 2015, from the Commonwealth Healthcare Corp., Tinian Health Center and Tinian Municipality.

To ensure future compliance the Capital Improvement Office has developed a comprehensive check list for all projects that includes the submission of land title certification requirement.

Condition b: The Office of Capital Improvement Program made efforts to obtain grantor approval for the reprogramming of \$335,178 under BU 5629 for the Tinian International Airport improvements project.

Proposed Completion Date: Immediate

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-036, 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-2013-2 and CNMI-CIP-2008-2
Area: Special Tests and Provisions
Questioned Costs: \$0

Auditor Response:

43 CFR 12.70 (c) (1) (ii) is not cited in the criteria. As the efforts made to obtain grantor approval for reprogramming, as well as for the land certification, occurred only after we identified the deficiencies, the finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-037
Federal Agency: U.S. Department of Transportation
CFDA Program: 20.205 Highway Planning and Construction
Grant Numbers: CM-NH-0021(003), CM-NH-0030(010), CM-NH-0031(015), CM-NH-0033(021), CM-NH-0202(001), CM-NH-0302(002) and CM-NH-3000(018)
Area: Procurement and Suspension and Debarment
Questioned Costs: \$-0-

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

Condition: Of twelve contracts tested aggregating \$3,952,091 of a total population of \$5,090,564, One (contract no. 503660 OC, approximating \$1.4M) (or 8%) did not contain provisions allowing federal access to contractor records. No questioned cost results as the vendor selection complied with procurement regulations.

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

Effect: The effect of the above condition is noncompliance with required contract provisions.

Recommendation: We recommend that the CNMI comply with applicable 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 and improve its filing system.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: James A. Ada, Secretary of Public Works, Anthony Camacho, Acting Director of Technical Services Division and Geralyn C. Dela Cruz, Highway Administrator

Corrective Action: The project contract executed was in the old format which did not include this provision. DPW is currently routing a contract change order to include this provision in the said contract.

Proposed Completion Dates:

Condition a: Effective immediately.
Condition b: July 31, 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-038
Federal Agency: U.S. Environmental Protection Agency
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
Grant Number: M-00915614
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 capital assets tested, four (or 9%) could not be located:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Cost</u>
02/27/07	ITEM-38533	Undetermined
04/28/08	ITEM-41817	Undetermined
04/28/08	MP-18547CM	Undetermined
05/07/08	MP-18060CM	\$ 124

We are unable to assess the overall cumulative monetary value of the deficiencies above; however, total capital outlays for fiscal years 2014, 2013 and 2012 were \$802,902, \$145,748 and \$174,140, 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.

Prior Year Status: The lack of adherence to established policies and procedures regarding applicable equipment and real property management requirements was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

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

Corrective Action: Of the four items that could not be located by the auditor, BECQ found item MP-18547CM (a PH meter) in the chemistry lab. ITEM-38533 (a battery backup) was surveyed and received by P&S on 05/12/14. ITEM-41817 (a labeling machine and MP18060CM (a Printer/Deskjet 5750) were surveyed and received by P&S on 11/14/13.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-038, 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-00915614
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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.

BECQ has completed a preliminary in-house physical inventory report and has provided the report to P&S.

Proposed Completion Date: Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-039
 Federal Agency: U.S. Environmental Protection Agency
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
 Grant Number: M-00915614
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$12,912

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 sample 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 terms 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 twenty-seven nonpayroll expenditures tested aggregating \$752,878, five (or 19%) did not meet federal procurement requirements or grantor procurement guidelines for full and open competition.

<u>Document Type</u>	<u>Document No.</u>	<u>Contract No.</u>	<u>Date</u>	<u>Questioned Costs</u>
PV	1169003	307266 OT	05/02/14	\$ 1,950
PV	1192021	308990 OT	07/25/14	3,816
PV	1154604	304945 OT	11/01/13	2,550
PV	1167934	574081 OP	04/22/14	2,496
PV	1197724	575880 OP	09/12/14	<u>2,100</u>
				\$ <u>12,912</u>

2. Tests of four contracts (or 100%) (contract nos. 556615 OC, 567038 OC, 538598 OC and 577142 OC) noted none contained provisions per 40 CFR Appendix A to Part 33.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-039, 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-00915614
Area: Procurement and Suspension and Debarment
Questioned Costs: \$12,912

Effect: The effect of the above condition is noncompliance with procurement requirements and contract provisions and questioned costs of \$12,912.

Recommendation: We recommend that the CNMI comply with the above criteria. Specifically, we recommend that the CNMI establish procedures that determine whether required federal contract provisions are included.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: BECQ ordinarily tries to get multiple quotations for purchases of goods and services. 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.

Moreover, BECQ has complied with the grantor's requirements for off-island travel for all three expenditures listed with respect to document nos. 1169003, 1192021 and 1154604. In accordance with EPA's April 15, 2015 letter regarding BECQ's approved procurement practices and in accordance with programmatic condition P1 of the cooperative agreement, BECQ has satisfied this finding where EPA's PIO Program Manager has approved the travel expenses.

Condition 2: All four BECQ contracts (contract nos. 556615 OC, 567038 OC, 538598 OC and 577142 OC) 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)."

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-039, 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-00915614
Area: Procurement and Suspension and Debarment
Questioned Costs: \$12,912

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Condition 2, Continued:

BECQ has made the changes to all new contracts to include the language required by the 40 CFR Part 33 after the 2013 audit to ensure compliance of non-discrimination. However, the four contracts reviewed this year by the auditor pre-date the 2013 audit and unfortunately, they did not include the language of the 40 CFR Part 33.

The subsequent contract (contract no. 578958-0C) completed by BECQ was provided that is in compliance with the above terms and conditions.

Proposed Completion Date: Ongoing

Auditor Response:

Condition 1: We were not provided with an adequate number of quotations to support compliance with procurement requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-040
 Federal Agency: U.S. Environmental Protection Agency
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
 Grant Number: M-00915614
 Area: Reporting
 Questioned Costs: \$-0-

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

Condition: Program income earned and unexpended was incorrectly reported:

	<u>Program Income Earned</u>	<u>Unexpended Program Income</u>
Amount per General Ledger	\$ 196,384	\$ 104,201
Amount reported	<u>78,084</u>	<u>(14,099)</u>
	<u>\$ 118,300</u>	<u>\$ 118,300</u>

The variance relates to program income earned in prior years:

<u>Year</u>	<u>Amount</u>
2013	\$ 54,760
2012	19,925
2011 and prior	<u>43,615</u>
	<u>\$ 118,300</u>

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

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

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

Prior Year Status: The lack of controls over compliance with reporting requirements was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

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

Corrective Action: In accordance with programmatic condition P5 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-040, 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-00915614
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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.

The Office of Finance & Accounting is the agency responsible for all SF-425 reporting requirements. The Office of Finance & Accounting has provided BECQ a copy ensuring that the program income reporting requirement is in compliance to date.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-041
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.575 Child Care and Development Block Grant
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF
Area: Allowable Costs/Cost Principles
Questioned Costs: \$36,634

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 a variance between amounts recorded against our expectation:

Total expenditures	\$ 2,277,288
Less program income expenditures:	
H8575P	(3,995)
H9575P	(25,280)
Less indirect cost	<u>(98,123)</u>
Total indirect cost base	2,149,890
Indirect cost rate	<u>2.86%</u>
Expected indirect cost	61,489
Actual indirect cost	<u>98,123</u>
Excess indirect cost charged over expectation	\$ <u>(36,634)</u>

Cause: The cause of the above condition is the lack of monitoring of indirect costs.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$36,634.

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Maribel Loste, Child Care and Development Fund (CCDF) Administrator and Roselle Teregeyo, CCDF Accountant

Corrective Action: The CCDF Program relies solely on DOF for guidance for the most appropriate and latest negotiated indirect cost rates. Upon discussion with DOF on the finding, DOF has the following as an explanation:

Indirect cost rate	2.86%
Expected indirect cost	\$ 61,765
Indirect cost per the general ledger	<u>98,123</u>
Excess of indirect cost charged over expected IC	\$ <u>36,358</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-041, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.575 Child Care and Development Block Grant
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF
Area: Allowable Costs/Cost Principles
Questioned Costs: \$36,634

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

There is a difference of \$276. The approved indirect cost rate for FY2014 was received on 12/12/14. The general ledger was adjusted in December 2014 only for accounts under business unit H3575A-F and not H2575A-F as reports were finalized in September 2014.

Proposed Completion Date: Ongoing.

Auditor Response: Computation of indirect cost excludes expenditures paid through program income and actual indirect cost. In addition, indirect cost includes the expenditures of business unit H2575A-F.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-042
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.575 Child Care and Development Block Grant
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF
Area: Eligibility
Questioned Costs: \$10,242

Criteria: In accordance with the applicable CNMI Administrative Code (the Code), applicants must be eligible according to the requirements of the Code and the Child Care and Development Fund State Plan (the State Plan) prior to receiving child care and development fund assistance. The State Plan provides that eligibility of recipients are monitored on a semi-annual basis.

In addition, per Section 55-60-101, *Application Process of the CNMI Administrative Code*, the date of the eligibility shall be determined by the Child Care Program once all required documentation is received and verified and the Child Care Program determines that the family is eligible for subsidized care.

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

1. The application form prescribed by the Child Care Program;
2. A copy of a passport, a CNMI's driver's license, a Mayor's identification card or a notarized affidavit of being a single parent;
3. A most recent 1040 tax return;
4. A copy of children's' birth certificate;
5. A copy of school or training documents;
6. Three latest check stubs with the applicant's name and number of hours worked;
7. A completed CNMI Child Care program prescribed form for employment verification; and
8. A map of applicant's place of residence.

Condition: Tests of forty-three eligibility files noted the following:

1. For thirteen (or 30%), assistance was provided before approval of the certificate of confirmation of the child care subsidy.

<u>Application Number</u>	<u>Certification Approval</u>	<u>Month Paid</u>	<u>Questioned Costs</u>
DCCA 2554A	12/02/13	October to November 2013	\$ 470
DCCA 2763A	12/04/13	October to November 2013	300
DCCA 2510A	12/02/13	November 2013	196
DCCA 2792AB	12/03/13	November 2013	700
DCCA 2883AB	02/25/14	January - February 2014	1,200
DCCA 2346ABCDEF	06/17/14	April - May 2014	3,838
DCCA 2694AB	06/09/14	May 2014	550
DCCA 2692AB	06/07/14	May 2014	700
DCCA 2930AB	06/11/14	June 2014	128
DCCA 2827B	06/11/14	June 2014	110
DCCA 2014D	06/11/14	June 2014	128
DCCA 2986A	08/16/14	August 2014	187
DCCA 3002AB	08/12/14	August 2014	160
			<u>\$ 8,667</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-042, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.575 Child Care and Development Block Grant
 Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF
 Area: Eligibility
 Questioned Costs: \$10,242

Condition, Continued:

- For three (or 7%), documentation to process and support the applicant's application was not in file including the application form, the eligibility disposition form, three check stubs, the completed employment verification form, the children's birth certificates and the certificate of confirmation:

<u>Application Number</u>	<u>Month Paid</u>	<u>Questioned Costs</u>
DCCA 2919AB	August 2013	\$ 300
DCCA 2882A	March 2014	350
DCCA 2794AB	April 2014	<u>575</u>
		\$ <u>1,225</u>

- For one (application number DCCA 2859A) (or 2%), \$350 of assistance was provided for the month of October 2013 after eligibility expired on September 30, 2013. The applicant was subsequently determined to be ineligible.
- For one (application number DCCA 2181BC) (or 2%), the approved certificate of confirmation was not provided. No questioned costs result as the recipient was determined to be eligible.
- For two (application numbers DCCA 2582 AB and DCCA 2572 ABCD) (or 5%), eligibility disposition forms were not provided. No questioned costs result as the recipients were determined to be eligible.

Cause: The cause of the above conditions is delays in the timing of application and renewal for child care assistance and the lack of systematic filing of relevant eligibility documents.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$10,242.

Recommendation: We recommend that the CNMI Child Care and Development Fund Office establish appropriate timing of applications and renewals and file all relevant eligibility documents.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Maribel Loste, CCDF Administrator and Vince Rabauliman, CCDF Administrative Manager

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-042, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.575 Child Care and Development Block Grant
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF
Area: Eligibility
Questioned Costs: \$10,242

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree with the finding. Current policies and procedures on timing of application and renewal will be reviewed and changed to ensure that applications and renewals are timely received. In addition to Eligibility Specialists (ESs) routinely conducting review of files, ESs will conduct peer reviews of files bi-annually to ensure that all necessary documents related to eligibility are available and updated.

Proposed Completion Date: FY 2016 and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-043
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.575 Child Care and Development Block Grant
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF
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 three capital assets tested, one (or 33%) could not be located:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Cost</u>
10/07/09	ITEM-45818	Undetermined

We are unable to assess the overall cumulative monetary value of the deficiency above; however, total capital outlays for fiscal years 2014, 2013 and 2012 were \$5,089, \$16,852 and \$4,064, 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. No questioned costs result since the overall monetary value could not 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 Persons: Maribel Lose, CCDF Administrator and Vince Rabauliman, CCDF Administrative Manager

Corrective Action: The CCDF Office will review its current policies and procedures on property management and will amend them to include random visual "spot checks" throughout the year for all properties and equipment purchased under the Program. It will conduct a review annually of the complete listing of all properties to ensure that the listing is updated.

Proposed Completion Date: FY 2016 and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-044
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.575 Child Care and Development Block Grant
 Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: The program is required to submit an SF-425, Federal Financial Report for cash status.

Condition: Program income earned and unexpended was not reported in the SF-425 as follows:

<u>Business Unit</u>	<u>Program Income Earned</u>	<u>Amount Expended</u>	<u>Unexpended Program Income</u>
H8575P	\$ 2,489	\$ 3,995	\$ 1,567
H9575P	<u>149,169</u>	<u>25,280</u>	<u>528,727</u>
	\$ <u>151,658</u>	\$ <u>29,275</u>	\$ <u>530,294</u>

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

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

Recommendation: We recommend that the Program take reasonable steps to ensure controls work effectively to comply with the criteria.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Maribel Loste, CCDF Administrator and Roselle Teregeyo, CCDF Accountant

Corrective Action: There is no requirement by the Administration for Children and Families (ACF) to report program income on the ACF 696 for the CCDF Program. There is no category on this report to indicate the amount of program income earned. The 696 report is the only report required by ACF to report CCDF expenditures.

The SF-425 report is primarily handled by DOF. The CCDF Office will work with DOF to ensure that this report is timely submitted.

Proposed Completion Date: Immediately and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-045
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.575 Child Care and Development Block Grant
Grant Numbers: 1202MPCCDF, 1302MPCCDF and 1402MPCCDF
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: In accordance with applicable program special terms and condition, the program is required to adhere to the Subaward and Executive Compensation Reporting Requirements of the Transparency Act of 2006 ("FFATA") for all subawards over \$25,000 unless exempted.

Further, prime awardees of grants subject to the Transparency Act should use the FFATA Subaward Reporting System, to report subaward information as follows:

- a. The name of entity receiving award
- b. The amount of award
- c. The funding agency
- d. The CFDA program number for grants
- e. The program source
- f. The award title descriptive of the purpose of the funding action
- g. The location of the entity (including congressional district)
- h. The place of performance (including congressional district)
- i. A unique identifier of the entity and its parent; and
- j. Total compensation and names of the top five executives if more than 80% of annual gross revenues are from the Federal government and those revenues are greater than \$25M annually and compensation information is not already available through reporting to the Securities and Exchange Commission.

Condition: Tests of special tests and provisions requirements noted subawards (document no. 11904040) of \$150,000 that were not reported in the FFATA Subaward Reporting System.

Cause: The cause of the above condition is the lack of awareness and monitoring of compliance with special terms and conditions.

Effect: The effect of the above condition is noncompliance with special tests and provisions requirements. No questioned costs are presented as the amounts are allowable.

Recommendation: We recommend that the Program take reasonable steps to implement controls to comply with the special tests and provisions requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Maribel Lose, CCDF Administrator and Roselle Teregeyo, CCDF Accountant

Corrective Action: The CCDF Program will establish policies and procedures to ensure that requirements of the Transparency Act of 2006 are addresses.

Proposed Completion Date: FY 2016 and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-046
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL
 Area: Activities Allowed or Unallowed
 Questioned Costs: \$327,131

Criteria: In accordance with applicable activities allowed or unallowed requirements, the following apply:

1. Service provider agreements are required and should be supported by a current CNMI business license and a CNMI or U.S. license to practice medicine.
2. Off-island care should be authorized by the Medical Referral Committee prior to services being performed.

Condition: Of eighty-two expenditures tested, the following were noted:

1. For two (or 2%) service providers, the provider agreement or a current CNMI or U.S. license to practice medicine that covered the period services were performed was not available:

<u>General Ledger Date</u>	<u>Document Number</u>	<u>Service Date</u>	<u>Document Not Provided</u>	<u>Amount</u>
06/13/14	1184079	April to May 2014	Agreement, CNMI business license and license to practice medicine	\$ 12,785
09/15/14	1197888	08/14/14 - 08/19/14	Agreement, CNMI business license and license to practice medicine	<u>2,910</u>
				\$ <u>15,695</u>

2. For eight (or 10%) expenditures, documentation that the following off-island care was approved by the Medical Referral Committee prior to services being performed was not available.

<u>General Ledger Date</u>	<u>Document Number</u>	<u>Service Date</u>	<u>Amount</u>
01/15/14	1159655	07/05/13 - 08/02/13	\$ 7,209
06/06/14	1171980	02/20/14 - 04/11/14	4,598
06/06/14	1171981	12/08/12 - 12/03/13	322
06/13/14	1184087	10/24/13 - 12/10/13	38,844
06/13/14	1184089	01/17/14 - 02/27/14	58,181
06/24/14	1186440	10/01/13 - 12/30/13	28,413
07/21/14	1191092	06/04/10 - 12/03/11	5,064
07/21/14	1191093	02/07/14 - 05/28/14	<u>168,805</u>
			\$ <u>311,436</u>

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting service providers and off-island care.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-046, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL
Area: Activities Allowed or Unallowed
Questioned Costs: \$327,131

Effect: The effect of the above condition is noncompliance with activities allowed or unallowed requirements and questioned costs of \$327,131.

Recommendation: We recommend that relevant documentation be filed supporting service providers and off-island care.

Prior Year Status: The lack of systematic filing of relevant documentation supporting service providers was reported as a finding in the CNMI Single Audit for fiscal year 2013.

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: We agree with the audit finding. We will inform the provider and will collect the payment from the provider.

Condition 2: We disagree with the audit finding. The patient's referral requests/referral committee approval form and the patient's treatment authorizations were provided.

Proposed Completion Date: 09/30/15

Auditor Response: Documentation that off-island care was approved by the Medical Referral Committee prior to services being performed was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-047
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$15,757

Criteria: In accordance with applicable allowable costs/cost principles requirements, the following apply:

1. Rates billed by service providers must be within the allowable rates of the Medicare Part B, Dental Bureau and/or Pharmacy cost fee schedules.
2. Personnel costs should be allocated to the program at a rate of 50%.

Condition:

1. Of eighty-two expenditures tested, rates for services provided and/or medication prescribed for forty-two (or 51%) were either not listed or 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
05/21/14	1170410	1	\$ 140.00	\$ 18.3000	\$ 77	\$ 10	\$ 67	\$ 37
05/23/14	1170610	1	\$ 339.96	\$ 0.0000	\$ 194	\$ -	\$ 194	111
05/23/14	1170726	1	\$ 100.00	\$ 21.3100	\$ 55	\$ 12	\$ 43	24
06/13/14	1184079	1	\$ 95.00	\$ 37.3900	\$ 83	\$ 21	\$ 62	35
11/01/13	1154591	8	\$ 2.72	not listed	\$ 12	\$ -	\$ 12	7
11/01/13	1154591	30	\$ 0.23	not listed	\$ 4	\$ -	\$ 4	2
11/01/13	1154591	30	\$ 5.08	not listed	\$ 84	\$ -	\$ 84	46
11/01/13	1154591	30	\$ 7.08	not listed	\$ 117	\$ -	\$ 117	64
11/01/13	1154591	30	\$ 7.79	not listed	\$ 128	\$ -	\$ 128	70
11/01/13	1154591	90	\$ 3.71	not listed	\$ 184	\$ -	\$ 184	101
11/01/13	1154591	30	\$ 2.76	not listed	\$ 45	\$ -	\$ 45	25
11/01/13	1154591	60	\$ 0.06	not listed	\$ 2	\$ -	\$ 2	1
11/01/13	1154591	60	\$ 5.58	not listed	\$ 184	\$ -	\$ 184	101
11/01/13	1154591	30	\$ 12.22	\$ 0.0000	\$ 202	\$ -	\$ 202	111
11/01/13	1154591	30	\$ 30.03	not listed	\$ 496	\$ -	\$ 496	273
11/01/13	1154591	30	\$ 12.22	\$ 0.0000	\$ 202	\$ -	\$ 202	111
11/01/13	1154591	300	\$ 0.63	not listed	\$ 104	\$ -	\$ 104	57
11/01/13	1154591	60	\$ 6.24	not listed	\$ 206	\$ -	\$ 206	113
11/01/13	1154591	30	\$ 11.73	not listed	\$ 194	\$ -	\$ 194	106
11/01/13	1154591	40	\$ 7.12	not listed	\$ 157	\$ -	\$ 157	86
11/01/13	1154591	180	\$ 1.73	not listed	\$ 172	\$ -	\$ 172	94
11/01/13	1154591	120	\$ 0.60	not listed	\$ 39	\$ -	\$ 39	21
11/01/13	1154591	60	\$ 0.40	not listed	\$ 13	\$ -	\$ 13	7
12/06/13	1156810	1	\$ 170.00	\$ 79.8400	\$ 94	\$ 44	\$ 50	27
01/15/14	1159617	1	\$ 176.98	\$ 74.8600	\$ 177	\$ 41	\$ 136	136
01/29/14	1160722	180	\$ 0.82	not listed	\$ 81	\$ -	\$ 81	44
02/19/14	1162681	18	\$ 2.81	not listed	\$ 28	\$ -	\$ 28	15
03/25/14	1165425	1	\$ 300.00	\$204.7400	\$ 165	\$ 117	\$ 48	26
04/04/14	1166535	1	\$ 339.96	not listed	\$ 187	\$ -	\$ 187	103
04/24/14	1168186	1	\$ 229.00	\$ 7.3600	\$ 126	\$ 4	\$ 122	67
05/08/14	1169277	1	\$ 326.00	\$ 115.4400	\$ 179	\$ 66	\$ 113	62
05/08/14	1169336	1	\$ 293.91	\$ 261.8400	\$ 162	\$ 144	\$ 18	10
08/21/14	1195257	1	\$ 339.96	\$ 0.0000	\$ 194	\$ -	\$ 194	111
09/12/14	1197742	1	\$ 100.00	\$ 21.3100	\$ 57	\$ 12	\$ 45	26
09/15/14	1197888	1	\$ 146.00	\$ 0.0000	\$ 84	\$ -	\$ 84	48
09/15/14	1198137	1	\$ 395.00	\$ 0.0000	\$ 226	\$ -	\$ 226	129
09/17/14	1198480	1	\$ 84.00	\$ 13.8700	\$ 46	\$ 8	\$ 38	22

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-047, Continued
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.778 Medical Assistance Program
 Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL
 Area: Allowable Costs/Cost Principles
 Questioned Costs: \$15,757

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
09/17/14	1198520	2	\$ 4.78	not listed	\$ 5	\$ -	\$ 5	3
09/19/14	1198856	1	\$ 47.29	not listed	\$ 27	\$ -	\$ 27	15
09/24/14	1199248	1	\$ 158.73	\$ 39.3300	\$ 90	\$ 22	\$ 68	39
09/24/14	1199257	1	\$ 152.53	\$ 136.3000	\$ 84	\$ 78	\$ 6	3
08/07/14	1193701	1	\$ 93.00	\$ 0.0000	\$ 53	\$ -	\$ 53	<u>30</u>
								\$ <u>2,519</u>

2. Total salaries and wages per audit expectation and per the general ledger differ by \$13,238, as follows:

<u>Employee No.</u>	<u>Position</u>	<u>Annual Salary</u>
103081	Administrator	\$ 46,920
640411	Accounting Technician I	13,053
713815	Eligibility Worker I	15,860
210074	Eligibility Worker II	23,706
598384	Accounting Technician I	7,500
101407	HIT Technician III	<u>25,000</u>
Total expected annual salaries and wages		132,139
X Federal rate		<u>50%</u>
Total expected federal program salaries and wages		66,020
Total recorded federal program salaries and wages		<u>79,258</u>
Excess recorded salaries and wages		\$ <u>13,238</u>

Cause: The cause of the above condition is the lack of monitoring to determine accuracy of rates billed by service providers and of personnel costs allocated to the program.

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles requirements and questioned costs of \$15,757.

Recommendation: We recommend that the CNMI establish policies and procedures to determine the accuracy of rates billed by service providers and of personnel costs allocated to the program.

Prior Year Status: The lack of review to determine accuracy of rates billed by service providers was reported as a finding in the CNMI Single Audit for fiscal year 2013.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-047, Continued
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL
Area: Allowable Costs/Cost Principles
Questioned Costs: \$15,757

Auditee Response and Corrective Action Plan:

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

Corrective Action:

Condition 1: We disagree with the audit finding. Copies of the CNMI Medicaid Provider Agreement for the provider that shows the reimbursement rate for each of the providers were provided.

Condition 2: We agree with the audit finding.

Proposed Completion Date:

Auditor Response: The rates were not listed or differ from the Medicare Part B, ASC, Medicaid and CPT codes fee schedules effective in fiscal year 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-048
 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: \$105,299

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 applicant applications:

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 statements)
5. Two current check stubs for all working applicants
6. Social security check stubs

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

1. For thirty-one (or 48%), documentation supporting applications was not on file.

Case Number	Certification Effective	Household Member Ref. No.	Documents Not Found in Tenant File and/or Discrepancies Noted	Questioned Costs
14-001267-14 13-19708	04/16/14	1	Affidavit of banking activities (savings or checking account statement)	\$ 77
	11/08/13	2	Social security card	23
14-024167-00 14-010353-00	03/05/14	1	Last name on social security card and passport not consistent with application form; affidavit of banking activities (savings or checking account statement)	84
	11/17/13	1	Affidavit of banking activities (savings or checking account statement) Court order approving legal guardianship for member #3, only a general power of attorney on file from biological parent. No third party documentation on SSI income report.	117
14-021991-00	05/16/14	1 and 3	Affidavit of banking activities (savings or checking account statement)	128
14-011249-01	01/17/14	1	Affidavit of banking activities (savings or checking account statement)	184
14-025684-00	05/16/13	1	Affidavit of banking activities (savings or checking account statement) Court order approving legal guardianship for member #2, only a general power of attorney on file from biological parent.	202
11-020373-00	08/08/13	2	Court order approving legal guardianship for member #3, only a general power of attorney on file from biological parent. No questioned costs result as expenditure tested is for the recipient who is an SSI recipient	202
12-001087-00	03/15/14	3	Affidavit of banking activities (savings or checking account statement)	-
11-009524-00	01/24/14	1	Affidavit of banking activities (savings or checking account statement)	206
14-010369-12	03/07/14	1	Affidavit of banking activities (savings or checking account statement)	194
14-010577-00	03/11/14	1	Affidavit of banking activities (savings or checking account statement); Last name on social security card is not consistent with application form	157
14-024649-00	12/04/12	1	Check stub for social security income	172
17-001597-00	12/05/13	1	Affidavit of banking activities (savings or checking account statement)	94
30-015386-00	03/12/13	2	Court order approving legal guardianship for member #3, only a general power of attorney on file from biological parent	151
14-6262530	02/27/14	3 and 4	Social security card not on file for member #3; first name on SS card for member #4 not consistent with birth certificate	1,667
24-49667-00	02/27/14	3 and 4	Social security card not on file for member #3; first name on SS card for member #4 not consistent with birth certificate	38,469

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-048, 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: \$105,299

Condition, Continued:

Case Number	Certification Effective	Household Member Ref. No.	Documents Not Found in Tenant File and/or Discrepancies Noted	Questioned Costs
24-73505-01	03/06/14	1	Social security card; Affidavit of banking activities (savings or checking account statement)	19,080
25-55019-00	06/08/13	1	Birth Certificate	407
12-014685-00	09/22/13	2	Check stub for social security income	28
13-002622-00	11/19/13	2	Court order approving legal guardianship for member #2, only a general power of attorney on file from biological parent	71
15-032276-00	02/05/14	1	Affidavit of banking activities (savings or checking account statement)	1,048
16-023178-00	04/14/13	1	Affidavit of banking activities (savings or checking account statement)	65
11-01811-00	02/13/14	2	Social security card and birth certificate	162
15-023110-00	06/11/14	3	Social security card and birth certificate	12,395
16-013257-00	01/16/14	1	Affidavit of banking activities (savings or checking account statement)	10,123
14-024375-00	07/17/13	1	Affidavit of banking activities (savings or checking account statement)	12
26-7287508	09/13/13	2	Social security card	19,414
14-014702-01	05/14/14	1	Affidavit of banking activities (savings or checking account statement)	57
11-015656-00	10/28/13	1	Affidavit of banking activities (savings or checking account statement)	84
15-031457-00	03/18/14	1	Affidavit of banking activities (savings or checking account statement)	226
				<u>\$ 105,299</u>

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

Case Number	Certification Effective	Resources Per Third Party Verification/ As Declared	Resources Per Program	Variance
14-030423-00	11/12/13	\$ 2,248	\$ 2,184	\$ 64
14-025684-00	05/06/13	\$ -	\$ (1)	\$ 1
14-011711-00	10/04/11	\$ 197	\$ 198	\$ (1)
15-013566-00	11/18/13	\$ 53	\$ 229	\$ (176)
30-015386-00	03/12/13	\$ 129	\$ 73	\$ 56

3. For six (or 9%), income was incorrectly calculated. No questioned costs result as recipients were determined to be eligible based on correct calculations.

Case Number	Certification Effective	Income Per Third Party Verification/ As Declared	Income Per Program	Variance
11-002216-00	08/24/13	\$ 815	\$ 811	\$ 4
13-19708	11/08/13	\$ 1,206	\$ 1,384	\$ (179)
14-030423-00	11/12/13	\$ 1,525	\$ 1,485	\$ 40
14-011711-00	10/04/11	\$ 1,178	\$ 1,152	\$ 27
13-002622-00	11/19/13	\$ 449	\$ 493	\$ (44)
12-015610-00	11/06/13	\$ 460	\$ 455	\$ 5

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-048, 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: \$105,299

Condition, Continued:

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

<u>Case Number</u>	<u>Certification Effective</u>
12-012528-00	01/18/13
15-03078300	03/16/14

Cause: The cause of the above condition is the lack of adequate control procedures to adhere to eligibility applications, determination and approval processes and obtaining and updating 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 \$105,299.

Recommendation: We recommend that the CNMI Medicaid Office establish procedures to adhere to eligibility applications, determination and approval processes and obtaining and updating 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 Audits for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

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

Corrective Action: 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 guardianship. 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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-048, 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: \$105,299

Auditor Response:

- Condition 1: Affidavit of banking activities is not the same document as an affidavit of support and living arrangement. Verbal communication of social security is not acceptable third party documentation. In addition, the dependent receiving Medicaid benefits is not the biological child of the primary participant. We were not provided support that a power of attorney or notarized legal guardianship signed by the biological parents is an acceptable document for inclusion of non-biological dependents into the program. Further, Medicaid numbers stating that no such number exists cannot be true since eligibility testing was indeed performed.
- Condition 2: We were not provided 3rd party documentation.
- Condition 3: Income was calculated based on documentation included in the file. Such documentation should clearly indicate how income was derived.
- Condition 4: The application was a re-determination which was not signed by the recipient. Eligibility was effective 03/16/14.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-049
 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, 2014, we noted the following variances:

<u>Business Unit</u>	<u>Per Certification</u>	<u>Per General Ledger</u>	<u>Variance</u>
CMS 64	\$ 19,650,160 Less FY13 expenditures included in CMS 64 report	\$ 18,627,853	\$ 1,022,307 <u>(1,173,736)</u>
			(151,429)
SF-425:			
H4778F	\$ -	\$ 157,250	(157,250)
H1778E	\$ -	\$ 3,415	(3,415)
H27784	\$ -	\$ 639,264	(639,264)
H3778C	\$ -	\$ 15,598	(15,598)
H37782	\$ -	\$ 996	(996)
H37783	\$ -	\$ 252	<u>(252)</u>
			\$ <u>(968,204)</u>

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

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

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

Prior Year Status: Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the CNMI Single Audits for fiscal years 2002 through 2013.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding. A fund balance report from DOF, Finance & Accounting Section was provided.

Proposed Completion Date: N/A

Auditor Response: The general ledger was obtained from DOF which differs from amounts reported on the CMS 64 and SF-425 reports.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-050
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Grant Numbers: 05-1405CQ5MAP, 05-1405CQ5ADM, 05-1405CQACAI, 05-1405CQ1935, 05-1405CQIMPL, 05-1405CQINCT, 15-1205CQ5MAP, 15-1205CQ5ADM, 05-1205CQHITA, 05-1305CQ5MAP, 05-1305CQ5ADM, 05-1305CQ1935 and 05-1305CQIMPL
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: In accordance with OMB Circular A-133 Compliance Supplement, State agencies must establish and maintain a program for conducting periodic risk analyses to ensure appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. On a biennial basis state agencies shall review the ADP system security of installations involved in the administration of HHS programs. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

Condition: The biennial review of the Program's ADP system security was not provided.

Cause: The cause of the above condition is the lack of established policies and procedures for the biennial review of the Program's ADP system security.

Effect: The effect of the above condition is noncompliance with special tests and provisions requirements. No questioned costs result as we are unable to quantify the extent of the noncompliance.

Recommendation: We recommend that policies and procedures be established to perform reviews of the Program's ADP system security on a biennial basis.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The CNMI Medicaid Office will establish policies and procedures for the review of the Program's ADP system security and also conduct a biennial review.

Proposed Completion Date: FY 2015/Ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-051
 CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards
 USDOC 11.482 Coral Reef Conservation Program
 USDOT 20.205 Highway Planning and Construction
 USEPA 66.600 Environmental Protection Consolidated Grants for the Insular Areas - Program Support
 USHHS 93.778 Medical Assistance Program
 Questioned Costs: \$-0-
 CFDA Program: USDO I 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects
 Questioned Costs: \$1,923
 Area: Allowable Costs/Cost Principles

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required from employees working for one federal program. Further, in accordance with OMB Circular A-87, costs, to be allowable under federal awards, should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit. Furthermore, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation.

Condition:

1. Tests of employee activities noted that required certifications are not 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 #93.575.

<u>CFDA No.</u>	<u>Estimated No. of Employees</u>	<u>Total Program Payroll Costs</u>
11.419	22	\$ 591,106
11.482	10	\$ 251,790
15.875	7	\$ 230,195
20.205	9	\$ 555,312
66.600	44	\$ 1,517,886
93.778	6	\$ 79,258

2. For one payroll expenditure (or 33%) charged to CFDA 15.875 under grant number CNMI-CIP-2013-7, no activity reports, time cards, or equivalent documentation was provided to support a 50% cost allocation, as follows:

<u>Business Unit</u>	<u>Payroll Period Ended</u>	<u>Employee No.</u>	<u>Gross Pay</u>
5649B	02/22/14	403442	\$3,846

The 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). Questioned costs of \$1,923 are raised as the projected questioned costs exceed \$10,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-051, Continued
CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards
USDOC 11.482 Coral Reef Conservation Program
USDOT 20.205 Highway Planning and Construction
USEPA 66.600 Environmental Protection Consolidated Grants for
the Insular Areas - Program Support
USHHS 93.778 Medical Assistance Program
Questioned Costs: \$-0-
CFDA Program: USDOI 15.875 Economic, Social, and Political Development of the
Territories - Capital Improvement Projects
Questioned Costs: \$1,923
Area: Allowable Costs/Cost Principles

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. No questioned cost is presented related to employee certification 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 only for program related activities.

Prior Year Status: The lack of employee certifications was reported as a finding in the CNMI Single Audits for fiscal years 2009 through 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons:

USDOC 11.419: Frances Castro, Director, DCRM and Frank M. Rabauliman, Administrator, BECQ
USDOC 11.482: Frances Castro, Director, DCRM and Frank M. Rabauliman, Administrator, BECQ
USDOI 15.875: Virginia C. Villagomez, CIP Administrator
USDOT 20.205: James A. Ada, Secretary of Public Works, Anthony Camacho, Acting Director of Technical Services Division and Geralyn C. Dela Cruz, Highway Administrator
USEPA 66.600: Gloria S. Castro, Administrative Service Manager, BECQ
USHHS 93.778: Helen C. Sablan, Medicaid Director

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-051, Continued
CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards
USDOC 11.482 Coral Reef Conservation Program
USDOT 20.205 Highway Planning and Construction
USEPA 66.600 Environmental Protection Consolidated Grants for
the Insular Areas - Program Support
USHHS 93.778 Medical Assistance Program
Questioned Costs: \$-0-
CFDA Program: USDOI 15.875 Economic, Social, and Political Development of the
Territories - Capital Improvement Projects
Questioned Costs: \$1,923
Area: Allowable Costs/Cost Principles

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

USDOC 11.419: Now that the recipients of USDOC 11.419 are aware of this criteria, semi-annual certifications will be established starting June, 2015 and thereafter on a semi-annual basis to certify that time charged is for federal related activities only. Employees and supervisors will sign-off on the semi-annual certifications for work on a single Federal program. These signed documents will be kept in each employee's personnel file.

USDOC 11.482: Now that the recipients of USDOC 11.482 are aware of this criteria, semi-annual certifications will be established starting June, 2015 and thereafter on a semi-annual basis to certify that time charged is for federal related activities only. Employees and supervisors will sign-off on the semi-annual certifications for work on a single Federal program. These signed documents will be kept in each employee's personnel file.

USDOI 15.875:

Condition 1: We agree with this finding and the Office of Capital Improvement will comply with applicable federal requirements. A semi-annual time certification form (starting effective period 01/01/15 - 06/30/15) has been developed requiring certification from employees on a semi-annual basis evidencing that employees are certifying time charged for federal related activities only.

Condition 2: The Office of Capital Improvement will adhere to the auditor's recommendation and ensure compliance with federal time certification requirements. As mentioned in Condition 1 response, our office has implemented semi-annual time certification procedures for employees funded 100% under the grant program. Furthermore, all current CIP employees are funded 100% under the grant program and will be required to comply with the time certification policy and procedures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-051, Continued
CFDA Programs: USDOC 11.419 Coastal Zone Management Administration Awards
USDOC 11.482 Coral Reef Conservation Program
USDOT 20.205 Highway Planning and Construction
USEPA 66.600 Environmental Protection Consolidated Grants for
the Insular Areas - Program Support
USHHS 93.778 Medical Assistance Program
Questioned Costs: \$-0-
CFDA Program: USDOI 15.875 Economic, Social, and Political Development of the
Territories - Capital Improvement Projects
Questioned Costs: \$1,923
Area: Allowable Costs/Cost Principles

Auditee Response and Corrective Action Plan, Continued:

USDOT 20.205: The CNMI Department of Public Works (DPW) began implementing the requirement to submit activity timesheets per pay period effective September 2014. These timesheets reflect hours worked solely for the federal aid program administered by the Federal Highway Administration. DPW will continue to implement this system and ensure that all employees performing work under the said program submit and certify the hours associated this program.

USEPA 66.600: As of 2014, all BECQ employees began signing bi-weekly timesheets to evidence hours worked on federal grant activities.

This year, BECQ will comply with 2 CFR Part 225 and will certify employee time worked solely on federal programs on a semi-annual basis to satisfy the requirement of OMB A-87.

USHHS 93.778: We agree with the audit finding.

Proposed Completion Dates:

USDOI 11.419: Ongoing.
USDOI 11.482: Ongoing.
USDOI 15.875: Ongoing effort and has no completion date.
USDOT 20.205: Completed and will be continued.
USEPA 66.600: Ongoing.
USHHS 93.778: July 1, 2015.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-052
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
USDOC 11.419 Coastal Zone Management Administration Awards
USDOJ 15.875 Economic, Social, and Political Development of the
Territories - Capital Improvement Projects
USDOT 20.205 Highway Planning and Construction
USEPA 66.600 Environmental Protection Consolidated Grants for
the Insular Areas - Program Support
USHHS 93.575 Child Care and Development Block Grant
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 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 certain 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 applicable equipment management requirements. See below for cumulative dollar amount of property and equipment acquired with program grant funds.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-052, Continued
 CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
 USDOC 11.419 Coastal Zone Management Administration Awards
 USDOJ 15.875 Economic, Social, and Political Development of the
 Territories - Capital Improvement Projects
 USDOT 20.205 Highway Planning and Construction
 USEPA 66.600 Environmental Protection Consolidated Grants for
 the Insular Areas - Program Support
 USHHS 93.575 Child Care and Development Block Grant
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

Effect, Continued:

<u>CFDA No.</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Grand Total</u>
10.551	\$ 19,653	\$ 389	\$ 12,152	\$ 32,194
11.419	\$ 13,766	\$ 6,338	\$ 48,531	\$ 68,635
15.875	\$ 42,537	\$ 104,272	\$ 298,354	\$ 445,163
20.205	\$ 4,794	\$ 215,990	\$ 119,580	\$ 340,364
66.600	\$ 81,360	\$ 145,748	\$ 174,140	\$ 401,248
93.575	\$ 5,089	\$ 16,852	\$ 4,064	\$ 32,800

Recommendation: We recommend that complete records of property and equipment acquired with grant funds be maintained, physical inventories be performed, and compliance occur 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 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons:

USDOA 10.551: Walter Macaranas, NAP Administrator
USDOC 11.419: Frances Castro, Director, DCRM, Frank M. Rabauliman, Administrator, BECQ and Herman Sablan, Director, P&S
USDOJ 15.875: Virginia C. Villagomez, CIP Administrator
USDOT 20.205: James A. Ada, Secretary of Public Works, Anthony Camacho, Acting Director of Technical Services Division and Geralyn C. Dela Cruz, Highway Administrator
USEPA 66.600: Gloria S. Castro, Administrative Service Manager, BECQ
USHHS 93.575: Maribel Lose, CCDF Administrator and Vince Rabauliman, CCDF Administrative Manager

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-052, Continued
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
USDOC 11.419 Coastal Zone Management Administration Awards
USDOI 15.875 Economic, Social, and Political Development of the
Territories - Capital Improvement Projects
USDOT 20.205 Highway Planning and Construction
USEPA 66.600 Environmental Protection Consolidated Grants for
the Insular Areas - Program Support
USHHS 93.575 Child Care and Development Block Grant
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

USDOA 10.551: The physical inventory for FY 2013 was completed on March 19, 2014. The reconciliation performed by P&S for FY 2013 was completed on October 3, 2014. The physical inventory for FY 2014 was completed on September 26, 2014. The reconciliation performed by P&S for FY 2014 was completed on May 7, 2015. NAP will complete the FY 2015 physical inventory by September 30, 2015. At such time, we will request P&S to perform reconciliation of the FY 2015 physical inventory. For each succeeding fiscal year, NAP will perform physical inventories by the closing of each fiscal year period.

USDOC 11.419: In response to these findings, BECQ-DCRM is taking appropriate actions to implement procedures to comply with applicable CNMI equipment and real property management policies and procedures. To begin this process, BECQ-DCRM has submitted a letter to the Office of Procurement requesting a detailed listing of all property that is current listed and being controlled. Corrective policies will be included in updated standard operating procedures and provided to all employees by September 1, 2015.

USDOT 20.205: DPW keeps its internal inventory of equipment and property. DPW will send a formal request to P&S to perform a physical inventory of equipment and property. DPW will further ensure that its internal inventory contains the necessary required information (i.e. serial number, source of property, title, etc.)

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.

BECQ has completed the preliminary In-House Physical Inventory Report and it was submitted to P&S on 05/12/15.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-052, Continued
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program
USDOC 11.419 Coastal Zone Management Administration Awards
USDOI 15.875 Economic, Social, and Political Development of the
Territories - Capital Improvement Projects
USDOT 20.205 Highway Planning and Construction
USEPA 66.600 Environmental Protection Consolidated Grants for
the Insular Areas - Program Support
USHHS 93.575 Child Care and Development Block Grant
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

USHHS 93.575: The CCDF Office will review its current policies and procedures on property management and will amend them to include random visual "spot checks" throughout the year for all properties and equipment purchased under the Program. It will conduct a review annually of the complete listing of all properties to ensure that the listing is updated.

Proposed Completion Date:

USDOA 10.551: September 30, 2015
USDOC 11.419: Ongoing, by September 1, 2015.
USDOT 20.205: Letter will be sent by June 5, 2015.
USEPA 66.600: Ongoing.
USHHS 93.575: FY 2016 and ongoing.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-053
 Federal Agency: U.S. Department of Homeland Security
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
 Grant Numbers: 1541DRMPP00000001 and 1611DRMPP00000001
 Area: Reporting
 Questioned Costs: \$1,386,970

Criteria: Submission of a final Federal Financial Report SF-425 is required to close a grant. Reports submitted to a grantor agency should include all activities of the reporting period and be supported by underlying accounting records.

Condition: Cumulative expenditures reported in the SF-425 do not agree to cumulative expenditures recorded in the general ledger:

<u>Grant No.</u>	<u>Business Unit</u>	<u>Total Cumulative Expenditures Per SF-425</u>	<u>Total Cumulative Expenditures Per General Ledger</u>	<u>Difference</u>
1541DRMPP00000001	M4037L	\$ 6,334,210	\$ 4,987,574	\$ 1,346,636
1611DRMPP00000001	M6036W	\$ 1,046,674	\$ 1,006,953	\$ 39,721

The above grants were closed as of September 30, 2014. Final drawdowns of \$1,346,636 and \$39,721 occurred in January 2013. However, the CNMI did not obligate, incur or record related expenditures. In fiscal year 2014, the balance, inclusive of accrued interest, was transferred to the general fund.

Cause: The cause of the above condition is lack of established policies and procedures to close a grant.

Effect: The effect of the above condition is noncompliance with after-the-grant reporting requirements and questioned costs of \$1,386,970.

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Bernadita Palacios, Director, Division of Finance & Accounting, Virginia C. Villagomez, Special Assistant for Management & Budget and Agnes Cepeda, Federal Grants Accounting Supervisor

Corrective Action: Expenditures authorized by the grantor have not been recorded in the accounting records. We will follow up with the expenditure authority to record those expenditures.

Proposed Completion Date: 2015

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2014

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, 2014:

Questioned costs as previously reported:	
Fiscal year 2013	\$ 10,288,891
Fiscal year 2012	6,620,691
Fiscal year 2011	4,223,661
Fiscal years 2010 and prior	<u>24,714,864</u>
	45,848,107
Less questioned costs resolved in fiscal year 2014:	
Questioned costs of fiscal year 2002 Single Audit (a)	(146,207)
Questioned costs of fiscal year 2003 Single Audit (a)	(1,309)
Questioned costs of fiscal year 2004 Single Audit (a)	(2,700,930)
Questioned costs of fiscal year 2005 Single Audit (a)	(718,786)
Questioned costs of fiscal year 2006 Single Audit (a)	(1,468,273)
Questioned costs of fiscal year 2007 Single Audit (a)	(2,213,809)
Questioned costs resolved per USDOA letter dated August 7, 2012:	
Fiscal year 2009 Single Audit	(10,899)
Questioned costs resolved per USDOA letter dated June 1, 2012:	
Fiscal year 2009 Single Audit	(5,667)
Questioned costs resolved per USDOA letter dated May 21, 2010:	
Fiscal year 2008 Single Audit	(36,102)
Questioned costs resolved per USDOT letter dated September 9, 2013:	
Fiscal year 2011 Single Audit	(1,072,192)
Questioned costs resolved per USDOC letter dated September 4, 2014:	
Fiscal year 2012 Single Audit	(86,757)
Questioned costs resolved per USDOC letter dated September 8, 2014:	
Fiscal year 2011 Single Audit	(267,934)
Questioned costs resolved per USDOE letter dated May 29, 2014:	
Fiscal year 2012 Single Audit	(1,494,329)
Questioned costs resolved per USDOEd letter dated May 8, 2015:	
Fiscal year 2012 Single Audit	(10,043)
Questioned costs resolved per USDOL letter dated September 29, 2014:	
Fiscal year 2013 Single Audit	(1,125,195)
Fiscal year 2012 Single Audit	(965,845)
Fiscal year 2011 Single Audit	(520,324)
Fiscal year 2010 Single Audit	(1,172,693)
Fiscal year 2009 Single Audit	(2,810,617)
Fiscal year 2008 Single Audit	(6,584,292)
Questioned costs resolved per USEPA letter dated February 5, 2015:	
Fiscal year 2013 Single Audit	<u>(2,524)</u>
	22,433,380
Questioned costs of fiscal year 2014 Single Audit	<u>3,754,204</u>
Unresolved questioned costs at September 30, 2014	\$ <u>26,187,584</u>

- (a) OMB Circular A-133, Section .315(b)(4) - questioned costs are treated as resolved as the CNMI considers these findings are no longer valid as 1) two years have passed since the audit report in which the findings occurred was submitted to the Federal Audit Clearinghouse, 2) federal agencies are not currently following up on the questioned costs, and 3) management decisions were not issued by federal agencies.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 17 through 127).



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. 2014-002.
Finding No. 2011-03	- Corrective action was taken. See corrective action plan to Finding No. 2013-002.
Finding No. 2011-06	- Not corrected. See corrective action plan to Finding No. 2014-003.
Finding No. 2011-07	- Corrective action was taken. See corrective action plan to Finding No. 2012-06.
Finding No. 2011-09	- Corrective action was taken. 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. 2014-007.
Finding No. 2011-12	- Corrective action was taken. See corrective action plan to Finding No. 2012-10.
Finding No. 2011-13	- Corrective action was taken. 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. 2014-008.
Finding No. 2011-16	- Not corrected. See corrective action plan to Finding No. 2014-009.
Finding No. 2011-17	- Not corrected. See corrective action plan to Finding No. 2014-010.
Finding No. 2011-18	- Not corrected. See corrective action plan to Finding No. 2014-011.
Finding No. 2011-20	- Not corrected. See corrective action plan to Finding No. 2014-016.
Finding No. 2011-21	- Not corrected. See corrective action plan to Finding No. 2014-015.
Finding No. 2011-22	- Corrective action was taken. See corrective action plan to Finding No. 2012-19.

Finding No. 2012-01	- Corrective action was taken.
Finding No. 2012-02	- Not corrected. See corrective action plan to Finding No. 2014-002.
Finding No. 2012-03	- Corrective action was taken. See corrective action plan to Finding No. 2013-002.
Finding No. 2012-04	- Corrective action was taken. See corrective action plan to Finding No. 2013-003.
Finding No. 2012-05	- Not corrected. See corrective action plan to Finding No. 2014-003.
Finding No. 2012-06	- Corrective action was taken.
Finding No. 2012-07	- Corrective action was taken. 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. 2014-007.
Finding No. 2012-10	- Corrective action was taken.
Finding No. 2012-11	- Corrective action was taken. 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. 2014-008.
Finding No. 2012-14	- Not corrected. See corrective action plan to Finding No. 2014-009.
Finding No. 2012-15	- Not corrected. See corrective action plan to Finding No. 2014-010.
Finding No. 2012-16	- Not corrected. See corrective action plan to Finding No. 2014-011.
Finding No. 2012-17	- Not corrected. See corrective action plan to Finding No. 2014-012.
Finding No. 2012-18	- Not corrected. See corrective action plan to Finding No. 2014-015.
Finding No. 2012-19	- Corrective action was taken.
Finding No. 2012-20	- Not corrected. See corrective action plan to Finding No. 2014-016.
Finding No. 2012-21	- Corrective action was taken.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FINANCIAL STATEMENT FINDINGS, CONTINUED

- Finding No. 2013-001 - Not corrected. See corrective action plan to Finding No. 2014-002.
- Finding No. 2013-002 - Corrective action was taken.
- Finding No. 2013-003 - Corrective action was taken.
- Finding No. 2013-004 - Not corrected. See corrective action plan to Finding No. 2014-003.
- Finding No. 2013-005 - Corrective action was taken.
- Finding No. 2013-006 - Not corrected. See corrective action plan to Finding No. 2014-007.
- Finding No. 2013-007 - Corrective action was taken.
- Finding No. 2013-008 - Not corrected. See corrective action plan to Finding No. 2014-008.
- Finding No. 2013-009 - Not corrected. See corrective action plan to Finding No. 2014-009.
- Finding No. 2013-010 - Not corrected. See corrective action plan to Finding No. 2014-010.
- Finding No. 2013-011 - Not corrected. See corrective action plan to Finding No. 2014-011.
- Finding No. 2013-012 - Not corrected. See corrective action plan to Finding No. 2014-012.
- Finding No. 2013-013 - Not corrected. See corrective action plan to Finding No. 2014-015.
- Finding No. 2013-014 - Not corrected. See corrective action plan to Finding No. 2014-016.

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 - Corrective action was taken. See corrective action plan to Finding No. 2013-021.
- Finding No. 2011-30 - Finding resolved.
- Finding No. 2011-31 - Not corrected. See corrective action plan to Finding No. 2014-035.
- Finding No. 2011-32 - Corrective action was taken. See corrective action plan to Finding No. 2012-33.
- Finding No. 2011-33 - Finding resolved.
- 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. 2014-049.
- Finding No. 2011-42 - Finding resolved.
- Finding No. 2011-43 - Not corrected. See corrective action plan to Finding No. 2014-052.
- Finding No. 2011-45 - Finding resolved.
- Finding No. 2011-46 - Finding resolved.
- Finding No. 2011-47 - Corrective action was taken. 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. 2014-017.
 - Finding No. 2012-23 - Corrective action was taken.
 - Finding No. 2012-24 - Corrective action was taken. See corrective action plan to Finding No. 2013-020.
 - Finding No. 2012-25 - Finding resolved.
 - Finding No. 2012-26 - Corrective action was taken.
 - Finding No. 2012-27 - Finding resolved.
 - Finding No. 2012-28 - Finding resolved.
 - Finding No. 2012-29 - Corrective action was taken. See corrective action plan to Finding No. 2013-024.
 - Finding No. 2012-30 - Not corrected. See corrective action plan to Finding No. 2014-035.
 - Finding No. 2012-31 - Corrective action was taken. 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 - Finding resolved.
 - Finding No. 2012-35 - Corrective action was taken. 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. 2014-051.
 - Finding No. 2012-40 - Not corrected. See corrective action plan to Finding No. 2014-048.
 - Finding No. 2012-41 - Corrective action was taken. See corrective action plan to Finding No. 2013-039.
 - Finding No. 2012-42 - Not corrected. See corrective action plan to Finding No. 2014-049.
 - Finding No. 2012-43 - Finding resolved.
 - Finding No. 2012-44 - Not corrected. See corrective action plan to Finding No. 2014-052.
 - Finding No. 2012-45 - Finding resolved.
 - Finding No. 2012-46 - Finding resolved.
 - Finding No. 2012-47 - Corrective action was taken.
 - Finding No. 2012-48 - Corrective action was taken. See corrective action plan to Finding No. 2013-043.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding No. 2013-015 - Not corrected. See corrective action plan to Finding No. 2014-017.
 Finding No. 2013-016 - Corrective action was taken.
 Finding No. 2013-017 - Not corrected. See corrective action plan to Finding No. 2014-018.
 Finding No. 2013-018 - Not corrected. See corrective action plan to Finding No. 2014-019.
 Finding No. 2013-019 - Corrective action was taken.
 Finding No. 2013-020 - Corrective action was taken.
 Finding No. 2013-021 - Finding resolved.
 Finding No. 2013-022 - Finding resolved.
 Finding No. 2013-023 - Finding resolved.
 Finding No. 2013-024 - Corrective action was taken.
 Finding No. 2013-025 - Not corrected. See corrective action plan to Finding No. 2014-035.
 Finding No. 2013-026 - Finding resolved.
 Finding No. 2013-027 - Not corrected. See corrective action plan to Finding No. 2014-038.
 Finding No. 2013-028 - Finding resolved.
 Finding No. 2013-029 - Not corrected. See corrective action plan to Finding No. 2014-040.
 Finding No. 2013-030 - Corrective action was taken.
 Finding No. 2013-031 - Corrective action was taken.
 Finding No. 2013-032 - Corrective action was taken.
 Finding No. 2013-033 - Corrective action was taken.
 Finding No. 2013-034 - Corrective action was taken.
 Finding No. 2013-035 - Corrective action was taken.
 Finding No. 2013-036 - Not corrected. See corrective action plan to Finding No. 2014-046.
 Finding No. 2013-037 - Not corrected. See corrective action plan to Finding No. 2014-047.
 Finding No. 2013-038 - Not corrected. See corrective action plan to Finding No. 2014-048.
 Finding No. 2013-039 - Corrective action was taken.
 Finding No. 2013-040 - Not corrected. See corrective action plan to Finding No. 2014-049.
 Finding No. 2013-041 - Not corrected. See corrective action plan to Finding No. 2014-051.
 Finding No. 2013-042 - Not corrected. See corrective action plan to Finding No. 2014-052.
 Finding No. 2013-043 - Corrective action was taken.

Finding No.	CFDA No.	Program Name	Questioned Costs
Questioned costs of fiscal year 2002 Single Audit:			
2002-11	10.551	Supplemental Nutrition Assistance Program	\$ 635
2002-12	10.551	Supplemental Nutrition Assistance Program	<u>145,572</u>
			<u>146,207</u>
Questioned costs of fiscal year 2003 Single Audit:			
2003-12	10.551	Supplemental Nutrition Assistance Program	<u>1,309</u>
Questioned costs of fiscal year 2004 Single Audit:			
2004-12	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	16,831
	15.605	Sports Fish Restoration Program	184,326
	15.605	Sports Fish Restoration Program	45,000
2004-13	97.004	Homeland Security Grant Program	713,115
2004-14	10.551	Supplemental Nutrition Assistance Program	
	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	
	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	
	93.778	Medical Assistance Program	
	97.004	Homeland Security Grant Program	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
	97.052	Emergency Operations Center	1,738,222
2004-15	10.551	Supplemental Nutrition Assistance Program	572
2004-16	10.551	Supplemental Nutrition Assistance Program	<u>2,864</u>
			<u>2,700,930</u>

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding No.	CFDA No.	Program Name	Questioned Costs
Questioned costs of fiscal year 2005 Single Audit:			
2005-12	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	134,114
	15.605	Sports Fish Restoration Program	28,800
2005-13	17.258	WIA Adult Program	
	17.259	WIA Youth Activities	
	17.260	WIA Dislocated Workers	6,553
2005-14	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	11,860
2005-15	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	15,966
2005-16	17.258	WIA Adult Program	
	17.259	WIA Youth Activities	
	17.260	WIA Dislocated Workers	471,973
2005-17	17.258	WIA Adult Program	
	17.259	WIA Youth Activities	
	17.260	WIA Dislocated Workers	42,000
2005-18	17.258	WIA Adult Program	
	17.259	WIA Youth Activities	
	17.260	WIA Dislocated Workers	<u>7,520</u>
			<u>718,786</u>
Questioned costs of fiscal year 2006 Single Audit:			
2006-17	10.551	Supplemental Nutrition Assistance Program	
	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	
	64.603	State Cemetery Grants	
	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	
	93.778	Medical Assistance Program	
	97.004	Homeland Security Grant Program	
	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	
	97.067	Homeland Security Grant Program	253,789
2006-18	93.778	Medical Assistance Program	135,858
2006-19	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	
	97.004	Homeland Security Grant Program	
	97.067	Homeland Security Grant Program	32,884
2006-20	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	24,732
2006-21	93.778	Medical Assistance Program	7,518
2006-22	10.551	Supplemental Nutrition Assistance Program	521
2006-23	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	257,817
2006-24	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	85,345
2006-25	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	213,224
2006-26	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	9,378
2006-27	97.004	Homeland Security Grant Program	
	97.067	Homeland Security Grant Program	70,901
2006-28	97.004	Homeland Security Grant Program	
	97.067	Homeland Security Grant Program	196,248
2006-29	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	139,172
2006-30	93.778	Medical Assistance Program	<u>40,886</u>
			<u>1,468,273</u>
Questioned costs of fiscal year 2007 Single Audit:			
2007-12	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	16,286
2007-13	93.778	Medical Assistance Program	1,989
2007-14	93.778	Medical Assistance Program	225,149
2007-15	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	9,304
2007-16	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	8,773
2007-17	93.778	Medical Assistance Program	503
2007-18	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	583,660
2007-19	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	90,000
2007-20	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	62,847

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding No.	CFDA No.	Program Name	Questioned Costs
Questioned costs of fiscal year 2007 Single Audit, continued:			
2007-21	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	64,900
2007-22	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	658,149
2007-23	66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	17,027
2007-24	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	80,927
2007-25	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	41,196
2007-26	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	88,815
2007-27	93.778	Medical Assistance Program	251,170
2007-28	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>13,114</u>
			<u>2,213,809</u>
			<u>\$ 7,249,314</u>

The above questioned costs are treated as resolved as the CNMI considers these findings are no longer valid as 1) two years have passed since the audit report in which the findings occurred was submitted to the Federal Audit Clearinghouse, 2) federal agencies are not currently following up on the questioned costs, and 3) management decisions were not issued by federal agencies.