

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2015

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 Ralph DLG. Torres  
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, 2015, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated February 8, 2017. Our report includes explanatory paragraphs concerning the correction of errors and going concern, and was modified due to the lack of adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, the financial statements of the Northern Mariana Islands Settlement Fund not being included in the financial statements, our inability to determine the propriety of the Commonwealth Utilities Corporation's fixed assets and inventories, our inability to quantify the impact of typhoon damages on the Commonwealth Utilities Corporation's financial statements, our inability to determine the propriety of the Commonwealth Healthcare Corporation's receivables, advances, inventories, due to/from CNMI, capital assets, accounts payable, due to related parties, accrued taxes and other liabilities and related revenues, expenses and non-operating income (expense) due to the lack of physical inventory of capital assets and inadequacies of accounting records 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, the 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, 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, 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 2015-001 through 2015-004, 2015-007, 2015-008, 2015-010, and 2015-011 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 2015-005, 2015-006, 2015-009, 2015-012, and 2015-014 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the CNMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-013.

## **The CNMI's Responses to Findings**

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

## **Purpose of this Report**

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

*Deloitte & Touche LLC*

February 8, 2017

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 Ralph DLG. Torres  
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's) compliance with the types of compliance requirements described in the *OMB 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, 2015. 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.

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, 2015. 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 2015-015, 2015-017 through 2015-019, 2015-022 through 2015-025, 2015-027 through 2015-030, and 2015-034 through 2015-036 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2015-015	10.551	Supplemental Nutrition Assistance Program	Reporting
2015-017	11.419	Coastal Zone Management Administration Awards	Allowable Costs/Cost Principles
2015-018	11.419	Coastal Zone Management Administration Awards	Equipment and Real Property Management
2015-019	11.419	Coastal Zone Management Administration Awards	Program Income
2015-022	11.482	Coral Reef Conservation Program	Allowable Costs/Cost Principles
2015-023	11.482	Coral Reef Conservation Program	Matching, Level of Effort, Earmarking
2015-024	11.482	Coral Reef Conservation Program	Reporting
2015-025	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Allowable Costs/Cost Principles
2015-027	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Period of Availability of Federal Funds
2015-028	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Procurement and Suspension and Debarment
2015-029	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Reporting
2015-030	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Subrecipient Monitoring
2015-036	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Equipment and Real Property Management
2015-036	20.205	Highway Planning and Construction	Equipment and Real Property Management
2015-034	93.778	Medical Assistance Program	Reporting
2015-035	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, 2015.

**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 2015-014, 2015-016, 2015-020, 2015-021, 2015-026, 2015-031 through 2015-033, 2015-036, and 2015-037 regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2015-014	None	None	Other - SEFA
2015-016	10.551	Supplemental Nutrition Assistance Program	Special Tests and Provisions
2015-036	10.551	Supplemental Nutrition Assistance Program	Equipment and Real Property Management
2015-020	11.419	Coastal Zone Management Administration Awards	Reporting
2015-021	11.419	Coastal Zone Management Administration Awards	Special Tests and Provisions
2015-026	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Cash Management
2015-031	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Special Tests and Provisions
2015-032	93.778	Medical Assistance Program	Activities Allowed or Unallowed
2015-033	93.778	Medical Assistance Program	Eligibility
2015-037	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Cash Management

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 2015-015, 2015-017 through 2015-019, 2015-022 through 2015-025, 2015-27 through 2015-030, and 2015-034 through 2015-036 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 2015-014, 2015-016, 2015-020, 2015-021, 2015-026, 2015-031 through 2015-033, and 2015-036 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, 2015, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements. We issued our report thereon dated February 8, 2017, which contained explanatory paragraphs concerning the correction of errors and going concern, and was modified due to the lack of adoption of GASB Statements No. 68 and No. 71, the financial statements of the Northern Mariana Islands Settlement Fund not being included in the financial statements, our inability to determine the propriety of the Commonwealth Utilities Corporation's fixed assets and inventories, our inability to quantify the impact of typhoon damages on the Commonwealth Utilities Corporation's financial statements, our inability to determine the propriety of the Commonwealth Healthcare Corporation's receivables, advances, inventories, due to/from CNMI, capital assets, accounts payable, due to related parties, accrued taxes and other liabilities and related revenues, expenses and non-operating income (expense) due to the lack of physical inventory of capital assets and inadequacies of accounting records 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. Because of the significance of the matters discussed above, it is inappropriate to, and we do not, express an opinion on the Schedule of Expenditures of Federal Awards.



February 8, 2017



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor  
Federal Grants Fund  
Year Ended September 30, 2015

Federal Agency	Expenditures
U.S. Department of Agriculture	\$ 15,148,043
U.S. Department of Commerce	2,914,894
U.S. Department of Defense	33,006
U.S. Department of the Interior	5,673,943
U.S. Department of Justice	1,357,485
U.S. Department of Labor	1,281,206
U.S. Department of Transportation	1,916,345
U.S. National Endowment for the Arts	(17,728)
Institute of Museum and Library Services	126,797
U.S. Environmental Protection Agency	2,232,794
U.S. Department of Energy	843,114
U.S. Department of Education	957,781
U.S. Department of Health and Human Services	24,469,344
U.S. Department of Homeland Security	2,615,467
Unallocated cash receipts/expenditures	<u>335,447</u>
<b>TOTAL FEDERAL GRANTS FUND</b>	<b><u>\$ 59,887,938</u></b>

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

Reconciliation:	
Expenditures per above	\$ 59,887,938
Local match	<u>5,390,023</u>
	<b><u>\$ 65,277,961</u></b>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 63,992,701
Operating transfers out	982,289
Expenditures accrued through proposed audit adjustment in fiscal year 2015	<u>302,971</u>
	<b><u>\$ 65,277,961</u></b>

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, 2015

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
10.170	Specialty Crop Block Grant Program - Farm Bill	\$ 69,716
10.551	Supplemental Nutrition Assistance Program	14,715,941
10.664	Cooperative Forestry Assistance	287,841
10.676	Forest Legacy Program	4,071
10.766	Community Facilities Loans and Grants	70,474
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		<u>15,148,043</u>
<b>U.S. DEPARTMENT OF COMMERCE</b>		
11.YA132309CN0062	2010 Census	3,126
11.300	Investments for Public Works and Economic Development Facilities	925,393
11.307	Economic Adjustment Assistance	42,516
11.407	Interjurisdictional Fisheries Act of 1986	4,530
11.419	Coastal Zone Management Administration Awards	1,008,056
11.426	Financial Assistance for National Centers for Coastal Ocean Science	(39,155)
11.437	Pacific Fisheries Data Program	242,278
11.454	Unallied Management Projects	61,712
11.482	Coral Reef Conservation Program	608,481
11.558	ARRA - State Broadband Data and Development Grant Program	57,957
<b>TOTAL U.S. DEPARTMENT OF COMMERCE</b>		<u>2,914,894</u>
<b>U.S. DEPARTMENT OF DEFENSE</b>		
12.607	Community Economic Adjustment Assistance for Establishment, Expansion, Realignment, or Closure of a Military Installation	<u>33,006</u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
Fish and Wildlife Cluster:		
15.605	Sport Fish Restoration Program	912,410
15.611	Wildlife Restoration and Basic Hunter Education	530,632
Subtotal Fish and Wildlife Cluster		1,443,042
15.615	Cooperative Endangered Species Conservation Fund	445,984
15.634	State Wildlife Grants	105,806
15.657	Endangered Species Conservation Recovery Implementation Funds	2,732
15.875	Economic, Social, and Political Development of the Territories:	
	Development of TTPI Islands	975,370
	Compact Impact	2,502,262
15.904	Historic Preservation Fund Grants-In-Aid	198,747
<b>TOTAL U.S. DEPARTMENT OF THE INTERIOR</b>		<u>5,673,943</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>		
16.017	Sexual Assault Services Formula Program	15,817
16.523	Juvenile Accountability Block Grants	16,651
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	63,430
16.550	State Justice Statistics Program for Statistical Analysis Centers	44,036
16.575	Crime Victim Assistance	220,213
16.588	Violence Against Women Formula Grants	556,237
16.727	Enforcing Underage Drinking Laws Program	70,319
16.738	Edward Byrne Memorial Justice Assistance Grant Program	204,452
16.750	Support for Adam Walsh Act Implementation Grant Program	166,330
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>		<u>1,357,485</u>
<b>U.S. DEPARTMENT OF LABOR</b>		
WIA Cluster:		
17.258	WIA/WIOA Adult Program	422,999
17.259	WIA/WIOA Youth Activities	237,414
17.278	WIA/WIOA Dislocated Worker Formula Grants	173,532
Subtotal WIA Cluster		<u>833,945</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, 2015

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF LABOR, CONTINUED</b>		
17.235	Senior Community Service Employment Program	289,080
17.273	Temporary Labor Certification for Foreign Workers	64,961
17.504	Consultation Agreements	93,220
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>		<u>1,281,206</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>		
20.218	National Motor Carrier Safety	241,624
20.500	Federal Transit_Capital Investment Grants	44,090
20.509	Formula Grants for Rural Areas	783,765
20.514	Public Transportation Research, Technical Assistance, and Training	4,865
20.600	State and Community Highway Safety	798,520
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	43,481
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>		<u>1,916,345</u>
<b>U.S. NATIONAL ENDOWMENT FOR THE ARTS</b>		
45.025	Promotion of the Arts_Partnership Agreements	(17,728)
<b>INSTITUTE OF MUSEUM AND LIBRARY SERVICES</b>		
45.310	Grants to States	<u>126,797</u>
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY</b>		
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	2,195,672
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	37,122
<b>TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY</b>		<u>2,232,794</u>
<b>U.S. DEPARTMENT OF ENERGY</b>		
81.041	State Energy Program	215,471
81.041	ARRA - State Energy Program	465,444
81.042	Weatherization Assistance for Low-Income Persons	8,431
81.042	ARRA - Weatherization Assistance for Low-Income Persons	88,039
81.128	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	65,729
<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>		<u>843,114</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>		
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	776,426
84.169	Independent Living_State Grants	16,097
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	45,526
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	26,902
84.224	Assistive Technology	76,001
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	16,829
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>		<u>957,781</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
Aging Cluster:		
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	138,057
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	382,205
93.053	Nutrition Services Incentive Program	27,831
Subtotal Aging Cluster		<u>548,093</u>
93.041	Special Programs for the Aging_Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	2,979
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	9,914

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, 2015

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED</b>		
93.043	Special Programs for the Aging_ Title III, Part D_ Disease Prevention and Health Promotion Services	3,572
93.052	National Family Caregiver Support, Title III, Part E	64,930
93.127	Emergency Medical Services for Children	86,135
93.136	Injury Prevention and Control Research and State and Community Based Programs	28,694
93.369	ACL Independent Living State Grants	12,728
93.464	ACL Assistive Technology	38,945
93.556	Promoting Safe and Stable Families	176,443
93.568	Low-Income Home Energy Assistance	215,585
93.569	Community Services Block Grant	469,437
93.575	Child Care and Development Block Grant	1,867,027
93.590	Community-Based Child Abuse Prevention Grants	164,025
93.630	Developmental Disabilities Basic Support and Advocacy Grants	210,320
93.643	Children's Justice Grants to States	64,569
93.645	Stephanie Tubbs Jones Child Welfare Services Program	159,749
93.667	Social Services Block Grant	49,851
93.669	Child Abuse and Neglect State Grants	45,362
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	133,521
93.767	Children's Health Insurance Program	864,169
93.778	Medical Assistance Program	19,242,315
93.994	Maternal and Child Health Services Block Grant to the States	10,981
		<u>23,921,251</u>
	<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>	<u>24,469,344</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>		
97.012	Boating Safety Financial Assistance	416,634
97.042	Emergency Management Performance Grants	680,660
97.067	Homeland Security Grant Program	954,834
97.089	Driver's License Security Grant Program	563,339
	<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>	<u>2,615,467</u>
	Unallocated cash receipts/expenditures	<u>335,447</u>
	<b>TOTAL FEDERAL GRANTS FUND</b>	<u>\$ 59,887,938</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, 2015

CFDA #	Federal Agency/Program	Expenditures
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects:	
	FY96 - FY02 Appropriations Act Grant	\$ 741,953
	FY04 Appropriations Act Grant	<u>10,099,394</u>
	<b>TOTAL CAPITAL PROJECTS FUND</b>	<u>\$ 10,841,347</u>
Reconciliation:		
	Federal awards expenditures, as stated above	<u>\$ 10,841,347</u>
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 10,810,478
	Expenditures accrued through proposed audit adjustment in fiscal year 2015	<u>30,869</u>
		<u>\$ 10,841,347</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, 2015

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Expenditures</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>		
20.205	Highway Planning and Construction	<u>\$ 3,577,311</u>
Reconciliation:		
	Federal awards expenditures, as stated above	<u>\$ 3,577,311</u>
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 3,577,311
	Expenditures accrued through proposed audit adjustment in fiscal year 2015	<u>-</u>
		<u>\$ 3,577,311</u>
	<b>GRAND TOTAL FEDERAL AWARDS</b>	<b><u>\$ 74,306,596</u></b>

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, 2015

### (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. 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, 2015

(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, 2015 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, 2015.

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 Commonwealth Utilities Corporation, the Northern Marianas College, the Public School System and the Commonwealth Healthcare Corporation which expended \$7,911,149, \$11,706,333, \$8,564,235, \$9,590,521, \$31,419,624 and \$11,364,496, respectively, in federal awards which are not included in the Schedule of Expenditures of Federal Awards during the year ended September 30, 2015. Our audit 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 2015, the CNMI has the following approved indirect cost rates:

Programs which directly charged utilities	3.64%
Programs not directly charging utilities	13.81%
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, 2015

(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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**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 federal programs:  |             |
| 5.  | Material weakness(es) identified?  | Yes         |
| 6.  | Significant deficiency(ies) identified?  | Yes         |
| 7.  | Type of auditors' report issued on compliance for major federal 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 federal programs:  |             |
|     | CFDA   |             |
|     | <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  |             |
|     | 15.875    Economic, Social, and Political Development of the Territories:<br>Compact Impact                            |             |
|     | 93.778    Medical Assistance Program   |             |
|     | 15.875    Economic, Social, and Political Development of the Territories:<br>Capital Improvement Projects              |             |
|     | 20.205    Highway Planning and Construction  |             |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs:   | \$2,229,198 |
| 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, 2015

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Reference Number	Findings
2015-001-002	External Financial Reporting
2015-003	Revenue/Receipts - Tobacco Settlement Resources
2015-004	Cash and Cash Equivalents
2015-005-006	Receivables
2015-007	Tax Rebates Payable
2015-008	Notes Payable - Judicial Building Loan
2015-009	Compensated Absences
2015-010	Fund Balance - Encumbrances
2015-011	Commonwealth Healthcare Corporation
2015-012	CNMI Workers' Compensation Commission
2015-013	CNMI Local Noncompliance
2015-014	Schedule of Expenditures of Federal Awards

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Reference Number	CFDA Number	Findings	Questioned Costs
2015-014	-	Schedule of Expenditures of Federal Awards	\$ -
2015-015	10.551	Reporting	-
2015-016	10.551	Special Tests and Provisions	-
2015-036	10.551	Equipment and Real Property Management	-
2015-017	11.419	Allowable Costs/Cost Principles	3,231
2015-018	11.419	Equipment and Real Property Management	-
2015-019	11.419	Program Income	-
2015-020	11.419	Reporting	-
2015-021	11.419	Special Tests and Provisions	12,866
2015-022	11.482	Allowable Costs/Cost Principles	-
2015-023	11.482	Matching, Level of Effort, Earmarking	46,367
2015-024	11.482	Reporting	-
2015-025	15.875	Allowable Costs/Cost Principles	504,498
2015-026	15.875	Cash Management	-
2015-027	15.875	Period of Availability of Federal Funds	192,196
2015-028	15.875	Procurement and Suspension and Debarment	1,903,948
2015-029	15.875	Reporting	-
2015-030	15.875	Subrecipient Monitoring	-
2015-031	15.875	Special Tests and Provisions	433,619
2015-036	15.875	Equipment and Real Property Management	-
2015-036	20.205	Equipment and Real Property Management	-
2015-032	93.778	Activities Allowed or Unallowed	-
2015-033	93.778	Eligibility	101,528
2015-034	93.778	Reporting	-
2015-035	93.778	Special Tests and Provisions	-
2015-037	Nonmajor Program	Cash Management	\$ -

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

External Financial Reporting

Finding No. 2015-001

**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, 2015, 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.

**Prior Year Status:** The lack of audited financial statements of NMISF was reported as a finding in the CNMI Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Edward Manibusan, Attorney General

**Corrective Action:** The Department of Finance (DOF) and the Office of the Attorney General (OAG) are currently in discussions with NMISF about their lack of financial statements. NMISF has taken the position that it is not a component unit of the CNMI Government and is also not a pension fund. This matter is currently under legal review by the OAG and the CNMI Government and a course of action regarding this matter is still ongoing. The Administration will be taking a position once the legal review has been completed and address this matter upon deciding on whether it agrees or disagrees with this position.

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

External Financial Reporting

Finding No. 2015-002

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, revise and establish new financial reporting requirements for governments that provide their employees with pension benefits through plans that are administered through trusts. GASB Statements No. 68 and No. 71 require the recognition of net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources, as applicable to the financial statements.

Condition: The CNMI contributed to the Northern Mariana Islands Retirement Fund's defined benefit plan (DB Plan), a cost-sharing, multi-employer plan established and administered by the CNMI. On September 30, 2013, the DB plan was transferred to NMISF and the CNMI now contributes to NMISF. Audited GASB Statement No. 68 required schedules and actuarial valuation reports of NMISF could not be provided. Accordingly, the CNMI was unable to record the net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources, as applicable, in the financial statements as of September 30, 2015.

Cause: The cause of the above condition is the lack of audited NMISF-GASB Statement No. 68 required schedules and the actuarial valuation.

Effect: The effect of the above condition is noncompliance with GASB Statement No. 68 and an adverse opinion on the CNMI financial statements.

Recommendation: We recommend that the CNMI obtain audited NMISF GASB Statement No. 68 required schedules and actuarial valuations and determine the net pension liability, pension expense, deferred outflows of resources and deferred inflows of resources, as applicable as of September 30, 2015.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Edward Manibusan, Attorney General

**Corrective Action:** NMISF has taken the position that it is not a pension fund and not a component unit of the CNMI Government. They have agreed to provide schedules, but as they believe they are not a pension fund, they also believe they do not need to provide actuarial schedules in compliance with GASB 68. This matter is under legal review and once a position is taken, a decision will be made by the Administration as far as pursuit of this information.

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2015-003

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 2015, the CNMI recognized \$1,606,665 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 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Edward Manibusan, Attorney General

**Corrective Action:** The CNMI accepted proposed audit adjustments for FY2015 and will establish estimation techniques in conjunction with the OAG who will pursue these revenues to determine accrued tobacco settlement receivables and revenues. The CNMI will record the transactions in the accounting records in future years.

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Cash and Cash Equivalents

Finding No. 2015-004

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>
11220	Supreme Court Imprest Fund
11230	Food Stamps
11400	NMIT Rebate Trust Fund
11410	Special Disability Imprest Fund
11420	Payroll Account
11430	General Fund
11540	Capital Improvement Projects
11570	Federal Grants

2. A bank reconciliation for one account (bank code 11411) was not provided:
3. Bank reconciling items for the following accounts were not recorded in the general ledger at September 30, 2015:

<u>Bank Code</u>	<u>Account Name</u>	<u>Amount of Reconciling Items</u>
11230	Food Stamps	\$ (255,473)
11420	Payroll Account	\$ 164,525
11430	General Fund	\$ 1,599,661

The above condition was corrected through a proposed audit adjustment.

4. Bank reconciliations for the following accounts did not indicate evidence of preparer and/or reviewer approval:

Account Name

Office of the Clerk of Court  
CNMI Superior Court R & T Fiduciary  
Office of the Clerk of Court Civil  
Office of the Clerk of Court Criminal  
Judiciary Legal Services Revolving Fund  
Office Clerk Court Superior Court

5. At September 30, 2015, a \$65,050 security deposit was comprised of one time certificate of deposit (bank code 15050); however, we were not able to verify the validity of the account as the bank confirmation or the related bank statement was not provided.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-004, Continued

Condition, Continued:

6. At September 30, 2015, the CNMI recorded cash clearing accounts of \$687,076. These accounts are expected to be zero at fiscal year-end. An audit adjustment was proposed to correct \$665,358 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.
7. At September 30, 2015, the CNMI recorded a \$263,751 cash account (GL #1010.11980) related to federal grants offset against CNMI's payable to various federal agencies. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.
8. At September 30, 2015, the CNMI recorded non-CNMI cash accounts of \$11,860 (bank code 11340) and \$(23,100,228) (bank code 11431). An audit adjustment was proposed for bank code 11431 to zero out the account; however, correcting entries for bank code 11340 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, updating bank account authorized signatories, recording of bank reconciling items in the general ledger and the cash clearing accounts being reconciled and adjusted at fiscal year end.

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 cash clearing accounts be adjusted and reconciled at fiscal year-end and bank account authorized signatories be updated.

Prior Year Status: The lack of adherence to policies and procedures related to timely preparation of bank reconciliations, recording of bank reconciling items in the general ledger and the cash clearing accounts being reconciled and adjusted at fiscal year end was reported as a finding in the CNMI Single Audits for fiscal years 2003 through 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Asuncion Agulto, CNMI Treasurer and Bernadita Palacios, Director, Division of Finance & Accounting

**Corrective Action:** DOF acknowledges this finding and will reconcile and clear all cash accounts before the end of the fiscal year. They will also work towards timely reconciliation in order to meet monthly and year end deadlines

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Receivables

Finding No. 2015-005

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, 2015, 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, 2015. 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.

Prior Year Status: 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 was reported as a finding in the CNMI Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** Staff have been hired by NMIRF to address the outstanding issues that have been pending since the separation of NMIRF and NMISF. Work is ongoing to not only establish policies and procedures related to these outstanding receivables, but also to obtain details of these receivables and determine collectability.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Receivables

Finding No. 2015-006

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 Development Authority	\$ 55,272	\$ -	\$ 55,272	not reported in CU's financial statements
Commonwealth Healthcare Corporation	1,329,715	1,546,373	(216,658)	
Commonwealth Ports Authority	3,183,024	2,200,757	982,267	
Commonwealth Utilities Corporation	12,366,632	7,049,078	5,317,554	
Marianas Public Land Trust	141,526	-	141,526	not reported in CU's financial statements
Northern Marianas College	1,416,464	-	1,416,464	not reported in CU's financial statements
Public School System	<u>1,843,754</u>	<u>-</u>	<u>1,843,754</u>	not reported in CU's financial statements
	\$ <u>20,336,387</u>	\$ <u>10,796,208</u>	\$ <u>9,540,179</u>	

As of September 30, 2015, 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.

Prior Year Status: The lack of established policies and procedures to reconcile receivables and to assess collectability was reported as a finding in the CNMI Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** DOF will work with the OAG to determine collectability on all arrears due to the CNMI. DOF will also work with both the Office of the Public Auditor and OAG to draft legislation to ensure that agencies comply with the mandated 1%.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Tax Rebates Payable

Finding No. 2015-007

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, 2015, tax rebates payable aggregated \$43,608,935. The balance consists of the following:

Estimated 2015 liability based on fiscal year 2015 collections	\$ 1,171,259
Additional Child Tax Credit (ACTC)	6,077,120
2014 and prior rebates unpaid as of September 30, 2015	<u>36,360,556</u>
	<u>\$ 43,608,935</u>

Tests of tax rebates payable noted the following:

1. For unpaid tax year 2014 and prior rebates, we noted the following:
  - a. Of twenty-three unmatched filings relating to individual and corporate tax rebate payables of \$4,482,627, the following were noted:
    - i. Seven totaling \$1,865,397 did not agree to tax returns by \$1,125,640. The variances were substantially due to miscalculation of rebate taxes, incorrect tax forms used and data entry errors.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C-0626	2002	\$ 465,940	\$ 236,366	\$ 229,574
C-0659	2003	556,738	286,132	270,606
C-0840	2007	88,000	77,282	10,718
C-0960	2012	25,229	25,253	(24)
I-37349	2009	748	371	377
I-38695	2011	11,788	11,615	173
I-40537	2013	<u>716,954</u>	<u>102,738</u>	<u>614,216</u>
		<u>\$ 1,865,397</u>	<u>\$ 739,757</u>	<u>\$ 1,125,640</u>

- ii. Tax returns were not provided for five totaling \$35,520:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-007, Continued

Condition, Continued:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-0708	2004	\$ 24,570
I-24134	2001	\$ 1,169
I-26800	2003	\$ 939
I-30455	2005	\$ 2,829
I-34933	2007	\$ 6,013

- iii. The rebate amounts on the tax returns were left blank for three totaling \$1,146,302. Further, the related tax returns were filed incomplete, a different tax form was used and/or the taxpayer did not submit relevant documentation to calculate taxes.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-0739	2005	\$ 1,024,000
C-0863	2008	\$ 60,508
C-0999	2014	\$ 61,794

- b. Of fifteen assessed filings tested relating to individual and corporate tax rebate payables of \$1,073,349, the following were noted:

- i. Three totaling \$536,498 did not agree to tax returns by \$9,252 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>
C-0342	2006	\$ 1,817	\$ -	\$ 1,817
C-0463	2010	522,799	542,742	(19,943)
I-12111	2013	<u>11,882</u>	<u>3,008</u>	<u>8,874</u>
		<u>\$ 536,498</u>	<u>\$ 545,750</u>	<u>\$ (9,252)</u>

- ii. Tax returns were not provided for seven totaling \$296,497:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-0101	2002	\$ 55,000
C-0144	2003	\$ 177,286
C-0369	2007	\$ 50,481
I-1465	2003	\$ 341
I-2823	2004	\$ 973
I-4921	2004	\$ 300
I-15290	2005	\$ 12,116

- iii. The rebate amounts on the tax returns were left blank for two totaling \$201,586. Further, the related tax returns were filed incomplete, a different tax form was used and/or the taxpayer did not submit relevant documentation to calculate taxes.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-0049	2001	\$ 113,056
C-0199	2004	\$ 88,530

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-007, Continued

Condition, Continued:

2. Further, no interest is calculated or paid on overpayments. Additionally, no details or totals of rebate payables relating to tax years 2011 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.

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 2014.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** Procedures are in place to address these issues. The Division of Revenue and Taxation is actively recruiting personnel to fill much needed vacancies to address tax issues including accuracy and completion of tax reportings which will in turn improve data entry, reconciliation and reporting by the Division. Personnel hired will also address record retention issues and increase efficiency and effectiveness of the Division. To address the issue of policies and procedures, each section of the Division will consolidate their policies and procedures in one centralized location.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Notes Payable - Judicial Building Loan

Finding No. 2015-008

Criteria: Public Law 9-3 authorized the CNMI to secure a loan from the Northern Mariana Islands Retirement Fund (NMIRF) as a general obligation, for the purpose of funding the construction of a Judicial Complex on Saipan. On February 28, 1995, the CNMI entered into a \$15,000,000 loan agreement with the NMIRF. The loan was initially for a period of fifteen years and is due on February 28, 2010 with interest at 7.50% per annum. On July 15, 1999, the loan was amended to extend the term to twenty years and to increase the interest rate to 7.75% per annum. Repayment of the loan is based on an assignment of future receipts from the CNMI courts; however, the CNMI is required to pay any shortfall through the budgetary process. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement for Civil Case No. 09-00023.

Condition: At September 30, 2015, principal and interest payable to NMISF amounted to \$4,503,661 and \$66,898, respectively which is due on March 1, 2015. The CNMI has not provided a modification of the loan agreement and has not developed a formal plan to pay its obligation.

Cause: .The cause of the above condition is the lack of a formal plan to pay the CNMI's current obligation.

Effect: The effect of the above condition is noncompliance with Public Law 9-3 and the loan agreement.

Recommendation: We recommend that the CNMI develop and implement a formal plan to pay its current obligation.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** The Judicial Branch is currently in the final stages of a loan application with the U.S. Department of Agriculture (USDA) to address the loan agreement with NMISF for the Judicial Complex. Authorized by Public Law 19-67, the loan will pay off this obligation to NMISF and also address critical issues that the Judiciary faces. The existing revolving account that only covers a portion of the existing loan payments at the current rates will adequately cover the USDA loan's monthly payment requirements.

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Compensated Absences

Finding No. 2015-009

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 be 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, 2015, compensated absences payable per the subsidiary ledger aggregated \$9,266,760. Of this amount, \$1,148,104 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$1,280,839 represents accrued leave in excess of the 45 days/360 hours limit. The balance at September 30, 2015 is net of individual debit balances of \$198,856.

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 2014.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** DOF will establish a calendar of review of these leave balances and ensure timely update of payroll records. DOF will also record valid charges in compensated absences payable on a more frequent basis.

**Proposed Completion Date:** FY 2017



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Fund Balance - Encumbrances

Finding No. 2015-010

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

Condition: Tests of encumbrances noted the following:

**General Fund**

1. Encumbrances in the subsidiary ledger of \$6,704,121 differed from the general ledger of \$6,605,407 at September 30, 2015. The difference of \$98,714 was corrected through a proposed audit reclassification
2. The encumbrance aging includes a balance of \$270,079 which has been outstanding for more than five years. There was no evidence of DOF review of the outstanding encumbrances.
3. Ten expenditures totaling \$194,575 were not accrued at year-end but had been deducted from the related encumbrance:

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
01010	1160	62060	545604 OC	682228	\$ 4,875
01010	1160	62060	545604 OC	685123	\$ 4,700
01015	1505	62060	599549 OC	1254501	\$ 15,000
01015	1505	62060	599549 OC	1254502	\$ 30,000
01015	1505	62060	599549 OC	1254503	\$ 30,000
01015	1505	62060	599549 OC	1258218	\$ 20,000
01015	1505	62060	599549 OC	1258219	\$ 20,000
01015	1505	62060	599549 OC	1262168	\$ 30,000
01015	1505	62060	599549 OC	1262170	\$ 10,000
01015	1505	62060	599549 OC	1268548	\$ 30,000

4. Three contracts and/or vouchers were not provided:

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>
01010	1011	62060	594246 OC
01010	1677	62420	599122 OP
01010	1975	62500	306475 OT

**Grants Assistance Funds**

1. Encumbrances in the subsidiary ledger of \$52,552,062 are net of debit balances of \$3,952,182 at September 30, 2015. Debit balances result from expenditures which are recorded when related encumbrances were not established, encumbrances were cancelled and/or contract change orders occurred. The subsidiary ledger balance was corrected for debit balances resulting in a general ledger amount which was \$3,875,497 lower than the corrected subsidiary ledger balance. This condition was corrected through a proposed audit reclassification.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-010, Continued

Condition, Continued:

**Grants Assistance Funds, Continued**

2. The encumbrance aging includes a balance of \$3,761,110 which has been outstanding for more than five years. There was no evidence of DOF review of outstanding encumbrances.
3. Of thirty-five encumbrances tested, aggregating \$37,487,332, the following were noted:
  - a. Nine encumbrances totaling \$2,110,484 did not indicate activity for more than three years:

<u>Fund</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
04044	4863	304837 OS	\$ 147,366	07/20/00
04045	4901	70169 OS	\$ (491,181)	05/27/97
04045	4934	60328 OS	\$ 39,793	05/08/97
04052	5134	153 OS	\$ 24,939	09/17/03
04052	5145	311 OS	\$ 102,742	07/25/07
04058	5615	458 OS	\$ (13,677)	02/11/09
04058	5634	486 OS	\$ 253,946	03/02/09
04058	5648	543 OS	\$ 1,385,277	09/16/10
04058	5654	534 OS	\$ 661,279	07/28/10

- b. Nine contracts and/or vouchers were not provided:

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>
02020	A5551L	63020	596948 OM
02020	A5551L	63020	598010 OM
02020	A5551Q	63020	598130 OM
02020	A5551Q	63020	598900 OM
02020	A5551Q	63020	598910 OM
04058	5634	64100.64080	486 OS
04058	5648	64100.64320	543 OS
04058	5654	64100.64030	534 OS
04058	5663A	64100.64320	595568 OM

- c. Thirty-one expenditures totaling \$1,145,601 were not accrued at year-end but had been deducted from the related encumbrance:

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
02020	A5551L	63020	598010 OM	1255140	\$ 394,852
02020	C3307A	64100.64320	595292 OC	1257300	\$ 95,688
02020	H4575B	62060	595662 OP	1249556	\$ 950
02020	H4575B	62060	595662 OP	1249557	\$ 1,400
02020	H4575B	62060	595662 OP	1249559	\$ 1,650
02020	H4575B	62060	595662 OP	1249560	\$ 1,300
02020	H4575B	62060	595662 OP	1249561	\$ 650
02020	H4575B	62060	595662 OP	1249562	\$ 1,000
02020	H4575B	62060	595662 OP	1249563	\$ 567
02020	H4575B	62060	595662 OP	1249564	\$ 900
02020	H4575B	62060	595662 OP	1249565	\$ 400

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-010, Continued

Condition, Continued:

**Grants Assistance Funds, Continued**

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
02020	H4575B	62060	595662 OP	1249570	\$ 7,869
02020	H4575B	62060	595662 OP	1249571	\$ 1,250
02020	H4575B	62060	595662 OP	1249572	\$ 23,700
02020	H4575B	62060	595662 OP	1249573	\$ 700
02020	H4575B	62060	595662 OP	1249574	\$ 6,907
02020	H4575B	62060	595662 OP	1249576	\$ 4,250
02020	H4575B	62060	595662 OP	1249577	\$ 650
02020	H4575B	62060	595662 OP	1249578	\$ 6,400
02020	H4575B	62060	595662 OP	1249581	\$ 7,382
02020	H4575B	62060	595662 OP	1249582	\$ 7,250
02020	H4575B	62060	595662 OP	1249583	\$ 11,100
02020	H4575B	62060	595662 OP	1249584	\$ 1,576
04058	5629	64100.64320	663 OS	1250046	\$ 78,546
04058	5629	64100.64320	663 OS	1265431	\$ 62,889
04058	5638	64100.64320	629 OS	1250299	\$ 83,129
04058	5668	64100.64250	631 OS	1247777	\$ 3,170
04058	5690	64100.64050	639 OS	1249439	\$ 171,848
04058	5690	64100.64050	639 OS	1250384	\$ 107,455
04058	5653C	64100.64590	637 OS	1257460	\$ 11,337
04058	5679A	64100.64320	657 OS	1252939	\$ 48,836

**Saipan Amusement Fund**

1. Encumbrances in the subsidiary ledger of \$482,455 are net of debit balances of \$109,441 at September 30, 2015. Debit balances result from expenditures which are recorded when related encumbrances were not established, encumbrances were cancelled and/or contract change orders occurred. The subsidiary ledger balance was corrected for debit balances resulting in a general ledger amount which was \$109,646 lower than the corrected subsidiary ledger balance. This condition was corrected through a proposed audit reclassification.
2. Two contracts were not provided:

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>
07069	7170	61100	597482 OM
07069	7174E	61100	593556 OM

**Nonmajor Governmental Funds**

1. The encumbrance aging includes a \$1,447,926 balance which has been outstanding for more than five years. There was no evidence of DOF review of outstanding encumbrances.
2. Four expenditures totaling \$111,102 were not accrued at year-end but had been deducted from the related encumbrance:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-010, Continued

Condition, Continued:

**Nonmajor Governmental Funds, Continued**

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>APV Reference</u>	<u>General Ledger Amount</u>
02080	2082	62060	564732 OC	1248474	\$ 10,206
02080	2082	62060	579270 OC	1248472	\$ 39,288
04042	4961O	64670	585500 OC	1251524	\$ 38,756
04043	T9205J	62060	532048 OC	1252552	\$ 22,852

3. Three encumbrances totaling \$758,750 did not indicate activity for more than three years:

<u>Fund</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Amount</u>	<u>Last Date of Transaction</u>
02043	3067	540505 OP	\$ 2,500	12/19/11
04042	4633	391 OS	\$ 86,770	03/02/06
04043	T85164	333747 OC	\$ 669,480	02/15/02

4. Three contracts were not provided:

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>
02043	3067	62060	540505 OP
04042	4633	64300.64570	391 OS
04042	4961R	64300.64590	591970 OC

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 2014.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-010, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** We agree that encumbrances need to be reviewed and adjusted. Technical assistance has been requested and additional staff will be hired to address this issue. Many of the encumbrances that are referenced in this finding are very old or otherwise encumbered for CIP and non-lapsing accounts. The technical assistance to address system limitations that prevent correction of this issue will address this long standing issue and the additional staffing will ensure proper entry and reduce, if not prevent, future occurrences of this issue.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Commonwealth Healthcare Corporation

Finding No. 2015-011

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, 2015, transfers of associated receivables, inventory and obligations had not occurred.

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

Effect: The effect of the above condition is the non-transfer of associated 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 through 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance, Esther Muna, CHCC Chief Executive Officer and Derek Sasamoto, CHCC Chief Financial Officer

**Corrective Action:** The CNMI and CHCC have been working to transition CHCC from the Executive Branch to an independent corporation. With the hiring of a new Chief Financial Officer, any pending matters related to the transition are expected to be addressed this fiscal year.

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

CNMI Workers' Compensation Commission

Finding No. 2015-012

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 NMIRF to the CNMI Department of Commerce (DOC). CNMI management determined that WCC be included within its Special Revenue Funds. As of September 30, 2015, transfers of WCC's cash and cash equivalents, certificates of deposit, investments and receivable accounts were not documented.

In addition, tests of WCC accounts noted the following:

1. Bank reconciliations at September 30, 2015 were not prepared for WCC cash accounts aggregating \$174,616.
2. WCC maintains an investment with a market value of \$1,081,901 at September 30, 2015; however, an investment policy was not provided. In addition, fiscal year 2015 investment transactions were not recorded, reconciled and monitored.

Audit adjustments were proposed to record WCC's transactions during fiscal year 2015.

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 transfers 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.

Prior Year Status: The lack of coordination of the transfer of WCC accounts between NMIRF and the CNMI and the lack of established procedures over financial reporting was reported as a finding in the CNMI Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Mark Rabauliman, Secretary of Commerce

**Corrective Action:** DOF and DOC will finalize the transfer of assets in writing and complete the work on establishing and assigning general ledger accounts for WCC funds. A consultant has been hired to assist with this matter. An investment policy is currently under review and will be finalized and in place this fiscal year.

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

CNMI Local Noncompliance

Finding No. 2015-013

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

Condition: On September 16, 2014, the CNMI passed Public Law 18-66 as the Appropriations and Budget Authority Act of 2015. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2015.

	Budgeted Level of Expenditures	Actual Expenditures	Over Expenditure
Executive branch	\$ 48,810,404	\$ 52,685,916	\$ 3,875,512
Second Senatorial District - Tinian	\$ 5,804,262	\$ 5,811,346	\$ 7,084
First Senatorial District - Rota	\$ 5,563,120	\$ 5,747,883	\$ 184,763
Government utilities	\$ -	\$ 2,431,772	\$ 2,431,772
Office of the Public Auditor	\$ 1,112,710	\$ 1,987,179	\$ 874,469
Boards and commissions	\$ 700,671	\$ 702,229	\$ 1,558
Education (payment to PSS, NMC and BOE)	\$ 37,975,638	\$ 38,206,636	\$ 230,998
Health (payment to CHCC)	\$ 1,208,675	\$ 1,248,675	\$ 40,000
Judgments	\$ 7,921	\$ 6,086,166	\$ 6,078,245
Debt service	\$ 8,454,625	\$ 8,836,102	\$ 381,477
Disaster expenditures	\$ 547,429	\$ 2,979,408	\$ 2,431,979
Miscellaneous/continuing appropriations	\$ -	\$ 456,797	\$ 456,797

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 2014.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** The CNMI agrees with this finding and continuously works towards compliance with the Appropriations and Budget Authority Act. Areas affecting public health and welfare are an issue such as medical referral for patients requiring urgent health care not available in the CNMI and overtime for salaries of law enforcement officers whose responsibility is public welfare and safety often require resources beyond what has been budgeted. As investment increases in the CNMI, it is anticipated that revenue will continue to rise and address these areas where the CNMI often experiences budgetary shortfalls. In the meantime, measures are in place to work towards keeping agencies that do not play a role in the public safety and welfare of the community to spend within their operating budgets.

**Proposed Completion Date:** Ongoing



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Schedule of Expenditures of Federal Awards

Finding No. 2015-014

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

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

Condition: The September 30, 2015 SEFA includes an unallocated amount of \$335,447 for the Federal Grants Fund. The amount relates to unidentified grant expenditures. 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 we were unable to determine if drawdowns were made for these expenditures.

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 2014.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No. 2015-014, Continued

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** Hiring and training of accounting personnel is ongoing. Training of staff in this critical area is ongoing and will continue in order to meet all federal requirements and prepare a SEFA in accordance with federal requirements.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-015  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Federal Award No.: 7NM4004NM  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: The memorandum of understanding (MOU) between the Food and Nutrition Service (FNS) and the CNMI Department of Community and Cultural Affairs (DCCA) for fiscal year 2015 states that the CNMI shall report on the CNMI-269, Financial Status Report, due December 30 following the close of the Fiscal Year.

Condition: The CNMI-269 report did not include carryover funding of \$3,812,027 in the total cumulative amount of Federal funds authorized for fiscal year 2015, resulting in an unobligated negative balance of \$2,755,202.

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

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

Recommendation: We recommend compliance with the reporting requirements.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Walter Macaranas, NAP Administrator

**Corrective Action:** The CNMI complied with Exhibit G, Part III(E)2 of the MOU between FNS and DCCA. The final CNMI-269 report for FY 2015 was submitted to FNS on December 30, 2015. The grantor's reconciliation of grant and carryover for fiscal year 2015 disclosed carryover funds of \$1,056,825.

**Proposed Completion Date:** Completed December 30, 2015.

Auditor Response: The final CNMI-269 report which includes the carryover funding was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-016  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Federal Award No.: 7NM4004NM  
Area: Special Tests and Provisions - EBT Reconciliation  
Questioned Costs: \$-0-

Criteria: Reconciliation should be performed between program benefits redeemed and the general ledger balance.

Condition: Tests of program benefits redeemed noted a variance of \$54,539 between benefits redeemed of \$13,377,471 and the general ledger balance of \$13,322,932.

Cause: The CNMI did not perform a reconciliation between program coupons redeemed and the general ledger balance amount.

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

Recommendation: We recommend that reconciliation be performed on coupons redeemed against general ledger balances.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Walter Macaranas, NAP Administrator

**Corrective Action:** NAP will coordinate a reconcilliation with DOF on coupons redeemed against general ledger balances on a regular basis throughout the fiscal year

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-017  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Federal Award Nos.: NA11NOS4190153 and NA14NOS4190119  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$3,231

Criteria: 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. Furthermore, costs should not be included as a cost of any other Federal award in either the current or a prior period.

Condition: Tests of expenditures noted the following:

1. Of twelve payroll expenditures, aggregating \$15,369 of a population of \$598,241, the following were noted:

a. For two (or 17%), timesheets were signed by employees in June 2016 which is more than a year after the pay period ended. No questioned costs result as the immediate supervisor certified employee time.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Hours</u>	<u>Pay Rate</u>	<u>Amount</u>
C4419G	103203	04/04/15	80	\$ 18.28	\$ 1,462
C4419G	103204	02/21/15	80	\$ 17.45	<u>1,396</u>
					\$ <u>2,858</u>

b. For three (or 25%), approved leave for the following employees was either not provided or was approved in June 2016 which is more than a year after the pay period ended:

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Leave Type</u>	<u>Hours</u>	<u>Pay Rate</u>	<u>Approval Date</u>	<u>Questioned Costs</u>
C4419G	103203	04/04/15	Annual	4	\$ 18.28	June 2016	\$ 73
C4419G	834301	01/10/15	Annual	8	\$ 17.31	June 2016	138
C4419H	373557	02/21/15	Annual	8	\$ 12.02	not provided	<u>96</u>
							\$ <u>307</u>

c. For one (or 8%), the employee's position was not included in the approved budget for NA11NOS4190153; however, the employee was paid from this grant award for two pay periods. We were not provided grantor approval to reprogram funds and to create new budget amounts within the previously approved budget.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>Position</u>	<u>Salary</u>
C1419E	835811	10/04/14	Climate & Coastal Hazard Spec.	\$ 1,462
C1419E	835811	10/18/14	Climate & Coastal Hazard Spec.	<u>1,462</u>
				\$ <u>2,924</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-017, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Federal Award Nos.: NA11NOS4190153 and NA14NOS4190119  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$3,231

Condition, Continued

2. Of four non-payroll expenditures tested, aggregating \$43,539 of a population of \$409,814, the following was noted:
  - a. For one (or 25%), a total of \$39,155 in program costs was charged to the Federal award in a prior year under grant year 2009. The grantor disallowed the costs in that prior year and approved the use of FY 2015 program income to repay the disallowed costs; therefore, a questioned cost does not result. However, instead of debiting program income, the Program debited program expenses, resulting in the repayment being reflected in FY 2015 as costs that were already included as a prior period cost of the Federal award.

Cause: CNMI management did not effectively monitor transactions for proper accounting treatment.

Effect: The CNMI is in noncompliance with allowable costs/cost principles requirements, and questioned costs of \$3,231 exist for Conditions 1b and 1c.

Recommendation: CNMI management should strengthen monitoring controls over transactions to require that reviews and approvals be documented to substantiate program costs in accordance with applicable allowable costs/cost principles.

Prior Year Status: The lack of control over review and approval of employee timecards, timesheets and leave and compensatory time-off forms, the lack of systematic filing of documents and the lack of adherence with applicable award terms and conditions was reported in the CNMI Single Audit for fiscal year 2014 as Finding No. 2014-20.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances A. Castro, Division of Coastal Resources Management (DCRM) Director

**Corrective Action:**

Condition 1a: Timecards have been provided.

Condition 1b: Timecard, approved leave form and other supporting documents have been provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-017, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Federal Award Nos.: NA11NOS4190153 and NA14NOS4190119  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$3,231

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 1c: DCRM was in the process of hiring a Federal Consistency Specialist, but was not able to fill the position before the close of the award period. However, the position of Climate & Coastal Coordinator was orally approved by NOAA and approved for funding for the subsequent grant award. The individual filling the position was able to start earlier than the start of the new fiscal year/new grant period, and since NOAA had approved the position and its salary, they also approved an earlier start date and the use of the salary savings from the Federal Consistency Specialist position to fund the Climate & Coastal Hazards Specialist's salary for those two pay periods. Therefore, since oral approval was provided, DCRM cannot provide documentation to support this finding.

Condition 2a: DCRM requests further clarification regarding this finding.

DCRM has improved its record keeping and administrative procedures and will continue to fine-tune them, and practice tighter controls.

**Proposed Completion Date:** September 30, 2016.

Auditor Response:

Condition 1a: Timesheets and/or timecards were not timely signed by the employees.

Condition 1b: 103203 and 834301: Leave requests were not timely approved by the immediate supervisor and/or approving authority.

373557: The approved application for leave form covering the period from 02/06/15 to 02/28/15 is for 72 hours, 8 of which were used during the pay period ended 02/07/15. Accordingly, the remaining approved leave hours for pay period ended 02/21/15 are 64; however, the employee was paid a total of 72 hours for this pay period.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-018  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Federal Award Nos.: NA11NOS4190153, NA12NOS4190178, NA13NOS4190148 and NA14NOS4190119  
 Area: Equipment and Real Property Management  
 Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a State must use, manage, and dispose of equipment acquired under a Federal award in accordance with State laws and procedures. The following CNMI requirements are applicable:

- Accountable person establishes and maintains property records and safeguards to ensure effective control over the property.
- Non-expendable property with a value equal to or greater than \$5,000 will be capitalized over its economic useful life.
- Property information will be maintained for all non-capitalized property with a value between \$1,000 and \$5,000. This type of non-capitalized property is referred to as selected non-capitalized property.
- Property information may be maintained for non-capitalized property with less than \$1,000 in value, if so designated by the Director of the Division of Procurement and Supply (P&S) to reflect the CNMI's desire to track certain types of property. This type of non-capitalized property is referred to as designated non-capitalized property.
- All capitalized property, selected non-capitalized property, and designated non-capitalized property shall be identified by a property control number, which shall be permanently affixed to each individual piece of such property in a manner that is readily observable and shall be entered into the Master Inventory Control Record by the Property Management Branch.
- P&S will conduct an annual inventory of property held by each Accountable Person as reflected in the master inventory control record.

Condition: Tests of forty-four capital assets resulted in the following deficiencies:

1. For seventeen (or 39%), assets could not be located:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Status Per Listing</u>	<u>Cost</u>
08/27/96	US-30021CM	Inventoried	\$ 1,800
08/26/97	US-30973CM	Surveyed	6,642
03/08/99	US-32574CM	Inventoried	625
03/14/01	US-29654CM	Surveyed	1,000
10/16/01	CNMI-39331	Surveyed	15,000
10/16/01	ITEM-30991	Inventoried	249
10/16/01	ITEM-31071	Inventoried	295
02/21/02	ITEM-21651	Working	689
07/26/02	MP-03530CM	Working	250
10/15/03	ITEM-28294	Surveyed	500
07/14/04	ITEM-30749	Working	213



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-018, Continued  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Federal Award Nos.: NA11NOS4190153, NA12NOS4190178, NA13NOS4190148 and NA14NOS4190119  
 Area: Equipment and Real Property Management  
 Questioned Costs: \$-0-

Condition, Continued:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Status Per Listing</u>	<u>Cost</u>
11/03/04	MP-09484CM	Surveyed	1,773
11/26/04	MP-09584CM	Working	2,226
06/23/05	MP-10648CM	Working	90
09/18/07	MP-15711CM	Working	230
01/18/12	MP-24462CM	Working	2,498
09/26/12	ITEM-53719	Working	<u>1,099</u>
			<u>\$ 35,179</u>

For items listed as surveyed, the survey forms were not provided.

2. For one (or 2%), we were not able to verify existence as the item was not tagged with a property number, and the serial number differs from the property listing:

<u>Date Acquired</u>	<u>Property No.</u>	<u>Serial No. Per Listing</u>	<u>Serial No. Per Item</u>	<u>Status Per Listing</u>	<u>Cost</u>
06/19/06	ITEM-36833	BCB6Y2000381	BCB5Y2000381	Working	\$ 199

3. For one (or 2%), the property listing indicated the item to be in working condition, but the item was found to be unserviceable.

<u>Date Acquired</u>	<u>Property No.</u>	<u>Status Per Listing</u>	<u>Cost</u>
03/29/11	ITEM-50333	Inventoried	\$ 7,000

4. For one (or 2%), property ownership was transferred to a third party; however, neither the ownership transfer documentation nor grantor approval was provided.

<u>Date Acquired</u>	<u>Property No.</u>	<u>Status Per Listing</u>	<u>Cost</u>
07/20/92	CNMI-29867	Working	\$ 18,489

5. The property listing maintained by the Program and P&S contains incomplete information such as either a serial number and/or other identification number, the cost of the property, percentage of Federal participation in the cost of the property, the location of the property and any ultimate disposition data including the date of disposal.
6. We were not provided a list of items disposed and surveyed in fiscal year 2015.
7. We noted a variance in the cost and number of items between the property listing maintained by the Program and P&S.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-018, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Federal Award Nos.: NA11NOS4190153, NA12NOS4190178, NA13NOS4190148 and  
NA14NOS4190119  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Condition, Continued:

8. An annual physical inventory count was not performed during fiscal year 2015.

We are unable to assess the overall cumulative monetary value of the deficiencies above; however, total capital outlays for fiscal years 2015, 2014, 2013, 2012 and 2011 were \$5,646, \$6,253, \$4,212, \$88,235 and \$36,163, respectively.

Cause: The CNMI lacks the human resources and financial management system structure needed to effect compliance with applicable equipment and real property management requirements.

Effect: The CNMI is in noncompliance with applicable equipment and real property management requirements. No questioned costs are presented since we are unable to quantify the extent of noncompliance.

Recommendation: The CNMI should consider seeking technical assistance and corresponding financial assistance from the Federal Government to develop and implement an equipment management system that can demonstrate compliance with applicable equipment and real property management requirements.

Prior Year Status: Noncompliance with applicable equipment and real property management requirements was reported as a finding in the CNMI Single Audit for fiscal year 2014 as Finding No. 2014-021.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances A. Castro, DCRM Director

**Corrective Action:** DCRM has tried to maintain complete records on all the property, but DCRM does not have records for many items that have no market value because they are old and outdated. The Bureau of Environmental and Coastal Quality's (BECQ) document retention policy is to retain program documents for only nine years.

DCRM will complete an inventory count of all DCRM property, will provide the information to P&S and will request to reconcile the property records.

**Proposed Completion Date:** September 30, 2016.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-019  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Federal Award Nos.: NA11NOS4190153, NA12NOS4190178, NA13NOS4190148 and NA14NOS4190119  
 Area: Program Income  
 Questioned Costs: \$-0-

Criteria: In accordance with supplemental clarifications and guidance from the grantor on May 20, 2016, any remaining program income that is not expended in accordance with applicable program income requirements must be returned to NOAA at the end of the award.

Condition: At September 30, 2015, expired grants have remaining program income which have not been returned to NOAA:

Business Unit	Grant Period End	Program Income as of 09/30/15	Program Expenditures During 09/30/15	Unspent as of 09/30/15
C8419P	09/30/09	\$ 16,198	\$ 3,917	\$ 12,281
C9419K	09/30/10	\$ 11,083	\$ -	11,083
C0419K	09/30/11	\$ 8,011	\$ 109	7,902
C0419U	09/30/12	\$ 7,342	\$ 300	7,042
C1419K	09/30/14	\$ 20,430	\$ 4,238	16,192
C2419L	09/30/15	\$ 25,055	\$ 7,415	17,640
				<u>\$ 72,140</u>

Cause: Program management does not have a clear understanding of applicable program income requirements. Guidance had been sought from the grantor in May 2015, but the response received in June 2015 was not final, and Program management had more questions. Additional guidance from the grantor was not received until May 2016.

Effect: The CNMI is in noncompliance with applicable program income requirements. No questioned costs are presented as the unspent amount was already questioned in fiscal year 2014.

Recommendation: The CNMI should continue to seek technical assistance from the grantor to solidify its understanding of applicable program income requirements. Furthermore, the CNMI should consider the grantor advice to “spend program income in place of drawing Federal funds during the award to avoid issuing a refund during closeout”.

Prior Year Status: Noncompliance with program income requirements was reported as a finding in the CNMI Single Audit for fiscal year 2014 as Finding No. 2014-024.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances A. Castro, DCRM Director

**Corrective Action:** DCRM has sought guidance from NOAA regarding expenditure of program income since 2010. DCRM has received incomplete and sometimes conflicting guidance. DCRM received partial guidance from NOAA in May 2015 and further guidance from NOAA on June 3, 2016.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-019, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Federal Award Nos.: NA11NOS4190153, NA12NOS4190178, NA13NOS4190148 and  
NA14NOS4190119  
Area: Program Income  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Based on this additional guidance on June 3, 2016, DCRM will return program income from expired grants to NOAA.

**Proposed Completion Date:** September 30, 2016.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-020  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Federal Award Nos.: NA12NOS4190178, NA13NOS4190148 and NA14NOS4190119  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: In accordance with applicable financial assistance standard terms and conditions, the Program must submit a "Federal Financial Report" (Form SF-425) on a semi-annual basis for the periods ending March 31 and September 30, or any portion thereof, unless otherwise specified in a special award condition. Reports are due no later than 30 days following the end of each reporting period.

Condition: Form SF-425 for NA13NOS4190148 and NA14NOS4190119 grant awards for the period ended March 31, 2015 were not submitted. We were not provided grantor approval that the forms were not required.

In addition, program income was not reported in the required fields:

Federal award number	NA12NOS4190178
Reporting period end date tested	09/30/15
Program income earned	\$ 52,984
Program income expended	<u>(35,544)</u>
Unexpended program income	\$ <u>17,440</u>

Cause: The cause of the above condition may have been an oversight on the submission of Form SF-425 for March 31, 2015 reporting period. In addition, Program management does not have a clear understanding of applicable program income reporting. Overall program income guidance had been sought from the grantor in May 2015, but the response received in June 2015 was not final, and Program management had more questions. Additional guidance from the grantor was not received until May 2016.

Effect: The CNMI is in noncompliance with reporting requirements. No questioned costs are presented as we are unable to quantify the extent of noncompliance related to Form SF-425 submission.

Recommendation: We recommend that the CNMI comply with the reporting requirements for Form SF-425. In addition, the CNMI should continue to seek technical assistance from the grantor to solidify its understanding of applicable reporting requirements over program income.

Prior Year Status: Noncompliance with reporting requirements was reported as a finding in the CNMI Single Audit for fiscal year 2014 as Finding No. 2014-025.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-020, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Federal Award No.: NA11NOS4190153  
Area: Reporting  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Larrisa Larson, Secretary of Finance and Frances A. Castro, DCRM Director

**Corrective Action:** DCRM will request DOF to report all program income earned and expended on the Form SF-425 for each reporting period. Additionally, DCRM will request DOF to report program income for any missed reporting periods.

**Proposed Completion Date:** Immediately.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-021  
 Federal Agency: U.S. Department of Commerce  
 CFDA Program: 11.419 Coastal Zone Management Administration Awards  
 Federal Award Nos.: NA12NOS4190178, NA13NOS4190148 and NA14NOS4190119  
 Area: Special Tests and Provisions  
 Questioned Costs: \$12,866

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

1. In accordance with SAC #14 for Budget Clarification of NA12NOS4190178, a detailed budget is required for the Other Cost Category, describing the basis of the cost estimate.
2. In accordance with SAC #6 for Supplemental SAC of NA13NOS4190148, a detailed budget is required for the Other Cost Category, describing the basis of the cost estimate.
3. In accordance with SAC #7 for Task 306-04 of NA13NOS4190148, funds in the amount of \$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.
4. In accordance with SAC #2 for Task 306-2 of NA14NOS4190119, funds in the amount of \$10,000 are not to be expended for staff travel for Task 306-2 until a detailed travel budget has been approved by NOAA/OCRM.

Condition: Tests of the above SAC noted the following:

1. We were not provided a detailed budget and grantor approval related to SAC #14 of NA12NOS4190178. Total other costs incurred are \$568.
2. We were not provided a detailed budget and grantor approval related to SAC #6 of NA13NOS4190148. Total other costs incurred are as follows:

<u>Business Unit</u>	<u>General Ledger Date</u>	<u>PV #</u>	<u>Amount</u>
C3419D	09/14/15	1245765	\$ 93
C3419D	09/14/15	1245765	258
C3419D	09/14/15	1245765	103
C3419D	12/01/14	1205405	933
C3419D	12/01/14	1205405	222
C3419D	01/26/15	1209326	758
C3419D	01/26/15	1209326	103
C3419D	03/05/15	1212703	1,213
C3419D	03/05/15	1212703	255
C3419D	03/05/15	1212703	625
C3419D	05/06/15	1217761	42
C3419D	05/06/15	1217761	83
C3419D	05/06/15	1217761	40
C3419D	05/07/15	1217909	75
C3419D	05/07/15	1217909	70
C3419D	05/07/15	1217909	702
C3419K	03/19/15	1213937	2,310
C3419K	05/06/15	1217781	500
			<u>\$ 8,385</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-021, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Federal Award Nos.: NA12NOS4190178, NA13NOS4190148 and NA14NOS4190119  
Area: Special Tests and Provisions  
Questioned Costs: \$12,866

Condition, Continued:

3. We were not provided justification and demonstration of fringe benefits and grantor approval related to SAC #7 for Task 306-04 of NA13NOS4190148. Total fringe benefits incurred are \$127.
4. We were not provided a detailed travel budget and grantor approval related to SAC #2 for Task 306-2 of NA14NOSA4190119. Total travel expense incurred is \$3,786.

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 CNMI is in noncompliance with special tests and provision requirements, and questioned costs of \$12,866 exist.

Recommendation: CNMI management should monitor compliance with grant special award conditions.

Prior Year Status: Noncompliance with special tests and provision requirements was reported as a finding in the CNMI Single Audit for fiscal year 2014 as Finding No. 2014-026.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances A. Castro, DCRM Director

**Corrective Action:**

- Condition 1: The approved budget narrative for NA12NOS4190178, which includes the detailed breakdown of the "other" cost category, has been provided.
- Condition 2: The approved budget narrative for NA13NOS4190148, which includes the detailed breakdown of the "other" cost category, has been provided.
- Condition 3: SAC #7 requires justification of \$31,982 in fringe benefits for the Chief Enforcement Officer. The CNMI's initial fringe benefit calculation was extremely high, based on the actuarial rate calculated by the failing retirement fund for the Defined Benefit Plan. However, the rate was reduced to \$23,114 on the Fiscal Impact Sheet. The employee's Notice of Personnel Action and Fiscal Impact Sheet have been provided.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-021, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.419 Coastal Zone Management Administration Awards  
Federal Award Nos.: NA12NOS4190178, NA13NOS4190148 and NA14NOS4190119  
Area: Special Tests and Provisions  
Questioned Costs: \$12,866

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 4: The detailed travel budget and grantor approval related to SAC #2 for Task 306-2 of NA14NOS4190119 has been provided.

DCRM has improved its record keeping and administrative procedures and will continue to fine-tune them, and practice tighter controls.

**Proposed Completion Date:** September 30, 2016.

Auditor Response:

Condition 1: Neither the detailed budget nor grantor approval specific to SAC #14 was provided.

Condition 2: Neither the detailed budget nor grantor approval specific to SAC #6 was provided.

Condition 3: Neither the required justification and demonstration of the expense nor grantor approval specific to SAC #7 was provided.

Condition 4: Neither the detailed travel budget nor grantor approval specific to SAC #2 was provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-022  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Federal Award No.: NA13NOS4820010  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$-0-

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.

Condition: Tests of ten payroll expenditures aggregating \$12,699 of a population of \$250,836 noted that one (or 10%) employee's salary exceeded the salary range per the approved budget. We were not provided grantor approval for the additional amount the employee is being paid for.

<u>Business Unit</u>	<u>Employee No.</u>	<u>Salary Range Per Approved Budget</u>	<u>Employee's Salary</u>	<u>Excess Salary Over Range</u>
C3482F	372818	\$ 30,000 - \$ 30,300	\$ 33,000	\$ 2,700

No questioned cost is presented as total FY 2015 program personnel costs of \$250,624 are within the program personnel budget of \$260,733.

Cause: CNMI management did not effectively monitor transactions for required approvals and budget limits.

Effect: The CNMI is in noncompliance with allowable costs/cost principles requirements. Projected questioned costs exceed the \$10,000 threshold; therefore, this finding is reportable.

Recommendation: CNMI management should strengthen monitoring controls over transactions so that proper reviews and approvals are documented to substantiate program costs in accordance with applicable allowable costs/cost principles.

Prior Year Status: Noncompliance with applicable allowable costs/cost principles requirements was reported as a finding in the CNMI Single Audit for fiscal year 2014 as Finding No. 2014-027.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances A. Castro, DCRM Director

**Corrective Action:** The agency gave the employee a 10% raise for completing his Masters Degree of Science in Marine Biology. DCRM believed that this was appropriate and exercised its discretion in such a decision. Moreover, the additional funds committed to this employee's salary were not drawn from a different cost category, but charged to the approved personnel budget for the award.

DCRM has improved its record keeping and administrative procedures and will continue to fine-tune them, and practice tighter controls.

**Proposed Completion Date:** September 30, 2016.

Auditor Response: Grantor approval was not provided for the salary increase.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-023  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Federal Award No.: NA13NOS4820010  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$46,367

Criteria: In accordance with the cooperative agreement for NA13NOS4820010, the recipient's share of costs is \$65,600 for the year ended September 30, 2015.

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: The Program is deficient in the required recipient share for the year ended September 30, 2015:

	<u>Per Program</u>	<u>Per Verified Records</u>	
Total federal funds per overall budget summary			\$ 569,782
Waiver match per 16 USC 6401, Section 6403(b)(2)			(200,000)
Additional waiver match approved by grantor on 05/03/13			<u>(304,182)</u>
Required match			65,600
Actual match:			
Personnel costs - Head Forester for Rota DLNR	\$ 5,254	\$ 4,393	
Personnel costs - Forestry Employee for Rota DLNR	2,005	1,750	
Transportation	<u>13,090</u>	<u>13,090</u>	
Total actual match	<u>\$ 20,349</u>	<u>\$ 19,233</u>	<u>(19,233)</u>
Deficient local match			\$ <u>46,367</u>

Cause: CNMI management did not effectively monitor compliance with applicable matching, level of effort, earmarking requirements.

Effect: The CNMI is in noncompliance with applicable matching, level of effort, earmarking requirements, and questioned costs of \$46,367 exist.

Recommendation: We recommend compliance with the above criteria.

Prior Year Status: Noncompliance with matching, level of effort and earmarking requirements was reported as a finding in the CNMI Single Audit for fiscal year 2014 as Finding No. 2014-028.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-023, Continued  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Federal Award No.: NA13NOS4820010  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$46,367

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances A. Castro, DCRM Director

**Corrective Action:** Matching funds have been clearly documented in the amount of \$20,349.

\$5,254 (261 hours x 20.13/hour) in value for this person is demonstrated below:

- Head Forester for Rota DLNR spent a documented 261 hours (signed time logs) on this project between late June and the end of September (additional 12 hours; \$242 value can be proven for work performed on October 1, 2 and 5, 2015. As this was part of the ongoing planting season, we feel that that value should also be included in this match). In addition, the calculation also included fringe benefits in the valuation of the hours worked.

\$2,005 (241 hours x \$7.26/hour) in value for this person is demonstrated below:

- Forestry Employee for Rota DLNR spent a documented 261 hours (signed time logs) on this project between late June and the end of September. In addition, the calculation also included fringe benefits in the valuation of the hours worked.

DCRM will implement a more effective and accurate tracking system that will measure the amount of contributed match as it occurs over the grant cycle, to ensure that the required level of matching is met in a timely manner.

**Proposed Completion Date:** September 30, 2016.

Auditor Response: Personnel costs incurred in October 2015 is after the 09/30/15 cut-off and cannot be used to satisfy matching requirements for the FY 2015 reporting period. Furthermore, the breakdown and related supporting documents to substantiate the fringe benefits included as part of the personnel costs were not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-024  
Federal Agency: U.S. Department of Commerce  
CFDA Program: 11.482 Coral Reef Conservation Program  
Federal Award No.: NA11NOS4820009  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: The Program is required to submit a Form SF-425 that is accurately prepared and supported.

Condition: A detailed breakdown and/or supporting underlying accounting documents of the recipient share reported on the Form SF-425 were not provided. In addition, the cumulative amount reported as recipient share of \$108,754 does not agree with the expected cumulative recipient share per audit expectation of \$54,044, resulting in a variance of \$54,710.

Cause: The cause of the above condition is the lack of systematic filing of underlying accounting documents. In addition, CNMI management did not effectively monitor compliance with applicable reporting requirements.

Effect: The CNMI is in noncompliance with reporting requirements. No questioned costs are presented as we are unable to quantify the extent of noncompliance related to the Form SF-425 submission and the amount related to the recipient share is already questioned at Finding No. 2015-025.

Recommendation: We recommend that amounts reported on the Form SF-425 are supported with underlying accounting documents and CNMI management effectively monitor compliance with applicable reporting requirements.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** DOF will monitor and ensure that all supporting documents and records will be maintained for all SF-425 submissions.

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-025  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award No.: CI-CNMI-2015-1  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$504,498

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required from employees working solely for one federal program. Direct costs chargeable to federal awards are compensation of employees for the time devoted and identified specifically to the performance of those awards, cost of materials acquired, consumed, or expended specifically for the purpose of those awards, equipment and other approved capital expenditures and travel expenses incurred specifically to carry out the award. In addition, an effective system of internal control requires accurate financial information which agrees with accounting records.

Condition: Tests of sixty expenditures noted the following:

1. Of five payroll expenditures tested aggregating \$31,862, of a population of \$180,364, required certification for one expenditure (or 20%) was not obtained for an employee working full-time on the program. Although employees are signing timecards or timesheets evidencing hours worked, the sign off does not indicate if the employee actually performed activities solely for the one federal program. Total program payroll costs of \$50,575 for the period from October 1, 2014 to December 31, 2014 are not covered by employee certification.
2. Of fifty-three nonpayroll expenditures tested aggregating \$8,204,307, of a population of \$13,163,245, three (or 6%) were not supported by a detailed schedule, invoices or billing statements of actual charges.

<u>Business Unit No.</u>	<u>General Ledger Date</u>	<u>PV No.</u>	<u>Questioned Costs</u>
I15CID	02/20/15	14826	\$ 275,181
I15CID	04/13/15	15045	137,590
I15CID	02/20/15	14826	91,727
			<u>\$ 504,498</u>

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

Effect: The effect of the above conditions is noncompliance with applicable allowable costs/cost principles requirements.

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

Prior Year Status: The lack of employee certifications was reported as a finding in the CNMI Single Audits for fiscal years 2009 through and 2014, respectively.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-025, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Federal Award No.: CI-CNMI-2015-1  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$504,498

Auditee Response and Corrective Action Plan:

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

**Corrective Action:**

1. The New Employee Packet was created to ensure proper forms are completed and applicable allowable costs/cost principle requirements are met. The packet includes employee certifications required from employees working for one federal program. Additionally, the Personnel Activity Report was created to evidence hours worked on a federal program, detailing program activity (e.g., meetings, training, etc.).
2. A detailed schedule, invoices, or billing statements of actual charges are required to support any and all expenditure claims. Annual staff training on expenditure best practices will be held at the beginning of every fiscal year to ensure all employees are updated on grant requirements. Upon clarification of cost requirements, we will work with qualifying departments to ensure documentation of cost reimbursements are provided prior to reimbursement.

Additionally, prior to project initiation and through the implementation of the CIP Project Checklist, our office requires review of the grant agreement and grant terms and conditions.

**Proposed Completion Date:** November 30, 2016.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-026  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award Nos.: CIP-CNMI-2006-1, CNMI-CIP 2009-2, CIP-CNMI-2012-1, CIP-CNMI-2012-5, CNMI-CIP-2013-1, CNMI-CIP-2013-4, CNMI-CIP-2013-5, CNMI-CIP-2013-8, CNMI-CIP-2013-10, CI-CNMI-2014-2, CI-CNMI-2015-1,  
 Area: Cash Management  
 Interest Liability: \$339  
 Questioned Costs: \$-0-

**Criteria:** Terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed. Additionally, the CMIAA states that the CNMI should 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 for construction activities and nine days for operational and administrative costs.

Further, in accordance with the Rules and Procedures for Efficient Federal-State Funds Transfers 31 CFR §205.26, a State must submit to the U.S. Treasury an annual report accounting for State and Federal interest liabilities of the State's most recently completed fiscal year. The authorized State official must certify the accuracy of a State's annual report. A signed original of the annual report must be received by December 31 of the year in which the State's fiscal year ends.

**Condition:** Of fifty-three expenditures tested aggregating \$8,960,033, of a population of \$13,343,609, twenty expenditures (or 38%) were paid after the allowable clearance pattern:

<u>Document No.</u>	<u>Business Unit</u>	<u>Amount</u>	<u>Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed after the Allowable Clearance Pattern</u>
1200936	5646	\$ 95,085	10/27/14	10/13/14	10
1201088	5686	\$ 60,464	01/13/15	10/27/14	74
1203301	5679	\$ 365,625	12/03/14	11/10/14	19
1203301	5679	\$ 63,708	12/03/14	11/10/14	19
1204396	5679A	\$ 22,707	05/07/15	12/03/14	151
1204403	5225	\$ 69,722	12/30/14	12/08/14	18
1207484	5690	\$ 208,689	01/12/15	01/02/15	6
1208594	5687	\$ 196,211	02/02/15	01/26/15	8
1209638	5659A	\$ 263,602	05/19/15	02/05/15	99
1210416	5672A	\$ 209,954	06/08/15	02/23/15	105
1211516	I15CIA	\$ 529,926	08/13/15	02/24/15	166
1211519	I15CIG	\$ 63,078	04/17/15	02/24/15	48
1212546	5638	\$ 110,179	04/09/15	03/13/15	23
1215874	I15CIA	\$ 264,963	08/13/15	04/15/15	116
1215876	I15CIB	\$ 12,712	08/13/15	04/15/15	116
1216605	I14CII	\$ 192,900	06/16/15	04/20/15	53
1218528	5679A	\$ 63,143	06/01/15	05/22/15	6
1220890	5653B	\$ 429,413	07/01/15	06/19/15	3
1241458	5686	\$ 97,754	09/11/15	08/21/15	34
1245816	I15CIA	\$ 264,963	09/25/15	08/11/15	41

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-026, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Federal Award Nos.: CIP-CNMI-2006-1, CNMI-CIP 2009-2, CIP-CNMI-2012-1, CIP-CNMI-2012-5, CNMI-CIP-2013-1, CNMI-CIP-2013-4, CNMI-CIP-2013-5, CNMI-CIP-2013-8, CNMI-CIP-2013-10, CI-CNMI-2014-2, CI-CNMI-2015-1,  
Area: Cash Management  
Interest Liability: \$339  
Questioned Costs: \$-0-

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. Interest earned on the advances is \$439 and an interest liability of \$339 exists; however, no questioned costs result as the projected interest liability is less than \$10,000.

Recommendation: We recommend compliance with CMIAA clearance patterns and that steps be taken to timely prepare and submit the required annual report accounting for State and Federal interest liabilities. The CNMI should develop a written policy.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** The Office of the Attorney General has assisted the CIP in creating the CNMI CMIAA Policy, compliant with terms stipulated in the CMIAA. The policy includes 1) 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. The CNMI CMIAA Policy is now included in all new employee packets and a covered topic during CIP's annual staff training to ensure staff knowledge and update. Beginning 11/01/2016, the CNMI CMIAA Policy will be included in all contractual agreements to ensure contractor/vendor compliance.

**Proposed Completion Date:** November 30, 2016.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-027  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award Nos.: CNMI-CIP-2007-1, CNMI-CIP-2009-2 and CNMI-CIP-2010-5  
 Area: Period of Availability of Federal Funds  
 Questioned Costs: \$192,196

**Criteria:** Expenditures should be incurred within the performance period as specified in grant agreements. Grantees should liquidate all obligations incurred under the award no later than 90 days after the end of the funding period. Further, in accordance with 93 CFR 12.90 (b), grantees or subgrantees must obtain prior approval from the awarding agency whenever it is anticipated that there is a need to extend the period of availability of funds. Prior approval means documentation evidencing consent prior to incurring specific costs.

**Condition:** Of fifteen awards tested aggregating \$815,647 of a population of \$13,343,609, we noted the following:

- Two grants (grant nos. CNMI-CIP-2007-1 and CNMI-CIP-2009-2) (or 13%) expired on 09/30/14 and 12/21/14, respectively and the following expenditures were liquidated after 90 days of the grant expiration date.

Grant No.	Business Unit	Grant Expiration	Liquidation End Date	PV No.	Check No.	Check Date	Bank Clearance Date	Questioned Costs
CNMI-CIP-2007-1	5612	09/30/14	12/30/14	1212546	6583	03/20/15	04/09/15	\$ 5,497
CNMI-CIP-2007-1	5611	09/30/14	12/30/14	1219510	6704	06/08/15	06/09/15	21,039
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1218527	6695	06/04/15	06/08/15	11,793
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1220817	6730	06/25/15	07/03/15	2,665
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1232467	6743	07/14/15	07/20/15	3,510
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1244475	6807	09/09/15	09/11/15	142,004
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1245449	6823	09/05/15	09/24/15	<u>5,688</u>
								\$ <u>192,196</u>

- Fifteen 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.	Business Unit	Grant Expiration	Liquidation End Date	PV No.	Check No.	Check Date	Bank Clearance Date	Amount
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1251449	6900	11/30/15	12/02/15	\$ 4,193
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1251860	6900	11/30/15	12/02/15	10,818
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1252408	6906	12/11/15	12/11/15	387,123
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1254854	6963	02/25/16	02/26/16	35,583
CNMI-CIP-2009-2	5637	12/21/14	03/21/15	1257057	6952	02/10/16	02/18/16	1,741
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1256048	6942	01/25/16	01/28/16	4,320
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1256482	6950	02/10/16	02/15/16	4,320
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1260588	6983	03/22/16	03/24/16	4,320
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1247777	6854	10/22/15	11/11/15	3,170
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1248439	6654	10/22/15	11/11/15	3,231
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1251121	6908	12/11/15	12/23/15	3,122
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1252407	6933	01/20/16	02/03/16	3,231
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1252943	6944	01/25/16	02/08/16	242
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1256051	6944	01/25/16	02/08/16	3,267
CNMI-CIP-2010-5	5668	09/30/15	12/30/15	1257888	6981	03/18/16	03/30/16	<u>3,231</u>
								\$ <u>471,912</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-027, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
Federal Award Nos.: CNMI-CIP-2007-1, CNMI-CIP-2009-2 and CNMI-CIP-2010-5  
Area: Period of Availability of Federal Funds  
Questioned Costs: \$192,196

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

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$192,196.

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

Prior Year Status: The lack of established policies and procedures for the recording of expenditures incurred beyond the period of availability was reported as a finding in the CNMI Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** To ensure expenditures and obligations are liquidated no later than 90 days after grant expiration and for accurate tracking of the grant performance period, a Grant Notification System has been developed and implemented and will be used to track any and all grant and contract expiration dates. The calendar system has a 90-day, 60-day and 30-day pop-up notification before and after grant expiration to assist with the grant closeout process. Additionally, an expenditure/drawdown template was developed to ensure proper recording of obligations, expenditures, drawdowns, and grant balances.

**Proposed Completion Date:** November 30, 2016.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-028  
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: \$1,903,948

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 requirements 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 are available only from a single source; B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation; C) The awarding agency authorizes noncompetitive proposals; or D) After solicitation of a number of sources, competition is determined inadequate." Furthermore, federal regulations stipulate that grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law.

In accordance with Northern Mariana Islands Administrative Code (NMIAC) 70-30.3-410, before adding significant new work to existing contracts, the agency shall thoroughly assess whether or not it would be more prudent to seek competition. Change orders on construction and A&E contracts which exceed 25 percent of the cumulative contract price shall automatically be procured through competitive procedures pursuant to § 70-30.3-201, except when the procurement of the additional work is authorized without using full and open competition under § 70-30.3-215.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-028, 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: \$1,903,948

Criteria, Continued:

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 requirements 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.

In accordance with CNMI Procurement Regulations section 70-30.1-115 (f), even though an item qualifies for exemption from the requirement for submission of certified cost or pricing data, the contracting offices shall make a price analysis to determine the reasonableness of the price and any need for further negotiation.

Condition: Of twenty-two capital improvement program (CIP) contracts tested from nonpayroll expenditures aggregating \$8,951,379, of a population of \$13,163,245, the following were noted:

1. A contract (or 5%) (grant no. CNMI-CIP-2014-4; business unit no. 5649C; contract no. 627 OS) did not contain provisions for federal access to contractor records. No questioned costs result as contractor was selected in accordance with procurement regulations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-028, 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: \$1,903,948

Condition, Continued:

2. For one architect & engineering contract (or 5%) (grant no. CNMI-CIP-2013-4; business unit no. 5690; contract no. 617-OS), 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. 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 no. 617-OS, change order #2 is \$135,464.
3. A request for extension of project completion for a contract (grant no. CNMI-CIP-2012-1; business unit no 5686; contract no. 635-OS) dated March 27, 2015 was submitted one hundred ninety four days after the project estimated completion of September 14, 2014. No questioned costs result as the vendor was selected in accordance with procurement regulations.
4. For one contract (or 5%) (grant no. CNMI-CIP-2013-4; business unit no. 5690; contract no. 617 OS) 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 DPW were reviewed along with those that may be submitted by other firms in response to the announcement to meet the required number of proposals. No questioned costs result as the amount is already questioned in Condition 2.
5. A contract (or 5%) (grant no. CNMI-CIP-2013-1; business unit no. 5659A; contract no. 632 OS) for a repair, renovation and improvement project did not include a price analysis to determine reasonableness as required by the 70-30.1-115 (f). No questioned costs result as the vendor is the sole bidder.
6. For one contract (or 5%) (grant no. CNMI-CIP-2012-1; business unit no. 5687; contract no. 595 OS), emergency procurement was used for change order # 3 to construct a ponding basin and retaining wall that increased the contract cost by \$495,983 or 30% of the original contract price. This procurement was not in accordance with 70-30.3-230, Emergency Procurement. No written justification was provided to support the use of noncompetitive procurement methods. Total federal expenditures incurred for contract no. 595, change order #3 is \$444,258.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-028, 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: \$1,903,948

Condition, Continued:

7. A construction contract (or 5%) (grant no. CNMI-CIP-2013-11; business unit no. 5664B; contract no. 644 OS), with change order # 1 to install a maintenance walkway, increased the contract cost by \$15,000 or 28% of the original contract price. The original contract in the amount of \$53,769 was for roof repair and coating. There is no evidence that the new work under change order # 1 was procured through competitive procedures as required by 70-30.3-410. No written justification was provided to support the use of noncompetitive procurement methods. Total federal expenditures incurred for contract no. 644, change order #1 is \$15,000.
  
8. One construction contract (or 5%) (grant no. CIP-CNMI-2008-3; business unit nos. 5624 and 5625; contract no. 659 OS), was procured through competitive sealed bidding, and only two bidders responded. Initially, the lowest bidder was disqualified under a non-responsibility determination, but after the lowest bidder protested, the disqualification was withdrawn on 02/23/2015. On 02/24/2015, the Procurement and Supply Office notified the Attorney General, Deputy Attorney General, Public Auditor, CIP Administrator, CIP Project Manager, and the president of each bidder, that the lowest bidder withdrew its bid. However, no written withdrawal directly from the lowest bidder was provided.

Neither a price analysis nor documentation of price negotiations was provided to support the contract award amount of \$21,994,873. Per the bid evaluation, the CNMI engineer cost estimate was \$16,286,215. The lowest bidder had bid approximately \$16.2 million. Total FY 2015 federal expenditures incurred for contract no. 659 is \$1,309,226.

Cause: The cause of the above condition is the failure to enforce adherence to established CNMI procurement regulation.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$1,903,948.

<u>Condition</u>	<u>Questioned Costs</u>
2	\$ 135,464
6	444,258
7	15,000
8	<u>1,309,226</u>
	\$ <u>1,903,948</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-028, 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: \$1,903,948

Recommendation: We recommend that the CNMI comply with procurement regulations and review its current procurement regulations to conform with applicable federal laws.

Prior Year Status: The lack of compliance with procurement regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2013 and 2014.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:**

- Condition 1: The CIP partnered with the Office of the Attorney General to include applicable laws, regulations and provisions in all contract templates used by our office. The Office of the Attorney General's opinion is that this provision is stated in the General Conditions (GC) document which is incorporated as a part of the contract document. Contract templates and the General Conditions executed on July 1, 2016 forward have been updated to contain provisions for federal access to contractor records.
- Condition 2: The HVAC Project was a priority project because it was cited as a requirement from CMS; because a majority of CHCC's funding derives from CMS, the possibility of loss of funding created a threat to Public Health. During the design phase of the project, the Program planned to have periodic inspections performed and reported 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, specifically a licensed Mechanical Engineer; hence, the justification letter dated March 12, 2014. The CIP Office did comply with procurement regulations with respect to procuring under emergency circumstances.
- Condition 3: The Capital Improvement Program has implemented a Project Notification System, which is used to track contract expiration dates, report submission due dates, and other notable happenings during project performance. The calendar system has a 90-day, 60-day and 30-day pop-up notification *before* contract expiration to assist with the project closeout process. Additionally, an expenditure/drawdown template was developed to ensure proper recording of obligations, expenditures, drawdowns, and grant balances.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-028, 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: \$1,903,948

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 4: The Proposal Opening Summary Sheet of 12/03/12 revealed three proposers responding to RFQ13-GOV-008 entitled "RFQ for Provisions of Architect and Engineering Services." In order to meet the required discussion with "at least three firms", all three proposers were evaluated according to the set evaluation criteria(s), 1) Past Experience as Project Manager-70%, and 2) Interview-30%. Documentation that current statements of qualifications of architect and engineering firms from P&S and the Technical Services Division of DPW were not required since discussions were made with "at least three firms". Documentation of prior qualification statements from DPW maybe for different scope of work and interest. The proposed Procurement Regulations will show that CIP is a separate entity from DPW; furthermore, P&S forwards all proposals to the respective agencies.

Statements of qualifications were reviewed by the Contracting Officer and pre-qualified all three proposers and awarded two contracts on an 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 two distinct professionals that can provide and maximize project efficiency.

Condition 5: A price analysis was completed based on previous projects on the island of Tinian, in terms of unit cost. However, a Price Analysis template was developed to determine reasonableness as required by the 70-30.1-115 (f), to be completed before each project is pursued. The analysis is included in the CIP Project Checklist; a checklist developed to ensure required analysis and documentation is completed.

Condition 6: Awarding of an Alternative Additive from the original solicitation is not considered a change order, but a *partial award* due to funding availability. The Invitation to Bid (ITB12-GOV-043) for this project was inclusive of the following bid items, 1) Base Bid 1 (16' wide pavement), 2) Base Bid 2 (20' wide pavement) and 3) Alternative Additive Bid 1 (16' wide pavement); Alternative Additive Bid 2 (drainage and ponding basin).

Additionally, a Change Order Checklist has been created to assist with ensuring proper procurement methods are used and supporting documentation is submitted. The checklist requires information such as cost of change order, scope identification, and whether competitive procurement is required.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-028, 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: \$1,903,948

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 6, Continued:

It is a change order because we are increasing the scope of work, but it should not be included in the 25% threshold under the current procurement rules.

Condition 7: The additional scope of work added to the project was granted to the same contractor as a requirement for a 10-year warranty guarantee for the roof coating product.

To ensure competitive procedures are required for a change order or not, a Change Order Checklist has been created to ensure proper procurement methods are used and supporting documentation is submitted. The checklist requires information such as cost of change order, scope identification, and whether competitive procurement is required or not.

Condition 8: The lowest bidder intentionally did not renew their bid bond, expressing they are no longer participating in the bidding process. A letter from Procurement & Supply dated February 4, 2015 recommended our office issue an "Intent to Award" letter to the next bidder.

A bid analysis is performed using current unit prices on other projects because the "means" manual is not applicable in the CNMI. The Regulatory Closure of Puerto Rico Dump marks the first dump closure in the CNMI. There were only two bidders for this project. A bid analysis is in the file and was provided.

**Proposed Completion Date:** November 30, 2016.

Auditor Response:

Condition 2: Although justification was provided and approved, the written justification does not support procurement under emergency conditions 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, 2015

Finding No.: 2015-028, 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: \$1,903,948

Auditor Response, Continued:

- Condition 4: 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 5: The determination of reasonableness of unit price and current market value was not provided. Thus, the finding remains.
- Condition 6: There was no documentation provided regarding the bid evaluation that includes Alternative Addition Bid 2. In addition, no documentation was provided that the demand for competitive method of procurement will delay the project. Thus, the finding remains.
- Condition 8: No documentation was provided for the bidder's withdrawal of bid. Bid analysis indicates a project cost of \$16,286,215 which is lower than the contract amount awarded of \$21,994,873. Thus, the finding remains.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-029  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award Nos.: CNMI-CIP-2006-1, CNMI-CIP-2007-1 and CNMI-CIP-2009-2  
 Area: Reporting  
 Questioned Costs: \$-0-

**Criteria:** In accordance with grant terms and conditions, the Program must submit a Financial Status Report and a narrative project status report for the periods beginning January 1 and ending June 30 and beginning July 1 and ending December 31. Reports are due within 30 days of the end of the period. Final reports are due 90 days after the expiration or termination of the award. Further, an effective system of internal control requires accurate financial information agreed with accounting record is presented on status report.

**Condition:** Of twenty-five grants tested aggregating \$12,805,337 of a population of \$13,343,609, we noted that two grant reports (or 8%) were not submitted within 90 days after the grants' expiration dates.

<u>Business Unit No.</u>	<u>Project</u>	<u>Grant No.</u>	<u>Grant Expiration</u>	<u>Due Date of Final Financial Status Report</u>
5609	NMC Facilities Improvement	CNMI-CIP-2007-1	09/30/15	12/30/15
5637	Garapan Revitalization	CNMI-CIP-2009-2	12/30/14	03/31/15

**Cause:** The cause of the above condition is the lack of established policies and procedures to accurately report and to submit timely financial information.

**Effect:** The effect of the above condition is the lack of compliance with reporting requirements. No questioned costs are presented as the Program submitted the semi-annual report but not the final report.

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

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** To ensure the Financial Status Report and Narrative Project Status Reports are submitted timely, a Grant Notification System has been implemented and will be used to track any and all grant and contract expiration dates. The calendar system has a 90-day, 60-day and 30-day pop-up notification *before and after* grant expiration to assist with the grant closeout process. Additionally, an expenditure/drawdown template was developed to ensure proper recording of obligations, expenditures, drawdowns, and grant balances.

The report submission dates are also included as reminders in the Project Notification System, which is used to track contract expiration dates, report due dates, and other notable happenings during project performance.

**Proposed Completion Date:** 11/30/16.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-030  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award Nos.: 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 Compliance Supplement, Part 3.1 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. Subrecipient agreements were not executed with component units for subawarded grants for fiscal year 2015.

<u>Grant No.</u>	<u>Business Unit No.</u>	<u>Sub-Grantee</u>	<u>FY2015 Amount</u>
CI-CNMI-2014-2	I14CII	Public School System (PSS)	\$ 192,900
CI-CNMI-2015-1	I15CIG	Public School System (PSS)	126,155
CI-CNMI-2015-1	I15CIA	Commonwealth Healthcare Corporation (CHCC)	1,059,852
CI-CNMI-2015-1	I15CIB	Commonwealth Healthcare Corporation (CHCC)	<u>50,848</u>
			<u>\$ 1,429,755</u>

2. Control procedures to monitor subrecipient compliance with applicable laws, regulations, and provisions of contracts and grant agreements are not evident. We are aware the subrecipients named above have been subjected to Single Audits; however, there is no evidence that the Single Audit Reports are used as a monitoring tool. Additionally, we are aware of the following circumstances regarding CHCC:

- CHCC’s FY 2015 Single Audit report was due on June 30, 2016; however, it has yet to be issued.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-030, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Federal Award Nos.: 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-

Condition, Continued:

- CHCC's FY 2015 and FY 2014 Single Audit reports each include a disclaimer of opinion on the financial statements.
- The disclaimer of opinion on CHCC's FY 2015 financial statements resulted in a disclaimer of opinion on the FY 2015 CNMI financial statements.
- CHCC has recorded only \$15,838 in its unaudited schedule of expenditures of federal awards (SEFA), whereas the CNMI's SEFA includes \$1,110,700 passed through to CHCC. No reconciliation has been provided

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

Effect: The effect of the above condition is the lack of compliance with subrecipient monitoring requirements. No questioned costs are presented 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, 2013-025 and 2014-035 in the CNMI Single Audits for fiscal years 2009 through 2014, respectively.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:**

Condition 1: A subrecipient agreement has been drafted for all component units receiving subawards. Upon execution of the agreement, monitoring requirements will be implemented.

Condition 2: In collaboration with the Graduate School USA, our office has developed standard tools to be used for monitoring activities. These templates will be used once the agreement is effective.

**Proposed Completion Date:** 11/30/16.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-031  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award Nos.: CNMI-CIP-2009-2, CNMI-CIP-2013-2, CNMI-CIP-2008-3, CNMI-CIP-2007-1 and CNMI-CIP-2008-2  
 Area: Special Tests and Provisions  
 Questioned Costs: \$433,619

Criteria: Grant terms and conditions specified under grant awards/agreements should be complied with. The grant awards have provisions that 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.

Condition: Of twenty-five projects tested aggregating \$8,960,033 of a population of \$13,343,609, we noted the following:

1. For two projects (or 8%), the scope of work and project budget signed by a certified architect or engineer and evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land for a project was not provided. Details are as follows:

<u>Business Unit No.</u>	<u>Project</u>	<u>Grant No.</u>	<u>Questioned Costs</u>
5636	Saipan Water Project - Puerto Rico 1M Gallon Reservoir Replacement	CIP-CNMI-2009-2	\$ 240,673
5652	Saipan Water Project - Water Task Force - Construction Management	CIP-CNMI-2010-2	<u>34,728</u>
			<u>\$ 275,401</u>

2. One project (or 4%) (grant no. CIP-CNMI-2012-1; business unit no. 5686) was terminated and all activities related to the Tinian Landfill ceased as the CNMI land was leased to a private entity. There was no approval from the grantor related to the change in scope of work. Total federal expenditures related to the project in fiscal year 2015 are \$158,218.

Cause: The cause of the above condition is the lack of systematic filing of evidence that the scope of work and project budget was signed by a certified architect or engineer and that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land and written approval from the grantor.

Effect: The effect of the above condition is noncompliance with grant terms and conditions and questioned costs exist in the amount of \$433,619.

Recommendation: We recommend that the CNMI properly maintain and file evidence that the scope of work and project budget is signed by a certified architect or engineer, that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land for construction projects. Further, we recommend that approval from the grantor be filed accordingly.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-031, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Federal Award Nos.: CNMI-CIP-2009-2, CNMI-CIP-2013-2, CNMI-CIP-2008-3, CNMI-CIP-2007-1 and CNMI-CIP-2008-2  
Area: Special Tests and Provisions  
Questioned Costs: \$433,619

Auditee Response and Corrective Action Plan:

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

**Corrective Action:**

Condition 1: The CIP Project Checklist was developed to ensure all required documentation and analysis is completed prior to project initiation. Included in the checklist is the NEPA requirement, Authorization to Proceed (ATP), and evidence that the CNMI has a clear title, a leasehold agreement, or other legal authority for use of land for a project, if applicable.

Condition 2: BU5686 A/E for the Tinian Dumpsite: The scope of work was approved via the issuance on an ATP dated 02/19/14. There was no change in scope of work; however, CIP had to cease all design activities because Tinian leased out the parcel of open dump; therefore, giving the private entity some rights to the property. Therefore, we no longer have a project site. CIP had a contract with a consultant, the consultant did the work, and CIP paid for the work already done. CIP communicated with the grantor regarding the loss of the project site and ceased all future activities related to the project. Any and all approval from the grantor is filed accordingly.

**Proposed Completion Date:** 11/30/16.

Auditor Response:

Condition 2: No updated scope of work and written approval from the grantor was provided during our tests. Thus, the finding remains.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-032  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Federal Award No.: 05-1505CQ5MAP  
 Area: Activities Allowed or Unallowed  
 Questioned Costs: \$-0-

Criteria: In accordance with applicable activities allowed or unallowed requirements, cumulative expenditures incurred and charged to a grant should not be in excess of the approved funding limit.

Condition: For one grant award, cumulative expenditures incurred and charged to the grant are in excess of the approved funding limit. No questioned costs exist as expenditures were incurred before grantor adjustments were made to the approved funding limit.

<u>General Description</u>	<u>Award Number</u>	<u>Business Unit</u>	<u>Approved Funding Limit</u>	<u>Cumulative Expenditures</u>	<u>Variance</u>
Medical Assistance Payments	05-1505CQ5MAP	H5778D	\$ 5,526,999	\$ 5,561,050	\$ 34,051

Cause: The cause of the above condition is the lack of monitoring and reconciliation of cumulative expenses incurred against approved funding limit.

Effect: The effect of the above condition is noncompliance with activities allowed or unallowed requirements.

Recommendation: We recommend that cumulative expenses incurred be monitored and reconciled against the approved funding limit.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** We disagree with the audit finding. Cumulative expenditures in the fund status report from DOF agrees to the approved funding limit.

**Proposed Completion Date:** Not applicable.

Auditor Response: As of September 30, 2015, cumulative expenditures recorded in the general ledger amounted to \$5,561,050. A reconciliation and/or evidence that the excess amount in the funding limit has been returned to the grantor agency was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-033  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Federal Award Nos.: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL, 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP and 05-1305CQ5ADM  
 Area: Eligibility  
 Questioned Costs: \$101,528

Criteria: In accordance with applicable eligibility requirements in the Compliance Supplement, as a condition of eligibility, the grantee must require each individual seeking Medicaid to furnish his or her Social Security number (SSN).

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, among others, are required to process applicant applications:

1. Birth certificate or passport for parents and birth certificate for all dependents listed
2. Social security card for applicant and all dependents listed

Lastly, the program may use a computer system for processing individual eligibility determinations and delivery of benefits, such as maintaining eligibility records, including information about each individual and benefits paid to or on behalf of the individual (regular payments, refunds, and adjustments) and track the period of time during which an individual is eligible to receive benefits, i.e., from the beginning date of eligibility through the date when those benefits stop, generally at the end of a predetermined period, unless there is a redetermination of eligibility.

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

1. For three (or 5%), documentation supporting applications was not on file.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Household Member Ref. No.</u>	<u>Documents Not Found in Tenant File and/or Discrepancies Noted</u>	<u>Benefits Tested</u>	<u>Questioned Costs</u>
12-013715-00	02/18/15	1	Social Security card	\$ 445	\$ 27,700
16-022029-00	06/05/14	1 and 2	Birth certificate	134	17,500
14-032239-00	02/23/15	1	Birth certificate	<u>516</u>	<u>56,328</u>
				\$ <u>1,095</u>	\$ <u>101,528</u>

2. Of the eligibility recipients tested, thirteen (or 23%) were not included in the population of the Approved Clients report which records all individuals receiving benefits during the audit period. No questioned costs result as recipients were determined to be eligible based on correct calculations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-033, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL, 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP and 05-1305CQ5ADM  
Area: Eligibility  
Questioned Costs: \$101,528

Condition, Continued:

Case Number

15-032500-00  
14-030096-00  
11-030011-00  
11-016321-00  
11-016321-00  
1402294000  
1402235600  
284327001  
16-023829-00  
274530001  
288268201  
1102339300  
1300218600

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. Further, records/database of individuals receiving benefits may not be periodically checked and updated for completeness of population and eligibility information.

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 \$101,528 result.

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 through 2014.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-033, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 05-1205CQ5021, 05-1205CQHITA, 05-1305CQ5021, 05-1305CQIMPL, 05-1305CQ1935, 05-1305CQACAI, 05-1305CQINCT, 05-1305CQ5MAP and 05-1305CQ5ADM  
Area: Eligibility  
Questioned Costs: \$101,528

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:**

Condition 1: We disagree with the audit finding. All three cases are Supplemental Security Income (SSI) recipients and are not required to submit the supporting documents since the Social Security Administration verified their identifications such as birth certificates and social security numbers. The only requirement is the verification of their SSI.

Effective July 1, 2016, we are requiring all SSI recipients to submit a copy of their birth certificate or passport and social security card for all new and renewal applicants.

Condition 2: We agree with the audit finding. We will check with our vendor regarding these cases as to why these were not in the Approved Clients report; however, these cases were in the Medicaid system and determined to be eligible based on correct calculations.

**Proposed Completion Date:** Ongoing.

Auditor Response:

Condition 1: The birth certificate and social security card are required by Medicaid to support a person's application for Medicaid.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-034  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Federal Award Nos.: 1505-CQ5MAP, 1505-CQ5ADM, 05-1505CQ5MAP, 05-1505CQ5ADM, 05-1505CQ1935, 05-1505CQIMPL, 05-1505CQINCT, 05-1505CQACAI, 05-1405CQIMPL, 05-1405CQ1935 and 05-1405CQACAI  
 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 on CMS 64 and SF 425 quarterly reports to the grantor for the year ended September 30, 2015, we noted the following variances:

Description	Quarter Ended	Per Certification	Per General Ledger and/or Reconciliation between the Medicaid Office and Grantor Agency	Variance
<b>CMS 64:</b>				
Medical assistance payments	12/31/14	\$ 3,385,865	\$ 3,014,965	\$ 370,900
Adjustments increasing medical assistance payments for prior periods	12/31/14	\$ 1,323,626	\$ 1,344,877	\$ (21,251)
Medical assistance payments	03/31/15	\$ 4,045,517	\$ 3,292,427	\$ 753,090
Medical assistance payments	09/30/15	\$ 3,902,623	\$ 6,272,560	\$ (2,369,937)
Prescription drugs program payments	09/30/15	\$ 19,531	\$ 38,136	\$ (18,605)
<b>SF 425:</b>				
H4778H	12/31/14	\$ 15,142,529	\$ 14,449,137	\$ 693,392
H5778D	09/30/15	\$ 5,526,999	\$ 5,561,050	\$ (34,051)
H5778H	09/30/15	\$ 11,929,064	\$ 11,898,395	\$ 30,669

In addition, total expenditures reported on CMS 64 quarterly reports for fiscal year 2015 (excluding adjustments increasing and/or decreasing medical assistance payments for prior periods) amounted to \$18,858,331 compared to total expenditures reported on the schedule of federal awards of \$19,242,315, resulting in a variance of \$383,984.

**Cause:** The potential cause of the above conditions are adjustments made subsequent to the submission of the CMS 64 and SF 425 reports and/or the lack of systematic filing of underlying accounting records supporting actual financial records.

**Effect:** The effect of the above conditions are noncompliance with Section 4.4 of the Medicaid Operational Plan and federal reporting requirements. No questioned costs result as funds drawn are supported by underlying accounting records.

**Recommendation:** We recommend that steps be taken to determine that information reported to the grantor is based on actual financial records and are supported with underlying accounting records.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-034, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 1505-CQ5MAP, 1505-CQ5ADM, 05-1505CQ5MAP, 05-  
1505CQ5ADM, 05-1505CQ1935, 05-1505CQIMPL, 05-  
1505CQINCT, 05-1505CQACAI, 05-1405CQIMPL, 05-1405CQ1935  
and 05-1405CQACAI  
Area: Reporting  
Questioned Costs: \$-0-

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 2014.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** Required adjustments will be made on the FY2016 CMS 64 fourth quarter report.

**Proposed Completion Date:** FY 2016.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-035  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 1505-CQ5MAP, 1505-CQ5ADM, 05-1505CQ5MAP, 05-1505CQ5ADM, 05-1505CQ1935, 05-1505CQIMPL, 05-1505CQINCT, 05-1505CQACAI, 05-1405CQIMPL, 05-1405CQ1935 and 05-1405CQACAI  
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 available.

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 the CNMI establish policies and procedures for the biennial review of the Program's ADP system security.

Prior Year Status: The lack of established policies and procedures for the biennial review of the Program's ADP security system was reported as a finding in the CNMI Single Audit for fiscal year 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Ms. Helen C. Sablan, Medicaid Director and Mr. Frank Celis, Director, Division of Electronic Data Processing

**Corrective Action:** The CNMI is currently performing the following:

1. The As/400 720 midrange server is located in a secure windowless concrete building with no identification. The building is monitored by four security cameras with a lock, a deadbolt and a radio frequency identification (RFID) magnetic entry system.
2. The room in which the servers are located is protected by a magnetic locking system that can only be accessed with an RFID card.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-035, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 1505-CQ5MAP, 1505-CQ5ADM, 05-1505CQ5MAP, 05-1505CQ5ADM, 05-1505CQ1935, 05-1505CQIMPL, 05-1505CQINCT, 05-1505CQACAI, 05-1405CQIMPL, 05-1405CQ1935 and 05-1405CQACAI  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

3. Data is backed-up daily and monthly and all tapes are secured onsite and in a secondary site in fireproof safes. The network is protected by a Sonicwall NSA 4500 firewall.
4. Data lines are protected by Sonicwall NSA 4500 VPN tunnels using AeS 32 bit encryption.
5. The users of the As/400 system must go through three levels of authentication: Windows, Sonicwall GVC and As/400.

DOF is currently in the process of creating a plan of action and management policy to be in place by the end of the year. In addition, we are currently in the process of securing a disaster recovery site. DOF, at this time, does not currently have a Security Manager.

**Proposed Completion Date:** Ongoing.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-036  
CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program  
USDOJ 15.875 Economic, Social, and Political Development of the  
Territories - Capital Improvement Projects  
USDOT 20.205 Highway Planning and Construction  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: In accordance with applicable regulations, a physical inventory of property must be taken and results reconciled with property records at least every two years and a State must use, manage and dispose of equipment acquired under a Federal award by the State in accordance with State laws and procedures.

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 federal award 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 CNMI lacks the human resources and financial management system structure needed to effect compliance with applicable equipment and real property management requirements.

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, 2015

Finding No.: 2015-036, Continued  
 CFDA Programs: USDA 10.551 Supplemental Nutrition Assistance Program  
 USDO I 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 USDOT 20.205 Highway Planning and Construction  
 Area: Equipment and Real Property Management  
 Questioned Costs: \$-0-

Effect, Continued:

<u>CFDA No.</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Grand Total</u>
10.551	\$ 76,451	\$ 19,653	\$ 389	\$ 96,493
15.875	\$ 1,123,090	\$ 42,537	\$ 104,272	\$ 1,269,899
20.205	\$ 3,796	\$ 4,794	\$ 215,990	\$ 224,580

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 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:**

**USDOA 10.551:** Walter Macaranas, NAP Administrator  
**USDO I 15.875:** Larrisa Larson, Secretary of Finance and Virginia C. Villagomez, CIP Administrator  
**USDOT 20.205:** Larrisa Larson, Secretary of Finance and James A. Ada, Secretary, Department of Public Works

**Corrective Action:**

**USDOA 10.551:** The reconciliation performed by P&S for FY 2015 was completed on January 14, 2016. The NAP report for the physical inventory performed July 7 to 22, 2016 for FY 2016 is currently in progress and will be forwarded to P&S once completed. The report to be submitted to P&S will include the descriptions as required under management requirements of OMB Guidance § 200.313.

**USDO I 15.875 and USDOT 20.205:** The agencies cited in this finding will coordinate with DOF P&S to conduct a physical inventory and reconcile their property records.

**Proposed Completion Date:**

**USDOA 10.551:** September 30, 2016.  
**USDO I 15.875:** FY 2017  
**USDOT 20.205:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-037  
 Federal Agency: U.S. Department of Homeland Security  
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)  
 Federal Award No.: 1541DRMPP00000001 and 1611DRMPP00000001  
 Area: Cash Management  
 Questioned Costs: \$-0-

Criteria: In accordance with applicable cash management requirements, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipient. Interest earned on advances is required to be submitted promptly, but at least quarterly, to the Federal agency.

Condition: As previously reported in finding number 2014-053 in the FY 2014 Single Audit Report of the CNMI, the following grants were closed as of September 30, 2014. Final drawdowns of \$1,346,636 and \$39,721 occurred in January 2013. No documentation has been provided to demonstrate that the advances have been obligated since January 2013. As of September 30, 2015, the unobligated amount of \$1,386,500, inclusive of accrued interest, was recorded in the general fund (account no. 11623).

<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>Unobligated Amount</u>
1541DRMPP00000001	M4037L	\$ 6,334,210	\$ 4,987,574	\$ 1,346,636
1611DRMPP00000001	M6036W	\$ 1,046,674	\$ 1,006,953	\$ 39,721

Cause: The cause of the above condition is failure to effect corrective action.

Effect: The effect of the above condition is noncompliance with applicable cash management requirements. No questioned costs are presented as the specified federal funds were previously questioned in the fiscal year 2014 audit.

Recommendation: We recommend that compliance with applicable cash management requirements occur and that interest earned on the advances be remitted to the Federal agency.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Gerald Deleon Guerrero, Special Assistant for Homeland Security and Epi Cabrera, Office of Grants Management

**Corrective Action:** The Office of Homeland Security will work with the Office of Grants Management to review their compliance issues. They will also conduct in-house training on how to comply with the federal funds requirements to ensure compliance for upcoming fiscal years.

**Proposed Completion Date:** FY 2017

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2015

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, 2015:

Questioned costs as previously reported:

Fiscal year 2014	\$ 3,754,204
Fiscal year 2013	9,161,172
Fiscal year 2012	4,063,717
Fiscal years 2011 and prior	<u>9,208,491</u>

26,187,584

Less questioned costs resolved in fiscal year 2015:

Questioned costs resolved per USDOC letter dated May 11, 2016:	
Fiscal year 2014 Single Audit	(53,603)
Questioned costs resolved per USDOJ letter dated October 8, 2015:	
Fiscal year 2014 Single Audit	(1,923)
Questioned costs resolved per USDHHS letter dated February 26, 2015:	
Fiscal year 2012 Single Audit	(96,480)
Questioned costs resolved per email correspondence dated October 31, 2014:	
Fiscal year 2013 Single Audit	(8,101,826)
Questioned costs resolved per USDOJ letter dated September 29, 2014:	
Fiscal year 2013 Single Audit	(1,969)
Fiscal year 2012 Single Audit	(118,135)
Fiscal year 2011 Single Audit	(85,588)
Fiscal year 2010 Single Audit	(2,110,483)
Fiscal year 2009 Single Audit	(1,428,391)
Fiscal year 2008 Single Audit	<u>(272,985)</u>

13,916,201

Questioned costs of fiscal year 2015 Single Audit 3,198,253

Unresolved questioned costs at September 30, 2015 \$ 17,114,454

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report.