

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

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

YEAR ENDED SEPTEMBER 30, 2008

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED SEPTEMBER 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2008

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Honorable Benigno R. Fitial
Governor
Commonwealth of the Northern Mariana Islands:

We have audited the accompanying 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, 2008, which collectively comprise the CNMI's basic financial statements as set forth in Section III of the foregoing table of contents. These financial statements are the responsibility of the CNMI's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Public School System, which represents 16.1%, 31.0% and 26.9% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units, or the financial statements of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, which represent 92.8% and 10.9% of the assets and revenues, respectively, of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public School System, the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, is based solely on the reports of the other auditors.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

The propriety of the Public School System due from primary government could not be determined as of September 30, 2008. The financial activities of the Public School System are included in the CNMI's basic financial statements as a discretely presented component unit and represent 16.1%, 31.0% and 26.9% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units.

The financial statements of the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Marianas Visitors Authority have not been audited, and we were not engaged to audit the financial statements of the Commonwealth Utilities Corporation and the Marianas Visitors Authority as part of our audit of the CNMI's basic financial statements. The financial activities of the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Marianas Visitors Authority are included in the CNMI's basic financial statements as discretely presented component units and represent 32.8%, (16.9)% and 55.6% of the assets, net assets and revenues, respectively, of the CNMI's aggregate discretely presented component units.

In our opinion, based on our audit and reports of other auditors, such financial statements, as set forth in Section III of the foregoing table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, based on our audit and reports of other auditors, except for the effects on the respective financial statements of such adjustments, if any as might have been determined to be necessary had we been able to determine the adequacy of the allowance for uncollectible appropriations receivable from the CNMI of the Public School System, as discussed in the third paragraph above and had the financial statements of the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Marianas Visitors Authority been audited, as discussed in the fourth paragraph above, such financial statements as set forth in Section III of the foregoing table of contents present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate fund information of the CNMI as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 17 to the financial statements, the beginning net assets of the discretely presented component units within the accompanying financial statements have been restated.

The CNMI's plans regarding its General Fund deficit position and the related governmental activities net deficiency position are described in note 14 to the financial statements.

The Management's Discussion and Analysis, on pages 4 through 9, as well as the Schedule of Revenues, Expenditures, and Changes in Deficit - Budget and Actual - General Fund and notes thereto, as set forth in Section IV of the foregoing table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the management of the CNMI. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the CNMI's respective financial statements that collectively comprise the CNMI's basic financial statements. The Other Supplementary Information, as set forth in Section V of the foregoing table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the CNMI. This supplementary information is the responsibility of the management of the CNMI. Such additional information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2009, on our consideration of the CNMI's (Primary Government only) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLC

June 15, 2009



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

Our discussion and analysis of the Commonwealth of the Northern Marianas Islands ("CNMI") financial performance provides an overview of the CNMI's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the CNMI's financial statements, which follow this section. Fiscal year 2007 comparative information has been included where appropriate for comparative purposes.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended September 30, 2008, the CNMI's total net deficiency increased by \$41.1 million to a net deficiency position of \$120.3 million, which represents an increase of approximately 51.9% from the net deficiency position at the beginning of the year.
- During the year, the CNMI's expenses for governmental activities were \$322.3 million, including expenses recorded for payments made or due to the autonomous agencies, and were funded in part by program revenues of \$111.2 million, further funded with taxes and other general revenues that totaled \$170.0 million. The difference between total revenues of \$281.2 million and total expenses of \$322.3 million is what resulted in the \$41.1 million increase in net deficiency.
- At September 30, 2008, the General Fund reported an unreserved fund deficit of \$256.3 million, which is an increase in the unreserved fund deficit of 17.5% from the prior year's reported unreserved fund deficit of \$218.2 million.
- For budgetary reporting purposes, General Fund actual revenues exceeded final estimates by \$31.5 million, or 19.2%, while reported actual expenditures exceeded final estimated appropriations by \$15.1 million, or 9.5%. These amounts do not include transfers to and from other funds, nor does it include the receipt or use of long-term debt proceeds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Commonwealth of the Northern Marianas Islands ("CNMI") and its component units using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are governmental-wide statements for the governmental activities of the CNMI, along with the CNMI's discretely-presented component units. The government-wide financial statements present the complete financial picture of the CNMI from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the CNMI (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

Reporting the CNMI as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most frequently asked questions about the CNMI's finances is, "Has the CNMI's overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Assets and the Statement of Activities report information about the CNMI as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the CNMI's net assets and changes in them from the prior year. You can think of the CNMI's net assets - the difference between assets and liabilities - as one way to measure the CNMI's financial condition, or position. Over time, increases or decreases in the CNMI's net assets are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the CNMI's tax base, the condition of the CNMI's roads and infrastructure, and the quality of services to assess the overall health and performance of the CNMI.

As mentioned above in the Statement of Net Assets and the Statement of Activities, we divide the CNMI into two kinds of activities:

- Governmental activities - Most of the CNMI's basic services are reported here, including public safety, health care, general administration, streets, and parks. Income taxes, business gross receipt taxes, other taxes and fees, fines, and federal grants finance most of these activities.
- Discretely-presented component units - These account for activities of the CNMI's reporting entities that do not meet the criteria for blending within the CNMI's primary government. These discretely-presented component units are often referred to as autonomous agencies.

Reporting the CNMI's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the CNMI as a whole. Some funds are required to be established by law or regulation and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

Governmental funds - Most of the CNMI's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the CNMI's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the CNMI's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

Fiduciary funds - When the CNMI is responsible for assets that - because of a trust arrangement or other fiduciary requirement - can be used only for trust beneficiaries or others parties, such as pensions and other employee benefit trust funds and agency funds. The CNMI is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the CNMI's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the CNMI's government-wide financial statements because the CNMI cannot use these assets to finance operations.

A FINANCIAL ANALYSIS OF THE CNMI AS A WHOLE

Net Deficiency

The CNMI's governmental activities net deficiency increased from \$79.2 million to a net deficiency of \$120.3 million, an increase in the deficit of 51.9%, between fiscal years 2007 and 2008.

A summary of net deficiency (condensed) is presented below, with comparable balances for fiscal year 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2008

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
Current assets	\$ 83,554,486	\$ 111,379,795
Capital assets, net	205,342,579	212,417,847
Other noncurrent assets	<u>4,243,968</u>	<u>4,347,120</u>
Total assets	<u>293,141,033</u>	<u>328,144,762</u>
Current liabilities	297,399,622	275,445,867
Noncurrent liabilities	<u>116,046,752</u>	<u>131,920,052</u>
Total liabilities	<u>413,446,374</u>	<u>407,365,919</u>
Net deficiency:		
Invested in capital assets, net of related debt	111,604,859	146,991,770
Restricted net assets	10,259,527	10,387,661
Unrestricted net assets	<u>(242,169,727)</u>	<u>(236,600,588)</u>
Total net deficiency	<u>\$ (120,305,341)</u>	<u>\$ (79,221,157)</u>

Changes in Net Deficiency

For the year ended September 30, 2008, net deficiency of the primary government changed as follows, with comparable amounts for fiscal year 2007:

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
Revenues:		
Program revenues	\$ 111,211,166	\$ 110,676,078
Taxes and other general revenues	<u>169,993,736</u>	<u>133,632,186</u>
Total revenues	<u>281,204,902</u>	<u>244,308,264</u>
Expenses:		
Capital projects	10,899,986	4,301,295
Health	67,435,711	64,931,616
Public safety and law enforcement	41,884,373	41,836,520
General government	36,390,560	21,573,446
Community and social services	22,459,489	22,176,633
Other elected officials	12,908,331	17,153,393
Utilities	6,199,553	3,531,208
Public works	17,158,388	18,855,330
Lands and natural resources	18,290,559	15,546,939
Legislative branch	7,010,996	7,627,740
Judicial branch	4,894,508	5,102,181
Education	7,792,652	9,199,241
Unallocated interest	6,502,855	5,631,986
Economic development	4,335,985	8,985,432
Payments to autonomous agencies	<u>58,125,140</u>	<u>53,395,519</u>
Total expenses	<u>322,289,086</u>	<u>299,848,479</u>
Increase in net deficiency	<u>\$ (41,084,184)</u>	<u>\$ (55,540,215)</u>

The CNMI's governmental activities' increase in net deficiency of \$41.1 million represents a 26.0% decrease from the prior year. The results indicate the CNMI's financial condition, as a whole, continued to decline in the current year, although at a lesser pace than the prior year.

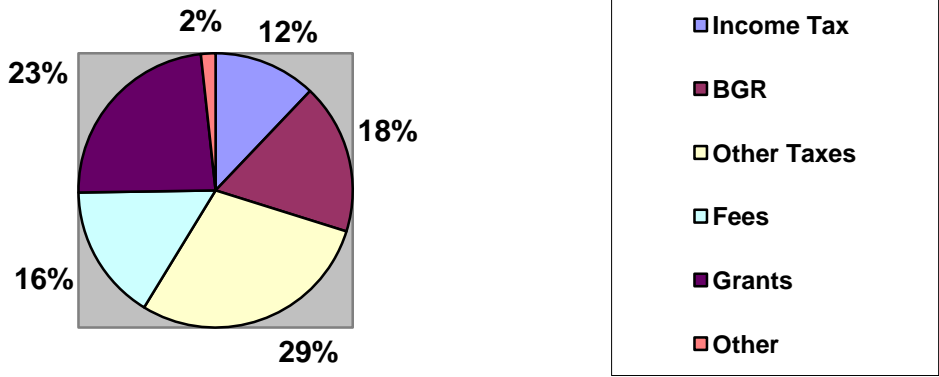
Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given.

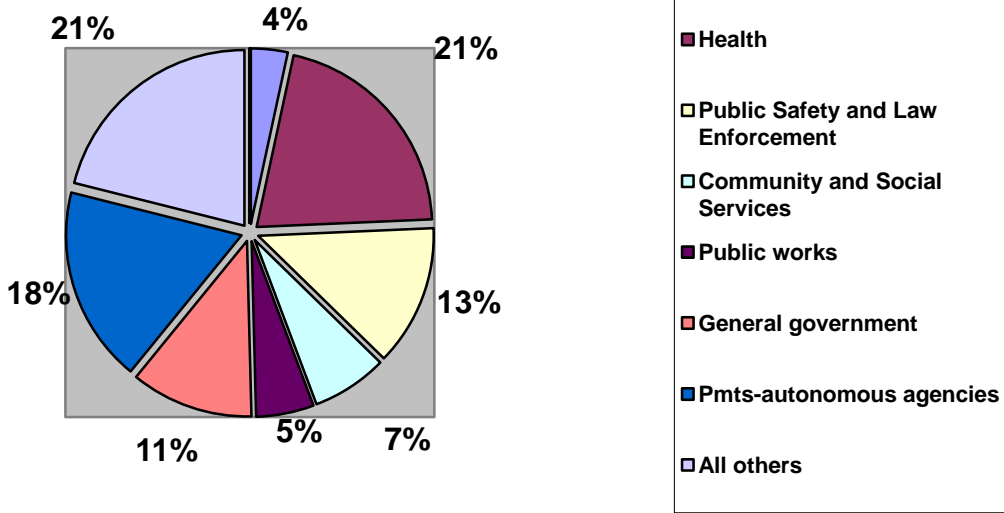
Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the CNMI's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

For the year ended September 30, 2008, the CNMI's governmental activities were funded as follows:

Governmental Activities Sources



Governmental Activities Uses



For the year ended September 30, 2008, total expenses for governmental activities amounted to \$322.3 million. Of these total expenses, taxpayers and other general revenues funded \$170.0 million, while those directly benefiting from the activities funded \$66.2 million from grants and other contributions and \$45.1 million from charges for services, with the remaining expenses in excess of revenues increasing the net deficiency.

Net Revenue (Expense) of Governmental Activities

	Total Expense of Services	Net Revenue (Expense) of Services	Total Expense of Services	Net Revenue (Expense) of Services
	<u>2008</u>	<u>2008</u>	<u>2007</u>	<u>2007</u>
Capital projects	\$ 10,899,986	\$ (1,680,323)	\$ 4,301,295	\$ (267,556)
Health	67,435,711	(32,709,948)	64,931,616	(30,850,531)
Public safety and law enforcement	41,884,373	(22,815,003)	41,836,520	(23,194,084)
General government	36,390,560	(22,372,062)	21,573,446	(4,574,431)
Community and social services	22,459,489	(7,780,899)	22,176,633	(7,699,129)
Public works	17,158,388	(15,060,274)	18,855,330	(15,416,205)
Payments to autonomous agencies	58,125,140	(55,817,703)	53,395,519	(51,045,519)
All others	<u>67,935,439</u>	<u>(52,841,708)</u>	<u>72,778,120</u>	<u>(56,124,946)</u>
Total	\$ <u>322,289,086</u>	\$ <u>(211,077,920)</u>	\$ <u>299,848,479</u>	\$ <u>(189,172,401)</u>

A FINANCIAL ANALYSIS OF THE CNMI'S FUNDS

As the CNMI completed its 2008 fiscal year, the governmental funds reported a combined fund deficit of \$201.2 million, which compares with a prior year fund deficit of \$153.2 million, an increase in the deficit of \$48.1 million, or 31.4%. This increase in the deficit is due in large part to the continued decline of general revenues, without a sufficient, corresponding reduction in governmental expenditures.

Individual fund highlights include:

- For the year ended September 30, 2008, the General Fund's total fund deficit increased by \$36.6 million or 18.4%, to a total fund deficit of \$235.9 million, while the total unreserved fund deficit increased by \$38.1 million or 17.5%, for a total unreserved fund deficit of \$256.3 million.
- The Grants Assistance Fund's revenues and expenditures netted to approximately a \$3.2 million decrease in fund balance, leaving a remaining fund balance for grant expenditures of \$16.1 million.
- The Pension (and Other Employee Benefit) Trust Fund shows a decrease in net assets of the various funds of \$101 million or 20.4% for the year. This fund type includes the retirement fund, the group health and life insurance fund and the worker's compensation fund.

General Fund Budgetary Highlights

Significant revisions were made to the original budget for both revenues and expenditures due to the continued economic downturn. Original revenue estimates were reduced by 3.2%, or \$5.3 million, while original expenditure estimates were reduced by 0.3%, or \$436,128. The General Fund's actual revenues of \$195 million were more than the final estimates by \$31.5 million, a variance of 19.2%, due to the receipt of unanticipated cover over funds and a decline in tax revenues. The General Fund's actual expenditures of \$173.1 million exceeded appropriations by \$15.1 million, a variance of 9.5%, due mainly to unanticipated executive branch expenditures and unanticipated government utility expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of September 30, 2008, the CNMI had \$205.3 million invested in capital assets, net of depreciation where applicable, including land, infrastructure, vehicles and other machinery and equipment, buildings, and various projects under construction. (See table below). This represents a net decrease of \$7.1 million or 3.3% from last year.

	<u>2008</u>	<u>2007</u>
Infrastructure, net	\$ 26,485,275	\$ 29,884,423
Buildings and improvements, net	135,465,359	130,598,828
Machinery and equipment, net	9,025,304	9,000,468
Land	28,576,738	28,627,266
Construction in progress	<u>5,789,903</u>	<u>14,306,862</u>
Total	\$ <u>205,342,579</u>	\$ <u>212,417,847</u>

See Note 6 to the financial statements for more detailed information on the CNMI's capital assets and changes therein.

Long- Term Debt

At year-end, the CNMI had \$133.7 million in long-term debt outstanding, which represents a net decrease of \$4.2 million or 3.1% net decrease from the prior year. The CNMI's changes in long-term debt by type of debt are as follows:

	<u>2008</u>	<u>2007</u>
Accrued compensated absences	\$ 6,904,634	\$ 9,185,789
Bonds payable	100,233,199	101,798,527
Notes payable	7,787,405	8,557,738
Claims and judgments payable	16,507,281	16,507,281
Other	<u>2,290,421</u>	<u>1,908,684</u>
Total	\$ <u>133,722,940</u>	\$ <u>137,958,019</u>

See Note 10 to the financial statements for more detailed information on the CNMI's long-term debt and changes therein.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Economic factors continue to play a large role in developing the tax and other revenue budgets for the General Fund of the CNMI. The local economy, still slowed by the effects of a drop in tourism and the decline of the garment industry, has continued to follow a trend of decreasing revenues. The prospects for fiscal year 2009 appear similar, with not much recovery in sight.

CONTACTING THE CNMI'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of CNMI's finances and to show the CNMI's accountability for the money it receives. The Management's Discussion and Analysis for the year ended September 30, 2007 is set forth in the report on the audit of the CNMI's financial statements which is dated June 27, 2008. That Discussion and Analysis explains the major factors impacting the 2007 financial statements. If you have questions about this report or need additional financial information, contact the Office of the Secretary of Finance P.O. Box 5234 (CHRB), Saipan, MP 96950 or phone at (670) 664-1100, or email bobschrack@yahoo.com.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets
September 30, 2008

	<u>Primary Government</u>	<u>Component Units</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 7,150,355	\$ 15,314,421
Time certificates of deposit	4,000,000	3,145,538
Receivables, net of allowance for uncollectibles	42,903,817	56,426,167
Due from primary government	-	7,716,313
Due from component units	433,521	-
Due from Pension (and Other Employee Benefit) Trust Fund	1,174,490	-
Inventories	1,402,912	9,199,214
Advances	561,163	-
Other assets	-	634,247
Deferred bond issue costs	72,665	-
Restricted assets:		
Cash and cash equivalents	23,462,507	12,653,416
Time certificates of deposit	2,393,056	6,550,922
Investments	-	72,976,898
Total current assets	<u>83,554,486</u>	<u>184,617,136</u>
Noncurrent assets:		
Investments	2,500,000	4,552,272
Receivables:		
Loans, net of allowance for uncollectibles	-	14,356,280
Other	-	3,659,613
Deferred bond issue costs, net of current portion	1,743,968	1,461,297
Other assets	-	-
Foreclosed real estate	-	3,742,740
Capital assets, net of accumulated depreciation	<u>205,342,579</u>	<u>393,150,682</u>
Total noncurrent assets	<u>209,586,547</u>	<u>420,922,884</u>
Total assets	<u>293,141,033</u>	<u>605,540,020</u>
<u>LIABILITIES</u>		
Current liabilities:		
Current portion of notes and bonds payable	4,108,345	65,420,101
Current obligations under capital lease	-	860,695
Accounts payable	9,292,190	20,445,511
Current portion of compensated absences	3,849,234	610,495
Tax rebates payable	27,082,500	-
Recovery rebate payable	2,502,696	-
Accrued interest payable	2,241,981	127,587,655
Other liabilities and accruals	11,926,042	25,184,327
Claims and judgments payable	9,179,452	-
Due to external parties	1,424,025	-
Due to component units	6,978,551	-
Due to primary government	-	5,324,447
Due to Pension (and Other Employee Benefit) Trust Fund	215,981,569	6,724,073
Deferred revenues	<u>2,833,037</u>	<u>5,511,400</u>
Total current liabilities	<u>297,399,622</u>	<u>257,668,704</u>
Noncurrent liabilities:		
Notes and bonds payable, net of current portion	103,912,259	66,500,479
Claims and judgments payable	6,788,672	-
Compensated absences, net of current portion	3,055,400	2,933,122
Other noncurrent liability	<u>2,290,421</u>	<u>-</u>
Total noncurrent liabilities	<u>116,046,752</u>	<u>69,433,601</u>
Total liabilities	<u>413,446,374</u>	<u>327,102,305</u>
Net assets:		
Invested in capital assets, net of related debt	111,604,859	300,511,217
Restricted for:		
Capital projects	1,820,486	-
Retirement of indebtedness	4,236,831	-
Other purposes	4,202,210	128,352,337
Unrestricted	<u>(242,169,727)</u>	<u>(150,425,839)</u>
Total net assets	<u>\$ (120,305,341)</u>	<u>\$ 278,437,715</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Activities
For the Year Ended September 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Primary government:						
Governmental activities:						
Health	\$ 67,435,711	\$ 18,424,782	\$ 15,768,286	\$ 532,695	\$ (32,709,948)	\$ -
Public safety and law enforcement	41,884,373	8,599,919	10,361,842	107,609	(22,815,003)	-
General government	36,390,560	11,695,302	2,323,196	-	(22,372,062)	-
Community and social services	22,459,489	5,416	14,586,442	86,732	(7,780,899)	-
Other elected officials	12,908,331	-	-	-	(12,908,331)	-
Utilities	6,199,553	-	-	157,653	(6,041,900)	-
Utilities - Capital Projects	10,899,986	-	-	9,219,663	(1,680,323)	-
Public works	17,158,388	416,997	389,573	1,291,544	(15,060,274)	-
Lands and natural resources	18,290,559	4,865,673	7,336,314	-	(6,088,572)	-
Legislative branch	7,010,996	-	-	-	(7,010,996)	-
Judicial branch	4,894,508	1,046,507	-	-	(3,848,001)	-
Education	7,792,652	-	120,290	500,092	(7,172,270)	-
Unallocated interest	6,502,855	-	-	-	(6,502,855)	-
Economic development	4,335,985	-	3,040	1,064,162	(3,268,783)	-
Education:						
Payments to Public School System	35,535,079	-	2,000,000	-	(33,535,079)	-
Payments to Northern Marianas College	5,869,465	-	307,437	-	(5,562,028)	-
Payments to Marianas Visitors Authority	5,913,140	-	-	-	(5,913,140)	-
Payments to Marianas Public Land Trust	3,500,000	-	-	-	(3,500,000)	-
Payments to Pension (and Other Employee Benefit) Trust Fund	2,207,456	-	-	-	(2,207,456)	-
Payments to Commonwealth Utilities Corporation	5,100,000	-	-	-	(5,100,000)	-
Total primary government	<u>\$ 322,289,086</u>	<u>\$ 45,054,596</u>	<u>\$ 53,196,420</u>	<u>\$ 12,960,150</u>	<u>(211,077,920)</u>	<u>-</u>
Component units:						
Commonwealth Ports Authority	\$ 27,218,552	\$ 13,799,457	\$ -	\$ 12,525,600	\$ -	\$ (893,495)
Commonwealth Development Authority	10,139,241	4,519,639	6,433,260	-	-	813,658
Commonwealth Utilities Corporation	131,286,722	102,316,336	-	4,672,887	-	(24,297,499)
Marianas Public Land Trust	3,367,381	-	-	-	-	(3,367,381)
Northern Marianas College	14,290,798	3,147,272	6,588,255	-	-	(4,555,271)
Public School System	68,753,876	1,335,432	27,688,584	674,892	-	(39,054,968)
Marianas Visitors Authority	7,279,735	191,550	515,299	-	-	(6,572,886)
Total component units	<u>\$ 262,336,305</u>	<u>\$ 125,309,686</u>	<u>\$ 41,225,398</u>	<u>\$ 17,873,379</u>	<u>-</u>	<u>(77,927,842)</u>
General revenues:						
Taxes:						
Income					34,024,314	-
Gross receipts					49,870,752	-
Excise					16,326,159	-
Cover over					41,611,260	-
Hotel					5,395,772	-
Garment certification					5,394,473	-
Cigarette					4,705,276	-
Other taxes					7,825,410	-
Unrestricted investment earnings and dividends					850,172	1,333,610
Contributions from primary government					-	55,968,795
Other					3,990,148	3,644,706
Total general revenues					<u>169,993,736</u>	<u>60,947,111</u>
Change in net assets					(41,084,184)	(16,980,731)
Net assets - beginning					<u>(79,221,157)</u>	<u>295,418,446</u>
Net assets - ending					<u>\$ (120,305,341)</u>	<u>\$ 278,437,715</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Balance Sheet
Governmental Funds
September 30, 2008

	General	Grants Assistance	Special Revenue NMTIT Rebate Trust	Other Governmental Fund	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 4,310,750	\$ -	\$ -	\$ 2,839,605	\$ 7,150,355
Time certificates of deposit	2,000,000	-	-	2,000,000	4,000,000
Investments	2,500,000	-	-	-	2,500,000
Restricted cash and cash equivalents	11,054,891	5,721,570	-	6,686,046	23,462,507
Restricted time certificate of deposit	2,393,056	-	-	-	2,393,056
Receivables, net:					
Federal agencies	-	10,836,086	-	85,428	10,921,514
Taxes	13,856,186	-	72,388	-	13,928,574
Cover over	17,204,260	-	-	-	17,204,260
General	388,713	-	-	-	388,713
Other	-	12,831	-	447,925	460,756
Due from component units	420,071	-	-	13,450	433,521
Due from other funds	7,650,782	9,777,703	27,010,112	16,590,991	61,029,588
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	1,174,490	1,174,490
Advances	561,163	-	-	-	561,163
Inventories	1,402,912	-	-	-	1,402,912
	<u>\$ 63,742,784</u>	<u>\$ 26,348,190</u>	<u>\$ 27,082,500</u>	<u>\$ 29,837,935</u>	<u>\$ 147,011,409</u>
<u>Liabilities and Fund Balances (Deficit)</u>					
Liabilities:					
Accounts payable	\$ 6,412,927	\$ 1,799,685	\$ -	\$ 1,079,578	\$ 9,292,190
Tax rebates payable	-	-	27,082,500	-	27,082,500
Recovery rebates payable	2,502,696	-	-	-	2,502,696
Other liabilities and accruals	5,183,570	2,972,574	-	3,769,898	11,926,042
Claims and judgments payable	9,179,452	-	-	-	9,179,452
Due to other funds	53,860,250	5,519,163	-	3,074,200	62,453,613
Due to component units	6,858,208	-	-	120,343	6,978,551
Due to Pension (and Other Employee Benefit) Trust Fund	215,617,748	-	-	363,821	215,981,569
Deferred revenues	-	-	-	2,833,037	2,833,037
Total liabilities	<u>299,614,851</u>	<u>10,291,422</u>	<u>27,082,500</u>	<u>11,240,877</u>	<u>348,229,650</u>
Fund balances (deficit):					
Reserved for:					
Supplies inventory	1,402,912	-	-	-	1,402,912
Related assets	13,455,108	-	-	-	13,455,108
Land claims	1,922	-	-	-	1,922
Debt service	-	-	-	4,236,835	4,236,835
Encumbrances	5,104,160	12,119,798	-	5,219,623	22,443,581
Continuing appropriations	453,476	-	-	937,044	1,390,520
Other	-	-	-	2,290,421	2,290,421
Unreserved (deficits) reported in:					
General fund	(256,289,645)	-	-	-	(256,289,645)
Special revenue funds	-	(3,977,017)	-	9,787,373	5,810,356
Capital projects funds	-	7,913,987	-	(3,874,238)	4,039,749
Total equity (deficit) and other credits	<u>(235,872,067)</u>	<u>16,056,768</u>	<u>-</u>	<u>18,597,058</u>	<u>(201,218,241)</u>
	<u>\$ 63,742,784</u>	<u>\$ 26,348,190</u>	<u>\$ 27,082,500</u>	<u>\$ 29,837,935</u>	<u>\$ 147,011,409</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2008

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund deficit		\$ (201,218,241)
Bonds issued by the CNMI have associated costs that are paid from current available resources in the funds. However, these costs are deferred on the statement of net assets.		1,816,633
Capital assets used in governmental activities are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds. Those assets consist of:		
Land	\$ 28,576,738	
Construction in progress	5,789,903	
Depreciable capital assets and infrastructure, net of \$152,607,568 of accumulated depreciation	<u>170,975,938</u>	
Capital assets, net of accumulated depreciation		205,342,579
Long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore, are not considered financial liabilities for fund perspective recording, and, therefore, are not reported in the funds. These liabilities include:		
Bonds payable	(100,233,199)	
Accrued interest payable	(2,241,981)	
NMIRF loan payable	(7,787,405)	
Compensated absences payable	(6,904,634)	
Claims and judgments payable	(6,788,672)	
Lanfill closure and postclosure costs	<u>(2,290,421)</u>	
Long-term liabilities		<u>(126,246,312)</u>
Net assets of governmental activities		<u>\$ (120,305,341)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
 Governmental Funds
 For the Year Ended September 30, 2008

	General	Grants Assistance	Special Revenue NMTIT Rebate Trust	Other Governmental Funds	Total
Revenues:					
Taxes	\$ 120,031,652	\$ -	\$ -	\$ 3,510,504	\$ 123,542,156
Federal contributions	-	62,239,615	-	1,058,152	63,297,767
Charges for sales and services	16,949,157	-	-	3,675,569	20,624,726
Licenses and fees	10,180,760	430,135	-	11,680,334	22,291,229
Interest and dividends	559,067	204,860	-	86,063	849,990
Contributions from component units	2,219,596	107,131	-	532,258	2,858,985
Cover over	41,611,260	-	-	-	41,611,260
Other	3,473,634	188,444	-	2,466,711	6,128,789
Total revenues	195,025,126	63,170,185	-	23,009,591	281,204,902
Expenditures:					
Current:					
Health	46,054,480	20,594,514	-	334,417	66,983,411
Public safety and law enforcement	31,263,983	9,004,890	-	1,243,522	41,512,395
General government	46,764,046	103,782	-	1,544,176	48,412,004
Community and social services	5,368,377	14,527,631	-	1,402,257	21,298,265
Other elected officials	12,821,208	-	-	87,123	12,908,331
Utilities	6,041,900	157,653	-	-	6,199,553
Lands and natural resources	5,448,829	7,834,089	-	4,659,920	17,942,838
Legislative branch	7,004,841	-	-	6,155	7,010,996
Judicial branch	4,481,825	-	-	121,409	4,603,234
Education	3,338,155	1,132,630	-	3,321,867	7,792,652
Economic development	1,427,726	1,313,273	-	1,594,986	4,335,985
Payments to:					
Public School System	33,516,079	2,000,000	-	19,000	35,535,079
Northern Marianas College	4,560,926	307,437	-	1,001,102	5,869,465
Marianas Visitors Authority	5,913,140	-	-	-	5,913,140
Marianas Public Land Trust	-	-	-	3,500,000	3,500,000
Commonwealth Utilities Corporation	3,167,188	-	-	1,932,812	5,100,000
Pension (and Other Employee Benefit) Trust Fund	1,007,456	-	-	1,200,000	2,207,456
Debt service:					
Principal retirement	-	40,000	-	2,600,332	2,640,332
Interest and fiscal charges	-	194,788	-	6,092,298	6,287,086
Capital outlay:					
Utilities - Capital Projects	-	10,879,986	-	20,000	10,899,986
Public works	6,236,849	746,933	-	5,320,419	12,304,201
Total expenditures	224,417,008	68,837,606	-	36,001,795	329,256,409
Excess (deficiency) of revenues over (under) expenditures	(29,391,882)	(5,667,421)	-	(12,992,204)	(48,051,507)
Other financing sources (uses):					
Operating transfers in	6,151,523	5,820,530	-	8,174,009	20,146,062
Operating transfers out	(13,380,338)	(3,397,976)	-	(3,367,748)	(20,146,062)
Total other financing sources (uses), net	(7,228,815)	2,422,554	-	4,806,261	-
Net change in fund balances (deficient)	(36,620,697)	(3,244,867)	-	(8,185,943)	(48,051,507)
Fund balances (deficit) at beginning of year	(199,251,370)	19,301,635	-	26,783,001	(153,166,734)
Fund balances (deficit) at end of year	\$ (235,872,067)	\$ 16,056,768	\$ -	\$ 18,597,058	\$ (201,218,241)

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Deficit
of Governmental Funds to the Statement of Activities
September 30, 2008

Net change in fund deficit - total governmental funds	\$ (48,051,507)
Add:	
Claims and judgments	9,718,609
Capital assets purchased that were capitalized	7,343,395
Principal payments on long-term debt	2,640,333
Net change in accrued interest payable	161,568
Net change in compensated absences	2,281,155
Less:	
Capital assets retirements	(385,047)
Amortization of bond premium and deferred costs of bond refunding	(304,672)
Depreciation expense	(14,033,616)
Amortization of bond discount and issuance costs	(72,665)
Provision for landfill closure costs	<u>(381,737)</u>
Change in net assets of governmental activities	<u>\$ (41,084,184)</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2008

	Pension (and Other Employee Benefit) Trust Fund	Agency Funds
<u>Assets</u>		
Cash and cash equivalents	\$ 2,827,126	\$ 2,394,447
Receivables:		
Loans	7,782,731	-
Notes	7,416,100	-
Benefits	2,190,599	-
Interest and dividends	1,217,163	-
Other	2,308,002	-
	<u>20,914,595</u>	<u>-</u>
Due from General Fund	211,662,466	1,424,025
Less allowance for uncollectible receivables	(154,370,101)	-
	<u>57,292,365</u>	<u>1,424,025</u>
Due from Miscellaneous Special Revenue Funds	363,821	-
Prepaid items	5,541	-
Investments, at fair market value:		
Equity securities	249,371,001	-
U.S. Government securities	51,252,739	-
Mutual funds	11,924,270	-
Money market placements	15,283,833	-
Corporate debt securities	59,020,601	-
Real estate investment trust	1,161,137	-
	<u>388,013,581</u>	<u>-</u>
Restricted assets	126,816	2,876,633
Capital assets	4,220,411	-
Total assets	<u>473,764,256</u>	<u>\$ 6,695,105</u>
<u>Liabilities and Other Credits</u>		
Accounts payable	18,407,453	-
Claims and judgments payable	-	1,424,025
Deposits payable	-	5,271,080
Other liabilities and accruals	1,028,840	-
Due to Judicial Building Fund	1,174,490	-
Deferred revenue	59,534,430	-
Total liabilities and other credits	<u>80,145,213</u>	<u>\$ 6,695,105</u>
Net assets:		
Held in trust for pension benefits	410,664,845	
Held in trust for medical and life insurance benefits	(18,272,649)	
Held in trust for workers' compensation benefits and other purposes	1,226,847	
Total net assets	<u>\$ 393,619,043</u>	

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2008

	<u>Pension (and Other Employee Benefit) Trust Fund</u>
<u>Additions</u>	
Contributions:	
Employer	\$ 49,864,936
Employee	10,683,584
Revenues:	
Premiums	523,300
Rent income and other	2,707,198
Total contributions and revenues	<u>63,779,018</u>
Net investment income:	
Net depreciation in fair value	(73,205,149)
Interest	14,606,233
Total investment income	<u>(58,598,916)</u>
Less: investment expense	<u>2,351,062</u>
Net investment income	<u>(60,949,978)</u>
Total additions	<u>2,829,040</u>
<u>Deductions</u>	
Benefits	62,071,251
General and administrative	2,506,855
Bad debts	33,229,877
Refunds	5,554,957
Medical claims	2,532,217
Total deductions	<u>105,895,157</u>
Other financing sources:	
Transfers in	<u>2,024,511</u>
Change in net assets	(101,041,606)
Net assets at beginning of year	<u>494,660,649</u>
Net assets at end of year	<u>\$ 393,619,043</u>

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Statement of Net Assets
Component Units
September 30, 2008

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
<u>Assets</u>								
Current assets:								
Cash and cash equivalents	\$ 3,910,939	\$ 2,846,313	\$ 620,988	\$ 3,565,471	\$ 2,754,476	\$ 1,034,944	\$ 581,290	\$ 15,314,421
Time certificates of deposit	-	2,835,938	-	-	309,600	-	-	3,145,538
Receivables, net of allowance for uncollectibles:								
Loans	-	15,825,983	483,780	231,704	-	-	-	16,541,467
Federal agencies	1,522,401	-	-	-	858,920	1,043,340	-	3,424,661
General	3,277,558	83,023	22,010,998	-	858,723	-	-	26,230,302
Interest and dividends	-	5,478,382	-	429,533	-	-	-	5,907,915
Other	916,805	507,948	2,254,558	548,942	-	83,413	10,156	4,321,822
Due from primary government	-	1,050	-	6,868	138,780	5,362,096	2,207,519	7,716,313
Inventories	-	-	8,796,772	-	402,442	-	-	9,199,214
Other assets	75,723	15,704	175,921	6,812	5,514	341,379	13,194	634,247
Restricted assets:								
Cash and cash equivalents	-	4,941,821	7,711,595	-	-	-	-	12,653,416
Time certificates of deposit	-	6,550,922	-	-	-	-	-	6,550,922
Investments	17,122,945	-	-	55,853,953	-	-	-	72,976,898
Total current assets	26,826,371	39,087,084	42,054,612	60,643,283	5,328,455	7,865,172	2,812,159	184,617,136
Noncurrent assets:								
Investments	-	-	-	-	4,552,272	-	-	4,552,272
Receivables:								
Loans, net	-	4,489,754	-	9,866,526	-	-	-	14,356,280
Other	3,659,613	-	-	-	-	-	-	3,659,613
Deferred bond issue costs	1,461,297	-	-	-	-	-	-	1,461,297
Other assets	-	-	-	-	-	-	-	-
Capital assets (net of accumulated depreciation)	190,759,135	12,583,981	93,704,795	350,571	6,220,796	89,463,435	67,969	393,150,682
Foreclosed real estate	-	3,742,740	-	-	-	-	-	3,742,740
Total noncurrent assets	195,880,045	20,816,475	93,704,795	10,217,097	10,773,068	89,463,435	67,969	420,922,884
Total assets	222,706,416	59,903,559	135,759,407	70,860,380	16,101,523	97,328,607	2,880,128	605,540,020
<u>Liabilities and Net Assets</u>								
Current liabilities:								
Accounts payable	3,828,330	2,147,038	11,308,542	60,825	897,170	428,359	1,775,247	20,445,511
Compensated absences	275,621	-	-	-	334,874	-	-	610,495
Due to primary government	1,475,196	-	3,415,730	433,521	-	-	-	5,324,447
Other liabilities and accruals	3,578,674	7,791,073	11,027,281	122,134	254,432	2,180,895	229,838	25,184,327
Due to Pension (and Other Employee Benefit) Trust Fund	709,739	-	-	-	-	6,014,334	-	6,724,073
Current portion of notes and bonds payable	1,340,000	111,754	63,841,779	-	126,568	-	-	65,420,101
Current obligations under capital lease	-	-	860,695	-	-	-	-	860,695
Accrued interest payable	-	-	127,587,655	-	-	-	-	127,587,655
Deferred revenue	5,625	4,652,763	-	-	853,012	-	-	5,511,400
Total current liabilities	11,213,185	14,702,628	218,041,682	616,480	2,466,056	8,623,588	2,005,085	257,668,704
Noncurrent liabilities:								
Notes and bonds payable, net of current portion	55,633,268	1,382,489	9,441,997	-	42,725	-	-	66,500,479
Compensated absences, net of current portion	262,334	-	-	-	239,091	2,267,363	164,334	2,933,122
Total noncurrent liabilities	55,895,602	1,382,489	9,441,997	-	281,816	2,267,363	164,334	69,433,601
Total liabilities	67,108,787	16,085,117	227,483,679	616,480	2,747,872	10,890,951	2,169,419	327,102,305
Net assets:								
Invested in capital assets, net of related debt	135,247,164	15,605,166	53,556,116	350,571	6,220,796	89,463,435	67,969	300,511,217
Restricted	17,122,945	28,213,276	7,711,595	69,893,329	5,411,192	-	-	128,352,337
Unrestricted	3,227,520	-	(152,991,983)	-	1,721,663	(3,025,779)	642,740	(150,425,839)
Total net assets	\$ 155,597,629	\$ 43,818,442	\$ (91,724,272)	\$ 70,243,900	\$ 13,353,651	\$ 86,437,656	\$ 710,709	\$ 278,437,715

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

	Commonwealth Ports Authority	Commonwealth Development Authority	Commonwealth Utilities Corporation	Marianas Public Land Trust	Northern Marianas College	Public School System	Marianas Visitors Authority	Total
Operating revenues:								
Charges for services and fees	\$ 7,653,183	\$ 4,279,003	\$ 103,798,518	\$ -	\$ 1,763,563	\$ 1,335,432	\$ 49,684	\$ 118,879,383
Grants and contributions	-	6,433,260	-	-	6,588,255	27,688,584	515,299	41,225,398
Other	6,146,274	240,636	-	(4,636,399)	1,194,372	-	141,866	3,086,749
	13,799,457	10,952,899	103,798,518	(4,636,399)	9,546,190	29,024,016	706,849	163,191,530
Recovery of (provision for) uncollectible receivables	(451,229)	(1,004,742)	(1,482,182)	-	189,337	-	-	(2,748,816)
Total operating revenues	13,348,228	9,948,157	102,316,336	(4,636,399)	9,735,527	29,024,016	706,849	160,442,714
Operating expenses:								
Cost of services	5,780,698	6,189,206	95,565,486	-	9,729,335	49,205,497	5,321,793	171,792,015
Depreciation and amortization	9,690,222	527,233	8,689,669	14,653	471,054	1,255,663	27,509	20,676,003
Administration	7,006,742	1,278,671	13,297,555	914,560	3,294,201	18,292,716	1,930,433	46,014,878
Total operating expenses	22,477,662	7,995,110	117,552,710	929,213	13,494,590	68,753,876	7,279,735	238,482,896
Operating income (loss)	(9,129,434)	1,953,047	(15,236,374)	(5,565,612)	(3,759,063)	(39,729,860)	(6,572,886)	(78,040,182)
Nonoperating revenues (expenses):								
Contributions from the primary government	-	-	5,100,000	3,500,000	5,618,211	35,847,444	5,903,140	55,968,795
Contributions to the primary government	-	(639,389)	(694,759)	(2,438,168)	-	-	-	(3,772,316)
Unrestricted investment earnings	493,397	737,582	-	-	102,631	-	-	1,333,610
Interest expense	(2,974,460)	-	(12,082,702)	-	-	-	-	(15,057,162)
Amortization of bond issue cost	(66,935)	-	-	-	-	-	-	(66,935)
Other expenses	(1,248,266)	(500,000)	(956,551)	-	(796,208)	-	-	(3,501,025)
Other revenues	2,111,203	5,069,698	1,100,204	-	-	-	-	8,281,105
Nonoperating revenues (expenses), net	(1,685,061)	4,667,891	(7,533,808)	1,061,832	4,924,634	35,847,444	5,903,140	43,186,072
Income (loss) before capital contributions	(10,814,495)	6,620,938	(22,770,182)	(4,503,780)	1,165,571	(3,882,416)	(669,746)	(34,854,110)
Capital contributions	12,525,600	-	4,672,887	-	-	674,892	-	17,873,379
Change in net assets	1,711,105	6,620,938	(18,097,295)	(4,503,780)	1,165,571	(3,207,524)	(669,746)	(16,980,731)
Net assets - beginning, as restated	153,886,524	37,197,504	(73,626,977)	74,747,680	12,188,080	89,645,180	1,380,455	295,418,446
Net assets - ending	\$ 155,597,629	\$ 43,818,442	\$ (91,724,272)	\$ 70,243,900	\$ 13,353,651	\$ 86,437,656	\$ 710,709	\$ 278,437,715

See accompanying notes to financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2008

(1) Summary of Significant Accounting Policies

The accompanying basic financial statements of the Commonwealth of the Northern Mariana Islands (CNMI) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, requires that proprietary activities apply all applicable GASB pronouncements as well as Statements and Interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989. For all discretely presented component units, the CNMI applies GASB Statement No. 20, unless FASB pronouncements conflict with or contradict GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The more significant of the CNMI's accounting policies are described below.

A. Reporting Entity

The Government of the CNMI is a constitutional government comprised of three branches: the Legislative Branch (the Legislature), consisting of a nine-member Senate and an eighteen-member House of Representatives elected by eligible voters; the Executive Branch, with the Governor as the chief executive officer; and the Judicial Branch made up of two Commonwealth courts (the Appeals Court and the Trial Court).

For financial reporting purposes, the CNMI has included all funds, organizations, agencies, boards, commissions and institutions. The CNMI has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the CNMI are such that exclusion would cause the CNMI's financial statements to be misleading or incomplete. The net assets and results of operations of the following legally separate entities are presented as part of CNMI's operations:

1. Blended Component Units

Blended component units are entities that are legally separate from the CNMI, but are so related to the CNMI that they are, in substance, the same as the CNMI or entities providing services entirely or almost entirely to the CNMI.

- (a) The Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, exists to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system within the CNMI. NMIRF is governed by a seven-member Board of Trustees appointed by the Governor.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

1. Blended Component Units, Continued

- (b) The Northern Mariana Islands Government Health and Life Insurance Trust Fund (GHLITF), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for administering the life and health insurance programs for CNMI government employees. The Board of Trustees of the Northern Mariana Islands Retirement Fund administers GHLITF. The GHLITF health benefit administration was privatized on November 1, 2007.
- (c) The CNMI Workers' Compensation Commission (WCC), a Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund, is responsible for the payment of compensation to workers who are not adequately covered under their employer's insurance policy. The Board of Trustees of the Northern Mariana Islands Retirement Fund administers WCC.

Complete financial statements for each of the individual component units may be obtained at the units' administrative offices.

Northern Mariana Islands Retirement Fund
P.O. Box 501247
Saipan, MP 96950-1247

Northern Mariana Islands Government Health
and Life Insurance Trust Fund
P.O. Box 501247
Saipan, MP 96950-1247

CNMI Workers' Compensation Commission
P.O. Box 501247
Saipan, MP 96950-1247

2. Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the CNMI, but are financially accountable to the CNMI, or whose relationships with the CNMI are such that exclusion would cause the CNMI's financial statements to be misleading or incomplete. The Component Units' column of the basic financial statements includes the financial data of the following entities:

- (a) The Commonwealth Ports Authority (CPA) is responsible for the operations, maintenance and improvement of all airports and seaports within the CNMI. CPA is governed by a seven-member Board of Directors appointed by the Governor.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

- (b) The Commonwealth Development Authority (CDA) functions to stimulate the economic development of the CNMI. It serves as the administrator of United States economic assistance for economic development loans and aids in the financing of capital improvement projects undertaken by the CNMI and its autonomous public agencies. CDA is governed by a six-member Board of Directors appointed by the Governor.
- (c) The Commonwealth Utilities Corporation (CUC) is responsible for supervising the construction, maintenance operations and regulation of all utility services within the CNMI. CUC is governed by a six-member Board of Directors appointed by the Governor.
- (d) The Marianas Public Land Trust (MPLT) manages all monies received by it from the CNMI Division of Public Lands for the use of public lands and distributes net income to the general fund of the CNMI. Additionally, MPLT is responsible for maintaining a separate trust fund for the development and maintenance of American Memorial Park. MPLT is governed by a five-member Board of Trustees appointed by the Governor.
- (e) The Northern Marianas College (NMC) serves as the state education agency for higher education and adult education programs within the CNMI. NMC is governed by a seven-member Board of Regents appointed by the Governor.
- (f) The Public School System (PSS) is responsible for supervising preschool, elementary and secondary education programs in the CNMI. PSS is governed by a five-member Board of Education elected at large.
- (g) The Marianas Visitors Authority (MVA) is responsible for the promotion and development of the tourism industry in the CNMI. It is governed by a fourteen-member Board of Directors, nine of which are appointed by the Governor with the remaining five coming from specified industry groups within the CNMI.

Complete financial statements for each of the individual component units may be obtained at the units' administrative offices.

Commonwealth Ports Authority
P.O. Box 501055
Saipan, MP 96950-1055

Commonwealth Development Authority
P.O. Box 502149
Saipan, MP 96950-2149

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

2. Discretely Presented Component Units, Continued

Commonwealth Utilities Corporation
P.O. Box 501220
Saipan, MP 96950-1220

Marianas Public Land Trust
P.O. Box 501089
Saipan, MP 96950-1089

Northern Marianas College
P.O. Box 501250
Saipan, MP 96950-1250

Public School System
P.O. Box 501370
Saipan, MP 96950-1370

Marianas Visitors Authority
P.O. Box 500861
Saipan, MP 96950-0861

Each blended and discretely presented component unit has a September 30 year end.

3. Omitted Component Unit

The CNMI has also omitted the Commonwealth Government Employees Credit Union (CGECU) from the basic financial statements due to the lack of available financial information. CGECU serves as a credit union for all CNMI government employees. CGECU is governed by a five-member Board of Directors appointed by the Governor. The financial activities of this omitted component unit are not considered material to the basic financial statements.

4. Program and Other Revenue Recognition

Program revenue is defined by the CNMI to be the revenue from fees and assessments collected by departments that are applicable to that department's operations. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs. All other revenues and expenses are reported as nonoperating.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other changes between the primary government and the discretely presented component units. Elimination of these changes would distort the direct costs and program revenues reported for the various functions concerned. Primary government activities are all governmental in nature. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Assets presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations.

The government-wide Statement of Net Assets reports \$10,259,527 of restricted net assets, of which \$1,911,789 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

C. Fund Financial Statements, Continued

The CNMI reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds - account for the general governmental activities of the CNMI and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the CNMI considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income, gross receipts, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Therefore, tax related receivables are essentially reserved for or have been historically deferred. Revenues from U.S. federal programs are recorded at the time that expenditures are incurred. Miscellaneous revenues from other financing sources are recognized when received because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available. Investments and related investment earnings are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Expenditures generally are recorded in the period in which the related fund liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The CNMI reports the following fund types:

1. Governmental Fund Types

i. General Fund

This fund is the CNMI's primary operating fund. It accounts for all financial transactions not accounted for in any other fund.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

1. Governmental Fund Types, Continued

ii. Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

iii. Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

iv. Debt Service Funds

The Debt Service Fund accounts for the accumulation of resources, principally transfers from the General Fund for the payment of long-term debt principal and interest.

2. Fiduciary Funds Types

i. Pension (and Other Employee Benefit) Trust Fund

These funds are used to account for assets held by the CNMI as trustee. The Pension (and Other Employee Benefit) Trust Fund are accounted for on the accrual basis of accounting. This fund combines the NMIRF, GHLITF and WCC and is detailed in the combining statement.

ii. Agency Fund

These funds are normally used to account for assets held by a government as an agent for individuals, private organizations, or other governments and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The CNMI reports the following major funds:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

- Grants Assistance Fund, a Governmental Fund Type - Capital Projects Fund/Special Revenue Fund. This fund accounts for all financial transactions related to grants received from various U.S. departments. This fund combines the DOI Capital Projects Fund, a Governmental Fund Type - Capital Projects Fund and Federal Grants Fund, a Governmental Fund Type - Special Revenue Fund and is detailed in the combining statements.
- NMTIT Rebate Trust, a Governmental Fund Type - Special Revenue Fund. This fund was established to account for at least 75% of amounts paid to the CNMI with respect to taxes. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the general fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the general fund of interest derived from the trust accounts. Although the fund does not record revenues and expenditures, the CNMI has taken the position that tax payments received constitute revenue sources and the fund meets the definition of a special revenue fund.

E. Program and Other Revenue Recognition

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Discretely presented component units distinguish operating revenues from nonoperating items. Operating revenues generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

F. Concentrations of Credit Risk

Financial instruments which potentially subject the CNMI to concentrations of credit risk consist principally of cash demand deposits and investments.

At September 30, 2008, the CNMI has cash deposits and investments in bank accounts that exceed federal depository insurance limits. The CNMI has not experienced any losses on such accounts.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

G. Cash and Cash Equivalents and Time Certificates of Deposit

The CNMI pools cash resources of its various funds in order to facilitate the management of cash. Unless otherwise required by law, interest income received on pooled cash accrues to the General Fund. Cash and cash equivalents applicable to a particular fund are readily identifiable. Cash and cash equivalents include cash held in demand accounts as well as short-term investments in U.S. Treasury obligations with a maturity date within three months of the date acquired by the CNMI. Time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net assets/balance sheet.

H. Receivables

In general, tax revenue is recognized on the government-wide financial statements, when assessed or levied. Tax revenue is recognized on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the CNMI for expenditures on federally-funded reimbursement and grant programs are reported as "receivables from federal agencies".

I. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

J. Interfund Receivables and Payables

During the course of its operations, the CNMI records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental funds balance sheet. Receivables and payables resulting from transactions between component units and the primary government are classified as "due to/from primary government" or "due to/from component units" on the governmental balance sheet and statement of net assets. Interfund receivables and payables have been eliminated from the statement of net assets.

K. Advances

Advances include amounts paid in advance to vendors. In the governmental funds balance sheet, advances are offset by inclusion in the fund balance reserve for encumbrances indicating that they do not constitute expendable available resources and are, therefore, not available for appropriation.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

L. Inventories

Inventories are stated at the lower of cost or market using the first-in/first-out (FIFO) method. Inventories of the Commonwealth Health Center in the General Fund are offset by a fund balance reserve for supplies inventory, totaling \$1,402,912, as they do not represent resources available for appropriation.

M. Capital Assets and Depreciation

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land, non-depreciable land improvements are capitalized, regardless of cost. Singular pieces of machinery and equipment, other than vehicles, that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

All vehicles have been grouped together regardless of cost and depreciated on a composite basis.

Management has elected to present only assets acquired subsequent to 1990, except for roads and the Commonwealth Hospital Complex. Accordingly, fixed asset records consist of additions commencing in fiscal year 1990.

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Buildings and other improvements	10 - 50 years
Infrastructure	20 years
Machinery and equipment	5 - 25 years

N. Net Assets

The CNMI reports net assets as restricted where legally segregated for a specific future use. Otherwise, these balances are considered unrestricted.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

N. Net Assets, Continued

Net Assets have been restricted as follows:

“Restricted for capital projects” - identifies amounts restricted for Capital Projects.

“Restricted for retirement of indebtedness” - identifies amounts restricted for debt service.

“Restricted for other purposes” - identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the CNMI enabling statutes.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

O. Long-Term Obligations

Article X, Section 4, of the CNMI Constitution limits public indebtedness, other than bonds or other obligations of the government payable solely from the revenues derived from a public improvement or undertaking, to no more than 10% of the aggregate assessed valuation of the real property within the CNMI. The CNMI aggregate assessed valuation has not been determined as of September 30, 2008. However, the CNMI has estimated the aggregate assessed valuation of real property to be \$1,596,236,822 as of September 30, 2008. This estimation was based on the 1995 CNMI Mid-Decade Census.

P. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Compensated absences are recorded as a long-term liability in the statement of net assets with amounts to be paid during the next fiscal year reported as current. The liability as of September 30, 2008, is \$6,904,604.

Annual leave accumulates at the rate of thirteen working days for each year of service for up to three years of service, 19.5 working days for each year of service for three to six years of service, and 26 working days for each year of service for more than six years of service. Accrued annual leave is limited to 45 working days, with any amounts over 45 days transferred to sick leave.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

Q. Deferred Revenues

In the government-wide financial statements, deferred revenue is recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period under the modified accrual basis of accounting. Deferred revenues also arise when resources are received by the CNMI before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the CNMI has a legal claim to the resources, the liability for deferred revenue is removed from the governmental fund balance sheet and revenue is recognized.

R. Bond Discounts and Issuance Costs

In the government-wide financial statements, bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of bond discounts. Bond issue costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Discounts received on debt issuance are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

S. Income Taxes and Wage and Salary Taxes

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.

During the calendar year, the CNMI collects individual and corporate income taxes through withholdings and payments from taxpayers. At September 30, the CNMI estimates the amount owed to taxpayers for overpayments and rebates. These estimated amounts and the actual tax rebates claimed for prior years but not paid at year end are recorded as tax rebates payable in the Rebate Trust Fund and as a reduction of tax revenue in the General Fund. The estimated tax rebate liability is evaluated on a regular basis by the CNMI and is based upon the CNMI’s periodic review of tax returns in light of historical experience and the nature and volume of tax returns submitted. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Accordingly, changes to estimates are accounted for on a prospective basis.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

S. Income Taxes and Wage and Salary Taxes, Continued

Movements in income taxes and wage and salary taxes for the year ended September 30, 2008, are as follows:

Total income tax and wage and salary tax collections	\$ 48,864,079
Transfers to Rebate Trust Fund	<u>14,839,765</u>
Income taxes and wage and salary taxes per the statement of activities	\$ <u>34,024,314</u>

T. Cover Over Revenues

On January 30, 2003, the CNMI and the Internal Revenue Service (IRS) of the U.S. Department of Treasury signed the *Tax Coordination Agreement Between the United States of America and the Northern Mariana Islands* (CNMI Coordination Agreement). Section 10 of the CNMI Coordination Agreement deals with the mutual agreement procedures on potential double taxation. Cover over revenue represents amount due to the CNMI as cover over of tax revenues based on mutual agreement reached between the IRS and the CNMI pursuant to Section 10 of the CNMI Coordination Agreement. Cover over tax revenue is recognized on the governmental fund financial statements to the extent that it is both measurable and available. During the fiscal year ended September 30, 2008, cover over tax revenues amounted to \$41,611,260.

U. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or which are legally segregated for a specific future use or not expected to be realized in cash during the ensuing year. The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

The reserve for related assets as of September 30, 2008, is represented by the following assets:

	<u>General Fund</u>
Restricted cash and cash equivalents	\$ 8,562,052
Restricted time certificate of deposit	2,393,056
Investments	<u>2,500,000</u>
	<u>\$ 13,455,108</u>

At September 30, 2008, a reserve for land claims of \$1,922 was recorded in the General Fund representing the undistributed proceeds of land settlement claims administered by the Department of Public Lands.

At September 30, 2008, other reserve of \$2,290,421 was recorded in the Other Governmental Funds for estimated closure and post closure costs for the Marpi landfill.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

V. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

W. New Accounting Standards

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2008

(1) Summary of Significant Accounting Policies, Continued

W. New Accounting Standards, Continued

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

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

X. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results may differ from those estimates.

In determining tax rebate payable, the CNMI makes various estimates. In conjunction with these estimates, the CNMI has established a permanent tax rebate reserve of \$1,500,000 to offset any disputes or claims.

Y. Landfill

Although closure and post closure care costs will be paid only near or after the date that the Marpi landfill stops accepting waste, the CNMI's governmental activities reports a portion of these closure and post closure care costs as an expense in each period based on landfill capacity used as of each balance sheet date. The \$2,290,421 reported as landfill closure and post closure care liability at September 30, 2008 within the accompanying financial statements, represents the cumulative amount reported based on capacity used. This amount is based on what it would cost to perform all closure and post closure care in 2008. Actual cost may be higher due to inflation, changes in technology or changes in regulations.

Z. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the CNMI's financial statements for the year ended September 30, 2007 from which summarized information was derived.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(2) Deposits and Investments

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, disclosure is required of investments that have fair values that are highly sensitive to changes in interest rates. GASB Statement No. 40 also requires disclosure of formal policies related to deposit and investment risks.

Cash and Cash Equivalents and Time Certificates of Deposit

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

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

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

As of September 30, 2008, the carrying amount of the primary government's total cash and cash equivalents and time certificates of deposit were \$37,005,918 and the corresponding bank balances were \$37,537,940. Of the bank balance amounts, \$23,344,505 is maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. The remaining amount of \$10,684,775 represents short-term investments held and administered by the CNMI's trustees in accordance with various trust agreements and bond indentures and \$3,508,660 represents amounts maintained in a non-FDIC insured bank. Based on negotiated trust and custody contracts, all of the investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2008. As of September 30, 2008, bank deposits in the amount of \$310,679 were FDIC insured. Public Law No. 12-61, the Government Deposit Safety Act of 1994, as amended, governs the general deposit policies of the CNMI and requires that all deposits of public funds made by the CNMI are to be collateralized by U.S. Government obligations at the rate of 100% of the corresponding bank deposit. Compliance with Public Law No. 12-61 as of September 30, 2008, is presently not determinable. Accordingly, these deposits are exposed to custodial credit risk.

Restricted cash and cash equivalents and time certificates of deposit as of September 30, 2008 for the primary government represent amounts held and administered by the CNMI in accordance with legal mandates and certain capital projects. Restricted cash and cash equivalents and time certificates of deposit at September 30, 2008 amounted to \$25,855,563.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2008

(2) Deposits and Investments, Continued

Cash and Cash Equivalents and Time Certificates of Deposit, Continued

As of September 30, 2008, the carrying amount of the Fiduciary Fund's total cash and cash equivalents were \$5,221,573 and the corresponding bank balances were \$5,225,953, which are maintained in financial institutions subject to FDIC insurance. As of September 30, 2008, bank deposits in the amount of \$617,530 were FDIC insured. The Northern Mariana Islands Retirement Fund (NMIRF) has a legal requirement to collateralize amounts in excess of insurable limits. At September 30, 2008, approximately \$4,971,573 of NMIRF's cash and cash equivalents are collateralized with their bank's securities.

As of September 30, 2008, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit were \$37,664,297 and the corresponding bank balances were \$38,706,990. Of the bank balance amounts, \$34,268,419 is maintained in financial institutions subject to FDIC insurance. The amount of \$1,096,551 represents short-term investments held and administered by the discretely presented component units' trustees in accordance with various trust agreements and bond indentures. Based on negotiated trust and custody contracts, all of the investments were held in the discretely presented component units' name by the discretely presented component units' custodial financial institutions at September 30, 2008. The remaining amount of \$3,342,020 represents amount held and administered by the discretely presented components units' investment manager subject to Securities Investor Protection Corporation Insurance. As of September 30, 2008, bank deposits in the amount of \$1,763,476 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Accordingly, these deposits are exposed to custodial credit risk.

Investments

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

- | | |
|------------|--|
| Category 1 | Investments that are insured or registered, or securities held by the CNMI or its agent in the CNMI's name; |
| Category 2 | Investments that are uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the CNMI's name; or |
| Category 3 | Investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the CNMI's name. |

GASB Statement No. 40 amended GASB Statement No. 3 to in effect eliminate disclosure for investments falling into categories 1 and 2, and provided for disclosure requirements addressing other common risks of investments such as credit risk, interest rate risk, concentration of credit risk, and foreign currency risk. GASB Statement No. 40 did retain and expand the element of custodial credit risk in GASB Statement No. 3.

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

Investments, Continued

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the CNMI.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the CNMI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The CNMI's investments are held and administered by trustees in accordance with various bond indentures for the purpose of funding various capital projects, land settlement claims and future debt service requirements. Based on negotiated trust and custody contracts, all of these investments were held in the CNMI's name by the CNMI's custodial financial institutions at September 30, 2008.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The CNMI does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

A. Governmental Funds

As of September 30, 2008, the General Fund holds 20% and 7% of the shares of the Pacific Islands Development Bank and the United Micronesia Development Association, Inc. in the amount of \$1,000,000 and \$1,500,000, respectively. As the fair market value of these investments is not readily available, such have been recorded at cost.

B. Fiduciary Funds

Northern Mariana Islands Retirement Fund (NMIRF):

NMIRF's investments are held by a bank-administered trust company. Investments that represent 5% or more of NMIRF's assets at September 30, 2008 are equity securities of \$249,371,001, U.S. government securities of \$83,900,523, mutual funds of \$11,255,863 and corporate debt instruments of \$26,372,816.

As of September 30, 2008, NMIRF's investment breakdown is as follows:

<u>Investment Type</u>	<u>Carrying Value</u>		<u>Total</u>
	<u>DB Plan</u>	<u>DC Plan</u>	
Investments categorized:			
U.S. Treasury STRIPS	\$ 49,520,438	\$ -	\$ 49,520,438
U.S. Treasuries	1,732,301	-	1,732,301
Mortgage pass throughs	26,395,757	-	26,395,757
Collateralized mortgage obligations	6,252,027	-	6,252,027
Domestic corporate bonds	26,372,816	-	26,372,816
Domestic stocks (common, preferred, ADRs)	227,806,354	-	227,806,354
Foreign stocks	<u>21,564,647</u>	<u>-</u>	<u>21,564,647</u>
Total categorized	<u>359,644,340</u>	<u>-</u>	<u>359,644,340</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

<u>Investment Type</u>	<u>Carrying Value</u>		<u>Total</u>
	<u>DB Plan</u>	<u>DC Plan</u>	
Investments not categorized:			
Money market funds	14,214,350	1,054,883	15,269,233
Mutual bond funds	5,232,120	-	5,232,120
Real estate investment trust	1,161,137	-	1,161,137
Stock mutual funds	-	<u>6,023,743</u>	<u>6,023,743</u>
Total not categorized	<u>20,607,607</u>	<u>7,078,626</u>	<u>27,686,233</u>
Total investments held outside the State Treasury	\$ <u>380,251,947</u>	\$ <u>7,078,626</u>	\$ <u>387,330,573</u>

Credit Risk

NMIRF utilizes external investment managers to manage its portfolios. NMIRF's investment policy for its DB Plan specifies the following regarding fixed income investments held in its portfolio:

- All fixed income securities shall have a Moody's, Standard and Poor's and/or Fitch credit quality rating of no less than BBB.
- The exposure of the portfolio to any one company, other than securities of the U.S. government, shall not exceed 5% of the market value of the portfolio under management by each investment manager.
- Each fixed income portfolio of each investment manager shall be suitably diversified as to any single issuer or class of issuer so that an adversity affecting a particular issuer or sector will not impact a substantial share of the total portfolio.
- NMIRF's portfolios per investment managers are regularly reviewed to ensure compliance to abovementioned requirements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The investment does not have effective duration; however, industry standards usually give the investment managers the discretion to deviate within +/- 20% from the effective duration of the relevant Lehman Brothers benchmark.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Summarized below are NMIRF's fixed income investments and their maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury STRIPS	\$ 49,520,438	\$ -	\$ 24,146,914	\$ 10,000,242	\$ 15,373,282	AAA
U.S. Treasuries	1,732,301	-	321,282	-	1,411,019	AAA
Mortgage pass through Collateralized mortgage obligations	26,395,757	-	-	2,178,101	24,217,656	AAA
Mutual bond funds	6,252,027	-	-	1,749,421	4,502,606	AAA
Domestic corporate bonds	5,232,120	3,486,638	-	1,745,482	-	AAA/Unrated
	<u>26,372,816</u>	<u>2,292,291</u>	<u>12,145,099</u>	<u>6,682,438</u>	<u>5,252,988</u>	AAA/AA/A/BBB
	<u>\$ 115,505,459</u>	<u>\$ 5,778,929</u>	<u>\$ 36,613,295</u>	<u>\$ 22,355,684</u>	<u>\$ 50,757,551</u>	

Figures were from NMIRF's fixed income portfolio managed by Provident Investment Counsel.

Securities Lending

CNMI statutes permit NMIRF to participate in securities lending transactions, and NMIRF has, pursuant to a Securities Lending Authorization Agreement, authorized an agent in lending NMIRF's securities to broker-dealers and banks pursuant to a form of loan agreement. During the year ended September 30, 2008, the agent loaned, on behalf of NMIRF, securities, including U.S. government obligations, domestic corporate bonds, and domestic and international equities, held by agent as custodian and received, as collateral, United States and foreign currency cash, securities issued or guaranteed by the United States government, sovereign debt of foreign countries and irrevocable bank letters of credit. The agent does not have the ability to pledge or sell collateral securities absent borrower default. Borrowers delivered collateral for each loan equal to 125% of the fair value of the loaned securities. In accordance with GASB Statement No. 28, securities lending collateral reported in the statement of plan net assets represented only cash collateral invested in the lending agent's cash collateral investment pool.

Securities Lending Collateral Interest Rate Risk

Cash collaterals from loans of securities are reinvested by the investment manager. A duration mismatch between loan and reinvestment is limited to a conservative maximum of fifteen days.

Securities loaned are covered by a contractual indemnification against broker default, that is, if a broker fails to return loaned securities when required, the investment manager will, within two business days, and at its expense, either replace the loaned securities or credit NMIRF for the market value of the unreturned loaned securities determined as of the close of business on the date the securities should have been returned.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Northern Mariana Islands Retirement Fund (NMIRF), Continued:

Concentration of Credit

As of September 30, 2008, NMIRF had no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

Custodial Credit Risk

As of September 30, 2008, 100% of NMIRF's investments were held in NMIRF's name, and NMIRF is not exposed to custodial credit risk related to these investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is not held as a form of investment. Foreign currency is held for less than thirty days in foreign accounts until it can be repatriated or expended.

Derivatives

NMIRF's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include currency contracts, including futures and forward contracts, to hedge foreign currency exposure into U.S. dollars. Leverage may not be used and an investment manager may not hedge more than 25% of the value of the non US assets managed by such investment manager.

Workmen's Compensation Commission (WCC):

WCC's investments are held by a bank administered trust company. Investments that represent 32% of WCC's total assets at September 30, 2008 are as follows:

Stock mutual fund	\$ 496,315
Mutual bond funds	172,093
Money market placements	<u>14,600</u>
	\$ <u>683,008</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

Investments, Continued

B. Fiduciary Funds, Continued

Workmen's Compensation Commission (WCC), Continued:

The following is a listing of WCC's fixed income securities at September 30, 2008:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>				<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Mutual bond funds	\$ <u>172,093</u>	\$ <u>-</u>	\$ <u>172,093</u>	\$ <u>-</u>	\$ <u>-</u>	AAA/AA

C. Discretely Presented Component Units

Commonwealth Ports Authority:

CPA's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on those agreements, all of those deposits were held in CPA's name by CPA's custodial financial institutions at September 30, 2008. As of September 30, 2008, investments at fair value consist of investments in U.S. Government money market placements amounting to \$17,122,945.

Marianas Public Land Trust (MPLT):

MPLT's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments are held in MPLT's name by MPLT's custodial financial institutions at September 30, 2008.

As of September 30, 2008, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 39,239,537
Other investments:	
Domestic equities	<u>16,614,416</u>
	\$ <u>55,853,953</u>

The following is a listing of MPLT's fixed income securities at September 30, 2008:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

Marianas Public Land Trust (MPLT), Continued:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
Mortgage and asset backed securities	\$ 4,027,755	\$ -	\$ 1,910,454	\$ -	\$ 2,117,301	AAA
Mortgaged and asset backed securities	14,233,225	-	5,525	1,296,115	12,931,585	No rating
Government obligations	1,244,629	-	361,461	26,346	856,822	AAA
Government agencies	453,967	-	239,345	30,872	183,750	AAA
Corporate bonds	452,047	-	58,088	275,386	118,573	AAA
Corporate bonds	2,123,763	220,719	702,897	747,756	452,391	AA-
Corporate bonds	1,040,878	-	219,415	821,463	-	AA
Corporate bonds	3,065,863	-	1,151,118	1,125,094	789,651	A+
Corporate bonds	3,895,218	1,659,856	1,375,507	688,006	171,849	A-
Corporate bonds	6,856,433	544,439	1,740,279	3,454,907	1,116,808	A
Corporate bonds	856,804	-	212,609	385,842	258,353	BBB+
Corporate bonds	288,760	-	229,860	58,900	-	BBB-
Corporate bonds	700,195	-	595,261	-	104,934	BBB
	<u>\$ 39,239,537</u>	<u>\$ 2,425,014</u>	<u>\$ 8,801,819</u>	<u>\$ 8,910,687</u>	<u>\$ 19,102,017</u>	

Northern Marianas College (NMC):

NMC's investments are held and administered by trustees in accordance with negotiated trust and custody agreements. Based on these agreements, all of these investments were held in NMC's name by NMC's custodial financial institutions at September 30, 2008.

As of September 30, 2008, investments at fair value are as follows:

Fixed income securities:	
Domestic fixed income	\$ 1,736,426
International fixed income	<u>96,742</u>
	<u>1,833,168</u>
Other investments:	
Domestic equities	1,905,078
Other	<u>814,026</u>
	<u>2,719,104</u>
	<u>\$ 4,552,272</u>

The following is a listing of NMC's fixed income securities at September 30, 2008:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(2) Deposits and Investments, Continued

Investments, Continued

C. Discretely Presented Component Units, Continued

Northern Marianas College (NMC), Continued:

Investment Type	Fair Value	Investment Maturities (In Years)				Credit Rating
		Less Than 1	1 - 5	6 - 10	More Than 10	
U.S. Treasury notes and bonds	\$ 717,428	\$ -	\$ 405,747	\$ 204,332	\$ 107,349	AAA
Mortgage and asset backed securities	419,094	-	33,687	25,864	359,543	AAA
Municipal bonds	48,168	-	32,296	15,872	-	AAA
International bonds	18,167	-	-	-	18,167	AA-
International bonds	58,438	-	37,957	-	20,481	A-
International bonds	20,137	-	-	20,137	-	BBB+
Corporate bonds	53,121	-	22,104	19,318	11,699	AAA
Corporate bonds	13,788	-	13,788	-	-	AA+
Corporate bonds	38,891	-	21,064	-	17,827	AA
Corporate bonds	38,452	-	38,452	-	-	AA-
Corporate bonds	34,049	-	34,049	-	-	A+
Corporate bonds	92,746	-	57,816	34,930	-	A
Corporate bonds	50,740	-	12,238	38,502	-	A-
Corporate bonds	152,929	-	-	90,806	62,123	BBB+
Corporate bonds	28,574	-	28,574	-	-	BBB
Corporate bonds	48,446	-	-	12,152	36,294	BBB-
	<u>\$ 1,833,168</u>	<u>\$ -</u>	<u>\$ 737,772</u>	<u>\$ 461,913</u>	<u>\$ 633,483</u>	

(3) Receivables

Governmental Funds

Receivables as of September 30, 2008, for the primary government's individual major governmental funds and nonmajor governmental funds in the aggregate, including allowances for uncollectible accounts, are as follows:

	General	Grants Assistance	NMTIT Rebate Trust	Other Governmental Funds	Totals
Receivables:					
Federal agencies	\$ -	\$ 20,369,259	\$ 72,388	\$ 820,426	\$ 21,262,073
Other agencies	116,048,260	-	-	-	116,048,260
Taxes	13,856,186	-	-	-	13,856,186
Cover over	17,204,260	-	-	-	17,204,260
General	1,885,913	-	-	15,074,057	16,959,970
Other	-	12,831	-	-	12,831
Gross receivables	148,994,619	20,382,090	72,388	15,894,483	185,343,580
Less allowance for uncollectibles	(117,545,460)	(9,533,173)	-	(15,361,130)	(142,439,763)
Net receivables	<u>\$ 31,449,159</u>	<u>\$ 10,848,917</u>	<u>\$ 72,388</u>	<u>\$ 533,353</u>	<u>\$ 42,903,817</u>

Receivables are primarily due from businesses and individuals residing in the CNMI. The allowance for uncollectibles primarily represents estimated uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(3) Receivables, Continued

Governmental Funds, Continued

The cover over receivables of \$17,204,260 represents receivables from the IRS pursuant to a Memorandum of Understanding, entered into by the IRS and the CNMI on November 13, 2008, consistent with the CNMI Coordination Agreement.

Fiduciary Funds

Receivables as of September 30, 2008, for individual major fiduciary funds, including allowances for uncollectible accounts, are as follows:

	<u>NMIRF</u>	<u>GHLTF</u>	<u>WCC</u>	<u>Totals</u>
Receivables:				
Contributions	\$ 15,373,033	\$ -	\$ -	\$ 15,373,033
Loans	7,782,731	-	-	7,782,731
Notes	8,013,082	-	-	8,013,082
Benefits	1,370,553	-	820,046	2,190,599
Interest and dividends	1,217,163	-	-	1,217,163
Other	<u>2,305,742</u>	<u>-</u>	<u>2,260</u>	<u>2,308,002</u>
Gross receivables	36,062,304	-	822,306	36,884,610
Less allowance for uncollectibles	<u>(15,970,015)</u>	<u>-</u>	<u>-</u>	<u>(15,970,015)</u>
Net receivables	\$ <u>20,092,289</u>	\$ <u>-</u>	\$ <u>822,306</u>	\$ <u>20,914,595</u>

Contributions receivable of \$15,373,033 recorded by the NMIRF represents amounts owed to the NMIRF for employer contributions from various CNMI autonomous agencies. At September 30, 2008, a corresponding allowance for uncollectible contribution receivables of \$15,373,033 is recorded by the NMIRF.

The loans receivable of \$7,782,731 recorded by the NMIRF represents receivables from the CNMI pursuant to a loan agreement entered into in February 28, 1995. The loan is for a period of twenty years, with interest rate at 7.75% and payable in monthly installments of \$120,000.

The notes receivable recorded by the NMIRF includes \$6,340,883 loan receivables under the NMIRF's Member Home Loan Program (MHLP). The MHLP was created through Public Law 6-17 which authorized up to 40% of NMIRF's assets to be made available to the program. Borrowings are restricted to the construction, purchase, and improvement of principal residence or refinancing of existing mortgages on a member's home. NMIRF can lend amounts ranging \$5,000 to \$150,000 at interest rates of 8.5% to 9% per annum. The remaining notes receivable of \$1,672,199 represents receivables from the Commonwealth Government Employees' Credit Union (CGECU). The note is for a period of thirty years beginning October 12, 1995 and bears interest at an initial rate of 8% per annum and adjusted at a rate that is at least equal to the actuarially assumed rate of return on NMIRF's plan assets. For the fiscal year ended September 30, 2008, the interest rate is at 7.5%.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(3) Receivables, Continued

Discretely Presented Component Units

Receivables as of September 30, 2008 for individual major discretely presented component units, including allowances for uncollectible accounts are as follows:

	CPA	CDA	CUC	MPLT	NMC	PSS	MVA	Totals
Receivables:								
Loans	\$ -	\$ 115,887,338	\$ 483,780	\$ 14,241,386	\$ -	\$ 1,043,340	\$ -	\$ 131,655,844
Federal agencies	1,522,401	-	-	-	858,920	-	-	2,381,321
General	4,933,753	972,649	22,010,998	-	2,738,212	-	-	30,655,612
Interest and dividends	-	16,357,610	-	429,533	-	-	-	16,787,143
Other	<u>7,936,982</u>	<u>915,835</u>	<u>2,254,558</u>	<u>548,942</u>	<u>-</u>	<u>83,413</u>	<u>10,156</u>	<u>11,749,886</u>
Gross receivables	14,393,136	134,133,432	24,749,336	15,219,861	3,597,132	1,126,753	10,156	193,229,806
Less allowance for uncollectibles	<u>(5,016,759)</u>	<u>(107,748,342)</u>	<u>-</u>	<u>(4,143,156)</u>	<u>(1,879,489)</u>	<u>-</u>	<u>-</u>	<u>(118,787,746)</u>
Net receivables	<u>\$ 9,376,377</u>	<u>\$ 26,385,090</u>	<u>\$ 24,749,336</u>	<u>\$ 11,076,705</u>	<u>\$ 1,717,643</u>	<u>\$ 1,126,753</u>	<u>\$ 10,156</u>	<u>\$ 74,442,060</u>

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the governmental funds balance sheet at September 30, 2008 are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 2,185,029
Grants Assistance	General	9,718,706
General	Grants Assistance	5,465,753
NMTIT Rebate Trust	General	27,010,112
Nonmajor governmental	General	15,707,407
Agency	General	1,424,025
Grants Assistance	Nonmajor governmental	58,997
Nonmajor governmental	Grants Assistance	53,410
Nonmajor governmental	Nonmajor governmental	<u>830,174</u>
		<u>\$ 62,453,613</u>

These balances result from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made and are scheduled to be collected in the subsequent year.

Balances reflected as due to/from component units as of September 30, 2008 are summarized as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General	Marianas Public Land Trust	\$ 420,071
Nonmajor governmental funds	Marianas Public Land Trust	<u>13,450</u>
		<u>\$ 433,521</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(4) Interfund Receivables and Payables, Continued

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
Public School System (PSS)	General	\$ 2,208,831
Northern Marianas College	General	25,305
Marianas Visitors Authority	General	2,207,519
Commonwealth Utilities Corporation	General	2,415,503
Northern Marianas College (NMC)	Nonmajor governmental funds	113,475
Marianas Public Land Trust	Nonmajor governmental funds	6,868
Commonwealth Development Authority	General	<u>1,050</u>
		<u>\$ 6,978,551</u>

The amount recorded as due from component units of the primary government of \$433,521 does not equal the corresponding due to primary government of the discretely presented component units of \$5,324,447 due to CPA and CUC recording 1% public auditor fee of \$1,475,196 and \$3,415,730, respectively, for which the primary government recorded a corresponding allowance.

The amount recorded as due from primary government of the discretely presented component units of \$7,716,313 does not equal the corresponding due to component units of the primary government of \$6,978,551 by \$737,762. The difference of \$3,153,265 with PSS is due to (i) \$2,000,000 fiscal year 2006 additional appropriations recorded by PSS but was disputed by the CNMI; (ii) \$385,000 budget reduction in fiscal year 2008 appropriations pursuant to Public Law 16-2 not recorded by PSS, (iii) \$1,629,319 fiscal year 2008 payments made by the CNMI on behalf of PSS and was applied by CNMI to PSS' current year appropriation but was not recorded by PSS as reduction of appropriation, (iv) \$358,463 fiscal year 2008 1% Public Auditor fees recorded by PSS as reduction of appropriation but was considered by the CNMI as included in the appropriation, and (v) \$502,591 unreconciled differences, of which \$72,968 is from prior years. The difference of \$2,415,503 with CUC is due to \$2,415,503 recorded as general receivables by CUC.

As of September 30, 2008, the due to Pension (and Other Employee Benefit) Trust Fund consists of the following:

	<u>NMIRF</u>	<u>GHLITE</u>	<u>WCC</u>	<u>Totals</u>
Employer contributions	\$ 149,957,778	\$ -	\$ -	\$ 149,957,778
Penalty on unpaid contributions	41,848,218	-	-	41,848,218
Deficiency in NMC's retirement contributions	3,955,282	-	-	3,955,282
Appropriations in prior years not transferred	14,612,568	-	-	14,612,568
Early retirement bonus program	2,726,570	-	-	2,726,570
Prior service contributions	780,733	-	-	780,733
Other	<u>1,736,599</u>	<u>-</u>	<u>363,821</u>	<u>2,100,420</u>
	<u>\$ 215,617,748</u>	<u>\$ -</u>	<u>\$ 363,821</u>	<u>\$ 215,981,569</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2008

(4) Interfund Receivables and Payables, Continued

On January 24, 2008, Public Law 15-126 was enacted to reduce the employer retirement contribution rate to 18% for employees funded by the CNMI General Fund effective October 1, 2007. Further, Section 2(b) of the law states that any difference between the 36.7727% rate and the sum remitted by the employer shall accrue as a liability of the CNMI government. On May 3, 2008, Public Law 16-2 was enacted suspending Public Law 15-126 for fiscal year 2008 except for Section 2(b). Further, Section 7(b) of Public Law 16-2 mandates the CNMI government to accrue NMC's deficient retirement contribution as its liability. Public Law 16-2 also sets a new rate of 11% beginning October 1, 2007. On June 24, 2008, the Office of the Governor confirmed that the CNMI government will be responsible for NMC's deficient retirement contribution beginning October 1, 2005. NMC's deficient retirement contribution including penalties and interest amounted to \$3,955,282 as of September 30, 2008.

The amount recorded as due to Pension (and Other Employee Benefit) Trust Fund of \$215,981,569 does not equal the corresponding due from the general fund and due from miscellaneous special revenue funds of the Fiduciary Funds of \$212,026,287 due to \$3,955,282 in NMC's deficient retirement contributions recorded by the primary government as a liability and recorded by the Pension (and Other Employee Benefit) Trust Fund as part of receivables from autonomous agencies.

Of the amount due from the General Fund of \$211,662,466, the Pension (and Other Employee Benefit) Trust Fund recorded allowance for uncollectible receivables of \$154,370,101 as of September 30, 2008. The remaining due from the General Fund of \$57,292,365 has been offset by deferred revenue in the same amount.

(5) Restricted Assets

Governmental Funds

Restricted assets of \$13,447,947 recorded in the General Fund represents cash and cash equivalents of \$2,713,454 for capital projects, \$3,437,293 for tax rebate payments, \$2,492,839 for recovery rebate payments and \$2,411,305 for various purposes and time certificate of deposits of \$2,000,000 for tax rebate payments and \$393,056 for various purposes.

Restricted assets of \$5,721,570 recorded in the Grants Assistance Fund represents cash and cash equivalents restricted for capital projects.

Restricted assets of \$6,686,046 recorded in the Other Governmental Funds represents cash and cash equivalents of \$128,806 for capital projects, \$3,062,345 for future debt service requirements, \$3,414,612 DPL bank deposits in which DPL has been restricted from full access and \$80,283 for other purpose.

Fiduciary Fund Type - Pension (and Other Employee Benefit) Trust Fund

CNMI's Workers' Compensation Commission

Restricted assets of \$126,816 represents time certificates of deposit established for the purpose of making compensation for injury increasing disability in accordance with Subsection (f) of Section 9308 of Public Law 10-19.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(5) Restricted Assets, Continued

Fiduciary Fund Type - Agency Fund

Restricted assets of \$2,876,633 as of September 30, 2008 represent deposits of foreign investors required by law to operate a business in the CNMI.

Discretely Presented Component Units

Commonwealth Ports Authority (CPA):

Restricted assets represent the unused proceeds of the Airport Revenue Bonds and the Seaport Revenue Bonds, both issued on March 26, 1998, deposited with the Trustee. The Trustee is a commercial lending institution and the securities are held in the name of CPA. Disbursements from unused bond proceeds are to be made solely for the purpose of paying the costs of the projects, and pursuant to the Act establishing CPA (Public Law No. 2-48), payment of the costs of issuance and the payment of bond principal and interest to the extent provided in the Indenture.

<u>Fund</u>	<u>Airport Revenue Bonds</u>	<u>Seaport Revenues Bonds</u>	<u>Total</u>
Bond Reserve Fund	\$ 1,555,389	\$ 3,478,814	\$ 5,034,203
Supplemental Reserve Fund	-	8,038,346	8,038,346
Construction Fund	998,519	557,219	1,555,738
Reimbursement Fund	-	5,806	5,806
Bond Fund	284,982	489,094	774,076
Maintenance and Operation	464,713	493,610	958,323
Interest Fund	-	69,468	69,468
Revenue Fund	<u>448,588</u>	<u>238,397</u>	<u>686,985</u>
	\$ <u>3,752,191</u>	\$ <u>13,370,754</u>	\$ <u>17,122,945</u>

Commonwealth Development Authority (CDA):

Restricted assets of CDA are comprised of the following:

	<u>Development Banking Division</u>	<u>Development Corporation Division</u>	<u>Northern Marianas Housing Corporation</u>	<u>Total</u>
Cash and cash equivalents	\$ 53,730	\$ -	\$ 4,888,091	\$ 4,941,821
Time certificates of deposit	<u>6,550,922</u>	<u>-</u>	<u>-</u>	<u>6,550,922</u>
	\$ <u>6,604,652</u>	\$ <u>-</u>	\$ <u>4,888,091</u>	\$ <u>11,492,743</u>

Restricted assets of the Development Banking Division represent the proceeds of Covenant funding and liquidated revenue bonds derived from pledged Covenant funding to be used for capital development purposes.

Restricted assets of the Development Corporation Division represent cash and cash equivalents and time certificates of deposit maintained at a non-FDIC insured bank as guarantee against loans issued by the bank.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(5) Restricted Assets, Continued

Discretely Presented Component Units, Continued

Commonwealth Development Authority (CDA), Continued:

Restricted assets of the Northern Marianas Housing Corporation (NMHC) represent depository accounts with financial institutions in the CNMI that are restricted for various purposes, as summarized below:

Escrow account maintained as a guarantee for any deficiency in foreclosure proceeds related to U.S. Farmers Home Administration loans	\$ 259,144
Savings account restricted for Koblerville Section 8 project repairs and maintenance expenses, per contract with the U.S. Department of Housing and Urban Development	196,819
Savings account maintained as a guarantee of housing loans made by a savings and loan in the CNMI	58,851
Marianas Public Land Trust (MPLT) collateral account	1,522,938
Time certificates of deposit for MPLT loan program	441,033
Checking account maintained for Section 8 Housing Choice Vouchers Program expenses	2,028,317
Other depository accounts reserved for various purposes	<u>380,989</u>
	<u>\$ 4,888,091</u>

Commonwealth Utilities Corporation:

Cash and cash equivalents of \$7,711,595 as of September 30, 2008 represent customer deposits segregated pursuant to CUC policy. Of the \$7,711,595, \$7,500,000 is held as security pursuant to a letter of credit obtained from a financial institution to secure a \$7,500,000 credit limit for fuel purchases.

(6) Fixed Assets and Depreciation

Capital assets activities of the primary government for the year ended September 30, 2008, are as follows:

	Balance October 1, 2007	Additions	Retirements	Reclassifications	Balance September 30, 2008
Historical cost:					
Assets not being depreciated:					
Land	\$ 28,627,266	\$ 132,341	\$ (209,474)	\$ 26,605	\$ 28,576,738
Construction in progress	<u>14,306,862</u>	<u>5,684,572</u>	<u>-</u>	<u>(14,201,531)</u>	<u>5,789,903</u>
Subtotal assets not being depreciated	<u>42,934,128</u>	<u>5,816,913</u>	<u>(209,474)</u>	<u>(14,174,926)</u>	<u>34,366,641</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(6) Fixed Assets and Depreciation, Continued

	Balance October <u>1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclassifications</u>	Balance September <u>30, 2008</u>
Depreciable assets:					
Buildings and other improvements	167,779,390	-	(434,674)	10,758,744	178,103,460
Machinery and equipment	17,412,778	1,526,482	(1,411,606)	468,823	17,996,477
Infrastructure	<u>124,536,210</u>	<u>-</u>	<u>-</u>	<u>2,947,359</u>	<u>127,483,569</u>
Subtotal depreciable assets	<u>309,728,378</u>	<u>1,526,482</u>	<u>(1,846,280)</u>	<u>14,174,926</u>	<u>323,583,506</u>
Total capital assets at cost	<u>352,662,506</u>	<u>7,343,395</u>	<u>(2,055,754)</u>	<u>-</u>	<u>357,950,147</u>
Accumulated depreciation:					
Buildings and other improvements	(37,180,562)	(5,729,871)	272,332	-	(42,638,101)
Machinery and equipment	(8,412,310)	(1,957,238)	1,398,375	-	(8,971,173)
Infrastructure	<u>(94,651,787)</u>	<u>(6,346,507)</u>	<u>-</u>	<u>-</u>	<u>(100,998,294)</u>
Total accumulated depreciation	<u>(140,244,659)</u>	<u>(14,033,616)</u>	<u>1,670,707</u>	<u>-</u>	<u>(152,607,568)</u>
Capital assets, net	\$ <u>212,417,847</u>	\$ <u>(6,690,221)</u>	\$ <u>(385,047)</u>	\$ <u>-</u>	\$ <u>205,342,579</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Community and Social Services	\$ 1,192,772
General Government	972,312
Health	1,689,290
Public Works	8,069,657
Judicial Branch	291,274
Public Safety and Law Enforcement	1,723,296
Lands and Natural Resources	<u>95,015</u>
Total depreciation expense - governmental activities	\$ <u>14,033,616</u>

(7) Tax Rebates Payable

The CNMI makes significant estimates in determining tax rebates payable as recorded in the Rebate Trust Fund, a major governmental fund. Although the Rebate Trust Fund does not record revenues and expenditures, the CNMI has taken the position that tax payments received constitute revenue sources and thus the fund meets the definition of a special revenue fund.

The Rebate Trust Fund was established to account for amounts paid to the CNMI, with respect to taxes imposed, which are rebateable to taxpayers. P.L. 9-22, enacted in January 1995, repealed and re-enacted the CNMI tax code and removed the requirement of a Rebate Trust Fund. P.L. 9-57, enacted in October 1995, reestablished the Rebate Trust Fund. The reestablishment was not retroactive, and thus tax year liabilities are paid from subsequent year collections of the General Fund.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(7) Tax Rebates Payable, Continued

The rebate percentage is either 90%, 70% or 50%, based on the specified tax brackets for taxes paid. Amounts may be withdrawn from the trust fund only for the purpose of making rebates, payments into the general fund (but only after a final determination that the amount in question is not validly subject to rebate), or payments into the general fund of interest derived from the trust accounts. Tax rebate liabilities amounted to \$27,082,500 as of September 30, 2008. Cash to fund this liability is to be provided by the General Fund. Any changes in the estimate will be accounted for in a prospective manner.

(8) Recovery Rebates Payable

The Congress of the United States passed the Economic Stimulus Act of 2008, which was approved and became law on February 13, 2008 as U.S. Public Law 110-185 (the Act). Among other things, the Act provides economic stimulus through recovery rebates to individuals meeting certain criteria. The Act provides that the U.S. Department of Treasury will make payment to the CNMI in an amount equal to the aggregate amount of the credits allowable by reason of the provision to the CNMI's residents against their CNMI income tax to cover advance and final payments. During fiscal year 2008, the CNMI received total funds of \$16,100,000 pursuant to the Act. The recovery rebates payable of \$2,502,696 recorded in the General Fund represents the remaining undisbursed funds as of September 30, 2008.

(9) Deferred Revenues

As of September 30, 2008, deferred revenues for individual major fiduciary funds are as follows:

	<u>NMIRF</u>	<u>GHLITF</u>	<u>WCC</u>	<u>Totals</u>
Penalty on unpaid contributions	\$ 41,848,218	\$ -	\$ -	\$ 41,848,218
CNMI appropriations	15,026,333	-	-	15,026,333
Benefits receivable	1,370,553	-	-	1,370,553
Fines and other penalties	-	-	820,046	820,046
Special annuity	417,814	-	-	417,814
Prior service trust fund	<u>51,466</u>	<u>-</u>	<u>-</u>	<u>51,466</u>
	<u>\$ 58,714,384</u>	<u>\$ -</u>	<u>\$ 820,046</u>	<u>\$ 59,534,430</u>

Pursuant to Public Law No. 6-41, codified in 1CMC§ 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. At September 30, 2008, the \$41,848,218 penalty on unpaid contributions represents assessed penalties on unpaid CNMI Government employer contributions.

The \$15,026,333 deferred revenue recorded by the NMIRF represents remaining uncollected appropriations from the CNMI Government of \$8,494,020 pursuant to Public Law No. 11-41, which earmarked 90% of poker machine licensing fees for the NMIRF, and \$6,532,313 pursuant to Public Law No. 8-31, which earmarked the NMIRF with \$2,000,000 for fiscal years 2004, 2005 and 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations

NMIRF Loan

On February 28, 1995, the CNMI entered into a loan agreement with the Northern Mariana Islands Retirement Fund (NMIRF), a Fiduciary Fund Type - Pension (and Other Employee Benefits) Trust Fund, for the construction of a Judicial Complex on the island of Saipan, in an amount not to exceed \$15,000,000. All revenue collected by the courts is deposited into the Judicial Building Fund, a Governmental Fund Type - Special Revenue Fund, to finance debt service on the loan. As of September 30, 2008, cash balances held by NMIRF for the retirement of debt totaled \$1,174,486. The loan is for a period of fifteen years, is due February 28, 2010 with interest at 7.5%, principal and interest payable in monthly installments of \$137,198. On July 15, 1999, the loan agreement was amended to extend the term of the loan to twenty years and to increase interest rate to 7.75%. Pursuant to the amendment, principal and interest are payable in monthly installments of \$120,000. As of September 30, 2008, amount outstanding and payable is \$7,787,405.

\$15,685,000 Bond Issue

On May 1, 1999, the CNMI issued \$15,685,000 in 1999 Series A general obligation bonds with an average interest rate of 4.76%. The bonds were authorized by a joint resolution adopted by the CNMI Legislature. The bond proceeds were used to finance the local match for grants received from the U.S. federal government financing various capital improvement projects of the Public School System.

Installments are paid to the Bond Trustee annually on every October 1 through 2008. These funds are held in a Bond Fund Account from which the Bond Trustee makes semiannual payments every April 1 and October 1. The term of the bond issue is for approximately nine years and matures on October 1, 2008. As of September 30, 2008, amount outstanding and payable is \$1,340,000.

\$60,000,000 Bond Issue

On November 18, 2000, the Commonwealth Development Authority (CDA), acting for and on behalf of the CNMI, issued \$60,000,000 in 2000 Series A general obligation bonds, with interest rates varying between 4.875% beginning June 1, 2004 and 7.375% on June 1, 2030. The bonds were authorized by Public Law Nos. 11-3 and 11-102. Bond proceeds, net of bond issuance costs of \$3,210,104, were used to fund certain capital improvement projects and to retire certain interim financing.

Installments of principal are paid to the Bond Trustee annually commencing June 1, 2004 through June 1, 2030. Interest is payable annually, commencing June 1, 2001 through June 1, 2030.

The 2000 Series A general obligation bonds are subject to redemption prior to their respective maturities (on or after June 1, 2011), at the option of the CNMI, from any source of available funds, on any date on or after June 1, 2010, as a whole or in part by such maturity or maturities as may be specified by request of the CNMI (and by lot within a maturity as selected by the Trustee) at a redemption price of 100% of the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

\$60,000,000 Bond Issue, Continued

The Bonds maturing on June 1, 2014, June 1, 2020 and June 1, 2030 are subject to redemption prior to their stated maturities, in part, by lot, from mandatory sinking fund payments deposited in the Principal Account in the Bond Payment Fund pursuant to Section 4.05 of the Indenture Agreement dated November 15, 2000, on each June 1, from and after June 1, 2011, June 1, 2015 and June 1, 2021, respectively, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).

Mandatory sinking fund payments due June 1 are as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2011	\$ 1,850,000	2016	\$ 2,470,000	2021	\$ 1,775,000	2026	\$ 2,535,000
2012	\$ 1,965,000	2017	\$ 2,620,000	2022	\$ 1,910,000	2027	\$ 2,725,000
2013	\$ 2,085,000	2018	\$ 2,780,000	2023	\$ 2,050,000	2028	\$ 2,925,000
2014	\$ 2,210,000 *	2019	\$ 2,945,000	2024	\$ 2,200,000	2029	\$ 3,140,000
2015	\$ 2,330,000	2020	\$ 3,125,000 *	2025	\$ 2,365,000	2030	\$ 3,375,000 *

* The Paying Agent shall apply moneys transferred by the Trustee from the Principal Account to the redemption of Bonds maturing on June 14, 2014, June 1, 2020 and June 1, 2030, in the principal amounts and on the mandatory sinking fund payment dates.

As of September 30, 2008, amount outstanding and payable is \$3,420,000.

\$40,000,000 Bond Issue

On December 1, 2003, CDA, acting for and on behalf of the CNMI, issued \$40,000,000 in 2003A general obligation bonds, with interest rate at 6.75% per annum. The bonds were authorized by Public Law 13-17 as amended by Public Law 13-25, Public Law 13-39 and Public Law 13-56. Bond proceeds, net of bond issuance costs and discount of \$999,309, were used to fund the (i) land compensation claims amounting to \$28,000,691, (ii) the prison project of \$9,104,694 and (iii) reimburse CDA for interim financing of \$1,895,306.

Installments of principal are paid to the Bond Trustee annually commencing October 1, 2009 through October 1, 2033. Interest is payable semiannually beginning April 1, 2004 through October 1, 2033.

The 2003 Series A general obligation bonds are subject to redemption.

(a) Optional Redemption - The bonds maturing after October 1, 2013 are subject to redemption prior to their respective maturities, at the option of the Commonwealth, from any source of available funds, on any date on or after October 1, 2013, as a whole, or in part by such maturity or maturities as may be specified by request of the Commonwealth (and by lot within a maturity as selected by the Trustee), at a redemption price of one hundred percent (100%) of the principal amount thereof plus accrued interest thereon to the dated fixed for redemption.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

\$40,000,000 Bond Issue, Continued

- (b) **Mandatory Redemption from Sinking Fund Payments** - The bonds are subject to redemption prior to their stated maturities, in part, by lot, from mandatory sinking fund payments deposited in the principal account in the Bond Payment Fund pursuant to Section 4.05 of this Indenture, on each October 1 from and after October 1, 2009, at the principal amount thereof plus accrued interest thereon, if any, to the date of redemption (without premium).
- (c) **Partial Redemption of Bonds** - Upon surrender of any bond redeemed in part only, the Paying Agent shall provide a replacement bond in a principal amount equal to the portion of such bond not redeemed, and deliver it to the registered owner thereof. The bond so surrendered shall be cancelled by the Paying Agent as provided herein. The Authority, the Trustee and the Paying Agent shall be fully released and discharged from all liability to the extent of payment of the redemption price for such partial redemption.
- (d) **Effect of Redemption** - Moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the bonds (or portions thereof) so called for redemption being held by the Paying Agent, on the redemption date designated in such notice, shall become due and payable at the redemption price specified in such notice and interest accrued thereon to the redemption date, said bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of said bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the redemption date. Any accrued interest payable upon the redemption of bonds may be paid from amounts held in the interest account for the payment of interest on the next following interest payment date.

All bonds redeemed pursuant to the provision of this Article, shall be cancelled upon surrender thereof and shall be destroyed by the Paying Agent, who shall thereupon deliver to the Trustee or the Authority a certificate evidencing such destruction if so requested.

As of September 30, 2008, amount outstanding and payable is \$2,600,000 less unamortized discount on bond issuance of \$31,634.

Refunding of Debt

In April 2007, the CNMI issued \$100,490,000 of Series 2007A and Series 2007B General Obligation bonds to primarily refund the outstanding debt obligations of the Series 2000A and Series 2003A General Obligation bonds, and to pay certain expenses related to the issuance of the bonds. The primary purpose of the refunding was to refinance at lower interest rates. The refunding resulted in a cash flow savings of \$7,801,220 and did not extend the length of original bonds.

The refunding resulted in the advance defeasance of approximately 95% of the Series 2000A and Series 2003A General Obligation bonds by placing deposits in an irrevocable trust and escrow account for the purchase of U.S. government securities to pay the principal and interest on the defeased bonds as they are due and payable. For financial reporting purposes, both the defeased bonds outstanding and the escrowed securities have been excluded from the financial statements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Refunding of Debt, Continued

Although the advance refunding resulted in the recognition of an accounting loss of \$8.2 million for the year ended September 30, 2008, the CNMI in effect reduced its aggregate debt service payments by \$7.8 million over the next twenty-six years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$7.475 million.

At September 30, 2008, Series 2000A bonds outstanding of \$49,380,000 and Series 2003A bonds outstanding of \$37,400,000, for a total of \$86,780,000 are considered defeased.

\$57,800,000 Bond Issue

In April 2007, the CDA, acting for and on behalf of the CNMI, issued general obligations refunding bonds, Series 2007A in the aggregate principal amount of \$57,800,000 with interest rate at 5% per annum to refund \$52,435,000 of the 2000 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing June 1, 2009 through June 1, 2030. Interest is payable semi-annually beginning December 1, 2007 through June 1, 2030

Amount outstanding and payable as of September 30, 2008, consist of the following:

Series 2007A general obligations refunding bonds	\$ 57,800,000
Unamortized premium on bond issuance	93,738
Deferred costs on bond refunding	<u>(2,781,776)</u>
	\$ <u>55,111,962</u>

\$42,690,000 Bond Issue

In April 2007, the CDA, acting for and on behalf of the CNMI, issued general obligations refunding bonds, Series 2007B in the aggregate principal amount of \$42,690,000 with interest rate at 5% per annum to refund \$37,400,000 of the 2003 Series A general obligation bonds. Installments of principal are to be paid to the Bond Trustee annually commencing October 1, 2011 through October 1, 2033. Interest is payable semi-annually beginning October 1, 2007 through October 1, 2033.

Amount outstanding and payable as of September 30, 2008, consist of the following:

Series 2007B general obligations refunding bonds	\$ 42,690,000
Unamortized premium on bond issuance	64,259
Deferred costs on bond refunding	<u>(4,961,388)</u>
	\$ <u>37,792,871</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Changes in long-term liabilities for the year ended September 30, 2008, are as follows:

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2008</u>	<u>Due Within One Year</u>
Loans and bonds payable:					
NMIRF loan	\$ 8,557,738	\$ -	\$ (770,333)	\$ 7,787,405	\$ 993,017
1999 Series A Bonds	3,170,000	-	(1,830,000)	1,340,000	1,340,000
2000 Series A Bonds	3,460,000	-	(40,000)	3,420,000	1,665,000
2003 Series A Bonds	2,600,000	-	-	2,600,000	-
2007 Series A Bonds	57,800,000	-	-	57,800,000	415,000
2007 Series B Bonds	<u>42,690,000</u>	<u>-</u>	<u>-</u>	<u>42,690,000</u>	<u>-</u>
	118,277,738	-	(2,640,333)	115,637,405	4,413,017
Deferred amounts:					
Deferred costs of bond refunding	(8,052,891)	-	309,727	(7,743,164)	(309,727)
Unamortized discount on bonds issued	(32,899)	-	1,265	(31,634)	(1,265)
Unamortized premium on bonds issued	<u>164,317</u>	<u>-</u>	<u>(6,320)</u>	<u>157,997</u>	<u>6,320</u>
	<u>110,356,265</u>	<u>-</u>	<u>(2,335,661)</u>	<u>108,020,604</u>	<u>4,108,345</u>
Other:					
Compensated absences	9,185,789	6,417,397	(8,698,552)	6,904,634	3,849,234
Claims and judgments payable	16,507,281	45,158	(584,315)	15,968,124	9,179,452
Other noncurrent liability	<u>1,908,684</u>	<u>381,737</u>	<u>-</u>	<u>2,290,421</u>	<u>-</u>
	<u>27,601,754</u>	<u>6,844,292</u>	<u>(9,282,867)</u>	<u>25,163,179</u>	<u>13,028,686</u>
	<u>\$ 137,958,019</u>	<u>\$ 6,844,292</u>	<u>\$ (11,618,528)</u>	<u>\$ 133,183,783</u>	<u>\$ 17,137,031</u>

The annual requirement to amortize all debt of the governmental activities outstanding as of September 30, 2008 is as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 4,413,017	\$ 5,997,986	\$ 10,411,003
2010	3,129,624	5,780,539	8,910,163
2011	3,521,174	5,574,576	9,095,750
2012	4,527,976	5,339,524	9,867,500
2013	4,858,411	5,061,589	9,920,000
2014 - 2018	23,952,203	21,162,956	45,115,159
2019 - 2023	22,525,000	15,217,375	37,742,375
2024 - 2028	24,985,000	9,536,125	34,521,125
2029 - 2033	20,575,000	3,089,625	23,664,625
2034 - 2037	<u>3,150,000</u>	<u>78,750</u>	<u>3,228,750</u>
	<u>\$ 115,637,405</u>	<u>\$ 76,839,045</u>	<u>\$ 192,476,450</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units

Commonwealth Ports Authority

Note payable to the Commonwealth Development Authority (CDA), due November 16, 2014, interest at 2.5%, principal and interest are payable in quarterly installments of \$204,113. \$ 5,803,610

Commonwealth Development Authority

Development Banking Division:

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

Commonwealth Utilities Corporation

Promissory note payable to CDA. Principal amount available to \$30,000,000, interest at 7% per annum, with a maturity date of February 17, 2013. Principal and interest payments are due in quarterly payments of \$658,469. 30,000,000

Promissory note payable to CDA. Principal amount available to \$16,135,650, interest at 5% per annum, with a maturity date of January 12, 2014. Principal and interest payments are due in quarterly payments of \$359,514. 16,068,750

Promissory note payable to CDA. Principal amount available to \$5,500,000, interest at 7% per annum, with a maturity date of January 30, 2000. Principal and interest payments are due in quarterly payments of \$276,471. 5,500,000

Promissory note payable to CDA. Principal amount available to \$10,000,000 and interest at 7% per annum. Principal and interest payments are due in monthly payments of \$58,509. No promissory agreement related to this note has been signed. 10,000,000

Loan payable to CPA. Principal of \$3,385,131, interest at 6.25% per annum, with a maturity date of October 31, 2017. Principal and interest payments are due in monthly installments of \$38,008 beginning October 31, 2007. 3,385,131

Loan payable to CPA. Principal of \$4,829,895, interest at 6.25% per annum, with a maturity date of October 31, 2012. Principal and interest payments are due in monthly installments of \$93,938 beginning October 31, 2007. 4,829,895

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Commonwealth Utilities Corporation, Continued

Note payable to MPLT, bearing interest at 7%, due in full on August 4, 2011. Interest is due in equal monthly installments. 3,500,000

Northern Marianas College

Loan payable to a local bank, bearing interest at 5.80% per annum, with a maturity date of June 3, 2010. Principal and interest payments are due in monthly installments. 169,293

\$ 80,750,922

On February 4, 2003, CDA's Board of Directors authorized the following deferment program for CPA's loan payable to CDA:

- CPA will make immediate payment of fifty percent of the amount outstanding as of February 4, 2003.
- For the remainder of Fiscal Year 2003, CPA will reduce its quarterly payments by fifty percent.
- The term of the loan will be extended to accommodate the above payment deferral.

As of September 30, 2008, an amendment to the loan agreement has not been signed by both CPA and CDA.

The CDA obligation is subordinate to CPA's obligation for the Seaport bonds.

At September 30, 2008, CUC was in default of repayment terms of all loans payable to CDA. In accordance with the associated loan agreements, in the event of default, CDA may accelerate all remaining amounts due. Thus, \$61,568,750 at September 30, 2008, associated with the loans payable to CDA including interest payable on these notes of \$127,307,104 as of September 30, 2008 has been classified as current liabilities in CUC's financial statements.

On November 21, 2002, a Memorandum of Agreement (MOA) was established between CDA and CUC to waive a portion of the capital development loans receivable and the conversion into equity ownership of the balance. Public Law 13-35 effectuated terms of the MOA requiring CDA to waive \$16,068,750 and waive certain specified interest payments and for other purposes. Public Law 13-36 effectuated terms of the MOA by authorizing CUC to issue shares to CDA of cumulative nonconvertible non-transferable preferred stock valued at \$45,500,000.

In January 2004, the MOA entered into on November 21, 2002 between CUC and CDA was amended to exclude a provision requiring CUC to obtain legislative approval for rate increases.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

On June 6, 2006, the Governor of the CNMI approved Public Law (P.L.) No. 15-12 which authorized CDA to waive the sum of \$45,500,000 of the principal amount owed by CUC, such amount being the aggregate sum of all outstanding sewer and water project loans given to CUC and referenced in an amended MOA executed in January 2004. Pursuant to the amended MOA, CDA is authorized to waive any and all accrued interest owed by CUC on all outstanding loans. Section 2 of P.L. 15-12 provides that in the event the power generation system for the CNMI is privatized and controlled by an independent power producer, fifty percent of the principal amount of \$45,500,000 shall be paid by the independent power producer to CDA. As of September 30, 2008, no adjustments have been made to the financial statements of CUC and CDA as CUC and CDA have yet to finalize an agreement on the execution of the provisions of P.L. 15-12.

On January 23, 2007, the Governor of the CNMI approved P.L. 15-44 to amend section 2 of P.L. 15-12. P.L. 15-44 removes the fifty percent (\$22,750,000) payment requirement by the independent power producer and instead requires such amount to be rebated to residential power consumers in the event that the power generation system is privatized and controlled by an independent power producer. The rebate shall be subject to review and approval of the Public Utilities Commission upon privatization. As of September 30, 2008, no adjustments have been made to the financial statements of CUC and CDA as CUC and CDA have yet to finalize an agreement on the execution of the provisions of P.L. 15-44.

\$20,050,000 Bond Issue

On March 26, 1998, CPA issued \$20,050,000 of tax-exempt airport revenue bonds which in part were used for a current refunding of \$8,250,000 of 1987 Series B tax-exempt airport revenue bonds. The refunding was undertaken to consolidate existing bonds with new bonds issued for the purpose of financing various airport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$503,906. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$688,620 and an increase of \$7,616,151 in future debt service payments.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.25%, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2008, consist of the following:

1998 Senior Series A tax-exempt airport revenue bonds	\$ 16,810,000
Deferred costs of debt refunding	<u>-</u>
	<u>\$ 16,810,000</u>

The 1998 Senior Series A tax-exempt airport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues, assets and funds pledged under the Indenture.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$20,050,000 Bond Issue, Continued

The 1998 Senior Series A tax-exempt airport revenue bonds are subject to redemption prior to their respective stated maturities on or after March 15, 2013, at the option of CPA, from any source of available funds, as a whole on any date, or in part on any interest payment date and by lot within a maturity, at the redemption prices (expressed as percentages of principal amount) set forth in the table below plus interest accrued thereon to the date fixed for redemption:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
March 15, 2013 through March 14, 2014	102%
March 15, 2014 through March 14, 2015	101%
March 15, 2015 and thereafter	100%

\$33,775,000 Bond Issue

On March 26, 1998, CPA issued \$33,775,000 of Senior Series A tax-exempt seaport revenue bonds which in part were used for a current refunding of \$22,470,000 of 1995 Series A tax-exempt seaport revenue bonds. The refunding was undertaken to consolidate existing debt with new debt issued for the purpose of financing various seaport projects and to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$1,345,593. This amount was netted against the new debt and is being amortized over the refunded debt's life, which is shorter than the life of the new debt. The transaction also resulted in an economic gain of \$1,724,777 and a decrease of \$6,983,345 in future debt service payments.

Installments are paid to the Bond Trustee annually on March 15 through 2028. Interest is payable semi-annually, at 6.6%, on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2008, consist of the following:

1998 Senior Series A tax-exempt seaport revenue bonds	\$ 28,425,000
Deferred costs of debt refunding	<u>(1,030,410)</u>
	<u>\$ 27,394,590</u>

CPA has resolved to deposit \$700,000 annually into the Seaport supplemental reserve fund (beginning in 2001 and ending in 2005) until \$8,000,000 is deposited into such fund. At September 30, 2008, total deposits in the Seaport supplemental reserve fund amounted to \$8,038,346.

The 1998 Senior Series A tax-exempt seaport revenue bonds are limited obligations of CPA and, except to the extent payable from bond proceeds, are payable solely out of revenues and funds pledged under the Indenture.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

\$33,775,000 Bond Issue, Continued

The 1998 Senior Series A tax-exempt seaport revenue bonds are subject to redemption prior to their stated maturity, at the option of CPA, as a whole or in part by lot, on any date from the proceeds of available funds, the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

\$7,225,000 Bond Issue

On September 21, 2005, CPA issued \$7,225,000 of Senior Series A tax-exempt seaport revenue bonds for the purpose of financing (including reimbursing itself for) the purchase, acquisition, construction, reconstruction, repair, renovation, improvement or expansion of CPA's seaports. Pursuant to Section 2.04(A)(9) of the 1998 Senior Series A Seaport Revenue Bonds Indenture Agreement dated March 1, 1998 and as supplemented by a First Supplemental Indenture dated March 1, 2000, CPA entered into a Second Supplemental Indenture for the issuance of the 2005 Senior Series A bonds. Interest on the bonds is payable semi-annually at 5.5% on March 15 and September 15 of each year.

Revenue bonds payable as of September 30, 2008, consist of the following:

2005 Senior Series A tax-exempt seaport revenue bonds	\$ 7,075,000
Discount on bonds	<u>(109,932)</u>
	<u>\$ 6,965,068</u>

The bond indentures contain several restrictive covenants, including restrictions on the use of bond proceeds. Management of CPA is of the opinion that CPA was in compliance with all significant covenants as of September 30, 2008, except for the collection of gross revenues requirement related to the Airport and Seaport bond indenture. Section 6.11 (A) of the Airport and Seaport Bond Indenture Agreement (Indenture) states that CPA shall impose, levy, enforce and collect such fees/dockage, entry and wharfage fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11.

Section 6.11(B) of the Indenture states that if the financial statements prepared pursuant to Section 6.06(B) of the Indenture reflect that at the end of a fiscal year, net revenues are less than the amount required by Section 6.11(A) for such fiscal year or if the revenues are less than the aggregate amount of all transfers required by Section 5.02(a) through (e) for such fiscal year, CPA shall not be in default under Section 7.01 if within sixty days after the date of such financial statements or the end of the fiscal year, CPA shall employ an independent consultant to make recommendations as to a revision of the rates, fees and charges or the methods of operation of the airports and seaports. If such recommendations fail to meet the requirements of Section 6.11(a), such deficiency will constitute an event of default under Section 7.01. CPA is in the process of implementing recommendations made by their independent consultants.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

The annual requirements to amortize all debt of the Discretely Presented Component Units outstanding as of September 30, 2008, including interest payments, for those audit entities whose audit reports include such, are as follows:

<u>Year ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 65,420,101	\$ 131,591,112	\$ 197,011,213
2010	2,837,852	4,472,205	7,310,057
2011	6,473,582	3,746,788	10,220,370
2012	3,162,748	3,289,116	6,451,864
2013	6,965,714	3,097,516	10,063,230
2014 - 2018	13,795,925	12,974,981	26,770,906
2019 - 2023	13,975,000	8,771,136	22,746,136
2024 - 2028	18,930,000	3,572,677	22,502,677
2029 - 2033	<u>1,500,000</u>	<u>126,499</u>	<u>1,626,499</u>
	\$ <u>133,060,922</u>	\$ <u>171,642,030</u>	\$ <u>304,702,952</u>

Obligations Under Capital Lease

On June 10, 1997, the Commonwealth Utilities Corporation (CUC) entered into an agreement with a contractor for the construction, maintenance and operation, and transfer of ownership of a 10 Megawatt Power Plant on the island of Tinian. The agreement is for a guaranteed price of \$9,959,000 plus interest and fees of \$11,641,000 payable over ten years in equal monthly installments of \$180,000. During this period, the contractor will maintain and operate the power plant and be paid operation, production and maintenance fees of \$50,000 per month in addition to the guaranteed price. Additionally, CUC will pay a production fee of two cents (\$0.02) per plant-produced kilowatt hour for as long as the operations and maintenance portion of the contract is in effect. The power plant will be turned over to CUC at the end of the ten year period from the date of substantial completion. On December 13, 1998, CUC executed a change order to expand the 10 Megawatt Power Plant to 30 Megawatts. Such expansion is to be fulfilled within the ten year period as stated in the original agreement. On May 10, 2001, CUC executed another change order (Expanded Agreement) to extend the term of the original agreement to be effective upon the execution of the expanded agreement until the later of March 31, 2020 or the completion of the term as mutually agreed upon. The expanded agreement provides for CUC to pay a base loan rate of \$0.03 plus applicable price adjustments per kilowatt-hour CUC uses each month effective March 1, 2009 until March 31, 2020. Additionally, the contractor will operate and maintain the existing distribution system of CUC for the duration of the expanded agreement at no cost to CUC. During the term of the expanded agreement, CUC is not allowed to purchase electric energy from any other producer other than the contractor for the island of Tinian.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(10) Long-Term Debt Obligations, Continued

Discretely Presented Component Units, Continued

Obligations Under Capital Lease, Continued

CUC implemented accounting guidance of Emerging Issues Task Force (EITF) Issue No. 01-8, which provides guidance in determining when purchase agreements may be subject to lease accounting. CUC has determined that the agreement to purchase electricity is in fact a capital lease to acquire the plant and that the capacity payments made under the agreement are lease payments. The operation, production and maintenance payments and production fees under the agreement are reflected as energy conversion costs under other production expense.

The effects of adopting EITF No. 01-8 were to increase plant and obligations under capital lease by \$9,959,000. CUC has not obtained the actual cost of the power plant and has not obtained an appraisal to determine the fair value of the leased property, which is required by accounting principles generally accepted in the United States of America. As a result, management has not been able to assess its compliance with the EITF requirements and the impact of this matter on the accompanying financial statements is uncertain. The lease has an effective interest rate of 18%. The total obligation under capital lease at September 30, 2008 was \$860,695, payable in full for the fiscal year ending September 30, 2009, plus interest of \$39,305.

CUC may, without penalty, discharge the entire outstanding balance of the guaranteed price by paying a discounted amount equal to the adjusted guaranteed price as follows:

<u>Period</u>	<u>Amount</u>
End of year 4	\$ 8,821,000
End of year 5	\$ 7,750,000
End of year 6	\$ 6,540,000
End of year 7	\$ 5,200,000
End of year 8	\$ 3,900,000

Changes in long-term liabilities of the discretely presented component units for the year ended September 30, 2008, are as follows:

	<u>Balance October 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2008</u>	<u>Due Within One Year</u>
Notes and bonds payable:					
CPA	\$ 59,601,715	\$ -	\$ (1,488,105)	\$ 58,113,610	\$ 1,340,000
CUC	70,077,270	3,500,000	(293,494)	73,283,776	63,841,779
CDA	10,608,466	-	(9,114,223)	1,494,243	111,754
NMC	-	250,000	(80,707)	169,293	126,568
	<u>140,287,451</u>	<u>3,750,000</u>	<u>(10,976,529)</u>	<u>133,060,922</u>	<u>65,420,101</u>
Deferred amounts:					
CPA:					
Deferred costs of debt refunding	(1,069,062)	-	38,652	(1,030,410)	-
Discount	(114,711)	-	4,779	(109,932)	-
	<u>139,103,678</u>	<u>3,750,000</u>	<u>(10,933,098)</u>	<u>131,920,580</u>	<u>65,420,101</u>
Other liabilities:					
Obligations under capital lease	2,681,735	-	(1,821,040)	860,695	860,965
Compensated absences	<u>5,224,010</u>	<u>1,286,028</u>	<u>(2,966,421)</u>	<u>3,543,617</u>	<u>610,495</u>
	<u>\$ 147,009,423</u>	<u>\$ 5,036,028</u>	<u>\$ (15,720,559)</u>	<u>\$ 136,324,892</u>	<u>\$ 66,891,561</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(11) Reserve for Continuing Appropriations

The CNMI's fund balance reserved for continuing appropriations represents those portions of fund balance legally segregated for a specific future use.

Continuing appropriations as of September 30, 2008, consist of the following:

	<u>Authorizing Legislation</u>	<u>Outstanding Balance</u>
General Fund:		
Homeland Security	Public Law No. 14-63	\$ 154,971
Board of Nurse Examiners	Public Law No. 14-62	67,606
PSS Bond Interest	Public Law No. 14-3	32,665
Environmental Health and Sanitation	Public Law No. 12-48	144,924
Other programs	Various	<u>53,310</u>
		<u>\$ 453,476</u>
Local Capital Projects Fund:		
CUC Emergency Power Plant	House Joint Resolution No. 14-36	\$ 315,985
Rota Hemodialysis Facility	Public Law Nos. 14-20 and 13-56	504,643
Gualo Rai Sewer System	Public Law No. 12-21	28,631
Sadog Tasi/Chalan Kiya Road Paving	Saipan Local Law Nos. 12-20 and 12-23	36,570
Other programs	Various	<u>51,215</u>
		<u>\$ 937,044</u>

(12) Transfers In/Out

Operating Fund Transfers

Operating transfers in/out for each major governmental fund and nonmajor governmental funds in the aggregate, for the year ended September 30, 2008, are as follows:

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>General Fund</u>		
From General Fund to:		
Grants Assistance Fund	\$ 5,814,305	\$ -
Nonmajor governmental funds	7,566,033	-
To General Fund from:		
Nonmajor governmental funds	-	3,341,523
Grants Assistance Fund	<u>-</u>	<u>2,810,000</u>
	<u>13,380,338</u>	<u>6,151,523</u>
<u>Grants Assistance Fund</u>		
From Grants Assistance Fund to:		
General Fund	2,810,000	-
Nonmajor governmental funds	587,976	-
To Grants Assistance Fund from:		
General Fund	-	5,814,305
Nonmajor governmental funds	<u>-</u>	<u>6,225</u>
	<u>3,397,976</u>	<u>5,820,530</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(12) Transfers In/Out, Continued

<u>Source/Recipient</u>	<u>Transfer Out</u>	<u>Transfer In</u>
<u>Nonmajor governmental funds</u>		
From nonmajor governmental funds to:		
General Fund	3,341,523	-
Grants Assistance Fund	6,225	-
Nonmajor governmental funds	20,000	-
To nonmajor governmental funds from:		
Grants Assistance Fund	-	587,976
General Fund	-	7,566,033
Nonmajor governmental funds	-	20,000
	<u>3,367,748</u>	<u>8,174,009</u>
	\$ <u>20,146,062</u>	\$ <u>20,146,062</u>

Transfers are used to 1) move revenues from the fund that enabling legislation or budget requires to collect them to the fund that enabling legislation or budget requires to expend them, 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) record reductions in interfund loans for amounts that are not expected to be repaid.

The amount recorded as payments to component units from the primary government of \$55,917,684 does not equal the corresponding contributions from the primary government of \$55,968,795 by \$51,111. The difference of \$251,254 with NMC is due to \$307,437 compact impact funds recorded by NMC as grants and contribution revenues while the CNMI recorded the amount as payments to NMC and \$56,183 1% Public Auditor fees recorded by the CNMI as reductions to the payments to NMC. The difference of \$10,000 with MVA is due to timing difference in recording payments. The net difference of \$312,365 with PSS is due to \$385,000 budget reduction in fiscal year 2008 appropriations pursuant to Public Law No. 16-2 not recorded by PSS and \$72,635 other appropriation recorded by PSS as grants and contributions revenues.

The amount recorded as contributions from component units of the primary government of \$2,858,985 does not equal the corresponding contributions to the primary government of the component units of \$3,772,316 due to \$218,572 recorded as contributions to the primary government by MPLT relating to the repayment of MPLT's loans receivable from CDA and \$694,759 recorded as contributions to the primary government by CUC relating to the 1% OPA fees which have not been paid by CUC.

(13) Commitments

Land Acquisitions

The CNMI has acquired certain properties from landowners for right-of-way or easement projects. The CNMI government's liability for future reimbursement costs associated with unknown land acquisitions is presently not determinable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(13) Commitments, Continued

Dedicated Revenues and Pledges

CNMI has pledged a portion of future General Fund revenues to repay the following debts: (i) a \$15,685,000 in 1999 Series A general obligation bonds issued in May 1999; (ii) unrefunded portion of a \$60,000,000 in 2000 Series A general obligation bonds issued in November 2000; (iii) unrefunded portion of a \$40,000,000 in 2003A general obligation bonds issued in December 2003; (iv) a \$57,800,000 in 2007A Series general obligations refunding bonds issued in April 2007 and; (v) a \$42,690,000 in 2007B Series general obligation refunding bonds issued in April 2007. These debts are payable as a first charge against all legally available General Fund tax and other revenues of the CNMI. Total principal and interest remaining on this debt is approximately \$182,395,239 payable through October 2033. For the year ended September 30, 2008, principal and interest paid were \$1,870,000 and \$5,629,043, respectively, and total General Fund revenues were \$195,025,126.

CNMI has pledged all Judicial Building Fund (a Governmental Fund Type – Special Revenue Fund) revenues to repay a \$15,000,000 NMIRF loan payable pursuant to a loan agreement entered into with the NMIRF in February 1995. Total principal and interest remaining on this loan is approximately \$10,081,211 payable through September 2015. For the year ended September 30, 2008, principal and interest paid were \$770,332 and \$648,608, respectively, and total Judicial Building Fund revenues were \$1,078,427.

Operating Lease

On August 18, 2003, NMC entered into an assignment of lease with a corporation (Assignor), whereby the Assignor assigns leases and leasehold estate and other rights on the La Fiesta property to NMC for a total payment of \$4,000,000 payable in annual installments of \$200,000 beginning October 29, 2004. On September 15, 2004, NMC and the CNMI entered into a Memorandum of Agreement for the transfer of the lease assignment. On January 7, 2005, NMC and the CNMI executed an Assignment of Contract Rights whereby NMC assigns and transfers to the CNMI all right, titles and interest to the assignment of leases dated August 18, 2003. Rental expense for this lease for the fiscal year ended September 30, 2008 is \$200,000.

CNMI's future rentals under the lease as of September 30, 2008 are as follows:

<u>September 30,</u>	
2009	\$ 200,000
2010	200,000
2011	200,000
2012	200,000
2013	200,000
2014 - 2018	1,000,000
2019 - 2023	1,000,000
2024 - 2025	<u>400,000</u>
	\$ <u>3,400,000</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements September 30, 2008

(14) Contingencies

Landfill Closure Costs

The CNMI operates a solid waste disposal site in Puerto Rico, Saipan, which is under administrative order from the U.S. Environmental Protection Agency to close in the near future. The disposal site was officially closed in 2003. The CNMI expects that the related costs will be funded through grant awards from the U.S. Department of the Interior. The future costs associated with closing this disposal site is presently not determinable.

Questioned Costs Under Federally Funded Programs

The CNMI participates in a number of federally assisted grant programs funded by the United States Government. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs of \$14,414,795 have been set forth in the CNMI's Single Audit Report for the year ended September 30, 2008. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Insurance Coverage

The CNMI does not maintain insurance coverage for a significant amount of fixed assets. In the event of a catastrophe, the CNMI may be self-insured to a material extent. The CNMI, however, maintains fidelity bonding insurance coverage over employees with access to cash. In the event of a loss through employee malfeasance, the CNMI will be self-insured for losses in excess of \$1,000,000.

Unfunded Pension Liability

Pursuant to Public Law No. 6-17, the CNMI is to make contributions to the Northern Mariana Islands Retirement Fund (NMIRF) each year on an actuarially funded basis toward the annuities related to retirement and other benefits. These contributions are to equal the sum of normal cost determined under an acceptable actuarial funding method, allowance for expenses, interest on any due but unpaid obligations, plus an amount sufficient to amortize the initial unfunded liability and unfunded accrued liability for Class I and Class II members respectively, as a level percentage of total payroll over specified period, determined by the Board upon recommendation of the actuary, but not to exceed a period of forty years from October 1, 1980.

The unfunded pension liability is the amount of contributions that the CNMI should have paid to the NMIRF for the retirement benefits of an undetermined number of individuals employed before October 1, 1980, the date the Fund was established, who collected money from the Fund based on their years of service but were not required to pay their share of contribution as mandated by this law. Based on the latest actuarial valuation report, dated October 1, 2007, the actual unfunded pension liability is \$369,064,293.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(14) Contingencies, Continued

General Fund Financial Position

The CNMI's General Fund has sustained recurring operating deficits and has an unreserved fund deficit of \$256,289,645 at September 30, 2008. In addition, at September 30, 2008, the primary government's current liabilities exceed current assets by \$213,845,136, and total liabilities exceed total assets by \$120,305,341.

Management has taken the following actions and measures to address the CNMI's General Fund deficit position:

1. The deficit in the CNMI General Fund is in large part the result of underfunding of employer retirement contributions and related penalties totaling \$215.6 million as of September 30, 2008. On June 16, 2006, the CNMI passed three laws related to public employee pensions (Public Law Nos. 15-13, 15-14 and 15-15).

Public Law No. 15-13 established a Defined Contribution Retirement Plan (DCP) for all new public employees hired after January 1, 2007 (eligible employees hired prior to this date participate in the Retirement Fund which is a defined benefit plan) and defined the conditions under which certain members of the defined benefit Retirement Fund could transfer benefits to the DCP. Since the DCP has a 4% employer contribution rate versus 24% for the defined benefit plan, increasing annual savings will result as government employment includes more and more DCP participants. The defined benefit plan will have a fixed or declining number of members which will stabilize required contributions.

Public Law No. 15-14 extended the date by which the defined benefit plan must be fully funded from the year 2020 to 2045. This will reduce the annual amount required to liquidate the unfunded liability and reduce the annual required employer contribution.

Public Law No. 15-70 was passed on June 14, 2007 increasing employee contributions to the defined benefit plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. This will decrease the required employer contribution by a similar amount.

An actuarial study was completed in December 2008, as of October 1, 2007, incorporating the above plan changes and related assumptions. As of October 1, 2007, the actuarial accrued liability (AAL) declined from \$1,007.3 billion at October 1, 2005 to \$879.3 million and the unfunded AAL declined from \$547.2 million to \$369.1 million. The recommended employer contribution rate would have declined from 36.7727% to 29.9665% despite the covered payroll declining from \$147.6 million to \$117.8 million. Unfortunately, by the time the report was issued, the investment portfolio suffered substantial losses from the 2008 market decline which resulted in a reversal of the reduction in the unfunded AAL and a recommendation from the actuary to maintain the higher contribution rate.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(14) Contingencies, Continued

General Fund Financial Position, Continued

A NMIRF Working Group on retirement reform has been established with members from the Legislature, Retirement Fund, Executive Branch, autonomous agencies, active plan members and retirees. The group is reviewing funding options and retirement plan changes that will increase funding to the plan and reduce future government retirement liabilities. They will be drafting an omnibus bill and supporting other legislation to improve the retirement plan's financial position by reducing liabilities and increasing funding.

The CNMI Legislature is in the process of authorizing an initiative to be placed on the ballot for voters to approve issuance of pension obligation bonds to pay the outstanding liability to the retirement fund. This would not change the total assets and liabilities immediately but would address the General Fund and current assets and liabilities deficits.

2. Various laws and other austerity measures, including reduced work hours, hiring freeze, stringent review of non personnel expenditures and reduced budget allotments are being implemented to reduce expenditures. On the revenue side, Public Law No. 15-48 reinstated payment of Marianas Public Land Trust interest to the General Fund and Public Law No. 16-2 increased various government fees by 100%.

Management believes that actions presently being taken to revise the CNMI's operating requirements, as outlined above, provide the opportunity for the CNMI to commence the process of reducing the abovementioned General Fund deficit position. The General Fund unreserved fund deficit increased by \$38.1 million in fiscal year 2008 following increases of \$30.1 million in fiscal year 2007 and \$2.9 million in fiscal year 2006.

Other

The CNMI records expenditures for sick leave when the leave is actually taken. Sick leave is compensated absence during working hours arising from employee illness or injury. Sick leave accumulates at the rate of thirteen working days for each year of service, without limit. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The accumulated estimated amount of unused sick leave as of September 30, 2008, is \$37,484,139.

As of September 30, 2008, the Northern Mariana Islands Government Health and Insurance Trust Fund (GHLITF) has a net deficit of \$18,272,649. In addition, GHLITF submitted unprocessed claims from service providers with service dates as of September 30, 2008 and earlier that totaled \$38.9 million. These claims include claims from the Commonwealth Health Center (CHC), Rota Health Center (RHC) and Tinian Health Center which are part of the General Fund. The ultimate liability that will result from these claims has not been determined by GHLITF; as such these claims have not been recorded as of September 30, 2008. Under Public Law No. 10-19, liabilities of the GHLITF shall be liabilities of the primary government, and unless GHLITF becomes profitable, the General Fund could be liable for the amount in excess of the claims from the CHC, RHC and THC. The related CHC, RHC and THC receivables from the GHLITF recorded by the General Fund are fully reserved for as of September 30, 2008. The outcome of this matter is presently not determinable; therefore, no provision has been made in the accompanying financial statements. With the privatization of the health benefit plant in November 1, 2007, the CNMI will not be liable for medical claims accruing after privatization. The CNMI is only liable for its share in medical premiums.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(15) Risk Management

The CNMI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, CNMI management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the CNMI reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Total claims amounted to \$584,315, \$650,030 and \$348,144 for the years ended September 30, 2008, 2007 and 2006, respectively. Changes in the balance of claims liabilities during the past year are as follows:

	Year ended <u>September 30,</u>
Unpaid claims at beginning of year	\$ 16,507,281
Incurred claims	45,158
Claim payments	<u>(584,315)</u>
Unpaid claims at end of year	\$ <u>15,968,124</u>

(16) Pension and Other Postemployment Benefits Trust Fund

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(16) Pension and Other Postemployment Benefits Trust Fund, Continued

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

Defined Benefit Plan (DB Plan)

DB Plan members are required to contribute 6.5% and 9% of their annual covered salary for Class I and Class II members, respectively. On June 14, 2007, Public Law No. 15-70 was enacted to amend the NMIRF Act to improve the DB Plan's fiscal solvency. Public Law No. 15-70 provides for increasing employee contributions to the DB Plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. The CNMI is required to contribute at an actuarially determined rate. The actuarially determined contribution rate for the fiscal year ended September 30, 2008 is 29.9665% of covered payroll based on an actuarial valuation as of October 1, 2007 issued in December 2008. The established statutory rate at September 30, 2008 is 36.6667% of covered payroll. Public Law No. 15-126, authorizes the CNMI Government to remit only 18% of covered payroll and accrue the remaining as liability to NMIRF for fiscal year 2008. The employer contribution remittance was further reduced by Public Law No. 16-2 to 11% of covered payroll.

Defined Contribution Plan (DC Plan)

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

The contribution requirements of plan members and the CNMI are established and may be amended by the Board of Trustees of NMIRF. The CNMI's total personnel expense for governmental fund types for fiscal years 2008, 2007 and 2006 were \$114,415,297, \$116,238,545 and \$124,341,718, respectively, which were covered in total by NMIRF's DB and DC pension plans.

Pursuant to Public Law No. 6-41, codified in 1CMC § 8362, any employer who fails to pay or remit contributions as required by this section shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution. At September 30, 2008, NMIRF assessed accumulated penalties of \$41,848,218. The CNMI has recorded a liability of \$41,848,218 at September 30, 2008.

All component units of the CNMI government reporting entity also contribute to the Plan. Separate actuarial valuations have not been performed for these separate component units.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Financial Statements
September 30, 2008

(17) Restatement of Government-Wide Net Assets

Discretely Presented Component Units

Net assets, as previously reported September 30, 2007	\$ 289,263,785
Understatement of net assets reported in 2007:	
Commonwealth Development Authority	4,144,007
Commonwealth Utilities Corporation	2,210,654
Overstatement of net assets reported in 2007:	
Marianas Visitors Authority	<u>(200,000)</u>
Net assets, as restated September 30, 2007	\$ <u>295,418,446</u>

(18) Subsequent Event

On May 7, 2009, CUC and CDA, pursuant to Public Law 16-17 enacted on October 1, 2008 and the Memorandum of Agreement entered into on November 21, 2002, as amended on January 16, 2004, entered into a Preferred Stock Agreement to effectuate the final, additional terms and conditions of their settlement by requiring CUC to issue to CDA shares of cumulative, non-convertible and non-transferrable preferred stock in the amount of \$45,000,000. At September 30, 2008, no adjustments have been made to the financial statements of CUC and CDA.

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

REQUIRED SUPPLEMENTARY INFORMATION
- BUDGETARY REPORTING

YEAR ENDED SEPTEMBER 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Revenues, Expenditures, and Changes in Deficit
- Budget and Actual - General Fund
Year Ended September 30, 2008

	Budgeted Amounts		Actual - Budgetary Basis	Variance
	Original	Final	(see note 1)	
Revenues:				
Taxes	\$ 133,550,000	\$ 131,385,000	\$ 120,031,652	\$ (11,353,348)
Charges for sales and services	20,500,000	17,070,000	16,949,157	(120,843)
Licenses and fees	11,313,000	10,415,000	10,180,760	(234,240)
Cover over	-	-	41,611,260	41,611,260
Other	3,532,000	4,700,000	6,252,235	1,552,235
Total revenues	<u>168,895,000</u>	<u>163,570,000</u>	<u>195,025,064</u>	<u>31,455,064</u>
Expenditures - budgetary basis by function:				
Executive branch	75,773,452	74,131,796	86,557,902	(12,426,106)
Second Senatorial District - Tinian	9,383,059	8,429,483	9,266,652	(837,169)
First Senatorial District - Rota	9,246,825	8,702,304	8,763,600	(61,296)
Government utilities	-	2,500,025	6,036,121	(3,536,096)
Legislative branch	6,474,233	6,015,176	6,118,900	(103,724)
Judicial branch	3,764,082	3,373,575	3,821,751	(448,176)
Independent programs	733,332	684,569	567,959	116,610
Office of the Mayors	2,087,149	1,935,535	1,823,417	112,118
Office of the Public Auditor	1,576,090	1,489,532	1,121,676	367,856
Office of the Washington Representative	899,940	831,638	855,628	(23,990)
Boards and commissions	537,261	499,712	555,000	(55,288)
Education (payment to Public School System and Northern Marianas College)	41,122,183	39,667,007	38,051,205	1,615,802
Tourism (payment to Marianas Visitors Authority)	6,140,324	5,913,948	5,918,920	(4,972)
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund	1,030,815	1,004,786	1,007,456	(2,670)
Emergency funds (payments to Commonwealth Utilities Corporation)	-	2,701,674	3,167,188	(465,514)
Judgments	448,797	177,237	55,827	121,410
Disaster expenditures	(723,417)	-	7,436	(7,436)
Miscellaneous appropriations	-	-	460,330	(460,330)
Unallocated adjustments, net	-	-	(1,049,380)	1,049,380
Total expenditures	<u>158,494,125</u>	<u>158,057,997</u>	<u>173,107,588</u>	<u>(15,049,591)</u>
Excess of revenues over expenditures	<u>10,400,875</u>	<u>5,512,003</u>	<u>21,917,476</u>	<u>16,405,473</u>
Other financing sources (uses):				
Operating transfers in	5,400,000	3,648,000	3,341,523	(306,477)
Operating transfers out	(15,800,875)	(9,160,003)	(8,292,394)	867,609
Total other financing sources (uses), net	<u>(10,400,875)</u>	<u>(5,512,003)</u>	<u>(4,950,871)</u>	<u>561,132</u>
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	16,966,605	16,966,605
Other changes in unreserved deficit:				
Decrease in reserve for supplies	-	-	109,029	109,029
Increase in reserve for related assets	-	-	(2,492,316)	(2,492,316)
Increase in reserve for continuing appropriations	-	-	(145,426)	(145,426)
Deficit at beginning of year	-	-	(166,867,189)	(166,867,189)
Deficit at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (152,429,297) *</u>	<u>\$ (152,429,297)</u>

* See note 2.

See Accompanying Notes to Required Supplementary Information - Budgetary Reporting.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2008

(1) Budgetary Information

Under Public Law No. 3-68, as amended by Public Law No. 3-93, the Governor submits a proposed budget to the CNMI Legislature by April 1 for the fiscal year commencing the following October 1. By July 1, the CNMI Legislature sets limits on expenditures by House Concurrent Resolution (a resolution originating in the House of Representatives which is passed by both the House and Senate). By September 1, the budget is legally enacted by the CNMI Legislature through passage of Annual Appropriation Acts. If a balanced budget is not approved before the first day of the fiscal year, appropriations for government operations and obligations shall be at the same level for the previous fiscal year. Budgetary control is maintained at the department level. To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year for which appropriations were made.

Accounting principles used in developing data on a budgetary basis differ from those used in preparing the basic financial statements in conformity with GAAP. Amounts included on the Statement of Revenues, Expenditures and Changes in Deficit - Budget and Actual - General Fund (which are presented on a non-GAAP budgetary basis) are reconciled to unreserved deficit of the Governmental Fund Balance Sheet within the other changes in unreserved deficit section of that statement.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

On September 15, 2006, the CNMI passed Public Law 15-28 as the Appropriations and Budget Authority Act for 2007. On June 26, 2007, the CNMI passed Public Law 15-71 to amend Public Law 15-28. Public Law 15-71 provided for an immediate emergency reduction in the revenue estimate and the appropriations for all budgeted activities previously appropriated pursuant to PL 15-28.

During the year ended September 30, 2008, the CNMI operated under a continuing resolution of Public Law 15-28, as amended by Public Law 15-71.

On May 3, 2008, the CNMI passed Public Law 16-2 to provide flexibility to the Governor and other expenditure authorities to reprogram funds for the remainder of fiscal year 2008. Public Law 16-2 provides unlimited authority to the Governor to reprogram lapsed funding to cover budget shortfalls, as the Governor deems fiscally prudent and in the best interest of the public.

The Governor is authorized to reprogram up to 25% of total appropriated funds for the operations and activities of departments, agencies and offices of the Executive Branch, provided that any reprogramming which increases or decreases the annual appropriation of a particular executive office, department or agency by more than 25%, or establishes a new position, function, program or duty not otherwise authorized by law, shall be subject to prior approval by joint resolution of the CNMI Legislature. Expenditures may not legally exceed budgeted appropriations at the program area level. Certain activity levels within the General Fund have over expended budgeted appropriations; however, the effect of such over expenditures, if any, is presently not determinable.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2008

(1) Budgetary Information, Continued

For the year ended September 30, 2008, expenditures of the General Fund exceeded budget at the program area level (i.e., the legal level of budgetary control) as follows:

<u>Program Area</u>	<u>Excess</u>
Executive Branch:	
Attorney General	\$ 668,883
Community & Cultural Affairs	\$ 45,654
Commerce	\$ 104,660
Corrections	\$ 558,442
Labor	\$ 241,255
Public Health	\$ 7,794,006
Public Safety	\$ 999,655
Public Works	\$ 175,413
Finance	\$ 1,766,356
Lands and Natural Resources	\$ 207,292
Second Senatorial District - Tinian:	
Office of the Mayor	\$ 246,919
Commerce	\$ 41,402
Community & Cultural Affairs	\$ 31,279
Labor	\$ 52,897
Lands and Natural Resources	\$ 150,681
Public Safety	\$ 309,433
Public Works	\$ 31,900
Other Programs	\$ 11,409
First Senatorial District - Rota:	
Office of the Mayor	\$ 218,082
Commerce	\$ 54,124
Public Safety	\$ 24,914
Labor	\$ 33,887
Lands and Natural Resources	\$ 97,420
Community & Cultural Affairs	\$ 23,012
Public Works	\$ 76,806
Government Utilities	\$ 3,536,096
Legislative Branch:	
Utilities	\$ 6,706
Government Contribution Retirement	\$ 457,174
Judicial Branch:	
CNMI Superior Court	\$ 233,129
CNMI Supreme Court	\$ 176,046
Law Revision Commission	\$ 829
Administrative	\$ 38,172
Office of the Mayors:	
Mayor Northern Islands	\$ 17,977
Municipal Council Saipan	\$ 1,416
Office of the Washington Representative	\$ 23,990
Boards and Commissions:	
Civil Service Commission	\$ 53,181
Board/Professional Licensing	\$ 24,980
Education (payment to Public School System and Northern Marianas College):	
Payments to Northern Marianas College	265
Payments to Public School System	\$ 383,933
Tourism (payment to Marianas Visitors Authority)	\$ 4,972
Employee benefits (payment to Pension (and Other Employee Benefit) Trust Fund):	
Payments to CNMI Workers' Compensation Commission	\$ 2,670
Emergency Funds (payments to Commonwealth Utilities Corporation)	\$ 465,514
Disaster expenditures:	
Typhoon Kong Rey	\$ 7,436

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting September 30, 2008

(2) Explanation of Differences

CNMI Public Law 15-15 authorized the suspension of government obligations owing to the Northern Mariana Islands Retirement Fund (NMIRF) for parts of fiscal year 2006 and all of fiscal year 2007. The CNMI budgeted for this deferred retirement contribution on the cash basis rather than the modified accrual basis. At September 30, 2008, the accumulated deferred retirement contribution is \$47,035,810.

During the fiscal year ended September 30, 2008, the established statutory rate for employer retirement contributions for employees under the defined benefit plan is 36.6667% of covered payroll. Public Law 16-2 authorized the CNMI Government to remit employer retirement contributions at 11% of covered payroll and accrue the remaining as liability to NMIRF. The CNMI budgeted for employer retirement contributions on the cash basis rather than the modified accrual basis. The difference between the 36.6667% statutory rate and 11% contribution rate amounted to \$15,891,259 for fiscal year 2008.

Pursuant to Public Law 6-41, any employer who fails to pay or remit contributions shall pay a penalty of 10% per month or part thereof for which the contributions remains unpaid, up to a maximum penalty of 25% of the unpaid contributions. As of September 30, 2008, the penalty in retirement contributions of \$20,747,269 was not budgeted for fiscal year 2008.

On June 24, 2008, the Office of the Governor confirmed that the CNMI will be responsible for the Northern Marianas College's (NMC) deficient retirement contributions from October 1, 2005 through September 30, 2007 totaling \$2,514,213. This amount was not budgeted under Public Law 15-28, as amended by Public Law 15-71.

Further, Public Law 16-2 mandated the CNMI Government to accrue as liability the difference of \$1,441,069 between the statutory rate and contribution rate of 11% in employer retirement contribution, including statutory penalties, of the NMC. The related amount of \$1,441,069 for fiscal year 2008 is not budgeted.

As of September 30, 2008, the accumulated land compensation payments made by the CNMI amounted to \$109,076. Funding to these payments was derived from bond issuances obtained in prior years, which had been reserved within unreserved deficit. As related budgetary basis revenues were not reflected for the year ended September 30, 2008, the CNMI had netted payments with the decrease in the reserve for land claims in the schedule of revenues, expenditures and changes in deficit-budget and actual-general fund.

The CNMI recognizes bad debts expense based on identification of receivables. The CNMI budget does not reflect bad debts on the modified accrual basis. As of September 30, 2008, the accumulated bad debts expense amounted to \$7,051,276. Of this amount, \$5,266,367 relates to fiscal year 2008.

The CNMI recognizes claims and judgment expense when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The CNMI budget does not reflect claims and judgment expense on the modified accrual basis. As of September 30, 2008, claims and judgments expense accrued is \$9,179,452.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to Required Supplementary Information - Budgetary Reporting
September 30, 2008

(2) Explanation of Differences, Continued

The following reconciles budget to GAAP differences:

	October 1, <u>2007</u>	September 30, <u>2008</u>
Deficit, budgetary basis	\$ 166,867,189	\$ 152,429,297
Deferred retirement contributions per Public Law 15-15	47,035,810	47,035,810
Deficiency in retirement contributions per Public Law 16-2	-	15,891,259
Penalty in retirement contributions per Public Law 6-41	-	20,747,269
NMC Retirement Contributions	2,514,213	3,955,282
Payments to DPL, offset against decrease in reserve for land claims	109,014	109,076
Reserve for land claims	(109,014)	(109,076)
Accumulated bad debts expense	1,784,909	7,051,276
Claims and judgments expense	<u>-</u>	<u>9,179,452</u>
Deficit, GAAP basis	<u>\$ 218,202,121</u>	<u>\$ 256,289,645</u>

The amount reported as “deficit” on the budgetary basis of accounting derives from the basis of accounting used in preparing the CNMI’s budget. This amount differs from the deficit reported in the balance sheet-governmental funds and the statement of revenues, expenditures and changes in deficit because of the effect of the above transaction.

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2008

	Major Governmental Funds			Other Governmental Funds	Total
	General	NMTIT Rebate Trust	Grants Assistance		
Salaries and wages	\$ 65,837,988	\$ -	\$ 9,082,148	\$ 3,534,753	\$ 78,454,889
Employee benefits	31,318,394	-	3,141,042	1,500,972	35,960,408
Construction in progress	-	-	9,087,514	2,579,181	11,666,695
Professional services	5,742,086	-	13,945,503	1,494,881	21,182,470
Capital outlay:					
Office equipment	207,820	-	941,686	147,812	1,297,318
Vehicles	55,495	-	538,509	33,659	627,663
Machinery and equipment	80,701	-	1,043,613	183,188	1,307,502
Furniture and fixtures	20,134	-	411,233	263,718	695,085
Road improvements	3,061	-	6,300	387,120	396,481
Building improvements	12,446	-	5,103,229	1,480	5,117,155
Other	269,900	-	522,473	50,368	842,741
Land compensation	-	-	-	1,503,013	1,503,013
Utilities	12,052,552	-	291,305	24,423	12,368,280
Supplies	8,617,326	-	1,685,778	300,165	10,603,269
Food items	960,404	-	9,401,805	54,229	10,416,438
Scholarships/grants	3,831,083	-	1,424,978	3,350,022	8,606,083
Interest	12,622	-	194,788	6,092,302	6,299,712
Travel	2,908,960	-	2,042,993	362,850	5,314,803
Rentals	1,990,049	-	536,840	1,331,570	3,858,459
Communications	1,268,391	-	598,917	92,930	1,960,238
Repairs and maintenance	1,863,179	-	892,179	277,723	3,033,081
Bad debts	5,266,367	-	-	-	5,266,367
Indirect costs	-	-	2,652,763	-	2,652,763
Principal repayment	-	-	40,000	2,600,332	2,640,332
Education:					
Payments to Public School System	31,886,760	-	2,000,000	72,435	33,959,195
Payments to Northern Marianas College	4,560,926	-	307,437	971,102	5,839,465
Payments to Marianas Visitors Authority	5,913,140	-	-	-	5,913,140
Payments to Pension (and Other Employee Benefit) Trust Fund	1,004,776	-	-	1,200,000	2,204,776
Payments to Marianas Public Land Trust	-	-	-	3,500,000	3,500,000
Payments to Commonwealth Ports Authority	-	-	-	1,319,161	1,319,161
Payments to Commonwealth Utilities Corporation	3,167,188	-	-	1,932,812	5,100,000
Miscellaneous services	959,050	-	111,953	29,996	1,100,999
Fuel and lubrication	1,861,365	-	367,365	154,844	2,383,574
Claims and judgments	9,264,681	-	-	499,086	9,763,767
Printing	213,331	-	211,948	34,794	460,073
Official representation	234,024	-	-	3,855	237,879
Advertising	(55,726)	-	427,808	37,516	409,598
Dues and subscriptions	154,926	-	31,130	3,720	189,776
Freight	110,861	-	38,691	4,068	153,620
Insurance	20,410	-	373,079	7,526	401,015
Books and library materials	52,970	-	55,868	20,288	129,126
Licenses and fees	24,243	-	5,288	2,410	31,941
Penalty on retirement contributions	20,747,269	-	-	-	20,747,269
NMC retirement contributions	1,441,069	-	-	-	1,441,069
Other	536,787	-	1,321,443	41,495	1,899,725
	<u>\$ 224,417,008</u>	<u>\$ -</u>	<u>\$ 68,837,606</u>	<u>\$ 36,001,799</u>	<u>\$ 329,256,413</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
MAJOR GOVERNMENTAL FUND - GRANTS ASSISTANCE FUND

September 30, 2008

The Grants Assistance Fund is used to account for all transactions related to grants received from various U.S. departments.

DOI Capital Projects Fund

This fund accounts for various capital projects funded through grant awards from the U.S. Department of the Interior.

Federal Grants Fund

This fund accounts for all financial transactions related to direct grants received from various U.S. departments.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet
Grants Assistance Fund
September 30, 2008

	Federal Grants	DOI Capital Projects	Total
<u>Assets</u>			
Restricted cash and cash equivalents	\$ -	\$ 5,721,570	\$ 5,721,570
Receivables, net of allowance for uncollectibles:			
Federal agencies	7,322,361	3,513,725	10,836,086
Other	-	12,831	12,831
Due from other funds	-	9,777,703	9,777,703
	<u>\$ 7,322,361</u>	<u>\$ 19,025,829</u>	<u>\$ 26,348,190</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 1,368,185	\$ 431,500	\$ 1,799,685
Other liabilities and accruals	1,016,727	1,955,847	2,972,574
Due to other funds	4,937,449	581,714	5,519,163
Total liabilities	<u>7,322,361</u>	<u>2,969,061</u>	<u>10,291,422</u>
Fund balances:			
Reserved for:			
Encumbrances	3,977,017	8,142,781	12,119,798
Unreserved (deficits) reported in:			
Special revenue funds	(3,977,017)	-	(3,977,017)
Capital projects	-	7,913,987	7,913,987
Total equity and other credits	<u>-</u>	<u>16,056,768</u>	<u>16,056,768</u>
	<u>\$ 7,322,361</u>	<u>\$ 19,025,829</u>	<u>\$ 26,348,190</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
 Grants Assistance Fund
 For the Year Ended September 30, 2008

	Federal Grants	DOI Capital Projects	Total
Revenues:			
Federal contributions	\$ 50,858,065	\$ 11,381,550	\$ 62,239,615
Licenses and fees	430,135	-	430,135
Interest and dividends	-	204,860	204,860
Contributions from component units	-	107,131	107,131
Other	188,444	-	188,444
Total revenues	51,476,644	11,693,541	63,170,185
Expenditures:			
Current:			
Health	19,703,371	891,143	20,594,514
Public safety and law enforcement	8,891,842	113,048	9,004,890
General government	103,782	-	103,782
Community and social services	14,408,305	119,326	14,527,631
Utilities	-	157,653	157,653
Lands and natural resources	7,834,089	-	7,834,089
Education	120,290	1,012,340	1,132,630
Economic development	3,040	1,310,233	1,313,273
Payments to:			
Public School System	2,000,000	-	2,000,000
Northern Marianas College	307,437	-	307,437
Debt service:			
Principal retirement	-	40,000	40,000
Interest and fiscal charges	-	194,788	194,788
Capital outlay:			
Utilities - Capital Projects	-	10,879,986	10,879,986
Public works	389,573	357,360	746,933
Total expenditures	53,761,729	15,075,877	68,837,606
Deficiency of revenues under expenditures	(2,285,085)	(3,382,336)	(5,667,421)
Other financing sources (uses):			
Operating transfers in	5,095,085	725,445	5,820,530
Operating transfers out	(2,810,000)	(587,976)	(3,397,976)
Total other financing sources (uses), net	2,285,085	137,469	2,422,554
Net change in fund balances	-	(3,244,867)	(3,244,867)
Fund balances at beginning of year	-	19,301,635	19,301,635
Fund balances at end of year	\$ -	\$ 16,056,768	\$ 16,056,768

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2008

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Department of Public Lands

On February 22, 2006, Public Law 15-02 was enacted to repeal Executive Order 94-03 as codified, in Public Law 10-57, 12-33 and 12-71 to create the Department of Public Lands (DPL) within the Executive Branch of the CNMI Government and to transfer the obligations and responsibilities of the Marianas Public Lands Authority to DPL. DPL is responsible for administration, use, leasing, development and disposition all those lands defined as public lands by N.M.I. Const. Art.XI.1 or any other provision of law, subject to the provisions of P.L. 15-02 and except as limited by transfers of freehold interest to individuals, entities, or other government agencies. DPL's authority does not extend to the issuance of land use permits and licenses, except as specifically provided for in P.L. 15-02 and does not limit in any respect the authority of other Commonwealth agencies to issue permits and licenses pursuant to their respective enabling legislation.

Private Grants Fund

This fund accounts for all financial transactions related to miscellaneous grants that are not directly from the U.S. government. Included in this fund are transactions relating to grants from world organizations and private business organizations in the CNMI.

Commonwealth Arts Council Fund

The Commonwealth Arts Council Fund was established through Executive Order No. 26 pursuant to Section 15 Article III of the Constitution. The fund accounts for financial transactions of the Commonwealth Arts Council related to the receipt of donations and gifts and the use of those funds.

Human Resources Development Trust Fund

The Human Resources Development Trust Fund was established pursuant to Public Law No. 5-3 to account for all revenues raised from the licensing of amusement machines. Public Law No. 5-3 was subsequently amended by Public Law No. 10-41, which required that funds collected under Public Law No. 5-3 to be transferred into the General Fund for general appropriation.

Oil Overcharge Fund

This fund accounts for payments awarded to the 50 States, and U.S. territories and possessions, by the U.S. courts in settlement of charges against several U.S. oil companies that had violated U.S. Department of Energy price control regulations by overcharging their distributors and customers. The CNMI has received oil overcharge funds from the Warner, Exxon, and Stripper Well Cases that are restricted for use in several energy related approved programs.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2008

Commonwealth Nonresident Workers' Fee Fund

The Commonwealth Nonresident Workers Fee Fund was established pursuant to Public Law No. 5-32, as amended by Public Law No. 10-66. The fund accounts for the collection of fees related to application and renewal certificates of nonresident workers and their immediate relatives. In accordance with the enabling legislation, the fees collected are to be appropriated by the CNMI Legislature for several educational and training programs administered through the Northern Marianas College and the Mayors' offices.

Commonwealth Alien Deportation Fund

The Commonwealth Alien Deportation Fund was established pursuant to Public Law No. 10-1. The fund accounts for the collection of nonresident workers' fees designated for the fund and for the expenditure of those funds in detecting and deporting illegal aliens.

Commonwealth Museum Fund

The Commonwealth Museum Fund was established pursuant to Public Law No. 10-5. This fund accounts for all funds received from legislative appropriations for the activities and operations of the Museum; fees generated by the Museum and all gifts, loans or other funds designated for any and all operations and activities of the Museum.

Judicial Building Fund

This fund was created by Public Law No. 7-25 to account for financing restricted to the construction and furnishing of the CNMI Supreme Court and Superior Court building. At September 30, 2008, the project was completed. Revenues generated by the court will be used to finance the debt service on the loan with NMIRF.

Local Revenue Fund

Accounts for revenues generated under local senatorial district laws for use by the local governments of Saipan, Rota and Tinian. Such revenues are based on Saipan local laws 11-1 and 11-2 and Rota local law 11-1.

Saipan Trust Fund

The Saipan Trust Fund accounts for funds from the United States Government to develop the Saipan Marine and Fishing Complex.

Tobacco Settlement Trust Fund

Pursuant to Public Law No. 13-37, the Tobacco Settlement Trust Fund was established to account for all monies received from the Master Settlement Agreement. The monies shall be used to implement programs and services to achieve the goals stated in Section 3 of Public Law 13-37.

Micronesian Garment Manufacturing Fund

This fund accounts for settlement claims on behalf of certain garment workers.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS

September 30, 2008

Tobacco Control Fund

This fund was created by Public Law 13-38 to amend 4 CMC § 1402(A)(16) through (20) to restrict cigarette smoking and for other purposes.

Solid Waste Revolving Fund

This fund was created by Public Law 13-42 to provide financial support to the Commonwealth Solid Waste Management Systems and for other purposes.

Governor's Education Initiative Fund

This fund was established by Executive Order No. 232, *Establishment of Governor's Education Initiative Fund and Related Programs*. The fund accounts for specific education programs appropriated by the Governor.

Managaha Landing Fee Fund

This fund was established by Public Law 11-64 to account for revenues collected from commercial carriers who charge a fee to transport nonresident passengers to Managaha Island. Such fees are to be deposited into the Fund and will be expended exclusively on projects and for the construction, maintenance and operation of the Saipan Cultural and Performing Arts Center, the Saipan Youth Program, the Division of Public Lands, the Commonwealth Museum, and for the cultural heritage activities of the Indigenous and Carolinian Affairs Offices, in accordance with appropriations made by the Saipan and Northern Islands Legislative Delegation.

La Fiesta Revolving Fund

This fund was established to account for the financial transactions of the La Fiesta property.

Miscellaneous Special Revenue Funds

The miscellaneous special revenue fund combines the following:

- San Antonio Park Fund
- Smiling Cove Operations and Maintenance Fund
- Law Revision Commission Revolving Fund
- CRM Publication Fund
- Tinian Municipal School Fund
- Zoning Board Revolving Fund
- Joeten-Kiyu Library Revolving Fund
- Department of Corrections Revolving Fund
- Animal Health Revolving Fund
- Fish and Game Revolving Fund
- Tobacco License Fee Fund
- Miscellaneous Expendable Trust Fund
- Probation Services Fund
- Agriculture Revolving Fund
- Public Utilities Commission Fund
- Soil and Water Conservation Fund
- Outer Cover Marina Fund
- Special Disabilities Fund

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - CAPITAL PROJECTS FUNDS

September 30, 2008

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Commonwealth Development Authority Fund

This fund accounts for various capital projects funded by proceeds of general obligation bonds issued by the Commonwealth Development Authority.

Infrastructure Tax Fund

This fund was created by Public Law No. 8-23 which restricts the 2% Developers' Tax for funding of infrastructure by senatorial delegation.

Public Works Grants Fund

This fund accounts for various capital projects administered by the CNMI Department of Public Works and funded by the U.S. Department of Transportation.

American Memorial Park Fund

This fund accounts for capital projects at the American Memorial Park. These projects are partially funded by the earnings of the Marianas Public Land Trust - Park Fund, a nonexpendable trust fund.

Local Capital Projects Fund

This fund accounts for various capital projects funded by appropriations contained in Annual Appropriations Acts.

Private Capital Grants Fund

This fund accounts for various capital projects funded by various grants that are not directly from the U.S. government. Included in this fund are transactions relating to capital project grants from CNMI agencies and private business organizations in the CNMI.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
NONMAJOR GOVERNMENTAL FUNDS - DEBT SERVICE FUND

September 30, 2008

The Debt Service Fund accounts for the accumulation of resources, principally transfers from the General Fund for the payment of long-term debt principal and interest.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2008

Special Revenue Funds									
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Human Resources Development Trust	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Commonwealth Museum	Judicial Building
Assets									
Cash and cash equivalents	\$ 2,839,605	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted cash and cash equivalents	3,414,612	-	-	-	-	-	-	-	-
Time certificates of deposit	2,000,000	-	-	-	-	-	-	-	-
Receivables, net of allowance for uncollectibles:									
Other	428,296	-	-	-	-	-	-	-	-
Due from other funds	-	1,309,945	-	286,978	47,390	-	-	-	149,287
Due from component unit	-	-	-	-	-	-	-	-	-
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	1,174,490
	<u>\$ 8,682,513</u>	<u>\$ 1,309,945</u>	<u>\$ -</u>	<u>\$ 286,978</u>	<u>\$ 47,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,323,777</u>
Liabilities and Fund Balances (Deficit)									
Liabilities:									
Accounts payable	\$ 129,574	\$ 38,471	\$ 1,314	\$ 125	\$ -	\$ -	\$ 19,167	\$ 1,730	\$ -
Other liabilities and accruals	3,227,297	-	-	15,517	-	21,251	61	7,233	-
Due to other funds	1,018,819	-	7,956	-	-	132,727	133,643	23,723	-
Due to component units	-	-	-	-	-	113,475	-	-	-
Due to Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	-
Deferred revenues	1,575,535	1,157,543	-	-	47,390	-	-	-	-
Total liabilities	<u>5,951,225</u>	<u>1,196,014</u>	<u>9,270</u>	<u>15,642</u>	<u>47,390</u>	<u>267,453</u>	<u>152,871</u>	<u>32,686</u>	<u>-</u>
Commitments and contingencies									
Fund balances (deficit):									
Reserved for:									
Debt service	-	-	-	-	-	-	-	-	1,174,490
Encumbrances	54,262	35,212	-	1,010	-	-	25,426	13,103	-
Other	-	-	-	-	-	-	-	-	-
Unreserved:									
Undesignated	2,677,026	78,719	(9,270)	270,326	-	(267,453)	(178,297)	(45,789)	149,287
Total fund balances (deficit)	<u>2,731,288</u>	<u>113,931</u>	<u>(9,270)</u>	<u>271,336</u>	<u>-</u>	<u>(267,453)</u>	<u>(152,871)</u>	<u>(32,686)</u>	<u>1,323,777</u>
	<u>\$ 8,682,513</u>	<u>\$ 1,309,945</u>	<u>\$ -</u>	<u>\$ 286,978</u>	<u>\$ 47,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,323,777</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2008

Special Revenue Funds										
Local Revenue	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Managaha Landing Fee	La Fiesta Revolving Fund	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,839,605
-	80,283	-	-	-	-	-	-	-	-	3,494,895
-	-	-	-	-	-	-	-	-	-	2,000,000
-	-	-	-	-	-	-	-	-	-	428,296
4,840,609	-	1,952,589	456,655	261,260	3,246,383	17	39,580	-	1,666,830	14,257,523
-	13,450	-	-	-	-	-	-	-	-	13,450
-	-	-	-	-	-	-	-	-	-	1,174,490
<u>\$ 4,840,609</u>	<u>\$ 93,733</u>	<u>\$ 1,952,589</u>	<u>\$ 456,655</u>	<u>\$ 261,260</u>	<u>\$ 3,246,383</u>	<u>\$ 17</u>	<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ 1,666,830</u>	<u>\$ 24,208,259</u>
\$ 218,285	\$ -	\$ -	\$ -	\$ 20,081	\$ 54,449	\$ -	\$ -	\$ -	\$ 60,730	\$ 543,926
301,068	-	-	-	-	77,567	-	-	-	392	3,650,386
-	76,303	-	-	-	-	-	-	97,697	894,158	2,385,026
-	-	-	-	-	-	-	-	-	-	113,475
-	-	-	-	-	-	-	-	-	363,821	363,821
-	-	-	-	-	-	-	-	-	-	2,780,468
<u>519,353</u>	<u>76,303</u>	<u>-</u>	<u>-</u>	<u>20,081</u>	<u>132,016</u>	<u>-</u>	<u>-</u>	<u>97,697</u>	<u>1,319,101</u>	<u>9,837,102</u>
-	-	-	-	-	-	-	-	-	-	1,174,490
534,561	-	990	-	133,704	280,831	-	-	-	39,774	1,118,873
-	-	-	-	-	2,290,421	-	-	-	-	2,290,421
<u>3,786,695</u>	<u>17,430</u>	<u>1,951,599</u>	<u>456,655</u>	<u>107,475</u>	<u>543,115</u>	<u>17</u>	<u>39,580</u>	<u>(97,697)</u>	<u>307,955</u>	<u>9,787,373</u>
<u>4,321,256</u>	<u>17,430</u>	<u>1,952,589</u>	<u>456,655</u>	<u>241,179</u>	<u>3,114,367</u>	<u>17</u>	<u>39,580</u>	<u>(97,697)</u>	<u>347,729</u>	<u>14,371,157</u>
<u>\$ 4,840,609</u>	<u>\$ 93,733</u>	<u>\$ 1,952,589</u>	<u>\$ 456,655</u>	<u>\$ 261,260</u>	<u>\$ 3,246,383</u>	<u>\$ 17</u>	<u>\$ 39,580</u>	<u>\$ -</u>	<u>\$ 1,666,830</u>	<u>\$ 24,208,259</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Balance Sheet, Continued
Nonmajor Governmental Funds
September 30, 2008

	Capital Projects Funds						Total Capital Projects Funds	Debt Service Fund	Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants			
<u>Assets</u>									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,839,605
Restricted cash and cash equivalents	-	-	-	-	128,806	-	128,806	3,062,345	6,686,046
Time certificates of deposit	-	-	-	-	-	-	-	-	2,000,000
Receivables, net of allowance for uncollectibles:									
Federal	-	-	85,428	-	-	-	85,428	-	85,428
Other	-	-	-	19,629	-	-	19,629	-	447,925
Due from other funds	110,646	856,307	350,756	-	650	1,015,109	2,333,468	-	16,590,991
Due from component unit	-	-	-	-	-	-	-	-	13,450
Due from Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	1,174,490
	<u>\$ 110,646</u>	<u>\$ 856,307</u>	<u>\$ 436,184</u>	<u>\$ 19,629</u>	<u>\$ 129,456</u>	<u>\$ 1,015,109</u>	<u>\$ 2,567,331</u>	<u>\$ 3,062,345</u>	<u>\$ 29,837,935</u>
<u>Liabilities and Fund Balances (Deficit)</u>									
<u>Liabilities:</u>									
Accounts payable	\$ 58,077	\$ 9,307	\$ 436,184	\$ -	\$ 510	\$ 31,574	\$ 535,652	\$ -	\$ 1,079,578
Other liabilities and accruals	-	10,049	-	-	109,463	-	119,512	-	3,769,898
Due to other funds	-	-	-	152,494	536,680	-	689,174	-	3,074,200
Due to component units	-	-	-	6,868	-	-	6,868	-	120,343
Due to Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	363,821
Deferred revenues	52,569	-	-	-	-	-	52,569	-	2,833,037
Total liabilities	<u>110,646</u>	<u>19,356</u>	<u>436,184</u>	<u>159,362</u>	<u>646,653</u>	<u>31,574</u>	<u>1,403,775</u>	<u>-</u>	<u>11,240,877</u>
<u>Fund balances (deficit):</u>									
<u>Reserved for:</u>									
Debt service	-	-	-	-	-	-	-	3,062,345	4,236,835
Encumbrances	2,508	28,153	2,870,680	53,038	1,121,982	24,389	4,100,750	-	5,219,623
Continuing appropriations	-	-	-	-	937,044	-	937,044	-	937,044
Other	-	-	-	-	-	-	-	-	2,290,421
<u>Unreserved:</u>									
Undesignated	(2,508)	808,798	(2,870,680)	(192,771)	(2,576,223)	959,146	(3,874,238)	-	5,913,135
Total fund balances (deficit)	<u>-</u>	<u>836,951</u>	<u>-</u>	<u>(139,733)</u>	<u>(517,197)</u>	<u>983,535</u>	<u>1,163,556</u>	<u>3,062,345</u>	<u>18,597,058</u>
	<u>\$ 110,646</u>	<u>\$ 856,307</u>	<u>\$ 436,184</u>	<u>\$ 19,629</u>	<u>\$ 129,456</u>	<u>\$ 1,015,109</u>	<u>\$ 2,567,331</u>	<u>\$ 3,062,345</u>	<u>\$ 29,837,935</u>

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
 Nonmajor Governmental Funds
 For the Year Ended September 30, 2008

	Special Revenue Funds								
	Department of Public Lands	Private Grants	Commonwealth Arts Council	Human Resources Development Trust	Oil Overcharge	Commonwealth Nonresident Workers' Fee	Commonwealth Alien Deportation	Commonwealth Museum	Judicial Building
Revenues:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal contributions	-	118,941	-	-	-	-	-	-	-
Charges for sales and services	3,598,404	-	-	-	-	-	-	2,217	-
Licenses and fees	400,400	175	-	-	-	4,462,000	473,825	3,295	1,046,507
Interest and dividends	387	-	-	-	-	-	-	102	31,920
Other	140,795	267,165	25,625	-	-	-	-	115	-
Total revenues	4,139,986	386,281	25,625	-	-	4,462,000	473,825	5,729	1,078,427
Expenditures:									
Current:									
Health	-	22,622	-	-	-	-	-	-	-
Public safety and law enforcement	-	194,708	-	-	-	364,250	221,145	-	-
General government	-	1,000	-	-	-	-	-	-	-
Community and social services	-	167,951	36,966	520,020	-	-	-	207,790	-
Other elected officials	-	-	-	-	-	-	-	-	-
Lands and natural resources	4,481,182	-	-	-	-	-	-	-	-
Legislative branch	-	-	-	-	-	-	-	-	-
Judicial branch	-	-	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-	-	-
Payments to:									
Public School System	-	-	-	-	-	-	-	-	-
Northern Marianas College	-	-	-	-	-	971,102	-	-	-
Marianas Public Land Trust	3,500,000	-	-	-	-	-	-	-	-
Commonwealth Utilities Corporation	-	-	-	-	-	-	701,374	-	-
Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	-
Debt service:									
Principal retirement	-	-	-	-	-	-	-	-	770,332
Interest and fiscal charges	-	-	-	-	-	-	-	-	648,604
Capital outlay:									
Utilities - Capital Projects	-	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-	-
Total expenditures	7,981,182	386,281	36,966	520,020	-	1,335,352	922,519	207,790	1,418,936
Excess (deficiency) of revenues over (under) expenditures	(3,841,196)	-	(11,341)	(520,020)	-	3,126,648	(448,694)	(202,061)	(340,509)
Other financing sources (uses):									
Operating transfers in	-	-	-	604,414	-	-	-	-	-
Operating transfers out	(6,225)	-	-	-	-	(3,334,885)	-	-	-
Total other financing sources (uses), net	(6,225)	-	-	604,414	-	(3,334,885)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(3,847,421)	-	(11,341)	84,394	-	(208,237)	(448,694)	(202,061)	(340,509)
Fund balances (deficit) at beginning of year	6,578,709	113,931	2,071	186,942	-	(59,216)	295,823	169,375	1,664,286
Fund balances (deficit) at end of year	\$ 2,731,288	\$ 113,931	\$ (9,270)	\$ 271,336	\$ -	\$ (267,453)	\$ (152,871)	\$ (32,686)	\$ 1,323,777

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
 Nonmajor Governmental Funds
 For the Year Ended September 30, 2008

Special Revenue Funds										
Local Revenue	Saipan Trust	Tobacco Settlement Trust	Micronesian Garment Manufacturing	Tobacco Control	Solid Waste Revolving	Governor's Education Initiative	Managaha Landing Fee	La Fiesta Revolving Fund	Miscellaneous	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,305,367	\$ 1,806,436	\$ -	\$ -	\$ -	\$ -	\$ 3,111,803
-	-	-	-	-	-	-	-	-	-	118,941
-	-	-	-	-	-	-	-	-	74,948	3,675,569
4,711,583	-	-	-	-	416,997	-	-	-	165,552	11,680,334
-	-	-	-	-	-	-	-	-	1,535	33,944
2,539	-	1,951,422	-	-	-	-	-	-	1,900	2,389,561
<u>4,714,122</u>	<u>-</u>	<u>1,951,422</u>	<u>-</u>	<u>1,305,367</u>	<u>2,223,433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>243,935</u>	<u>21,010,152</u>
85,603	-	-	-	96,540	-	-	-	-	-	204,765
1,526,257	-	-	-	-	-	-	-	-	79,621	859,724
328,176	-	-	-	92,075	-	-	-	-	16,919	1,544,176
87,123	-	-	-	-	-	-	-	-	5,018	1,357,996
5,000	-	-	-	-	75,753	-	-	-	-	87,123
6,155	-	-	-	-	-	-	-	-	97,985	4,659,920
-	-	-	-	-	-	-	-	-	6,155	-
3,242,732	-	-	-	79,135	-	-	-	-	121,409	121,409
1,341,192	-	-	-	-	-	-	-	-	-	3,321,867
-	-	-	-	-	-	-	-	-	-	1,341,192
19,000	-	-	-	-	-	-	-	-	-	19,000
30,000	-	-	-	-	-	-	-	-	-	1,001,102
-	-	-	-	-	-	-	-	-	-	3,500,000
-	-	-	-	-	1,189,964	-	-	-	35,952	1,927,290
-	-	-	-	1,200,000	-	-	-	-	-	1,200,000
-	-	-	-	-	-	-	-	-	-	770,332
-	-	-	-	-	-	-	-	-	-	648,604
20,000	-	-	-	-	-	-	-	-	-	20,000
2,583,824	-	-	-	-	1,593,163	-	-	-	-	4,176,987
<u>9,275,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,467,750</u>	<u>2,858,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,904</u>	<u>26,767,642</u>
<u>(4,560,940)</u>	<u>-</u>	<u>1,951,422</u>	<u>-</u>	<u>(162,383)</u>	<u>(635,447)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(112,969)</u>	<u>(5,757,490)</u>
-	-	-	-	-	-	-	-	-	80,000	684,414
(20,000)	-	-	-	-	-	-	-	-	(6,638)	(3,367,748)
<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,362</u>	<u>(2,683,334)</u>
(4,580,940)	-	1,951,422	-	(162,383)	(635,447)	-	-	-	(39,607)	(8,440,824)
<u>8,902,196</u>	<u>17,430</u>	<u>1,167</u>	<u>456,655</u>	<u>403,562</u>	<u>3,749,814</u>	<u>17</u>	<u>39,580</u>	<u>(97,697)</u>	<u>387,336</u>	<u>22,811,981</u>
\$ 4,321,256	\$ 17,430	\$ 1,952,589	\$ 456,655	\$ 241,179	\$ 3,114,367	\$ 17	\$ 39,580	\$ (97,697)	\$ 347,729	\$ 14,371,157

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Continued
 Non-Major Governmental Funds
 For the Year Ended September 30, 2008

	Capital Projects Funds						Total Capital Projects Funds	Debt Service Fund	Total Non-Major Governmental Funds
	Commonwealth Development Authority	Infrastructure Tax	Public Works Grants	American Memorial Park	Local Capital Projects	Private Capital Grants			
Revenues:									
Taxes	\$ -	\$ 398,701	\$ -	\$ -	\$ -	\$ -	\$ 398,701	\$ -	\$ 3,510,504
Federal contributions	40,638	-	898,573	-	-	-	939,211	-	1,058,152
Charges for sales and services	-	-	-	-	-	-	-	-	3,675,569
Licenses and fees	-	-	-	-	-	-	-	-	11,680,334
Interest and dividends	-	661	-	-	4,430	-	5,091	47,028	86,063
Contributions from component units	-	-	-	-	532,258	-	532,258	-	532,258
Other	-	77,150	-	-	-	-	77,150	-	2,466,711
Total revenues	40,638	476,512	898,573	-	536,688	-	1,952,411	47,028	23,009,591
Expenditures by account:									
Current:									
Health	-	-	-	-	129,652	-	129,652	-	334,417
Public safety and law enforcement	-	13,578	-	-	370,220	-	383,798	-	1,243,522
General government	-	-	-	-	-	-	-	-	1,544,176
Community and social services	-	44,261	-	-	-	-	44,261	-	1,402,257
Other elected officials	-	-	-	-	-	-	-	-	87,123
Lands and natural resources	-	-	-	-	-	-	-	-	4,659,920
Legislative branch	-	-	-	-	-	-	-	-	6,155
Judicial branch	-	-	-	-	-	-	-	-	121,409
Education	-	-	-	-	-	-	-	-	3,321,867
Economic development	-	-	-	-	253,794	-	253,794	-	1,594,986
Payments to:									
Public School System	-	-	-	-	-	-	-	-	19,000
Northern Marianas College	-	-	-	-	-	-	-	-	1,001,102
Marianas Public Land Trust	-	-	-	-	-	-	-	-	3,500,000
Commonwealth Utilities Corporation	-	5,522	-	-	-	-	5,522	-	1,932,812
Pension (and Other Employee Benefit) Trust Fund	-	-	-	-	-	-	-	-	1,200,000
Debt service:									
Principal retirement	-	-	-	-	-	-	-	1,830,000	2,600,332
Interest and fiscal charges	-	-	-	-	-	-	-	5,443,694	6,092,298
Capital outlay:									
Utilities - Capital Projects	-	-	-	-	-	-	-	-	20,000
Public works	40,638	204,221	898,573	-	-	-	1,143,432	-	5,320,419
Total expenditures	40,638	267,582	898,573	-	753,666	-	1,960,459	7,273,694	36,001,795
Excess (deficiency) of revenues over (under) expenditures	-	208,930	-	-	(216,978)	-	(8,048)	(7,226,666)	(12,992,204)
Other financing sources (uses):									
Operating transfers in	-	20,000	-	-	587,976	-	607,976	6,881,619	8,174,009
Operating transfers out	-	-	-	-	-	-	-	-	(3,367,748)
Total other financing sources (uses), net	-	20,000	-	-	587,976	-	607,976	6,881,619	4,806,261
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	-	228,930	-	-	370,998	-	599,928	(345,047)	(8,185,943)
Fund balances (deficit) at beginning of year	-	608,021	-	(139,733)	(888,195)	983,535	563,628	3,407,392	26,783,001
Fund balances (deficit) at end of year	\$ -	\$ 836,951	\$ -	\$ (139,733)	\$ (517,197)	\$ 983,535	\$ 1,163,556	\$ 3,062,345	\$ 18,597,058

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS

September 30, 2008

Pension and Other Employee Benefits Trust Funds

Pension and other employee benefit trust funds are used to account for a Public Employee Retirement System, health and life benefits and workers' compensation benefits. These funds use the accrual basis of accounting and have a capital maintenance measurement focus. The basic financial statements reflect the balances and activity of the pension and other employee benefit trust fund of the Government, which are described below.

Northern Mariana Islands Retirement Fund (NMIRF)

NMIRF was established as a public corporation on January 18, 1980, under Public Law No. 1-43, amended by Public Law Nos. 2-18, 2-47, 3-99 and 4-20, and Constitutional Amendment No. 19 to provide pension benefits to all government civil service employees including those working for government autonomous agencies, CNMI elected officials, and employees of the former Trust Territory of the Pacific Islands, who are U.S. citizens pursuant to the CNMI Constitution. On May 7, 1989, Public Law No. 6-17, the Northern Mariana Islands Retirement Fund Act of 1988, repealed the above mentioned laws and re-established NMIRF as an autonomous agency and a public corporation of the CNMI to provide retirement security and other benefits to government employees, their spouses and dependents, former Governors and Lieutenant Governors, and to provide for an actuarially sound, locally funded pension system pursuant to the Agreement of the Special Representative on Future United States Financial Assistance for the Northern Mariana Islands, and in accordance with Constitutional provisions protecting the rights of government employees. Public Law No. 6-17 was later amended by Public Law Nos. 6-41, 8-24, 8-30, 8-31, 8-39, 9-25, 9-45, 10-8, 10-19 and 11-9. NMIRF is administered by a seven-member Board of Trustees, appointed by the Governor of the CNMI with the advice and consent of the CNMI Senate.

CNMI Workers' Compensation Commission

The CNMI Workers' Compensation Commission (WCC) was created by Public Law No. 6-33. The law provides financial protection to both employers and employees for the catastrophic effects of work related injuries, illnesses or deaths. It is a social insurance plan that compensates employees for disabilities incurred from work related injuries regardless of fault. It is also a no-fault insurance program, solely paid for by the employer. The WCC ensures that private sector employers obtain and provide workers' compensation insurance coverage for their employees. The WCC also administers the CNMI government's workers' compensation self-insurance program. The Board of Trustees of the Northern Mariana Islands Retirement Fund (NMIRF) administers the WCC.

Northern Mariana Islands (NMI) Government Health and Life Insurance Trust Fund

This fund was created by Public Law No. 10-19 to ensure that CNMI Government employees are provided with medical and life insurance benefits, and that funds collected and disbursed for these purposes are administered in a fiscally sound and professionally accountable manner. The Board of Trustees of NMIRF administers the fund.

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
FIDUCIARY FUNDS

September 30, 2008

Tinian Land Condemnation Fund

As part of the U.S. Military's lease of Tinian, the CNMI Government, the former Marianas Public Land Corporation and the U.S. Government, setup an escrow fund pending the obtaining of all the private land holdings on Tinian within the leased area. Subsequently, the escrow was jointly terminated wherein it was mutually agreed the funds could be used by the CNMI to acquire the private land holdings through direct acquisition or legal condemnation proceedings. This agency fund represents the net amount available after the costs of land acquisitions. Land condemnation proceedings are still in process.

Security Deposit Fund

The Security Deposit Fund was established to account for security deposits received from persons licensed to engage in the business of selling foreign currency notes or receiving money for the purpose of transmitting the same or its equivalent to any country outside the CNMI (pursuant to 1 CMC 2, Section 2454 and 4 CMC 6, Sections 6351 and 6108) and for security deposits received from alien insurers (pursuant to Public Law No. 3-107).

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2008

	Pension (and Other Employee Benefit) Trust Fund				Agency Funds		
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total	Tinian Land Condemnation Fund	Security Deposit Fund	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 1,823,049	\$ 886,781	\$ 117,296	\$ 2,827,126	\$ -	\$ 2,394,447	\$ 2,394,447
Receivables:							
Loans	7,782,731	-	-	7,782,731	-	-	-
Notes	7,416,100	-	-	7,416,100	-	-	-
Benefits	1,370,553	-	820,046	2,190,599	-	-	-
Interest and dividends	1,217,163	-	-	1,217,163	-	-	-
Other	2,305,742	-	2,260	2,308,002	-	-	-
	<u>20,092,289</u>	<u>-</u>	<u>822,306</u>	<u>20,914,595</u>	<u>-</u>	<u>-</u>	<u>-</u>
Due from General Fund	211,662,466	-	-	211,662,466	1,424,025	-	1,424,025
Less allowance for uncollectible receivables	(154,370,101)	-	-	(154,370,101)	-	-	-
	<u>57,292,365</u>	<u>-</u>	<u>-</u>	<u>57,292,365</u>	<u>1,424,025</u>	<u>-</u>	<u>1,424,025</u>
Due from Miscellaneous Special Revenue Funds	-	-	363,821	363,821	-	-	-
Due from other funds	1,267,500	-	-	1,267,500	-	-	-
Prepaid items	5,541	-	-	5,541	-	-	-
Investments, at fair market value:							
Equity securities	249,371,001	-	-	249,371,001	-	-	-
U.S. Government securities	51,252,739	-	-	51,252,739	-	-	-
Mutual funds	11,255,862	-	668,408	11,924,270	-	-	-
Money market placements	15,269,233	-	14,600	15,283,833	-	-	-
Corporate debt securities	59,020,601	-	-	59,020,601	-	-	-
Real estate investment trust	1,161,137	-	-	1,161,137	-	-	-
	<u>387,330,573</u>	<u>-</u>	<u>683,008</u>	<u>388,013,581</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted assets	-	-	126,816	126,816	-	2,876,633	2,876,633
Capital assets	4,201,827	17,578	1,006	4,220,411	-	-	-
Total assets	<u>472,013,144</u>	<u>904,359</u>	<u>2,114,253</u>	<u>474,667,935</u>	<u>1,424,025</u>	<u>5,271,080</u>	<u>6,695,105</u>
<u>Liabilities and Other Credits</u>							
Accounts payable	430,585	17,909,508	67,360	18,407,453	-	-	-
Claims and judgments payable	-	-	-	-	1,424,025	-	1,424,025
Deposits payable	-	-	-	-	-	5,271,080	5,271,080
Other liabilities and accruals	1,028,840	-	-	1,028,840	-	-	-
Due to Judicial Building Fund	1,174,490	-	-	1,174,490	-	-	-
Due to other funds	-	1,267,500	-	1,267,500	-	-	-
Deferred revenue	58,714,384	-	820,046	59,534,430	-	-	-
Total liabilities and other credits	<u>61,348,299</u>	<u>19,177,008</u>	<u>887,406</u>	<u>81,412,713</u>	<u>\$ 1,424,025</u>	<u>\$ 5,271,080</u>	<u>\$ 6,695,105</u>
Net assets:							
Held in trust for pension benefits	410,664,845	-	-	410,664,845			
Held in trust for medical and life insurance benefits	-	(18,272,649)	-	(18,272,649)			
Held in trust for workers' compensation benefits and other purposes	-	-	1,226,847	1,226,847			
Total net assets	<u>\$ 410,664,845</u>	<u>\$ (18,272,649)</u>	<u>\$ 1,226,847</u>	<u>\$ 393,619,043</u>			

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended September 30, 2008

	Pension (and Other Employee Benefit) Trust Fund			
	Northern Mariana Islands Retirement Fund	CNMI Government Health and Life Insurance Trust	CNMI Workers' Compensation Commission	Total
<u>Additions</u>				
Contributions:				
Employer	\$ 49,864,936	\$ -	\$ -	\$ 49,864,936
Employee	10,683,584	-	-	10,683,584
Revenues:				
Premiums	-	483,943	39,357	523,300
Rent income and other	2,516,241	177,664	13,293	2,707,198
Total contributions and revenues	63,064,761	661,607	52,650	63,779,018
Net investment income:				
Net depreciation in fair value	(73,205,149)	-	-	(73,205,149)
Interest	14,614,390	-	(8,157)	14,606,233
Total investment income	(58,590,759)	-	(8,157)	(58,598,916)
Less: investment expense	2,351,062	-	-	2,351,062
Net investment income	(60,941,821)	-	(8,157)	(60,949,978)
Total additions	2,122,940	661,607	44,493	2,829,040
<u>Deductions</u>				
Benefits	62,071,251	-	-	62,071,251
General and administrative	1,962,329	368,941	175,585	2,506,855
Bad debts	33,229,877	-	-	33,229,877
Refunds	5,554,957	-	-	5,554,957
Medical claims	-	2,510,795	21,422	2,532,217
Total deductions	102,818,414	2,879,736	197,007	105,895,157
Other financing sources (uses):				
Transfer in	659,069	1,200,000	165,442	2,024,511
Change in net assets	(100,036,405)	(1,018,129)	12,928	(101,041,606)
Net assets at beginning of year, as restated	510,701,250	(17,254,520)	1,213,919	494,660,649
Net assets at end of year	\$ 410,664,845	\$ (18,272,649)	\$ 1,226,847	\$ 393,619,043

See Accompanying Independent Auditors' Report.

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

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

Honorable Benigno R. Fitial
Governor
Commonwealth of the Northern Mariana Islands:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2008, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated June 15, 2009, which report was modified to include a reference to other auditors; and was qualified due to: 1) our inability to determine the propriety of the Public School System due from primary government; and 2) had the financial statements of the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Marianas Visitors Authority been audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Public School System, the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, as described in our report on the CNMI's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those 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 Marianas Public Land Trust and the Northern Marianas College, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CNMI's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over financial reporting.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 38 through 140) to be significant deficiencies in internal control over financial reporting as items 2008-1 through 2008-15.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1, 2008-2, 2008-11, 2008-12 and 2008-13 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CNMI's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 2008-16.

We noted certain matters that we reported to management of the CNMI in a separate letter dated June 15, 2009.

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

This report is intended solely for the information and use of the management of the CNMI, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

June 15, 2009



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable Benigno R. Fitial
Governor
Commonwealth of the Northern Mariana Islands:

Compliance

We have audited the compliance of the Commonwealth of the Northern Mariana Islands (CNMI) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The CNMI's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 38 through 140). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the CNMI's management. Our responsibility is to express an opinion on the CNMI's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the CNMI's basic financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2008. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the CNMI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the CNMI's compliance with those requirements.

As described in items 2008-17 through 2008-37, and 2008-39 through 2008-57 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding allowable costs/cost principles, cash management, equipment and real property management, and procurement and suspension and debarment that are applicable to its Food Stamps major program (CFDA # 10.551); allowable costs/cost principles, cash management, eligibility, equipment and real property management, procurement and suspension and debarment, reporting and special tests and provisions that are applicable to its Special Supplemental Nutrition Program for Women, Infants, and Children major program (CFDA # 10.557); allowable costs/cost principles; cash management; matching, level of effort, earmarking; period of availability; procurement and suspension and debarment; and reporting that are applicable to its Economic, Social, and Political Development of the Territories major programs (CFDA # 15.875); allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, program income, and reporting that are applicable to its Environmental Protection Consolidated Grants-Program Support major program (CFDA # 66.600); and activities allowed or unallowed, allowable costs/cost principles, cash management, eligibility, procurement and suspension and debarment, reporting, and special tests and provisions that are applicable to its Medical Assistance Program major program (CFDA # 93.778). Compliance with such requirements is necessary, in our opinion, for the CNMI to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the CNMI complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-38.

Internal Control Over Compliance

The management of the CNMI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the CNMI's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in the entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2008-17 through 2008-57 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected in the CNMI's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2008-17, 2008-20, 2008-23, 2008-34, 2008-35, 2008-44, 2008-46, 2008-47, 2008-48, 2008-56 and 2008-57 to be material weaknesses.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CNMI as of and for the year ended September 30, 2008, which collectively comprise the CNMI's basic financial statements and have issued our report thereon dated June 15, 2009, which report was modified to include a reference to other auditors; and was qualified due to: 1) our inability to determine the propriety of the Public School System due from primary government; and 2) had the financial statements of the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Marianas Visitors Authority been audited.

Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise the CNMI's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 34) 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. This schedule is the responsibility of the management of the CNMI. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the CNMI, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLC

June 15, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2008

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of the Interior	15.875	Economic, Social and Political Development of the Territories: Capital Improvement Projects Fiscal Year 2008 Compact Impact	\$ 11,381,551 5,117,437
U.S. Department of Agriculture	10.551	Food Stamps	8,581,496
	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	3,380,369
U.S. Environmental Protection Agency	66.600	Environmental Protection Consolidated Grants - Program Support	2,567,846
U.S. Department of Health and Human Services	93.778	Medical Assistance Program	<u>3,880,952</u>
		Total program expenditures tested	\$ <u>34,909,651</u>
		Total federal program expenditures	\$ <u>63,756,767</u>
		% of total federal program expenditures tested	<u>55%</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2008

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. Department of the Treasury	\$ (67,030)	\$ -	\$ 3,040	\$ (63,990)
U.S. Department of Agriculture	148,488	12,335,993	12,346,957	159,452
U.S. Department of Commerce	151,961	1,836,811	1,322,526	(362,324)
Institute of Museum and Library Services	28,722	133,525	116,538	11,735
U.S. Department of Education	768,910	1,703,574	1,461,974	527,310
U.S. Department of Energy	5,441	144,618	139,004	(173)
U.S. Department of Defense	(15,833)	5,720	14,279	(7,274)
U.S. Environmental Protection Agency	58,970	2,631,745	2,637,801	65,026
U.S. Department of Homeland Security	892,421	5,126,679	5,348,440	1,114,182
U.S. Department of Health and Human Services	3,724,655	14,215,921	13,234,583	2,743,317
U.S. Department of Housing and Urban Development	(105,491)	-	-	(105,491)
U.S. Department of the Interior	1,074,966	8,986,263	9,352,257	1,440,960
U.S. Department of Justice	2,034,718	2,101,189	2,502,544	2,436,073
U.S. Department of Labor	333,112	1,675,235	1,652,237	310,114
U.S. National Endowment for the Arts	615,768	285,671	270,918	601,015
U.S. Department of Transportation	446,479	586,230	1,073,546	933,795
U.S. Department of Veterans Affairs	(31,614)	-	-	(31,614)
Unallocated cash receipts/expenditures	1,035,500	(357,770)	-	1,393,270
GRAND TOTAL	\$ 11,100,143	\$ 51,411,404	\$ 51,476,644	\$ 11,165,383

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

Reconciliation:

Receivable from grantor at September 30, 2008	\$ 11,165,383
Provision for uncollectible accounts	(3,843,022)
	<u>\$ 7,322,361</u>
Expenditures per above	\$ 51,476,644
Local match	5,095,085
	<u>\$ 56,571,729</u>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 53,761,729
Operating Transfers Out	2,810,000
	<u>\$ 56,571,729</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2007</u>	<u>Cash Receipts FY08</u>	<u>Expenditures FY08</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2008</u>
U.S. DEPARTMENT OF THE TREASURY					
21.Unknown	Tax Relief Recon Act 2003	\$ (67,030)	\$ -	\$ 3,040	\$ (63,990)

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
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF AGRICULTURE					
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	\$ (182,906)	\$ 57,787	\$ 25,271	\$ (215,422)
10.551	Food Stamps	(41,458)	8,618,776	8,581,496	(78,738)
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	141,855	3,229,579	3,380,369	292,645
10.570	Nutrition Services Incentive	68,195	-	-	68,195
10.664	Cooperative Forestry Assistance	151,256	389,724	347,953	109,485
10.677	Forest Land Enhancement Program	6,996	8,049	1,053	-
10.904	Watershed Protection and Flood Prevention	2	-	-	2
10.912	Environmental Quality Incentives Program	(1,700)	-	-	(1,700)
10.914	Wildlife Habitat Incentive Program	-	12,078	-	(12,078)
10.950	Agricultural Statistics Reports	6,248	20,000	10,815	(2,937)
	TOTAL	\$ 148,488	\$ 12,335,993	\$ 12,346,957	\$ 159,452

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
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF COMMERCE					
11.Unknown	CENSUS 2000 PL105-277	\$ (1)	\$ -	\$ -	\$ (1)
11.407	Interjurisdictional Fisheries Act of 1986	(800)	2,864	2,864	(800)
11.419	Coastal Zone Management Administration Awards	175,134	1,234,723	913,998	(145,591)
11.426	Financial Assistance for National Centers for Coastal Ocean Science	40,075	170,349	129,286	(988)
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	(108)	-	-	(108)
11.432	Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	10,702	11,092	-	(390)
11.437	Pacific Fisheries Data Program	(69,740)	338,342	160,604	(247,478)
11.452	Unallied Industry Projects	500	15,849	29,235	13,886
11.454	Unallied Management Projects	2,199	63,592	65,000	3,607
11.463	Habitat Conservation	(6,000)	-	6,001	1
11.555	Public Safety Interoperable Communications Grant Program	-	-	15,538	15,538
TOTAL		\$ 151,961	\$ 1,836,811	\$ 1,322,526	\$ (362,324)

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
 Year Ended September 30, 2008

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2007</u>	<u>Cash Receipts FY08</u>	<u>Expenditures FY08</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2008</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES					
45.310	Grants to States	\$ 28,722	\$ 133,525	\$ 116,538	\$ 11,735

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
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF EDUCATION					
84.034	Public Library Services	\$ 531	\$ -	\$ -	\$ 531
84.035	Interlibrary Cooperation and Resource Sharing	(1,081)	-	-	(1,081)
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	603,276	1,441,926	1,222,041	383,391
84.154	Public Library Construction and Technology Enhancement	8,834	-	-	8,834
84.169	Independent Living - State Grants	21,312	43,751	29,474	7,035
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	21,529	49,466	55,354	27,417
84.187	Supported Employment Services for Individuals with Severe Disabilities	57,347	36,476	16,961	37,832
84.224	Assistive Technology	8,691	127,022	117,965	(366)
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	48,471	4,933	20,179	63,717
	TOTAL	\$ 768,910	\$ 1,703,574	\$ 1,461,974	\$ 527,310

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
 Year Ended September 30, 2008

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2007</u>	<u>Cash Receipts FY08</u>	<u>Expenditures FY08</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2008</u>
U.S. DEPARTMENT OF ENERGY					
81.041	State Energy Program	\$ 14,408	\$ 144,618	\$ 139,004	\$ 8,794
81.052	Energy Conservation for Institutional Building	(9,512)	-	-	(9,512)
81.074	Alcohol Fuels Loan Guarantees	<u>545</u>	<u>-</u>	<u>-</u>	<u>545</u>
	TOTAL	<u>\$ 5,441</u>	<u>\$ 144,618</u>	<u>\$ 139,004</u>	<u>\$ (173)</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
 Year Ended September 30, 2008

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2007</u>	<u>Cash Receipts FY08</u>	<u>Expenditures FY08</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2008</u>
U.S. DEPARTMENT OF DEFENSE					
12.113	State Memorandum of Agreement for the Reimbursement of Technical Services	\$ (16,212)	\$ 5,720	\$ 14,279	\$ (7,653)
61.755	U.S. Dept. of Defense (Navy)	<u>379</u>	<u>-</u>	<u>-</u>	<u>379</u>
	TOTAL	<u>\$ (15,833)</u>	<u>\$ 5,720</u>	<u>\$ 14,279</u>	<u>\$ (7,274)</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
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. ENVIRONMENTAL PROTECTION AGENCY					
66.461	Regional Wetland Program Development Grants	\$ 8,166	\$ 24,495	\$ 16,871	\$ 542
66.600	Environmental Protection Consolidated Grants - Program Support	45,973	2,577,595	2,567,846	36,224
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	-	-	4,168	4,168
66.805	Leaking Underground Storage Tank Trust Fund Program	4,831	29,655	37,723	12,899
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	-	-	11,193	11,193
	TOTAL	\$ 58,970	\$ 2,631,745	\$ 2,637,801	\$ 65,026

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
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF HOMELAND SECURITY					
97.004	Homeland Security Grant Program	\$ 2,894	\$ 162,787	\$ 162,773	\$ 2,880
97.012	Boating Safety Financial Assistance	521,044	351,374	105,507	275,177
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	2,811	98,457	99,134	3,488
97.024	Emergency Food and Shelter National Board Program	(6,300)	11,450	23,360	5,610
97.034	Disaster Unemployment Assistance	(10,936)	-	-	(10,936)
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	127,133	941,587	1,021,015	206,561
97.039	Hazard Mitigation Grant	142,260	1,356,972	1,261,259	46,547
97.042	Emergency Management Performance Grants	143,891	520,254	621,164	244,801
97.044	Assistance to Firefighters Grant	(3,721)	104,311	107,950	(82)
97.053	Citizen Corps	2,652	73,276	72,950	2,326
97.067	Homeland Security Grant Program	40,932	1,237,300	1,433,937	237,569
97.073	State Homeland Security Program (SHSP)	-	-	148,511	148,511
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	74,588	268,911	290,880	96,557
83.011	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	(112)	-	-	(112)
83.503	Civil Defense - State and Local Emergency Management Assistance	(7,544)	-	-	(7,544)
83.505	State Disaster Preparedness Grants	(1,329)	-	-	(1,329)
83.516	Disaster Assistance	(34,816)	-	-	(34,816)
83.519	Hazard Mitigation Assistance	(80,308)	-	-	(80,308)
83.520	Hurricane Program	5,302	-	-	5,302
83.521	Earthquake Hazard Reduction Grants	(2,923)	-	-	(2,923)
83.534	Emergency Management - State and Local Assistance	(11,555)	-	-	(11,555)
83.535	Mitigation Assistance	(2,434)	-	-	(2,434)
83.543	Individual and Family Grants	(9,108)	-	-	(9,108)
	TOTAL	\$ 892,421	\$ 5,126,679	\$ 5,348,440	\$ 1,114,182

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
Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
93.003	Public Health and Social Services Emergency Fund	\$ 1	\$ -	\$ -	\$ 1
93.041	Special Programs for the Aging-Title VII, Chapter 3 Programs for Prevention of Elder Abuse, Neglect, and Exploitation	-	2,864	2,864	-
93.042	Special Programs for the Aging-Title VII, Chapter 2 -Long Term Care Ombudsman Services for Older Individuals	-	5,729	5,729	-
93.043	Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	-	19,984	19,984	-
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	(13,851)	271,374	262,770	(22,455)
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	213,140	378,904	371,826	206,062
93.046	Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals	(8,860)	-	-	(8,860)
93.048	Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	-	67,990	77,017	9,027
93.052	National Family Caregiver Support, Title III, Part E	6,340	120,435	115,642	1,547
93.053	Nutrition Services Incentive Program	(120,235)	117,253	114,158	(123,330)
93.069	Public Health Emergency Preparedness	11,696	125,665	124,250	10,281
93.088	Advancing System Improvements to Support Targets for Healthy People 2010	-	297,957	308,980	11,023
93.110	Maternal and Child Health Federal Consolidated Programs	42,274	177,561	141,837	6,550
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	40,208	409,623	384,506	15,091
93.127	Emergency Medical Services for Children	10,309	103,859	94,699	1,149
93.150	Projects for Assistance in Transition from Homelessness (PATH)	7,971	59,509	53,390	1,852
93.217	Family Planning - Services	41,362	230,569	191,086	1,879
93.230	Consolidated Knowledge Development and Application (KD&A) Program	2,348	-	-	2,348
93.234	Traumatic Brain Injury State Demonstration Grant Program	(78)	66,616	66,593	(101)
93.242	Mental Health Research Grants	-	10,779	10,779	-
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	7,813	15,498	7,684	(1)
93.251	Universal Newborn Hearing Screening	8,493	154,365	145,951	79
93.268	Immunization Grants	146,918	830,263	686,416	3,071
93.283	Centers for Disease Control and Prevention -Investigations and Technical Assistance	111,435	969,070	930,634	72,999
93.556	Promoting Safe and Stable Families	3,706	104,368	123,982	23,320
93.568	Low-Income Home Energy Assistance	22,048	197,710	177,972	2,310
93.569	Community Services Block Grant	-	307,545	334,771	27,226
93.575	Child Care and Development Block Grant	-	680,559	747,121	66,562
93.590	Community-Based Child Abuse Prevention Grants	-	152,737	167,400	14,663
93.610	Family Services	347,523	-	-	347,523
93.623	Runaway and Homeless Youth	7,222	-	-	7,222
93.630	Developmental Disabilities Basic Support and Advocacy Grant	25,824	273,195	228,797	(18,574)
93.631	Developmental Disabilities Projects of National Significance	41,330	203,453	179,674	17,551

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
Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED					
93.643	Children's Justice Grants to States	1,079	54,655	63,335	9,759
93.645	Child Welfare Services-State Grants	-	161,453	173,312	11,859
93.667	Social Services Block Grant	32,391	489,943	370,448	(87,104)
93.669	Child Abuse and Neglect State Grants	-	54,186	61,046	6,860
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	-	93,889	106,329	12,440
93.767	State Children's Insurance Program	1,308,818	1,308,819	710,968	710,967
93.778	Medical Assistance Program	1,187,178	3,660,202	3,880,952	1,407,928
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,495	-	-	1,495
93.824	Basic/Core Area Health Education Centers	(16,519)	-	-	(16,519)
93.889	National Bioterrorism Hospital Preparedness Program	122,799	450,414	396,485	68,870
93.917	HIV Care Formula Grants	10,010	46,947	36,939	2
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	3	-	-	3
93.940	HIV Prevention Activities-Health Department Based	7,921	-	-	7,921
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	7,141	195,946	179,230	(9,575)
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (Aids) Surveillance	-	12,324	12,324	-
93.952	Trauma Care Systems Planning and Development	(1)	-	-	(1)
93.958	Block Grants for Community Mental Health Services	4,106	90,864	88,233	1,475
93.959	Block Grants for Prevention and Treatment of Substance Abuse	26,929	484,763	409,366	(48,468)
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	6,252	179,709	178,195	4,738
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	26,128	115,506	92,948	3,570
93.991	Preventive Health and Health Services Block Grant	(945)	38,078	35,837	(3,186)
93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	2,344	-	-	2,344
93.994	Maternal and Child Health Services Block Grant to the States	42,589	422,789	362,124	(18,076)
	TOTAL	\$ 3,724,655	\$ 14,215,921	\$ 13,234,583	\$ 2,743,317

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
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
14.219	Community Development Block Grants/ Small Cities Program	\$ 36,126	\$ -	\$ -	\$ 36,126
14.231	Emergency Shelter Grants Program	5,323	-	-	5,323
14.239	HOME Investment Partnerships Program	<u>(146,940)</u>	<u>-</u>	<u>-</u>	<u>(146,940)</u>
	TOTAL	<u>\$ (105,491)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (105,491)</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
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF THE INTERIOR					
15.605	Sport Fish Restoration	\$ 80,275	\$ 946,593	\$ 1,033,810	\$ 167,492
15.608	Fish and Wildlife Management Assistance	69,033	233,819	228,575	63,789
15.611	Wildlife Restoration	56,705	503,318	533,804	87,191
15.614	Coastal Wetlands Planning, Protection and Restoration Act	(253)	-	253	-
15.615	Cooperative Endangered Species Conservation Fund	1,736	406,389	406,598	1,945
15.622	Sportfishing and Boating Safety Act	11,333	-	(6,996)	4,337
15.634	State Wildlife Grants	3,929	176,269	183,453	11,113
15.875	Economic, Social, and Political Development of the Territories:				
	Development of TTPI Islands	680,258	1,285,894	1,421,401	815,765
	Compact Impact	-	5,117,437	5,117,437	-
15.876	Unknown	40,449	-	-	40,449
15.904	Historic Preservation Fund Grants- In-Aid	130,287	316,544	433,661	247,404
15.916	Outdoor Recreation - Acquisition, Development and Planning	1,214	-	261	1,475
	TOTAL	\$ 1,074,966	\$ 8,986,263	\$ 9,352,257	\$ 1,440,960

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
Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF JUSTICE					
16.004	Law Enforcement Assistance - Narcotics and Dangerous Drugs - Training	\$ 3,747	\$ -	\$ -	\$ 3,747
16.047	Drug Enforcement	10	-	-	10
16.523	Juvenile Accountability Block Grants	13,071	41,367	53,973	25,677
16.527	Supervised Visitation, Safe Havens for Children	-	16,011	46,601	30,590
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	22,028	66,141	105,049	60,936
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	45,311	90,229	53,647	8,729
16.542	Part D - Research, Evaluation, Technical Assistance and Training	1,233	-	2,297	3,530
16.548	Title V - Delinquency Prevention Program	10,402	10,209	27,544	27,737
16.550	State Justice Statistics Program for Statistical Analysis Centers	10,096	20,043	33,951	24,004
16.554	National Criminal History Improvement Program (NCHIP)	(1)	16,275	235,557	219,281
16.575	Crime Victim Assistance	84,116	195,729	318,655	207,042
16.579	Edward Byrne Memorial Formula Grant Program	590,644	731,587	684,970	544,027
16.582	Crime Victim Assistance/ Discretionary Grants	-	-	15,782	15,782
16.583	Children's Justice Act Partnerships for Indian Communities	47,377	16,467	8,071	38,981
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	996,840	156,639	41,454	881,655
16.588	Violence Against Women Formula Grants	55,663	194,600	337,497	198,560
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Grant Program	51,992	39,069	40	12,963
16.592	Local Law Enforcement Block Grants	(81,908)	(88,428)	-	6,520
16.609	Community Prosecution and Project Safe Neighborhoods	42,308	3,500	12,715	51,523
16.710	Public Safety Partnership and Community Policing Grants	(848)	-	-	(848)
16.738	Edward Byrne Memorial Justice Assistance Grant Program	142,637	591,751	524,741	75,627
TOTAL		\$ 2,034,718	\$ 2,101,189	\$ 2,502,544	\$ 2,436,073

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
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF LABOR					
17.235	Senior Community Service Employment Program	\$ 57,424	\$ 335,265	\$ 311,580	\$ 33,739
17.258	WIA Adult Program	168,313	431,897	403,350	139,766
17.259	WIA Youth Activities	24,606	645,066	681,454	60,994
17.260	WIA Dislocated Workers	22,723	98,145	83,554	8,132
17.504	Consultation Agreements	60,046	164,862	172,299	67,483
	TOTAL	<u>\$ 333,112</u>	<u>\$ 1,675,235</u>	<u>\$ 1,652,237</u>	<u>\$ 310,114</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
 Year Ended September 30, 2008

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2007</u>	<u>Cash Receipts FY08</u>	<u>Expenditures FY08</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2008</u>
U.S. NATIONAL ENDOWMENT FOR THE ARTS					
45.025	Promotion of the Arts - Partnership Agreements	\$ 615,768	\$ 285,671	\$ 270,918	\$ 601,015

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
 Year Ended September 30, 2008

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2007</u>	<u>Cash Receipts FY08</u>	<u>Expenditures FY08</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2008</u>
U.S. DEPARTMENT OF TRANSPORTATION					
20.Unknown	USDOT Unknown	\$ -	\$ 119,920	\$ 186,163	\$ 66,243
20.218	National Motor Carrier Safety	209,938	63,158	276,625	423,405
20.600	State and Community Highway Safety	221,848	353,988	527,227	395,087
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	<u>14,693</u>	<u>49,164</u>	<u>83,531</u>	<u>49,060</u>
	TOTAL	<u>\$ 446,479</u>	<u>\$ 586,230</u>	<u>\$ 1,073,546</u>	<u>\$ 933,795</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
 Year Ended September 30, 2008

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2007</u>	<u>Cash Receipts FY08</u>	<u>Expenditures FY08</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2008</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS					
64.203	State Cemetery Grants	\$ (31,614)	\$ -	\$ -	\$ (31,614)

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards
Capital Projects Funds
Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories				
	Second Covenant	\$ 1,056,288	\$ 435,531	\$ 287,771	\$ 908,528
	FY93 and FY94 Appropriations Act Grant	643,520	143,024	148,047	648,543
	FY95 Appropriations Act Grant	451,506	68,904	8,318	390,920
	FY96 - FY02 Appropriations Act Grant	7,424,871	7,679,607	6,731,767	6,477,031
	Public School System P.L. 11-89	199,831	886,903	857,843	170,771
	FY03 Appropriations Act Grant	-	4,265	8,088	3,823
	FY04 Appropriations Act Grant	426,445	5,225,043	6,799,255	2,000,657
		10,202,461	14,443,277	14,841,089	10,600,273
	Less local match	(802,576)	(2,865,717)	(3,459,538)	(1,396,397)
	TOTAL	\$ 9,399,885	\$ 11,577,560	\$ 11,381,551	\$ 9,203,876
Reconciliation:					
	Receivable from grantor at September 30, 2008				\$ 9,203,876
	Provision for uncollectible accounts				(5,690,151)
					\$ 3,513,725
	Federal awards expenditures, as stated above			\$ 11,381,551	
	Debt service related:				
	Principal			40,000	
	Interest			194,788	
	Operating transfers out			587,976	
	Local match			3,459,538	
				\$ 15,663,853	
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)			\$ 15,075,877	
	Operating transfers out			587,976	
				\$ 15,663,853	

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards
 Commonwealth Development Authority Fund
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories				
	CDA Project Series-I Revenue Bonds	\$ (129,293)	\$ -	\$ -	\$ (129,293)
	CDA/Governor's Grant No. 2	(522,117)	-	-	(522,117)
	1st Covenant	608,873	-	40,638	649,511
	Other	(50,670)	-	-	(50,670)
		(93,207)	-	40,638	(52,569)
	Less local match	-	-	(40,638)	(40,638)
	TOTAL	\$ (93,207)	\$ -	\$ -	\$ (93,207)

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary Schedule of Expenditures of Federal Awards by Grantor
Public Works Grants Fund
Year Ended September 30, 2008

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. Department of Transportation	\$ 734,571	\$ 920,684	\$ 772,446	\$ 586,333
U.S. Department of Homeland Security	547,288	57,941	126,126	615,473
U.S. Department of the Interior	19,825	23,176	-	(3,351)
U.S. Department of Commerce	3	-	-	3
U.S. Department of Health and Human Services	40,516	-	-	40,516
Unallocated	(1,153,547)	-	-	(1,153,547)
GRAND TOTAL	<u>\$ 188,656</u>	<u>\$ 1,001,801</u>	<u>\$ 898,572</u>	<u>\$ 85,427</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, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF TRANSPORTATION					
20.205	Highway Planning and Construction	\$ 734,571	\$ 920,684	\$ 772,446	\$ 586,333

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, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF HOMELAND SECURITY					
83.516	Disaster Assistance	\$ 547,288	\$ 57,941	\$ 126,126	\$ 615,473

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, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories	\$ 19,825	\$ 23,176	\$ -	\$ (3,351)

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, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
	U.S. DEPARTMENT OF COMMERCE				
11.300	Grants for Public Works and Economic Development Facilities	\$ 3	\$ -	\$ -	\$ 3

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, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
93.220	Clinical Research Loan Repayment Program for Individuals from Disadvantaged Backgrounds	\$ 40,516	\$ -	\$ -	\$ 40,516

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards
 American Memorial Park Fund
 Year Ended September 30, 2008

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories	\$ 19,628	\$ -	\$ -	\$ 19,628

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, 2008

(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

Schedule of Expenditures of Federal Awards are presented for each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Defense
- U.S. Department of Education
- U.S. Department of Energy
- U.S. Department of Health and Human Services
- U.S. Department of Housing and Urban Development
- U.S. Department of the Interior
- U.S. Department of Justice
- U.S. Department of Labor
- U.S. Department of Transportation
- U.S. Department of the Treasury
- U.S. Department of Veteran Affairs
- U.S. Environmental Protection Agency
- U.S. Department of Homeland Security
- U.S. National Endowment for the Arts
- Institute of Museum and Library Services

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the CNMI and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. For federal direct assistance grants, authorizations represent the total allotment or grant award received. All expenses 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*. The Schedule of Expenditures of Federal Awards excludes the following component units that receive federal awards as these entities have separately satisfied the audit requirements of OMB Circular A-133:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

Commonwealth Ports Authority
Northern Marianas College

Cumulative questioned costs reported for completed Single Audits of the above entities for the year ended September 30, 2008, are as follows:

Commonwealth Ports Authority	\$ 524,940
Northern Marianas College	\$ 353,168

The amount above does not include those questioned costs for which a value cannot be determined.

The following entities did not satisfy audit requirements of OMB Circular A-133:

Commonwealth Development Authority
Commonwealth Utilities Corporation
Public School System

The CNMI is considered to have responsibility for any questioned costs relating to pass-through of federal funds, which the CNMI is grantee, which could result from Single Audits of these entities.

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, 2008 basic financial statements; except that the Northern Mariana Islands Retirement Fund, the CNMI Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the CNMI, as defined above, for the year ended September 30, 2008.

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. The following is a summary of program funds that are passed through to subgrantee organizations:

Commonwealth Ports Authority

The Commonwealth Ports Authority (CPA), a discretely presented component unit, receives funds in a subrecipient capacity through the CNMI. CPA's Single Audit report includes the following pass-through programs on their Schedule of Expenditures of Federal Awards for the year ended September 30, 2008:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2008

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees, Continued

Commonwealth Ports Authority, Continued

<u>Program Title</u>	<u>Grantor Agency</u>	<u>CFDA Number</u>	<u>Funds Expended</u>
Commonwealth Ports Authority:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	U.S. Department of Homeland Security	97.036	\$ 277,614
Homeland Security Grant Program		97.067	\$ 300,000
National Explosives Detection Canine Team Program		97.072	\$ 150,500

d. Indirect Cost Allocation

Due to the absence of a completed indirect cost rate for fiscal year 2008, the CNMI utilized the indirect cost rate approved by the U.S. Department of the Interior for fiscal year 2003 in fiscal year 2008. It is applicable to all federal grant programs, except typhoon assistance, and was 14.57% of all direct expenditures for the year ended September 30, 2008. The impact of any subsequent adjustments to approved indirect cost rates will be recorded in the year that the rates are agreed.

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 as major programs.

(3) Expenditures

The Schedule of Expenditures of Federal Awards (pages 7 through 34) include both federal and local match. A breakdown is as follows:

	<u>Federal Share</u>	<u>Local Share and Adjustments</u>	<u>Total</u>
Federal Grants	\$ 51,476,644	\$ 5,095,085	\$ 56,571,729
Capital Projects - U.S. Department of the Interior	11,381,551	3,459,538	14,841,089
Capital Projects - Public Works	<u>898,572</u>	<u>-</u>	<u>898,572</u>
	<u>\$ 63,756,767</u>	<u>\$ 8,554,623</u>	<u>\$ 72,311,390</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|--|-----------|
| 1. | Type of auditors' report issued: | Qualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 4. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards

- | | | | | | | | | | | | | | | | | |
|---------------|---|-------------|--|---------------|------------------------|--------|-------------|--------|---|--------|--|--------|----------------------------|--------|--|--|
| | Internal control over major programs: | | | | | | | | | | | | | | | |
| 5. | Material weakness(es) identified? | Yes | | | | | | | | | | | | | | |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes | | | | | | | | | | | | | | |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified | | | | | | | | | | | | | | |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes | | | | | | | | | | | | | | |
| 9. | The CNMI's major programs were as follows: | | | | | | | | | | | | | | | |
| | <table border="0" style="margin-left: 20px;"> <tr> <td style="width: 100px;"><u>CFDA</u></td> <td></td> </tr> <tr> <td><u>Number</u></td> <td><u>Federal Program</u></td> </tr> <tr> <td>10.551</td> <td>Food Stamps</td> </tr> <tr> <td>10.557</td> <td>Special Supplemental Nutrition Program for Women, Infants, and Children</td> </tr> <tr> <td>66.600</td> <td>Environmental Protection Consolidated Grants - Program Support</td> </tr> <tr> <td>93.778</td> <td>Medical Assistance Program</td> </tr> <tr> <td>15.875</td> <td>Economic, Social, and Political Development of the Territories:
Capital Improvement Projects
Fiscal Year 2008 Compact Impact</td> </tr> </table> | <u>CFDA</u> | | <u>Number</u> | <u>Federal Program</u> | 10.551 | Food Stamps | 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | 66.600 | Environmental Protection Consolidated Grants - Program Support | 93.778 | Medical Assistance Program | 15.875 | Economic, Social, and Political Development of the Territories:
Capital Improvement Projects
Fiscal Year 2008 Compact Impact | |
| <u>CFDA</u> | | | | | | | | | | | | | | | | |
| <u>Number</u> | <u>Federal Program</u> | | | | | | | | | | | | | | | |
| 10.551 | Food Stamps | | | | | | | | | | | | | | | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | | | | | | | | | | | | | | | |
| 66.600 | Environmental Protection Consolidated Grants - Program Support | | | | | | | | | | | | | | | |
| 93.778 | Medical Assistance Program | | | | | | | | | | | | | | | |
| 15.875 | Economic, Social, and Political Development of the Territories:
Capital Improvement Projects
Fiscal Year 2008 Compact Impact | | | | | | | | | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$1,912,703 | | | | | | | | | | | | | | |
| 11. | The CNMI qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No | | | | | | | | | | | | | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Reference Number	Findings	Refer Page #
2008-1	External Financial Reporting	40
2008-2	Cash Flows	41 - 42
2008-3	Purchases/Disbursements	43
2008-4	Disbursements - Land Compensation	44 - 45
2008-5 - 6	Cash and Cash Equivalents	46 - 49
2008-7 - 8	Receivables	50 - 52
2008-9	Travel Advances	53 - 54
2008-10	Advances	55 - 56
2008-11	Retirement Contributions - General Fund	57 - 58
2008-12	Tax Rebates Payable	59 - 64
2008-13	Other Liabilities and Accruals	65
2008-14	Due to Component Units	66
2008-15	Compensated Absences	67
2008-16	CNMI Local Noncompliance	68 - 70

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

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2008-17	All Major Programs	Allowable Costs/Cost Principles	\$ 1,672,000	71 - 72
2008-18	10.557	Allowable Costs/Cost Principles	\$ 49,997	73
2008-19	15.875	Allowable Costs/Cost Principles	\$ 151,448	74 - 76
2008-20	15.875	Allowable Costs/Cost Principles	\$ 690,181	77 - 78
2008-21	15.875	Allowable Costs/Cost Principles	\$ 1,505	79
2008-22	66.600	Allowable Costs/Cost Principles	\$ 19,501	80 - 81
2008-23	66.600	Allowable Costs/Cost Principles	\$ 78,763	82
2008-24	93.778	Allowable Costs/Cost Principles	\$ 31,089	83 - 86
2008-25	93.778	Allowable Costs/Cost Principles/Activities Allowed or Unallowed	\$ 106,541	87 - 88
2008-26	15.875	Cash Management	\$ 21,838	89 - 91
2008-27	10.557	Eligibility	\$ 3,667	92 - 93
2008-28	93.778	Eligibility	\$ 61,307	94
2008-29	15.875	Matching, Level of Effort, Earmarking	\$ 19,544	95
2008-30	15.875	Period of Availability	\$ 133,537	96
2008-31 - 32	10.557	Procurement and Suspension and Debarment	\$ 36,102	97 - 100
2008-33	15.875	Procurement and Suspension and Debarment	\$ 81,424	101
2008-34 - 36	15.875	Procurement and Suspension and Debarment	\$ 3,812,815	102 - 106
2008-37	66.600	Procurement and Suspension and Debarment	\$ 56,969	107 - 108
2008-38	Nonmajor Programs	Procurement and Suspension and Debarment	\$ 125,568	109
2008-39	66.600	Program Income	\$ 11,685	110
2008-40	10.551	Cash Management	\$ -	111 - 113
2008-41	10.557	Cash Management	\$ -	114 - 115
2008-42	66.600	Cash Management	\$ -	116 - 117
2008-43	93.778	Cash Management	\$ -	118 - 119
2008-44	10.551	Equipment and Real Property Management	\$ -	120 - 121
2008-45	10.557	Equipment and Real Property Management	\$ -	122 - 123
2008-46	66.600	Equipment and Real Property Management	\$ -	124 - 125
2008-47 - 48	All Major Programs	Procurement and Suspension and Debarment	\$ -	126 - 129
2008-49	10.551	Procurement and Suspension and Debarment	\$ -	130
2008-50	15.875	Procurement and Suspension and Debarment	\$ -	131 - 132
2008-51	10.557	Reporting	\$ -	133
2008-52	15.875	Reporting	\$ -	134
2008-53	66.600	Reporting	\$ -	135
2008-54	93.778	Reporting	\$ -	136
2008-55 - 56	10.557	Special Tests and Provisions	\$ -	137 - 139
2008-57	93.778	Special Tests and Provisions	\$ -	140

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

External Financial Reporting

Finding No. 2008-1

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, requires that the financial statements of the reporting entity include component units for which the primary government is either financially accountable for, or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: As of September 30, 2008, the Commonwealth Development Authority (CDA), the Commonwealth Utilities Corporation (CUC) and the Marianas Visitors Authority (MVA) were unaudited at September 30, 2008.

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

Effect: The effect of the above condition is nonconformity with GASB Statement No. 14 resulting in a qualification in the opinion on the financial statements of the CNMI.

Recommendation: We recommend that the CNMI conform with GASB Statement No. 14 by obtaining audited financial statements of the above entities for inclusion within the CNMI's financial statements.

Prior Year Status: Lack of audited financial statements for CDA and CUC was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Robert A. Schrack, Acting Secretary of Finance and Michael Pai, Public Auditor

Corrective Action: CNMI component units are required to have annual audits performed. The Office of the Public Auditor has been working with CNMI's component units to bring their annual audits current.

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Flows

Finding No. 2008-2

Criteria: Sufficient cash flows should be maintained to ensure current obligations are met as well as to ensure efficient operations.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total assets	\$ 63,742,784	\$ 84,562,318	\$ 73,178,439	\$ 74,676,988	\$ 95,490,132
Total liabilities	\$ 299,614,851	\$ 283,813,688	\$ 225,281,973	\$ 210,539,483	\$ 201,378,383
Total fund deficit	\$ (235,872,067)	\$ (199,251,370)	\$ (152,103,534)	\$ (135,862,495)	\$ (105,888,251)
Total revenues	\$ 195,025,126	\$ 159,879,556	\$ 192,660,289	\$ 214,891,036	\$ 210,630,807
Total expenditures	\$ 224,417,008	\$ 193,136,802	\$ 209,039,185	\$ 244,881,423	\$ 246,858,759
Other financing sources (uses)	\$ (7,228,815)	\$ (2,996,864)	\$ 137,857	\$ 16,143	\$ 25,532,709

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

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

Recommendation: We recommend that the CNMI review its various functions to ensure adequate cash flows are available to meet current obligations.

Prior Year Status: Inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Acting Secretary of Finance

Corrective Action: See also Finding 2008-11 and Note 14 General Fund Financial Position relating to the liability to the retirement fund. Since the liability to the retirement fund is \$215.6 million and the fund balance deficit is \$235.9 million, resolving the retirement fund issues will also be resolving this finding. As noted by the auditors, the cash flow deficit has been substantially mitigated by the increase in liabilities to the Retirement Fund.

The CNMI issued general obligation refunding bonds on April 27, 2007 to refinance existing callable outstanding bonds. This resulted in \$7.801 million of savings net of issuance costs on debt service payments over the life of the bonds with a net present value of \$7.475 million. The CNMI chose to realize the bulk of the savings over the following three years, although debt service will be less in every year over the life of the bonds than it was prior to refunding.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Various austerity measures, including reduced work hours, hiring freeze, stringent review of non personnel expenditures and reduced budget allotments have reduced expenditures from \$247 million in 2004 to \$224 million in 2008 as noted above. The effect on cash flow has been more dramatic as approximately \$83.7 million (see (2) Explanation of Budgetary Differences) of the \$224 million in FY2008 recorded expenditures related to increases in Retirement Fund liability and recognition of bad debts.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Purchases/Disbursements

Finding No. 2008-3

Criteria: Expenditures should be recorded when incurred.

Condition: Of total medical related expenditures of \$4,307,225 at September 30, 2008, professional services of \$3,045,831 and non-payroll expenses of \$145,021 were tested. Of eighty items tested, twenty-five items, totaling \$819,831 included billings from medical service providers for services rendered in prior years. These expenditures represent those approved by the responsible local office, which were subsequently forwarded to the Department of Finance (DOF) for recording and payment.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure timely recognition of expenditures relating to medical bills at the time services are rendered.

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

Recommendation: We recommend that the CNMI ensure that all medical billings received are reviewed and forwarded to the Department of Finance in a timely manner to ensure that expenditures are properly recorded.

Prior Year Status: The lack of policies and procedures regarding the timely recognition of expenditures at the time services are rendered was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2007.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. The citation for date of payment requirement is in 45 CFR Section 95.13 (B): "We consider a State Agency's expenditure for assistance payments under Title XIX to have been made in the quarter in which a payment was made to the assistance recipient, his or her protective payee, or a vendor payee...." Expenditures should be reported on the CMS 64 based on date of payment and not the date of service.

This finding is not a Medicaid program compliance issue. If the issue is conformance with generally accepted accounting principles, we are uncertain how to record this in both fiscal years as expense since it needs to be recorded when paid for Medicaid reporting.

Proposed Completion Date: Ongoing

Auditor Response: Generally accepted accounting principles state that expenditures should be recorded when incurred. If the Medicaid Program is required to report expenditures in the CMS-64 at the time the assistance payments were made, the CNMI must establish procedures to ensure that expenditures incurred but not paid are recorded in the general ledger in conformity with generally accepted accounting principles. Reconciliation between the total expenditures reported in the CMS-64 and recorded in the general ledger must be available.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Disbursements - Land Compensation

Finding No. 2008-4

Criteria: Land compensation disbursements should be made in accordance with established claims rules and regulations. Further, an effective system of internal control include policies and procedures to ensure that all relevant records, documents and reports supporting land compensation are complete prior to disbursement.

Condition: Of three land compensation disbursements tested, we noted the following:

1. A warranty deed to convey title to the Department of Public Lands (DPL) was not obtained for the following:

<u>Land Claimant #</u>	<u>Check Number Reference</u>	<u>Amount</u>
1	341790	\$ 848,206
2	342094	364,347
3	342039, 329260, 327008	<u>632,461</u>
		<u>\$ 1,845,014</u>

Disbursements made to two land claimants (#s 1 and 3) were pursuant to court judgments.

Due to the lack of relevant documents supporting ownership of the related land, the disbursements were not capitalized.

2. The land compensation disbursement did not agree to relevant supporting documents for the item below. A reconciliation of the difference was not provided. Details are as follow:

<u>Check #</u>	<u>Per Check</u>	<u>Per Supporting Documents</u>	<u>Variance</u>
342094	\$ 364,347	\$ 337,643	\$ 26,704

Further, the offer letter was not signed by the claimant as evidence of acceptance of DPL's offer of compensation.

Cause: The cause of the above condition is failure to ensure that all relevant land compensation documents are complete prior to disbursement of claims.

Effect: The effect of the above condition is noncompliance with DPL's Land Compensation Claims Rules and Regulations and legal rights to the land are not transferred to DPL.

Recommendation: We recommend that DPL ensure compliance with established land compensation rules and regulations. Further, we recommend that the Department of Finance and DPL ensure that all relevant documents supporting land claims are complete prior to approving and processing related disbursements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-4, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Acting Secretary of Finance and John S. Del Rosario, Secretary of the Department of Public Lands (DPL)

Corrective Action: The Department of Finance will work with DPL to locate missing documentation and ensure that all relevant documents are complete.

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash and Cash Equivalents

Finding No. 2008-5

Criteria: Bank reconciliations should be performed in a timely manner. Further, book reconciling items should be timely adjusted.

Condition: During the fiscal year ended September 30, 2008, bank reconciliations for the following accounts were prepared one to three months after month end.

Bank Code	Account Name	Bank Code	Account Name
11120	LNO Hawaii - Operation	11230	Food Stamps
11130	LNO Hawaii - Medical Referral	11310	CHC Medical Referral
11140	Washington Rep. Imprest Fund	11320	La Fiesta Imprest Fund
11150	Superior Court NMI Imprest Fund	11400	NMTIT Rebate Trust
11170	Guam Medical Referral Imprest Fund	11401	NMTIT/USR Stimulus Tax Refund
11180	Guam Liaison	11410	Special Disability Imprest Fund
11190	Treasury (DOF) Imprest Fund	11430	General Fund
11200	Tinian Imprest Fund	11450	Animal Health Imprest Fund
11210	Rota Imprest Fund	11480	Lottery Commission Imprest Fund
11220	Supreme Court Imprest Fund	11520	Credit Card
		11820	Joeten Kiyu Public Library

Further, book reconciling items identified during monthly bank reconciliations are adjusted only at year end.

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

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

Recommendation: We recommend that the CNMI adhere to established policies and procedures to ensure timely reconciliation of bank accounts.

Prior Year Status: The lack of adequate policies and procedures related to timely preparation of bank reconciliations was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Bernadita C. Palacios, Acting Director, Finance & Accounting, Antoinette Calvo, CNMI Treasurer and Robert Schrack, Acting Secretary of Finance

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-5, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree the finding although we feel the criteria of including one month past the end of the month as deficient overly stringent given available staff and receipt of bank statements and cleared check data from the bank. The auditors indicated the problem is the length of time reconciliations take rather than a lack of reconciliations. There are only two staff in the reconciliation Section due to staff turnover and lack of budget to replace the two departed employees. In addition, delayed bank statements and availability of the automated cleared check file contribute to the time lag experienced between month end and the reconciliation being completed. In order to improve timeliness of the checking account reconciliations, the Reconciliation Section has been given inquiry access to the bank accounts on line to allow quicker retrieval of information. We will also discuss faster availability of bank statements and cleared check files with our bank. Currently these are not received until a month after the month end. In addition, coordination between the Recon section and the Treasury and Revenue and Tax Divisions will be improved to facilitate checking account reconciliations. Procedures to provide for entry of reconciling items on a monthly basis are currently being implemented.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash and Cash Equivalents

Finding No. 2008-6

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

Condition: During cutoff and bank reconciliation tests performed, we noted the following:

1. At September 30, 2008, approximately \$1,449,035 of checks were held by the Division of Treasury. The breakdown by account is as follows:

<u>Bank Account GL #</u>	<u>Account Name</u>	<u>Amount</u>
7063.11400	Rebate Trust Fund	\$ 323,989
1010.11430	General Fund	1,097,994
1010.11420	Payroll Account	2,711
1010.11170	Guam Medical Referral Imprest Fund	40
1010.11540	Capital Improvement Projects Fund	<u>24,301</u>
		<u>\$ 1,449,035</u>

The Division of Treasury did not prepare a list of checks held at year-end. The above were reflected as outstanding checks in the September 30, 2008 bank reconciliations.

2. Additionally, six hundred twenty-nine checks held aggregating \$121,387 included in the rebate trust fund represent checks returned by the post office. The checks have dates ranging from October 4, 2007 through August 29, 2008. The Division of Treasury does not appear to have monitored these returned checks as such are reported as outstanding checks in the September 30, 2008 reconciliation.
3. The September 30, 2008 General Fund (Acct. #11430) bank reconciliation reflected stale-dated checks of \$1,179,060. A substantial portion of the stale-dated checks was scholarship-related; however, the \$1,179,060 was recorded to a miscellaneous adjustment account in the General Fund. Further, total checks of \$372,570 held at year-end relate to checks returned by the CNMI Scholarship and SHEFA Office for cancellation. However, the Division of Treasury has not voided the checks.
4. The September 30, 2008 General Fund (Acct. #11430) bank reconciliation reflected a book reconciling item of \$191,741 representing checks that cleared the bank but did not post in the general ledger.

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-6, Continued

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action:

1. Finding does not indicate number of checks not mailed. Checks were mailed after year end. Treasury will institute a procedure to mail out all printed checks prior to the end of the fiscal year. Schedule will be prepared of unmailed checks which should include only the last few days of the fiscal year.
2. Checks are still considered outstanding unless voided in the system. Checks returned by the post office are held pending communication with the payee. Once they become stale dated they are voided.
3. Checks were held by the Scholarship Office and not returned to Treasury until they were stale dated. We will work with the Scholarship Office to ensure checks to be voided are returned on a timely basis.
4. We are investigating the reason for this and will provide an explanation to the auditors. It is possible unposted batches of manual checks are the problem.

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2008-7

Criteria: Receivables for services rendered by the Commonwealth Health Center (CHC) should be billed timely and follow-up procedures should be undertaken to collect outstanding accounts.

Condition: During tests of CHC receivables at September 30, 2008, the following were noted:

1. As of September 30, 2008, CHC receivables were \$112,505,206 of which \$103,081,121 date back to fiscal years 2007 and prior. An aging of the outstanding receivables by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 9,424,085
2007	6,251,894
2006	8,356,073
2005	8,436,445
2004	7,698,571
2003 and prior	<u>72,338,138</u>
	\$ <u>112,505,206</u>

The large receivable balance, the many aged individual balances, and the backlog of billing files all reflect inadequate billing and collection procedures.

2. The CHC was not able to generate an aging report by category (e.g., 30, 60, 90, 120, 180, 365 days past due) due to upgrades in the billing system which removed the ability to generate the aging reports.
3. The detailed report for one major group payer category (Private Companies-NR) with a September 30, 2008 receivable of \$7,301,883 was not provided.
4. The Department of Finance entered into a contract with a collection agency in September 1995 for the collection of CHC receivables. Total receivables referred from 1992 to 1996, amounted to \$11,760,649. The collection agency ceased operations but never declared bankruptcy. The collection agency never cleared its account with the CHC. Further, the \$11,760,649 is not reflected in CHC's records.

Cause: The cause of the above condition is a lack of adequate policies and procedures related to the billing and collection of CHC revenues.

Effect: The effect of the above condition is the possibility of a misstatement of CHC receivable balances; however, this effect is mitigated by a corresponding allowance for uncollectible accounts.

Recommendation: We recommend that CHC implement procedures to ensure that all billings are processed timely and that standard procedures are implemented to follow-up on aged accounts. Uncollectible accounts should be written off.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-7, Continued

Prior Year Status: Inadequate controls over receivables at CHC was reported as a finding in the Single Audits of the CNMI for fiscal years 1995 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Joseph Kevin Villagomez, Secretary of Public Health

Corrective Action:

1. DPH agrees with the findings. Implementing policies and procedures, as recommended by the auditors, will help but will not resolve the backlog in the processing of bills or decrease the huge outstanding receivable. The major cause of the problem is nonpayment of bills by the Government Health Insurance (GHI) program outstanding since 1992. GHI represents fifty percent of the remaining outstanding receivable. Inefficiency of the present computer billing system and inadequate FTE's in the Billing and Collection Office contribute to the billing backlog. DPH is seeking funding for a newer, faster more efficient billing system. DPH will discuss the write off of accounts considered uncollectible with the Department of Finance. Since these amounts have never been booked as revenue, no bad debt expense needs to be booked, only adjustments to the receivable and reserve accounts.
2. The lack of aging reports is being corrected. Our IT manager is working with all the RPMS system users (entire hospital) and program consultant to update all applications. Along with the AR package, the other applications must be updated and because this was not done for all other applications, the AR package could not generate this specific report.
3. The detailed report for Private Companies-NR can be generated once all applications are updated. ETA is 08/31/09 or we can generate the reports recalling all accounts in the system. Because there are voluminous accounts (especially nonresident worker employers), it will take days or even weeks before one staff generates all the report to summarize one report like what the old report showed.
4. In prior years, we used the 3rd Party Billing Package to generate this report. It was summarizing and listing all accounts in one simple report. The AR package is not allowing us to do this now because of the missing links of the entire RPMS system. When the AR package was installed however, the Aging report was automatically removed from the 3P Billing package. This is only a system issue, in which the system is not summarizing the accounts in one report.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2008-8

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

Condition: As of September 30, 2008, the General Fund recorded returned checks receivable (account #1010.12800) of \$718,987, which is \$280,037 higher than the subsidiary ledger. A reconciliation of the difference was not available.

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

Effect: The effect of the above condition is the possibility of misstatements of returned checks; however, this effect is mitigated by a corresponding allowance for uncollectible accounts of \$679,202.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: We agree with the recommendation. A semi annual reconciliation of the ledger detail to the general ledger will be implemented in FY2009.

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Travel Advances

Finding No. 2008-9

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

Condition: As of September 30, 2008, the General Fund recorded travel advances of \$1,455,359, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, approximately \$1,120,485 represents carryforwards from prior years.

Additionally, of four travel advances tested, the travel authorization, travel voucher supporting subsequent liquidation and other relevant supporting documents were not available. Details follow:

<u>Employee Number</u>	<u>Travel Advance at September 30, 2008</u>
100780	\$ 13,037
115823	\$ 5,501
339498	\$ 139
118178	\$ (13,242)

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

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

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

Prior Year Status: Liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-9, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree that the travel advance balance needs to be adjusted for old balances and that most these old balances cannot be adequately documented. We have implemented automated sub ledgers by traveler for our travel advance accounts. Advance and voucher filing procedures are now being enforced so that new advances are not issued if there are pending outstanding advances. Payroll deductions are being made if vouchers are not filed in a timely manner. Scanning of travel vouchers is now being done. We are reviewing and clearing old balances. The amount outstanding as of September 30, 2008 was reduced from the prior year indicating that collections of advances exceeds new advances being issued. Since September 30, 2005, the outstanding travel advance balance has been reduced by almost 50% with reductions in each of the subsequent years. The amount currently outstanding is reserved against fund balance on the balance sheet through the reserve for encumbrances.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Advances

Finding No. 2008-10

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

Condition: As of September 30, 2008, the General Fund recorded advances to vendors of \$1,252,630, of which \$892,119 date to fiscal year 2007 and prior. An aging of vendor advances by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 360,511
2007	384,709
2006	364,611
2005	87,079
2004	<u>55,720</u>
	\$ <u>1,252,630</u>

Of three advances tested aggregating \$655,848, the following were noted:

1. Total advances to one vendor for medical laboratory supplies amounted to \$614,550 at September 30, 2008. Of this amount, \$354,145 dates back to fiscal years 2006 and 2007. Further, a substantial portion of the related supplies have been received on or before September 30, 2008. Further, the receiving department/division is unable to provide a detailed accounting of merchandise received to date.
2. For the following advances, the related goods/services have not been received per the JDE system; however, considering the nature of the related goods/services and the date of the advances, the goods/services should have already been received.

<u>GL Date</u>	<u>Document Ref.</u>	<u>Encumbrance #</u>	<u>Amount</u>
11/16/05	553801 PL	447091	\$ 23,370
11/19/04	107517 BE	428363	7,920
12/09/05	555610 PL	447682	4,225
02/11/05	107517 BE	433556	<u>5,784</u>
			\$ <u>41,299</u>

Information relating to invoice and receiving report references was not available in the JDE.

The above conditions were corrected through a proposed audit adjustment.

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-10, Continued

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We agree that old advances need to be reviewed and adjusted. We have accepted the auditors' recommendation for audit adjustments related to these old advances. We believe that policies and procedures currently in place will address the problem of advances staying on the books for lengthy periods of time.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Retirement Contributions - General Fund

Finding No. 2008-11

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

Condition: During tests of balances due the Fund, the following were noted:

1. As of September 30, 2008, the CNMI recorded a contribution liability of \$149,957,778 of which \$131,941,924 dates back to fiscal year 2007 and prior. An aging of the outstanding contribution liability by fiscal year is as follows:

2008	\$ 18,015,854
2007	26,414,797
2006	25,950,956
2005	24,006,548
2004	24,489,210
2003 and prior	<u>31,080,413</u>
	\$ <u>149,957,778</u>

2. As of September 30, 2008, the CNMI's liability relating to penalty on unpaid contributions amounted to \$41,848,218.

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

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

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

Prior Year Status: The lack of compliance with Public Law 6-12, Section 8342 was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert Schrack, Acting Secretary of Finance

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-11, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: Any differences with the Retirement Fund have been reconciled or accepted. On June 6, 2006 Public Laws 15-13, 15-14 and 15-15 were enacted to address issues related to the retirement fund. PL 15-13 created portable retirement accounts for all new public employees hired on or after January 1, 2007 and allowed non vested members of the existing defined benefit plan to transfer into the new plan. The employer contribution rate is set at 4%. PL 15-14 extended the full funding period for the existing defined contribution plan for 25 years and requires an actuarial study to determine required employer contributions based on the new laws enacted. PL 15-15 suspended payment of employer contributions for FY06, effective March 1, 2006, and for all of FY2007. Public Law 15-70 was passed on June 14, 2007 increasing employee contributions to the defined benefit plan by 1% per year beginning in FY2008 until reaching 10.5% for Class I members and 11% for Class II members. This will decrease the required employer contribution by a similar amount.

An actuarial study was completed in December 2008, as of October 1, 2007, incorporating the above plan changes and related assumptions. As of October 1, 2007, the actuarial accrued liability (AAL) declined from \$1,007.3 billion at October 1, 2005 to \$879.3 million and the unfunded AAL declined from \$547.2 million to \$369.1 million. The recommended employer contribution rate would have declined from 36.7727% to 29.9665% despite the covered payroll declining from \$147.6 million to \$117.8 million. Unfortunately, by the time the report was issued, the investment portfolio suffered substantial losses from the 2008 market decline which resulted in a reversal of the reduction in the unfunded AAL and a recommendation from the actuary to maintain the higher contribution rate..

A NMIRF Working Group on retirement reform has been established with members from the Legislature, Retirement Fund, Executive Branch, autonomous agencies, active plan members and retirees. The group is reviewing funding options and retirement plan changes that will increase funding to the plan and reduce future government retirement liabilities. They will be drafting an omnibus bill and supporting other legislation to improve the retirement plan's financial position by reducing liabilities and increasing funding.

The CNMI is in the process of the legal and financial issues related to issuing pension obligation bonds to address the retirement fund liability. Since the bond issue debt would replace the debt to the retirement fund, the CNMI's overall financial position would remain unchanged while providing funds to the retirement fund.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Tax Rebates Payable

Finding No. 2008-12

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, 2008, tax rebates payable aggregated \$24,792,295. The balance consists of the following:

Estimated 2008 liability based on fiscal year 2008 collections	\$ 2,584,209
2007 and prior rebates unpaid as of September 30, 2008	<u>22,208,086</u>
	<u>\$ 24,792,295</u>

Detailed tests of the unpaid tax year 2007 and prior rebates obtained from the detailed reports generated on September 30, 2008 noted the following:

1. Of twenty-two unmatched filings tested relating to individual tax rebate payables of \$526,096, the following were noted:
 - a. Three items totaling \$84,303 did not agree to the tax returns by \$13,240 due to data entry errors. Details are as follows:

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
I7	2003	\$ 41,651	\$ 42,098	\$ (447)
I13	2005	23,992	22,173	1,819
I15	2006	<u>18,660</u>	<u>6,792</u>	<u>11,868</u>
		<u>\$ 84,303</u>	<u>\$ 71,063</u>	<u>\$ 13,240</u>

2. Of twenty-three matched filings tested relating to individual tax rebate payables of \$312,172, the following were noted:
 - a. One \$14,061 item (ref. I26 for tax year 2004) was paid prior to September 30, 2008 but was included in the year-end tax rebate payable report.
 - b. Two items totaling \$47,292 did not agree to returns by \$4,199 due to data entry errors. Details are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
I41	2006	\$ 26,662	\$ 26,717	\$ (55)
I42	2006	<u>20,630</u>	<u>16,376</u>	<u>4,254</u>
		\$ <u>47,292</u>	\$ <u>43,093</u>	\$ <u>4,199</u>

- c. Two items totaling \$44,710 did not agree to returns by \$8,470. The nature of the variance was not provided and requires further review by Revenue and Taxation. Details are as follows

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
I39	2005	\$ 13,187	\$ 12,447	\$ 740
I40	2006	<u>31,523</u>	<u>23,793</u>	<u>7,730</u>
		\$ <u>44,710</u>	\$ <u>36,240</u>	\$ <u>8,470</u>

3. Of fifty unmatched filings tested relating to corporate tax rebate payables of \$8,598,669, the following were noted:

- a. For eight items totaling \$2,803,821, the rebate amount in the tax return was left blank. Further, the related tax return filed was incomplete, a different tax form was used, and/or the taxpayer did not submit relevant documentation to properly calculate the tax. Details are as follows:

<u>Assigned #</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C3	2001	\$ 113,056
C6	2002	111,199
C9	2002	39,191
C10	2003	649,000
C14	2003	177,286
C17	2003	41,189
C27	2005	1,024,000
C45	2007	<u>649,000</u>
		\$ <u>2,803,921</u>

- b. Four items totaling \$1,249,285 did not agree to tax returns by \$649,192. The variances were substantially due to incomplete information where the taxpayer either did not submit the relevant supporting documentation and/or the required tax form was not used. Details are as follows:

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
C4	2002	\$ 465,940	\$ 236,366	\$ 229,574
C5	2002	148,883	77,595	71,288
C11	2003	556,738	286,132	270,606
C44	2006	<u>77,724</u>	-	<u>77,724</u>
		\$ <u>1,249,285</u>	\$ <u>600,093</u>	\$ <u>649,192</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

4. Of seventeen matched filings tested relating to corporate tax rebate payables of \$2,060,144, the following were noted:

a. Four items totaling \$604,793 did not agree to the returns by \$156,180 and requires further review by Revenue and Taxation. Details are as follows

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
C64	2000	\$ 400,000	\$ 338,539	\$ 61,461
C67	2000	45,400	67,132	(21,732)
C57	2003	101,181	31,970	69,211
C61	2005	<u>58,212</u>	<u>10,972</u>	<u>47,240</u>
		\$ <u>604,793</u>	\$ <u>448,613</u>	\$ <u>156,180</u>

b. For one \$98,869 item, (ref. C65 for tax year 2000), the rebate amount in the tax return was left blank. The taxpayer did not submit relevant documentation to recalculate the tax.

c. For one \$44,576 item, (ref. C62 for tax year 2006), the tax return was not provided.

Further, the Division of Revenue and Taxation initially generated a detailed report of matched and unmatched returns at September 30, 2008 for the tax years 2001 through 2007 on September 30, 2008. A listing for the same period was generated on February 17, 2009. Variances were noted as follows:

<u>Category</u>	<u>Tax Year</u>	<u>Report Run Date of 09/30/08</u>	<u>Report Run Date of 02/17/09</u>	<u>Variance</u>
Individual	2007	\$ 697,422	\$ 581,376	\$ 116,046
Individual	2006	1,272,819	778,377	494,442
Individual	2005	1,088,325	878,141	210,184
Individual	2004	3,551,115	3,457,445	93,670
Individual	2003	1,144,539	1,139,607	4,932
Individual	2002	645,770	646,390	(620)
Individual	2001	506,068	507,094	(1,026)
Corporate	2007	1,036,976	1,036,427	549
Corporate	2006	892,065	888,401	3,664
Corporate	2005	3,215,429	3,157,217	58,212
Corporate	2004	<u>1,364,304</u>	<u>1,364,254</u>	<u>50</u>
		\$ <u>15,414,832</u>	\$ <u>14,434,729</u>	\$ <u>980,103</u>

According to Revenue and Taxation, the February 17, 2009 balances represent the amended amount as of the report date. The variances were due to amendments/corrections made subsequent to September 30, 2008. However, of the one hundred-twelve matched and unmatched filings subjected to detailed tests, the following reflected variances but the nature of the amendment/correction was not provided:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

<u>Taxpayer #</u>	<u>09/30/08 Details</u>	<u>02/17/09 Details</u>	<u>Variance</u>
I10	\$ 16,629	\$ -	\$ 16,629
I41	26,662	-	26,662
I42	<u>20,630</u>	<u>-</u>	<u>20,630</u>
	\$ <u>63,921</u>	\$ <u>-</u>	\$ <u>63,921</u>

Further, no interest is calculated or paid on overpayments.

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

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

Recommendation: We recommend that policies and procedures be established for the periodic review of tax rebate payable reports to ensure 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 ensure that tax forms are properly filed and maintained. We also recommend that recorded rebates payable be reconciled with the liability indicated on the tax forms and significant variances, if any, be investigated, monitored, documented and timely addressed.

Prior Year Status: A lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Maria White, Disclosure Office/TRAD Manager, Division of Revenue and Taxation

Corrective Action:

Item 1.a. assigned #s I7, I13, I15

The variances were due to data entry errors. Corrective action was made in January 2009.

Item 2.a. assigned # I26

A discrepancy has been identified with the posting program which is currently under review by the programmer. This item is not included in the rebate tax payable detailed matched or unmatched reports.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Item 2.b. assigned #s I41 and I42

The variances were due to data entry errors. Corrective action was made in January.

Item 2.c. assigned # I39

The variance was due to a programming glitch attached to the earnings tax. Corrective action has been taken and the rebate payable record has been voided.

Item 2.c. assigned # I40

The variance was due to errors in the tax return. Taxpayer's return did not reflect the correct non-refundable credits; wage and salary tax and earnings tax. In addition, the rebate allocable percentage was off by a fraction. The taxpayer paid the tax liability based on the CPA's (tax preparer) calculation. Due to these discrepancies, the tax system automatically placed the payable under a "Requires review status."

The tax system is designed with an internal control feature that when it recognizes a payment against a tax account with a payable status, automatically places the account in a "Requires review status." The tax return has been forwarded to the examination manager for review.

Access to generate a bi-weekly report that list all outstanding "Requires review status" has been granted to the examination manager who will generate such report and review as needed for corrective action.

On June 4th, the "Requires review status" has been changed to rebate payable status (available for payment).

Item 3.a. assigned #s C3, C6, C9, C10, C14, C17, C27, and C45

These items are awaiting responses from the corporate taxpayers to deficiency letters sent. The tax system calculates an estimated tax liability (overpayment) based on the most current information that has been filed with DRT.

Item 3.b. assigned #s C4, C5, C11, and C44

These items again are awaiting responses from the corporate taxpayers to deficiency letters sent. The tax system calculates an estimated tax liability (overpayment) based on the most current information that has been filed with DRT.

Item 4.a. assigned #s C64, C67, C57, and C61

The tax system is designed with internal control that automatically places a tax account as matched pending review due to a dollar threshold (\$10,000 and above). These accounts were placed in a "Requires review status." These tax returns have been transferred to the examination manager for review.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

As of June 4th, the status of these items is as follows:

#C64 - Cash receipt #317065 (\$400,000) was voided after the tax account was assessed. Corrective action has been taken. The rebate payable of \$400,000 has been voided.

#C67 - A discrepancy was identified with estimated tax payment which is under review by the programmer. Corrective action taken; rebate payable of \$45,400 has been voided.

#C57 - Examination branch has determined the amount to be correct. Requires review status has been changed to rebate payable status (available for payment). This item is included in the rebate tax payable detailed matched 2003 assessed reports (Rerun 5/15/09).

#C61 - Under review.

Item 4.b. assigned # C65

DRT has not received a response from the corporate taxpayers to deficiency letters sent. The tax system calculates an estimated tax liability (overpayment) based on the most current information that has been filed with DRT.

Item 4.c. assigned # C62

The compliance section cannot locate the tax return.

A request has been submitted for funding for scanners. This system is intended for use in recording digital images of taxpayer's tax return and return information which will be correlated with a tracking system. With this tool, we envisage that misfiled or lost tax returns and return information will be eliminated.

There was a report program error on the report generated on 02/17/09 that did not pick-up payables that were amended after 09/30/08. The report program was fixed and a new report was generated on 05/15/09. The 05/15/09 report was then able to pick-up 09/30/08 payables regardless of amended status.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Other Liabilities and Accruals

Finding No. 2008-13

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

Condition: During tests of subsequent disbursements, we noted \$6,077,064 of unrecorded liabilities at September 30, 2008. Details by fund follow:

<u>Fund</u>	<u>Amount</u>
General	\$ 1,521,970
Federal Grants	591,862
DOI Capital Projects	1,955,847
Nonmajor Capital Projects	119,512
Nonmajor Special Revenue	<u>1,887,873</u>
	\$ <u>6,077,064</u>

The above condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of appropriate cutoff procedures and controls.

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

Recommendation: We recommend that the Department of Finance implement appropriate policies and procedures to ensure recording of liabilities in the correct fiscal year.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Acting Secretary of Finance and Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We will reemphasize cutoff procedures with appropriate personnel. Most of the items were included in the reserve for encumbrances at year end. We note that the auditors included items paid thru April 30, 2009. Our normal cutoff is November 30 following the end of the fiscal year so subsequent payments would not be recorded in any case and would need to be adjusted through AJEs as the above have been.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Due to Component Units

Finding No. 2008-14

Criteria: Amounts due to component units should be reconciled in a timely manner. Further, necessary actions should be taken to resolve disputed balances.

Condition: During tests of the due to component units balances, the due to Public School System of \$2,208,831 recorded in the General Fund did not agree to the due from the primary government of \$5,362,096 recorded by the Public School System. Balances were reconciled by the CNMI only at year end. The difference of \$3,153,265 is due to (i) \$2,000,000 fiscal year 2006 additional appropriations recorded by the PSS but was disputed by the CNMI; (ii) \$385,000 budget reduction in fiscal year 2008 appropriations pursuant to Public Law 16-2 not recorded by the PSS, (iii) \$1,629,319 fiscal year 2008 payments made by the CNMI on behalf of the PSS and was applied by the CNMI to PSS' current year appropriation but was not recorded by the PSS as reduction of appropriation, (iv) \$358,463 fiscal year 2008 1% Public Auditor fees recorded by the PSS as reduction of appropriation but was considered by the CNMI as part of the appropriation, and (v) \$502,591 unreconciled differences, of which \$72,968 is from prior years.

Cause: The cause of the above condition is the lack of timely reconciliation with PSS.

Effect: The effect of the above condition is disputed balances.

Recommendation: The Department of Finance should establish policies and procedures to provide for timely reconciliation of balances with component units. Further, we recommend the CNMI Department of Finance continue to resolve disputed balances with PSS.

Prior Year Status: Disputed balances and the lack of timely reconciliation of balances with component units was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Acting Secretary of Finance

Corrective Action: The Department of Finance will continue to work with PSS to resolve the differences. Although differences have been identified, PSS has not recorded adjustments in their books.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Compensated Absences

Finding No. 2008-15

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

Condition: At September 30, 2008, compensated absences payable per subsidiary ledger aggregated \$8,670,640. Of this amount, \$1,048,589 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$1,008,673 represents accrued leave in excess of the 45 days/360 hours limit. Additionally, the balance at September 30, 2008 is net of individual debit balances of \$123,702.

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 ensure that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records.

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

Recommendation: We recommend the CNMI Department of Finance ensure that recorded compensated absences payable represent valid obligations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Robert A. Schrack, Acting Secretary of Finance

Corrective Action: In regard to the leave balances for employees no longer working for the government, we will review and adjust where needed. In some cases, former employees have not cashed out their leave so it will be available if they return to government service. In regard to negative leave balances, we will review and adjust as necessary. Current employees may have approved advance leave that will be reduced by future leave earned credits.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

CNMI Local Noncompliance

Finding No. 2008-16

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

Condition: On September 15, 2006, the CNMI passed Public Law 15-28 as the Appropriations and Budget Authority Act for 2007. On June 26, 2007, the CNMI passed Public Law 15-71 to amend Public Law 15-28. Public Law 15-71 provided for an immediate emergency reduction in the revenue estimate and the appropriations for all budgeted activities previously appropriated pursuant to PL 15-28. During the year ended September 30, 2008, the CNMI operated under a continuing resolution of Public Law 15-28, as amended by Public Law 15-71.

On May 3, 2008, the CNMI passed Public Law 16-2 to provide flexibility to the Governor and other expenditure authorities to reprogram funds for the remainder of fiscal year 2008. Public Law 16-2 provides unlimited authority to the Governor to reprogram lapsed funding to cover budget shortfalls, as the Governor deems fiscally prudent and in the best interest of the public.

The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2008.

	Budgeted Level of <u>Expenditures</u>	Actual <u>Expenditures</u>	Over- <u>Expenditure</u>
Executive Branch:			
Attorney General	\$ 3,491,536	\$ 4,160,419	\$ 668,883
Community & Cultural Affairs	\$ 2,498,938	\$ 2,544,592	\$ 45,654
Commerce	\$ 925,821	\$ 1,030,481	\$ 104,660
Corrections	\$ 2,488,457	\$ 3,046,899	\$ 558,442
Labor	\$ 1,125,693	\$ 1,366,948	\$ 241,255
Public Health	\$ 33,450,450	\$ 41,244,456	\$ 7,794,006
Public Safety	\$ 8,388,221	\$ 9,387,876	\$ 999,655
Public Works	\$ 3,759,563	\$ 3,934,976	\$ 175,413
Finance	\$ 5,187,051	\$ 6,953,407	\$ 1,766,356
Lands and Natural Resources	\$ 2,636,853	\$ 2,844,145	\$ 207,292
Second Senatorial District - Tinian:			
Office of the Mayor	\$ 3,742,862	\$ 3,989,781	\$ 246,919
Commerce	\$ 174,709	\$ 216,111	\$ 41,402
Community & Cultural Affairs	\$ 138,750	\$ 170,029	\$ 31,279
Labor	\$ 260,261	\$ 313,158	\$ 52,897
Lands and Natural Resources	\$ 605,487	\$ 756,168	\$ 150,681
Public Safety	\$ 1,112,481	\$ 1,421,914	\$ 309,433
Public Works	\$ 304,006	\$ 335,906	\$ 31,900
Other Programs	\$ 36,029	\$ 47,438	\$ 11,409
First Senatorial District - Rota:			
Office of the Mayor	\$ 2,376,337	\$ 2,594,419	\$ 218,082
Commerce	\$ 192,945	\$ 247,069	\$ 54,124
Public Safety	\$ 1,242,813	\$ 1,267,727	\$ 24,914
Labor	\$ 274,769	\$ 308,656	\$ 33,887
Lands and Natural Resources	\$ 824,198	\$ 921,618	\$ 97,420
Community & Cultural Affairs	\$ 335,783	\$ 358,795	\$ 23,012
Public Works	\$ 650,777	\$ 727,583	\$ 76,806
Government Utilities	\$ 2,500,025	\$ 6,036,121	\$ 3,536,096
Legislative Branch:			
Utilities	\$ 102,146	\$ 108,852	\$ 6,706
Government Contribution Retirement	\$ (177,497)	\$ 279,677	\$ 457,174

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-16, Continued

Condition, Continued:

	Budgeted Level of <u>Expenditures</u>	Actual <u>Expenditures</u>	Over- <u>Expenditure</u>
Judicial Branch:			
CNMI Superior Court	\$ 1,806,206	\$ 2,039,335	\$ 233,129
CNMI Supreme Court	\$ 762,503	\$ 938,549	\$ 176,046
Law Revision Commission	\$ 185,280	\$ 186,109	\$ 829
Administrative	\$ 619,586	\$ 657,758	\$ 38,172
Office of the Mayors:			
Mayor Northern Islands	\$ 328,425	\$ 346,402	\$ 17,977
Municipal Council Saipan	\$ 139,095	\$ 140,511	\$ 1,416
Office of the Washington Representative	\$ 831,638	\$ 855,628	\$ 23,990
Boards and Commissions:			
Civil Service Commission	\$ 169,851	\$ 223,032	\$ 53,181
Board/Professional Licensing	\$ 97,509	\$ 122,489	\$ 24,980
Education (payment to PSS and NMC):			
Payments to NMC	\$ 4,560,308	\$ 4,560,573	\$ 265
Payments to PSS	\$ 33,106,699	\$ 33,490,632	\$ 383,933
Tourism (payment to MVA)	\$ 5,913,948	\$ 5,918,920	\$ 4,972
Employee benefits (payment to NMIRF and WCC):			
Payments to WCC	\$ 165,452	\$ 168,122	\$ 2,670
Emergency Funds (payments to CUC)	\$ 2,701,674	\$ 3,167,188	\$ 465,514
Disaster expenditures:			
Typhoon Kong Rey	\$ -	\$ 7,436	\$ 7,436

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

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

Recommendation: We recommend that the Department of Finance authorize expenditures only within budgeted allotment levels.

Prior Year Status: Over-expenditures in excess of budget allotments was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Robert Schrack, Acting Secretary of Finance and Esther Fleming, Special Assistant for Management and Budget

Corrective Action: PL 16-32, Section 203(b) authorized the \$17,200,000 cover over funds received on 11/26/08 to be applied against the FY08 operating deficit. Since this happened well after the end of the fiscal year and trial balance being provided to the auditors, no retroactive allotments were issued. We do not agree with the over expenditure amounts for education payments, MVA payments, NMIRF/WCC payments and CUC payments. Payments to NMC appear to not have included the budget for BU 1603; PSS budget appears not to include 1% OPA fee that was appropriated to textbooks and direct payment to Oracle for software maintenance; MVA included a mispost that was adjusted in an AJE; and WCC included a utility expense adjusted through an AJE. Our records show CUC emergency fund payments equal to the budget. We are uncertain where the additional \$465,514 came from.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-16, Continued

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: Ongoing 2009

Auditor Response:

1. Payments to NMC: Both the budget of \$352 and actual expenditures of \$352 for BU 1603 were not included in the payments to NMC. Since budgeted expenditures equal the actual expenditures for BU 1603, this will not affect the over expenditures in the payments to NMC.
2. Payments to PSS: Both the budget and actual expenditures are net of the 1% OPA fees. The direct payments for software maintenance were included.
3. Payments to MVA and WCC: The AJEs are CNMI adjustments posted and reported under MVA and WCC business units as such were included under actual expenditures.
4. Payments to CUC: CUC confirmed \$5.1 million received from the CNMI pursuant to Public Law 16-2. Of the amount, \$1,932,812, \$216,495 and \$2,701,674 were from non-general funds, fund 1013 and fund 1010, respectively. The remaining \$249,019 is a reclassification from the utility expense account under fund 1010. CUC's confirmation was provided to the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2008-17

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Criteria:</u> In accordance with OMB Circular A-87, costs, to be allowable under federal awards, should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.</p> <p><u>Condition:</u> On May 3, 2008, Public Law 16-2 was enacted which provided for employer retirement contributions of 11% for employees under the defined benefit plan whose salaries and wages are funded from the general fund and other locally generated revenue sources of autonomous agencies and public corporation.</p> <p>The CNMI accrued employer contributions at the actuarial rate of 36.7727% for employees under the defined benefit plan whose salaries and wages are funded from the general fund and locally generated revenue sources but remitted to the Northern Mariana Islands Retirement Fund at 11% pursuant to Public Law 16-2. However, the employer retirement contributions attributable to employees whose salaries and wages are federally funded were charged to the federal awards at 36.7727% except for CFDA 10.551 (Food Stamps) which was at 11%. During fiscal year 2008, the total employer retirement contributions charged federal awards amounted to \$2,498,258. The estimated difference in employer retirement contributions should 11% be charged to federal awards is \$1,672,000.</p> <p><u>Cause:</u> The cause of the above condition is the enactment of Public Law 16-2 and inadequate cash flows to meet current obligations.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements and questioned costs of \$1,672,000.</p> <p><u>Recommendation:</u> We recommend compliance with the criteria.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Robert A. Schrack, Acting Secretary of Finance</p> <p>Corrective Action: We disagree that the difference between the actuarial rate and the budgetary rate should be questioned costs. The issue is a prospective one as new grant authorizations are negotiated. PL 16-2 and previous laws that budgeted less than the actuarial rate for locally funded employees have always specified that the difference remains a liability of the government. The retirement fund has not allowed employees to retire and receive an annuity unless their employer contributions have been paid in full. For employees funded under federal grants, we have expensed, drawn down and paid to the retirement fund the employer contributions based on the actuarial rate. We have discussed this issue with our federal grantor agencies and NAP has been the only agency that included a less than actuarial rate in their new grant agreement. This means, that under the retirement fund's current rules, NAP funded employees will not be allowed to retire and receive an annuity without the deficient employer contributions being paid. This would transfer the obligation from the federal grant to local funding. We feel the issue of non uniformity in this case is NAP or other federal agencies if they choose to go the same route.</p>	<p>\$ 1,672,000</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-17, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan, Continued:</u>		
Proposed Completion Date: None		
<u>Auditor Response:</u> Federal regulations require that costs charged to federal awards should be consistent with policies, regulations and procedures that apply uniformly to both federal awards and other activities of the governmental unit. The difference in retirement contributions paid from federal grants and local funds represents inequality and thus, noncompliance with federal requirements exists.		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-18

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Agriculture / Special Supplemental Nutrition Program for Women, Infants, and Children / CFDA #10.557 / Federal Award # 7NM700NM7 / Federal Award Period 10/01/07 through 09/30/08</p>	<p><u>Criteria:</u> For capital expenditures, Food and Nutrition Service (FNS) has authorized Women Infant and Children (WIC) State and local agencies to charge the full acquisition cost of non-computer equipment costing less than \$25,000 per unit without obtaining prior FNS approval, and to allow local agencies under their oversight to do likewise. FNS regional offices retain the discretion to apply a lower dollar threshold to an individual State agency and to the local agencies under its oversight, provided certain requirements apply and the State agency receives written notice.</p> <p>For automated data processing projects, FNS requires WIC State agencies to obtain prior approval to incur costs for certain ADP projects and to provide notification and/or documentation for others (7 CFR Section 246.14(d)). Approval levels are as follows:</p> <ol style="list-style-type: none"> a. A State agency must notify the applicable FNS regional office within 60 days of the initial expenditure or contract award for an ADP project costing in excess of \$4,999 but less than \$100,000; and b. A State agency must receive prior approval for (a) an ADP project that has a cost greater than \$99,999 or (b) any ADP project associated with planning, developing, or deploying a new automation system. <p><u>Condition:</u> Of seventeen non-payroll Nutrition Services and Administration costs tested aggregating \$153,171, the following were noted:</p> <ul style="list-style-type: none"> • Prior grantor approval was not obtained for one \$38,768 capital expenditure (document no. 672350). • Notification to the FNS regional office within 60 days for an ADP project was not performed for one automated data processing expenditure (document no. 649599) of \$11,229. 	<p>38,768</p> <p>11,229</p>
	<p><u>Cause:</u> The cause of the above condition is the lack of policies and procedures in place to ensure compliance with the allowable costs/cost principles requirements pursuant to the above criteria.</p>	
	<p><u>Effect:</u> The effect of the above condition is noncompliance with allowable costs/cost principles and questioned costs of \$49,997.</p>	
	<p><u>Recommendation:</u> We recommend that the Agency obtain prior grantor approval or provide notification to the FNS Regional Office as stated in the criteria above.</p>	
	<p><u>Auditee Response and Corrective Action Plan:</u></p>	
	<p>Name of Contact Person: James Montenegro, WIC Systems Administrator</p>	
	<p>Corrective Action: Mike Drew of the FNS USDA office is reviewing our inventory listing (with purchase prices for each item) sorted by purchase order/contract. We are still waiting for his response to reviewing our inventory documentation. According to ASM 07-22 WIC ADP policy change, the threshold was changed to acquisition costs in excess of \$100,000 that required prior approval.</p>	
	<p>Proposed Completion Date: Pending FNS response</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-19

Program	Reason for Questioned Costs	Questioned Costs																																																																																																																																																																																																																												
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended	<u>Criteria:</u> Expenditures and disbursements should be supported by certified accounts payable vouchers, invoices and other relevant documents.																																																																																																																																																																																																																													
	<u>Condition:</u> Of ninety-three non-payroll expenditures tested aggregating \$9,523,911, we noted the following:																																																																																																																																																																																																																													
	1. Payment request was not certified by either the Contracting Officer or the expenditure authority for 57% of the non-payroll expenditures tested. Details are as follows:																																																																																																																																																																																																																													
	<table border="1"> <thead> <tr> <th style="text-align: center;">Fund</th> <th style="text-align: center;">BU#</th> <th style="text-align: center;">GL Date</th> <th style="text-align: center;">APV #</th> <th style="text-align: center;">GL Amount</th> </tr> </thead> <tbody> <tr><td>4052</td><td>5175</td><td>10/31/07</td><td>647758</td><td>\$ 21,429</td></tr> <tr><td>4052</td><td>5175</td><td>01/23/08</td><td>671694</td><td>40,843</td></tr> <tr><td>4052</td><td>5222</td><td>10/12/07</td><td>645731</td><td>87,024</td></tr> <tr><td>4052</td><td>5222</td><td>10/12/07</td><td>645734</td><td>75,911</td></tr> <tr><td>4052</td><td>5222</td><td>10/24/07</td><td>647224</td><td>76,270</td></tr> <tr><td>4052</td><td>5222</td><td>10/31/07</td><td>647754</td><td>341,408</td></tr> <tr><td>4052</td><td>5222</td><td>11/08/07</td><td>648795</td><td>158,592</td></tr> <tr><td>4052</td><td>5222</td><td>11/20/07</td><td>649815</td><td>201,027</td></tr> <tr><td>4052</td><td>5222</td><td>11/23/07</td><td>649961</td><td>98,224</td></tr> <tr><td>4052</td><td>5222</td><td>01/07/08</td><td>670065</td><td>97,478</td></tr> <tr><td>4052</td><td>5222</td><td>01/07/08</td><td>670066</td><td>19,925</td></tr> <tr><td>4052</td><td>5222</td><td>01/14/08</td><td>670756</td><td>105,319</td></tr> <tr><td>4052</td><td>5222</td><td>01/14/08</td><td>670758</td><td>100,606</td></tr> <tr><td>4052</td><td>5222</td><td>02/12/08</td><td>674115</td><td>335,183</td></tr> <tr><td>4052</td><td>5222</td><td>02/15/08</td><td>674671</td><td>360,446</td></tr> <tr><td>4052</td><td>5222</td><td>02/20/08</td><td>675015</td><td>76,414</td></tr> <tr><td>4052</td><td>5222</td><td>03/05/08</td><td>676224</td><td>23,343</td></tr> <tr><td>4052</td><td>5222</td><td>03/19/08</td><td>678042</td><td>168,912</td></tr> <tr><td>4052</td><td>5222</td><td>04/10/08</td><td>679772</td><td>302,491</td></tr> <tr><td>4052</td><td>5222</td><td>04/25/08</td><td>681391</td><td>73,361</td></tr> <tr><td>4052</td><td>5222</td><td>05/07/08</td><td>682602</td><td>59,337</td></tr> <tr><td>4052</td><td>5222</td><td>05/19/08</td><td>683471</td><td>59,057</td></tr> <tr><td>4052</td><td>5222</td><td>05/19/08</td><td>683475</td><td>206,430</td></tr> <tr><td>4052</td><td>5222</td><td>05/23/08</td><td>684417</td><td>19,925</td></tr> <tr><td>4052</td><td>5222</td><td>06/06/08</td><td>697956</td><td>10,000</td></tr> <tr><td>4052</td><td>5222</td><td>06/10/08</td><td>698654</td><td>36,374</td></tr> <tr><td>4052</td><td>5222</td><td>06/13/08</td><td>700217</td><td>55,642</td></tr> <tr><td>4052</td><td>5222</td><td>06/23/08</td><td>702418</td><td>79,390</td></tr> <tr><td>4052</td><td>5222</td><td>07/14/08</td><td>711997</td><td>104,434</td></tr> <tr><td>4052</td><td>5222</td><td>08/20/08</td><td>753060</td><td>40,471</td></tr> <tr><td>4052</td><td>5227</td><td>05/07/08</td><td>682636</td><td>15,846</td></tr> <tr><td>4058</td><td>5617</td><td>11/08/07</td><td>648795</td><td>181,553</td></tr> <tr><td>4058</td><td>5617</td><td>11/23/07</td><td>649989</td><td>288,691</td></tr> <tr><td>4058</td><td>5617</td><td>01/07/08</td><td>670070</td><td>331,266</td></tr> <tr><td>4058</td><td>5617</td><td>01/23/08</td><td>671695</td><td>160,016</td></tr> <tr><td>4058</td><td>5617</td><td>08/06/08</td><td>724238</td><td>9,422</td></tr> <tr><td>4058</td><td>5618</td><td>01/07/08</td><td>670070</td><td>88,790</td></tr> <tr><td>4058</td><td>5618</td><td>01/23/08</td><td>671695</td><td>183,991</td></tr> <tr><td>4058</td><td>5618</td><td>06/13/08</td><td>700217</td><td>91,640</td></tr> <tr><td>4058</td><td>5618</td><td>07/10/08</td><td>711481</td><td>77,867</td></tr> <tr><td>4058</td><td>5618</td><td>08/25/08</td><td>754039</td><td>324,198</td></tr> <tr><td>4058</td><td>5618</td><td>09/12/08</td><td>757721</td><td>198,048</td></tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>\$ 5,386,594</u></td> </tr> </tbody> </table>	Fund	BU#	GL Date	APV #	GL Amount	4052	5175	10/31/07	647758	\$ 21,429	4052	5175	01/23/08	671694	40,843	4052	5222	10/12/07	645731	87,024	4052	5222	10/12/07	645734	75,911	4052	5222	10/24/07	647224	76,270	4052	5222	10/31/07	647754	341,408	4052	5222	11/08/07	648795	158,592	4052	5222	11/20/07	649815	201,027	4052	5222	11/23/07	649961	98,224	4052	5222	01/07/08	670065	97,478	4052	5222	01/07/08	670066	19,925	4052	5222	01/14/08	670756	105,319	4052	5222	01/14/08	670758	100,606	4052	5222	02/12/08	674115	335,183	4052	5222	02/15/08	674671	360,446	4052	5222	02/20/08	675015	76,414	4052	5222	03/05/08	676224	23,343	4052	5222	03/19/08	678042	168,912	4052	5222	04/10/08	679772	302,491	4052	5222	04/25/08	681391	73,361	4052	5222	05/07/08	682602	59,337	4052	5222	05/19/08	683471	59,057	4052	5222	05/19/08	683475	206,430	4052	5222	05/23/08	684417	19,925	4052	5222	06/06/08	697956	10,000	4052	5222	06/10/08	698654	36,374	4052	5222	06/13/08	700217	55,642	4052	5222	06/23/08	702418	79,390	4052	5222	07/14/08	711997	104,434	4052	5222	08/20/08	753060	40,471	4052	5227	05/07/08	682636	15,846	4058	5617	11/08/07	648795	181,553	4058	5617	11/23/07	649989	288,691	4058	5617	01/07/08	670070	331,266	4058	5617	01/23/08	671695	160,016	4058	5617	08/06/08	724238	9,422	4058	5618	01/07/08	670070	88,790	4058	5618	01/23/08	671695	183,991	4058	5618	06/13/08	700217	91,640	4058	5618	07/10/08	711481	77,867	4058	5618	08/25/08	754039	324,198	4058	5618	09/12/08	757721	198,048					<u>\$ 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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-19, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
2. Payment request was not certified by the expenditure authority for 6% of non-payroll expenditures tested. Details are as follows:						
	<u>Fund</u>	<u>BU#</u>	<u>GL Date</u>	<u>APV #</u>	<u>GL Amount</u>	
	4052	5229	10/17/07	646224	\$ 21,510	
	4058	5605	10/18/07	646361	4,273	
	4058	5615	06/02/08	695922	58,408	
	4058	5615	06/02/08	695926	221,352	
	4058	5615	06/02/08	695927	49,605	
	4058	5615	06/03/08	696148	159,674	
	4058	5615	07/18/08	713249	<u>65,678</u>	
					<u>\$ 580,500</u>	
3. APV vouchers, invoices, receiving reports, and evidence of payment for 2% of non-payroll expenditures tested were not provided. Details are as follows:						
	<u>Fund</u>	<u>BU#</u>	<u>GL Date</u>	<u>APV#</u>	<u>GL Amount</u>	<u>Federal Share</u>
	4058	5615	01/11/08	491852	\$ 80,488	\$ 80,488
	1012	1807	06/19/08	701871	10,505	3,213
	1010	1335	09/30/08	6556	81,401	19,521
	1010	1362	09/30/08	6556	<u>286,761</u>	<u>48,226</u>
					<u>\$ 459,155</u>	<u>\$ 151,448</u>
						151,448

Cause: The cause of the above condition is the lack of analysis of vendor invoices.

Effect: The effect of the above condition is questioned costs of \$151,448. While certification was not noted for \$5,386,594 at condition 1 and \$580,500 at condition 2, no questioned costs result as the related expenditures are supported with invoices and other relevant documents.

Recommendation: We recommend that the CNMI Department of Finance ensure that all expenditures and disbursements are supported by invoices, checks, contracts and other relevant documents. Further, we recommend that payment requests be certified by the Contracting Officer or by the expenditure authority to indicate review and authorization.

Prior Year Status: Lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: #s 1 and 2 - Vicky Villagomez, CIP Administrator; and #3 - Bernadita C. Palacios, Acting Director, Finance & Accounting

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-19, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan, Continued:</u>		
Corrective Action:		
<ol style="list-style-type: none">1. All but one of the payment requests (BU#5227) are from the Water Task Force. A memo was issued from the Contracting Officer/Expenditure Authority on January 30, 2007 delegating authority to the program manager "to execute all documents you deem necessary to carrying out WTF work. This would include but is not limited to...". This was interpreted to include requests for payment of invoices. We will research the BU#5227 item and take necessary corrective action.2. BU#5605 is a Water Task Force request-See #1 above. We will research the other items and take necessary corrective action.3. The remaining unresolved items are noted as APV# (JE) 6556. This transferred CUC utility charges to various general fund business units. No Federal funds were involved so no questioned costs should be noted.		
Proposed Completion Date: 2009		
<u>Auditor Response:</u> Compact Impact funds are used in the reimbursement of a fixed amount of salaries and wages and other expenses (i.e., utility charges) as stipulated in the CNMI's approved Plan of Use. The CNMI is unable to provide a schedule identifying which of the utility charges were included in the reimbursement from the grantor agency. As a result, federal share percentage used in our projection for questioned costs is assessed based on total actual expenditures incurred for the year.		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-20

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended	<p><u>Criteria:</u> Per grant terms and conditions, costs may not be incurred and work may not commence on the project until OIA has issued an Authorization to Proceed (ATP) and has approved the scope of work and project budget certified by an architect or engineer. Additionally, 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.</p> <p><u>Condition:</u> Of twenty-nine CIP projects tested, we noted the following:</p> <p>1. The ATP and related architect or engineer certified scope of work and project budget were not provided for the following fourteen projects:</p>	

<u>Fund</u>	<u>BU #</u>	<u>Total FY 2008 Expenditures</u>
4052	5177	\$ 125,156
4052	5233	33,718
4058	5605	49,111
4052	5238	63,067
4052	5102	90,444
4052	5178	149,838
4052	5138	16,910
4052	5210	125,078
4052	5227	128,943
4052	5228	<u>52,653</u>
		<u>\$ 834,918</u>

Of the above, evidence that CNMI has clear title, a leasehold agreement, or other legal authority for use of the land for two projects (BU #s 5238 and 5227) was not provided.

2. The budget was certified on 08/01/06 but does not agree to the ATP amount of \$129,856 (which is the federal share of total \$259,712 funded) for one project (BU # 5236) that references a budget submitted 10/12/06. The budget provided is for \$138,535. Reconciliation of variances in budget with the approved amount was not provided. Total FY 2008 expenditures incurred on this project are \$40,956.
3. We noted three projects for which some contracts, including change orders, amount encumbered and charged are either not included in the budget or exceed the approved budget. There was no approval for change in scope of work provided. Details are as follows:

<u>Fund</u>	<u>BU #</u>	<u>Contract</u>	<u>FY 2008 Expenditures not Budgeted or Included in Scope of Work</u>
4052	5208	395 OS	\$ 11,280
4052	5218	372 OS	46,792
4052	5175	378 OS	<u>64,287</u>
			<u>\$ 122,359</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-20, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Cause:</u> The cause of the above condition is the lack of systematic filing of the Authorization to Proceed, certified project budget and scope of work, and evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$998,233. Of the above, \$117,835 is questioned at Finding No. 2008-34, \$127,150 is questioned at Finding No. 2008-35 and \$63,067 is questioned at Finding No. 2008-36. Remaining costs of \$690,181 are questioned here.</p> <p><u>Recommendation:</u> We recommend that the Department of Finance ensure that projects are supported by the Authorization to Proceed, certified project budget and scope of work, evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land, and other relevant documents.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Vicky Villagomez, CIP Administrator</p> <p>Corrective Action:</p> <ol style="list-style-type: none"> 1. Documents provided to auditors for review which appear to address all but three of the items (BU#5138, 5210 and 5227). Also documents related to the legal authority to use land. These projects are all within existing government facilities or within existing rights of way. 2. Documents provided to auditors showing budget matching ATP. 3. Change order documents provided to auditors <p>Proposed Completion Date: 2009</p> <p><u>Auditor Response:</u></p> <ol style="list-style-type: none"> 1. For the projects noted in condition 1, the documents provided for examination were incomplete. Either the ATP, related architect or engineer certified scope of work or project budget was not provided. 2. A reconciliation of the variance between the ATP and budget was not provided. The documents provided for examination did not address the finding raised. 3. While the change order documents were provided for examination, these did not address the finding raised in condition 3. 	690,181

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-21

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Fiscal Year 2008 Compact Impact / CFDA #15.875 / Federal Award # CNMI-CI-2008-1 / Federal Award Period 12/17/07 through 09/30/12</p>	<p>Criteria: Payroll charges should be supported by authorized personnel action forms, timesheets, and leave approval where applicable.</p> <p>Condition: Of forty payroll expenditures aggregating \$134,813 that was reimbursed by the DOI Compact Impact CNMI-COFA-2008-1 Fund, we noted that administrative leave authorization was not located for one employee (#253745; PPE 03/15/08; federal share of gross pay \$1,105) and that the pay rate was not supported by a personnel action form for one employee (#103374; PPE 09/27/08; federal share of gross pay \$400).</p> <p>Cause: The cause of the above condition is the lack of systematic filing of personnel action forms, timesheets, and leave approval.</p> <p>Effect: The effect of the above condition is questioned costs of \$1,505 since the projected questioned costs exceeded \$10,000.</p> <p>Recommendation: We recommend that all recorded payroll expenditures and disbursements are supported by personnel action forms, timesheets, and leave approvals.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Vicky Villagomez, CIP Administrator</p> <p>Corrective Action: We will look for documents cited and provide to auditors. We do not feel questioned costs are warranted as Compact Impact reimbursement was not tied to particular employees or pay periods by local/federal share.</p> <p>Proposed Completion Date: 2009</p> <p>Auditor Response: Compact Impact funds are used in the reimbursement of a fixed amount of salaries and wages as stipulated in the CNMI's approved Plan of Use. The CNMI is unable to provide a schedule identifying which employees and how much of the related salaries and wages is included in the reimbursement from the grantor agency. As a result, federal share percentage used in our projection for questioned costs is assessed based on total actual expenditures incurred for the year.</p>	<p>1,505</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-22

Program	Reason for Questioned Costs	Questioned Costs																																																				
U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 through 09/30/08	<p><u>Criteria:</u> Expenditures recorded in the general ledger should be authorized, approved and supported.</p> <p><u>Condition:</u> During tests of expenditures charged to the Environmental Protection Consolidated Grants - Program Support, we noted the following:</p> <p>1. Of seventeen non-payroll expenditures tested aggregating \$118,245, the following were noted:</p> <p>a. The supporting purchase order, invoice and cancelled check were not available for the following:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Document Type</u></th> <th style="text-align: center;"><u>Document No.</u></th> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>GL Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">JE</td> <td style="text-align: center;">6093</td> <td style="text-align: center;">03/05/08</td> <td style="text-align: right;">\$ 5,405</td> </tr> <tr> <td style="text-align: center;">JE</td> <td style="text-align: center;">6705</td> <td style="text-align: center;">09/30/08</td> <td style="text-align: right;"><u>8,239</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 13,644</u></td> </tr> </tbody> </table> <p>b. The supporting travel authorization, trip report, boarding passes, and travel vouchers were not provided for the following:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Document Type</u></th> <th style="text-align: center;"><u>Document No.</u></th> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>GL Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">670991</td> <td style="text-align: center;">01/16/08</td> <td style="text-align: right;">\$ 2,909</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">672375</td> <td style="text-align: center;">01/29/08</td> <td style="text-align: right;"><u>2,948</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 5,857</u></td> </tr> </tbody> </table> <p>c. The following were supported by open purchase orders (POs) but there was no evidence on file to determine whether actual expenditures exceeded the amount authorized.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Document Type</u></th> <th style="text-align: center;"><u>Document No.</u></th> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>GL Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">673483</td> <td style="text-align: center;">02/06/08</td> <td style="text-align: right;">\$ 1,820</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">721914</td> <td style="text-align: center;">07/28/08</td> <td style="text-align: right;">3,750</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">681060</td> <td style="text-align: center;">04/23/08</td> <td style="text-align: right;"><u>1,962</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 7,532</u></td> </tr> </tbody> </table>	<u>Document Type</u>	<u>Document No.</u>	<u>GL Date</u>	<u>GL Amount</u>	JE	6093	03/05/08	\$ 5,405	JE	6705	09/30/08	<u>8,239</u>				<u>\$ 13,644</u>	<u>Document Type</u>	<u>Document No.</u>	<u>GL Date</u>	<u>GL Amount</u>	PV	670991	01/16/08	\$ 2,909	PV	672375	01/29/08	<u>2,948</u>				<u>\$ 5,857</u>	<u>Document Type</u>	<u>Document No.</u>	<u>GL Date</u>	<u>GL Amount</u>	PV	673483	02/06/08	\$ 1,820	PV	721914	07/28/08	3,750	PV	681060	04/23/08	<u>1,962</u>				<u>\$ 7,532</u>	<p>13,644</p> <p>5,857</p>
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No questioned costs result since the related expenditures are approved and are allowable under the grant terms and conditions.

Cause: The cause of the above conditions is the lack of systematic filing of journal vouchers, invoices, and other relevant documents.

Effect: The effect of the above conditions is the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of \$19,501.

Recommendation: We recommend that the Department of Finance ensure that all expenditures are supported by certified accounts payable vouchers, invoices, checks, journal vouchers and other relevant documents.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-22, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p data-bbox="505 428 987 457"><u>Auditee Response and Corrective Action Plan:</u></p> <p data-bbox="505 478 1318 531">Name of Contact Persons: Bernadita C. Palacios, Acting Director, Finance & Accounting and Antoinette Calvo, CNMI Treasurer</p> <p data-bbox="505 554 1318 606">Corrective Action: We will continue follow up on locating documents and provide to auditors.</p> <p data-bbox="505 630 1318 709">1.a. - JE 6093 distributed utility charges paid to CUC in a lump sum. We will locate DEQ's billing supporting this amount. JE 6705 recorded receipt of items paid in advance. We will provide receiving information.</p> <p data-bbox="505 732 1003 762">1.b. - We will locate specified travel documents.</p> <p data-bbox="505 785 1318 837">1.c. - Inquiry on the PO would show total payments vs. PO amount. Documentation provided to auditors.</p> <p data-bbox="505 861 870 890">Proposed Completion Date: 2009</p> <p data-bbox="505 913 1318 1010"><u>Auditor Response:</u> The Department of Finance provided the supporting invoice and purchase order for condition 1.c., however, documents supporting that actual expenditures did not exceed amount authorized were not made available.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-23

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 through 09/30/08</p>	<p><u>Criteria:</u> Indirect costs charged to eligible federal awards should be in accordance with approved indirect allocations.</p> <p><u>Condition:</u> As of September 30, 2008, the CNMI is in the process of obtaining the cognizant agency's approval of indirect cost rate proposals for fiscal years 2004 through 2008. During the year ended September 30, 2008, the CNMI applied the 2003 indirect cost rate to eligible federal programs. A recalculation of indirect costs by applying the 14.57% 2003 indirect cost rate to program expenditures exclusive of capital items and pass through costs results in indirect costs of \$294,598 which is \$78,763 lower than actual indirect costs of \$373,361 charged to the Environmental Protection Consolidated Grants - Program Support for the fiscal year ended September 30, 2008.</p> <p><u>Cause:</u> The cause of the above condition is the lack of monitoring procedures to ensure that indirect costs charged eligible federal programs are in accordance with approved indirect cost allocations.</p> <p><u>Effect:</u> The effect of the above condition is the overstatement of indirect costs charged to the Program and questioned costs of \$78,763.</p> <p><u>Recommendation:</u> We recommend the CNMI ensure that indirect costs charged to federal program are based on approved indirect cost allocations.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting</p> <p>Corrective Action: It appears indirect cost amount may not have been adjusted after corrections were entered. Amount will be adjusted to correct total.</p> <p>Proposed Completion Date: 2009</p>	<p>78,763</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-24

Program	Reason for Questioned Costs					Questioned Costs
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award #s 05-0805CQ5028, 05-0805CQ5048, 05-0805CQ1935 / Federal Award Period 10/01/07 through 09/30/08	<p><u>Criteria:</u> Part 3 of the Revised Operation Plan, delineates types of services that are allowed under the Medicaid Program. Part 4 establishes the basis for determining propriety of rates by service providers.</p> <p><u>Condition:</u> Of total program expenditures of \$4,307,225 for the year ended September 30, 2008, professional services of \$3,045,831 and other program expenses of \$145,021 were tested. Of eighty items tested, fifty-seven items totaling \$1,576,902 were not completely reviewed for propriety of rates charged and/or accuracy of billings prior to payment. Based on our tests, the eligibility of services was in accordance with Part 3 of the revised Operational Plan; therefore, no questioned costs result from this condition. Details follow:</p>					
	General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Federal Share	
	11/09/07	62060	649044	\$ 95,000	\$ 47,500	
	12/04/07	62060	650546	\$ 60,471	\$ 30,235	
	12/04/07	62060	650547	\$ 35,495	\$ 17,747	
	02/25/08	62060	675485	\$ 56,247	\$ 28,124	
	02/25/08	62060	675491	\$ 44,411	\$ 22,206	
	02/25/08	62060	675493	\$ 47,963	\$ 23,982	
	04/11/08	62060	679824	\$ 54,372	\$ 27,186	
	04/28/08	62060	681448	\$ 55,076	\$ 27,538	
	05/12/08	62060	682848	\$ 62,345	\$ 31,173	
	08/06/08	62060	724231	\$ 59,234	\$ 29,617	
	08/26/08	62060	754143	\$ 39,171	\$ 19,585	
	12/04/07	62060	650519	\$ 6,522	\$ 3,261	
	12/04/07	62060	650525	\$ 4,305	\$ 2,153	
	01/08/08	62060	670090	\$ 5,803	\$ 2,902	
	02/08/08	62060	673700	\$ 4,822	\$ 2,411	
	11/09/07	62060	649034	\$ 21,989	\$ 10,994	
	11/09/07	62060	649039	\$ 1,310	\$ 655	
	11/09/07	62060	649041	\$ 14,949	\$ 7,474	
	11/09/07	62060	649043	\$ 18,401	\$ 9,201	
	11/09/07	62060	649051	\$ 4,079	\$ 2,039	
	11/09/07	62060	649065	\$ 3,954	\$ 1,977	
	11/15/07	62060	649425	\$ 31,295	\$ 15,647	
	11/15/07	62060	649430	\$ 17,779	\$ 8,889	
	11/15/07	62060	649431	\$ 22,333	\$ 11,166	
	12/04/07	62060	650527	\$ 10,315	\$ 5,157	
	12/04/07	62060	650530	\$ 22,038	\$ 11,019	
	12/04/07	62060	650534	\$ 22,711	\$ 11,355	
	12/04/07	62060	650542	\$ 3,467	\$ 1,734	
	12/04/07	62060	650545	\$ 19,354	\$ 9,677	
	01/08/08	62060	670106	\$ 24,854	\$ 12,427	
	01/08/08	62060	670110	\$ 8,183	\$ 4,091	
	01/08/08	62060	670132	\$ 19,476	\$ 9,738	
	01/23/08	62060	671697	\$ 5,224	\$ 2,612	
	02/25/08	62060	675484	\$ 23,421	\$ 11,711	
	02/25/08	62060	675487	\$ 21,636	\$ 10,818	
	02/25/08	62060	675500	\$ 12,867	\$ 6,433	
	02/25/08	62060	675503	\$ 16,811	\$ 8,406	
	03/19/08	62060	677971	\$ 25,725	\$ 12,863	
	03/19/08	62060	677974	\$ 22,033	\$ 11,016	
	03/19/08	62060	677979	\$ 1,939	\$ 969	
	03/25/08	62060	678271	\$ 8,597	\$ 4,299	
	03/25/08	62060	678277	\$ 14,442	\$ 7,221	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-24, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
	General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Federal Share	
	08/11/08	62060	748788	\$ 2,861	\$ 1,431	
	08/25/08	62060	754049	\$ 13,656	\$ 6,828	
	08/25/08	62060	754065	\$ 30,771	\$ 15,385	
	08/25/08	62060	754069	\$ 27,987	\$ 13,993	
	08/25/08	62060	754074	\$ 5,556	\$ 2,778	
	08/26/08	62060	754147	\$ 31,810	\$ 15,905	
	08/26/08	62060	754148	\$ 18,013	\$ 9,006	
	09/15/08	62060	757784	\$ 33,968	\$ 16,984	
	09/22/08	62060	759225	\$ 27,821	\$ 13,911	
	09/22/08	62060	759227	\$ 28,190	\$ 14,095	
	11/28/07	62060	144077	\$ 92,565	\$ 92,565	
	05/23/08	62060	150277	\$ 58,710	\$ 58,710	
	09/29/08	62060	6550	\$ 375,431	\$ 375,431	
	09/30/08	62060	6560	\$ 190,965	\$ 190,965	
	09/30/08	62060	6560	\$ 223,707	\$ 223,707	

Additionally for some items, the lack of complete rate verification and review of billing accuracy resulted in either double charges or incorrect rates paid. Details are as follows:

- a. For two claims totaling \$7,686, Medicaid was charged twice for the same service, claim number, service date, amount and type of service.

General Ledger Date	General Ledger Account	Reference No.	Amount	Federal Share	
12/04/07	62060	650546	\$ 811	\$ 406	
09/30/08	62060	6560	\$ 6,875	\$ 3,438	
				<u>\$ 3,844</u>	3,844

- b. One off-island treatment for the same service provider, patient, service type and service date was paid twice during the year. Further, the second check issued exceeded the amount due by \$2,000. Details are as follows:

General Ledger Date	General Ledger Account	Reference No.	Amount	Federal Share	
07/31/08	62060	723345	\$ 47,759	\$ 23,879	23,879

- c. For three prescription and pharmacy claims totaling \$34,322, the rate charged and paid by Medicaid exceeded the Estimated Acquisition Cost (EAC) per the service provider agreement. Details are as follow:

General Ledger Date	General Ledger Account	Reference No.	Amount	Excess	
11/09/07	62060	649039	\$ 1,310	\$ 33	
03/19/08	62060	677967	\$ 7,287	9	
03/19/08	62060	677971	\$ 25,725	<u>57</u>	
				<u>\$ 99</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-24, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
	d. For three expenditures totaling \$39,933, the rate charged and paid by Medicaid was higher than the established Medicare rate for similar service. Details are as follows:					
	General Ledger Date	General Ledger Account	Reference No.	Amount	Excess	
	12/04/07	62060	650550	\$ 15,350	\$ 518	
	12/04/07	62060	650552	\$ 22,645	341	
	03/19/08	62060	677979	\$ 1,939	<u>25</u>	
					\$ <u>884</u>	884
	e. For eleven expenditures totaling \$171,067, rates could not be verified as the optometrist services were specifically agreed in the service agreements and were not included in the established Medicare rates. We were informed that payment is based upon whatever rates are charged the program. Details are as follow:					
	General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Amount Tested	
	11/09/07	62060	649041	\$ 14,949	\$ 223	
	11/09/07	62060	649065	\$ 3,954	153	
	12/04/07	62060	650545	\$ 19,354	230	
	01/23/08	62060	671697	\$ 5,224	284	
	02/25/08	62060	675484	\$ 23,421	238	
	02/25/08	62060	675487	\$ 21,636	223	
	03/25/08	62060	678271	\$ 8,597	232	
	03/25/08	62060	678277	\$ 14,442	176	
	08/25/08	62060	754049	\$ 13,656	165	
	08/26/08	62060	754148	\$ 18,013	284	
	09/22/08	62060	759225	\$ 27,821	<u>175</u>	
					\$ <u>2,383</u>	2,383

Cause: The cause of the above condition is the lack of clearly defined and communicated procedures for verification of billings prior to reimbursement.

Effect: The effect of the above condition is a control weakness over allowable activities and costs reimbursable and possible misuse of federal expenditures and questioned costs of \$31,089.

Recommendation: We recommend that control procedures be clearly defined and communicated over verification of services charged the Program and review of accuracy of billings shall occur prior to payment.

Prior Year Status: The lack of clearly defined and communicated procedures for verification of billings prior to reimbursement was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2007.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-24, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	Corrective Action:	
	<p>a. We will check this finding and will request the provider for a refund.</p> <p>b. We have requested for a refund from the provider on January 16, 2009. The refund check of \$47,759 was deposited back to the CNMI Treasury on March 18, 2009.</p> <p>c. We disagree with the finding. The Estimated Acquisition Cost (EAC) as agreed in the service provider agreement usually changes every month and it will have some changes on the rate. PHI Pharmacy is basing their rate charged online.</p> <p>d. We disagree with the finding. We have a listing of the Medicare rates that the staff use when verifying the claims.</p> <p>e. We disagree with the finding. We have a listing of the Medicare rate that the staff use when verifying the claims.</p>	
	<p>Due to high volume of claims and limited resources, the staff randomly reviews the claims. I have instructed the staff to initial the claims once they have review rates and eligibility date. If the drugs were not included in the list of Average wholesale Price list that we maintained to compute EAC or any CPT codes for other services that are not available as per what our negotiated rate on our contract that we will only pay 50% of charges. This was the instruction of the Hawaii Medicaid Program, Dr. Lynette Hombo and our former legal counsel, Ms. Debra Knapp that in case there is no rate available either Hawaii Medicaid rate or Medicare rate that we should only pay 50% of charges. For the optometrist expenses, there are some CPT codes that we pay at the negotiated rate based on our contract agreement and not Medicare rate. For the duplicate payments, we will adjust on the current claims and we also request the provider for a refund of the duplicate/overpayment amount.</p>	
	Proposed Completion Date: Ongoing	
	<p><u>Auditor Response:</u> The 50% federal share for the \$47,759 refund received in fiscal year 2009 was still recorded as a program expenditure and included in the amount requested for reimbursement as of September 30, 2008. The Medicaid Office was able to provide a list of pharmacy rates used to calculate EAC only upon requesting a copy from the service provider. Further, our EAC and Medicare rate calculations for pharmacy claims and optometrist services, respectively, based on the list of rates provided were lower than actual rates paid.</p>	
	<p>Evidence of review of billings accuracy and completeness was not evident in the claims tested and noted in the finding. The Medicaid Revised Operational Plan requires that Medicaid reimbursements are claimed based on established CHC rates or should not exceed combined payments the provider receives from beneficiaries and carriers or intermediaries for providing comparable services under comparable circumstances under Medicare. Complete rate verifications should be performed on claims to ensure that rates paid are in accordance with CHC or Medicare rates.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles/Activities Allowed or Unallowed

Finding No. 2008-25

Program	Reason for Questioned Costs	Questioned Costs															
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award #s 05-0805CQ5028, 05-0805CQ5048, 05-0805CQ1935 / Federal Award Period 10/01/07 through 09/30/08	<p>Criteria: Recorded expenditures should be authorized, supported by certified accounts payable vouchers, invoices and other relevant documents, and be approved prior to incurrence.</p> <p>Condition: Of total program expenditures of \$4,307,225 for the year ended September 30, 2008, professional services of \$3,045,831 and other program expenses of \$145,021 were tested. Our tests noted the following:</p> <p>a. Supporting billings and claims were not available for one \$92,565 journal entry (JE no. 144077).</p> <p>b. The supporting travel authorization was not provided for one \$2,327 travel expense (PV no. 507797).</p> <p>c. For one \$76,514 disbursement (check no. 317198), the check was payable to the CNMI Treasury instead of to the service provider. Relevant documents supporting a different payee were not provided. Details of the expenditure follow:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Account</th> <th style="text-align: center;">Reference No.</th> <th style="text-align: center;">General Ledger Amount</th> <th style="text-align: center;">Federal Share</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">11/09/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">649034</td> <td style="text-align: right;">\$ 21,989</td> <td style="text-align: right;">\$ 10,994</td> </tr> <tr> <td style="text-align: center;">11/09/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">649039</td> <td style="text-align: right;">\$ 1,310</td> <td style="text-align: right;">\$ 655</td> </tr> </tbody> </table> <p>Cause: The cause of the above condition is failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to submit all supporting documents for complete filing.</p> <p>Effect: The effect of the above condition is the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of \$106,541.</p> <p>Recommendation: We recommend that the Medicaid office and Department of Finance obtain all necessary approvals/authorizations prior to payment of expenditures and ensure that supporting documents are on file.</p> <p>Prior Year Status: Failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to have all supporting documents on file was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2007.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Persons: Bernadita C. Palacios, Acting Director, Finance & Accounting and Helen C. Sablan, Medicaid Administrator</p> <p>Corrective Action:</p> <p>Medicaid: We disagree with the auditor's finding. We do obtain appropriate approval and authorizations prior to incurrence/payment of expenditures and we do ensure that supporting documents are properly and completely filed. Department of Finance will not record any expenditure without the supporting documents.</p> <p>Department of Finance: We will continue follow-up on locating documents and provide to auditors.</p>	General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Federal Share	11/09/07	62060	649034	\$ 21,989	\$ 10,994	11/09/07	62060	649039	\$ 1,310	\$ 655	<p>92,565</p> <p>2,327</p> <p>11,649</p>
General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Federal Share													
11/09/07	62060	649034	\$ 21,989	\$ 10,994													
11/09/07	62060	649039	\$ 1,310	\$ 655													

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-25, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan, Continued:</u>		
Proposed Completion Date: 2009		
<u>Auditor Response:</u> The requested supporting documents evidencing approval and validity of expenditures noted in the finding could not be provided by either the Medicaid Office or the CNMI Finance Office.		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Management

Finding No. 2008-26

Program	Reason for Questioned Costs						Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2008 Compact Impact / CFDA #15.875 / Federal Award #s Fiscal Years 1996 - 2008 Appropriations Act and CNMI-CI-2008-1 / Federal Award Periods Available Until Expended and 12/17/07 through 09/30/12	<p>Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee for selected major programs. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The approved clearance pattern is three days.</p> <p>Condition: Of eighty-four CIP samples tested, sixty one items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's Account. Details are as follows:</p>						
	<u>APV #</u>	<u>Amount</u>	<u>Business Unit</u>	<u>CR Date</u>	<u>Date Check Cleared</u>	<u>Elapsed</u>	
	645734	\$ 75,911	5222	10/22/07	10/29/07	4	
	646361	\$ 4,273	5605	10/15/07	12/18/07	61	
	646775	\$ 7,500	5222	10/26/07	11/13/07	15	
	647224	\$ 76,270	5222	10/26/07	11/07/07	9	
	647758	\$ 21,429	5175	11/06/07	12/14/07	35	
	647754	\$ 341,408	5222	11/06/07	12/05/07	26	
	648795	\$ 158,592	5222	11/15/07	12/20/07	32	
	648795	\$ 181,553	5617	11/15/07	12/20/07	32	
	648750	\$ 70,341	5615	11/19/07	02/25/08	95	
	649016	\$ 53,520	5615	01/18/08	06/13/08	144	
	649016	\$ 22,841	5615	08/28/08	09/30/08	30	
	649031	\$ 118,775	5615	01/18/08	02/25/08	35	
	649096	\$ 16,594	5615	11/27/07	12/17/07	17	
	649096	\$ 532	5615	11/27/07	12/17/07	17	
	649096	\$ 112,307	5615	11/27/07	12/17/07	17	
	649685	\$ 113,976	5615	11/27/07	02/25/08	87	
	649925	\$ 21,928	5233	11/27/07	12/20/07	20	
	649989	\$ 288,691	5617	12/04/07	12/13/07	6	
	650503	\$ 66,084	4897	12/11/07	02/01/08	49	
	651871	\$ 37,991	5158	12/28/07	01/23/08	23	
	670070	\$ 331,266	5617	01/18/08	01/24/08	3	
	670070	\$ 88,790	5618	01/18/08	01/24/08	3	
	671695	\$ 183,991	5618	02/12/08	02/27/08	12	
	671695	\$ 160,016	5617	02/12/08	02/27/08	12	
	672665	\$ 127,073	5433	02/21/08	04/07/08	43	
	674671	\$ 360,446	5222	02/26/08	03/12/08	12	
	674709	\$ 47,531	5154	02/26/08	04/04/08	35	
	675015	\$ 76,414	5222	02/26/08	03/10/08	10	
	675606	\$ 56,988	5615	11/27/07	03/14/08	105	
	678042	\$ 168,912	5222	03/26/08	04/14/08	16	
	679772	\$ 302,491	5222	04/17/08	05/01/08	11	
	680335	\$ 6,460	5138	04/25/08	06/13/08	46	
	681390	\$ 64,153	5178	05/05/08	05/20/08	12	
	682602	\$ 59,337	5222	05/22/08	05/30/08	5	
	682607	\$ 69,637	5154	05/15/08	09/30/08	135	
	683471	\$ 59,057	5222	06/06/08	06/16/08	7	
	683475	\$ 206,430	5222	06/06/08	06/26/08	17	
	684417	\$ 19,925	5222	06/06/08	06/17/08	8	
	695922	\$ 42,350	5615	02/26/08	06/13/08	105	
	695926	\$ 162,987	5615	11/30/07	06/13/08	193	
	695927	\$ 49,605	5615	11/30/07	06/13/08	193	
	696148	\$ 102,522	5615	06/10/08	07/14/08	31	
	696148	\$ 57,152	5615	06/10/08	07/14/08	31	
	698654	\$ 36,374	5222	06/12/08	06/26/08	11	
	700217	\$ 91,640	5618	06/23/08	8/6/2008	41	
	700217	\$ 55,642	5222	06/23/08	8/6/2008	41	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-26, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
APV #	Amount	Business Unit	CR Date	Date Check Cleared	Elapsed	
700567	\$ 105,000	5228	06/23/08	7/8/2008	12	
700608	\$ 23,174	4980	06/23/08	07/28/08	32	
702418	\$ 79,390	5222	07/01/08	07/17/08	13	
702547	\$ 34,213	5208	07/01/08	07/15/08	11	
711481	\$ 77,867	5618	07/17/08	09/10/08	52	
713249	\$ 29,159	5615	06/10/08	08/28/08	76	
722617	\$ 63,775	5615	08/28/08	09/15/08	15	
722620	\$ 7,500	5617	08/14/08	08/26/08	9	
724238	\$ 9,422	5617	08/14/08	08/22/08	5	
753060	\$ 40,471	5222	08/28/08	09/08/08	8	
754039	\$ 324,198	5618	09/02/08	09/24/08	19	
491852	\$ 80,488	5615	01/23/08	09/30/08	248	
680651	\$ 10,850	5236	03/14/08	06/23/08	98	
646163	\$ 3,825	5428	01/08/08	09/30/08	263	
649686	\$ 43,785	5615	11/27/07	02/04/08	66	10,145

Additionally, Of the \$5,117,437 drawn related to the 2008 Compact Impact grant, payments made to PSS (cost center I08CIG) were not provided. The related interest liability has been calculated based on the allowance clearance pattern from the date federal funds were credited to the CNMI's account. Details are as follows:

DD #	Amount	Cost Center	CR Date	Date Check Cleared	Elapsed	
2008-061	\$ 500,000	I08CIG	01/18/08	09/30/08	253	
2008-091	\$ 500,000	I08CIG	02/11/08	09/30/08	229	
2008-123	\$ 500,000	I08CIG	04/10/08	09/30/08	170	
2008-148	\$ 500,000	I08CIG	06/10/08	09/30/08	109	
2008-061	\$ 76,859	I08CIH	01/18/08	07/25/08	186	
2008-091	\$ 29,872	I08CIH	02/11/08	07/25/08	162	
2008-091	\$ 46,987	I08CIH	02/11/08	08/20/08	188	
2008-123	\$ 59,744	I08CIH	04/10/08	08/20/08	129	
2008-123	\$ 17,115	I08CIH	04/10/08	08/20/08	129	
2008-148	\$ 76,860	I08CIH	06/10/08	08/20/08	68	11,693

Interest for APVs not paid or with checks outstanding was calculated to September 30, 2008. The number of days elapsed is in excess of the clearance pattern of 3 days stipulated in CNMI Treasury State Agreement.

The CNMI has not recognized a potential interest liability of approximately \$21,264 related to the time elapsed between the date federal funds were received and the date these funds were debited from the CNMI's account.

The results of cash management tests indicated that the terms stipulated in the Cash Management Improvement Act are not being followed.

Cause: The cause of the above condition is due to the delays in which internal payment requests are routed.

Effect: The effect of the above condition is lack of compliance with grant cash management requirements, a potential interest liability and questioned costs of \$21,838.

Recommendation: We recommend that the Department of Finance ensure compliance with the clearance pattern specified in the CMIAA.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-26, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Prior Year Status:</u> The lack of compliance with grant requirements relating to cash management was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Antoinette Calvo, CNMI Treasurer</p> <p>Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. The vouchers in this finding relate to DOI Capital Improvement Project Grants which had a net overall receivable balance of \$9,203,876 as of the audit date.</p> <p>We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program</p> <p>For this finding, the invoices selected all relate to large construction projects where substantial payments are due to the vendor. Many of the payments selected also include a local share that must be drawn down from our bond trustees. DOI has instructed us not to release the Federal portion of the payment until the local matching bond draw down is received. Advance payment in these cases would disrupt our cash flow for normal payments and payroll. We try to time our disbursement to receipt of the Federal and bond drawdown cash but do wait for the cash to be deposited in the CIP drawdown account before releasing the check</p> <p>The section on Compact Impact grant funding should be deleted as transfers were made to PSS and NMC during fiscal year 2008.</p> <p>Proposed Completion Date: Ongoing</p> <p><u>Auditor Response:</u> The relevant documents supporting Compact Impact grant payments made to PSS were not provided. The interest liability relating to NMC transfers was calculated based on the number of days elapsed in excess of the clearance pattern of three days stipulated in the CMIAA.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2008-27

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Agriculture / Special Supplemental Nutrition Program for Women, Infants, and Children / CFDA #10.557 / Federal Award # 7NM700NM7 / Federal Award Period 10/01/07 through 09/30/08</p>	<p><u>Criteria:</u> In accordance with federal regulations, each State agency may choose which allowable nutritional risk criteria will be used to determine eligibility. At a minimum, the certifying agency must perform and/or document measurements of each applicant's height or length and weight. In addition, a hematological test for anemia must be performed or documented at certification if the applicant has no nutritional risk factor prescribed by the State agency other than anemia. Certified applicants with qualifying nutritional risk factors other than anemia must also be tested for anemia within 90 days of the date of certification. Program regulations set several exceptions to these general rules. The determination of nutritional risk may be based on current referral data provided by a competent professional authority that is not on the WIC staff.</p> <p>The Program's Procedures Manual also requires that the food package code assigned in the certification report agrees to the Food Package Chart code and to the related food package issued to participants.</p> <p><u>Condition:</u> Our tests of fifty-six eligibility files noted the following:</p> <ul style="list-style-type: none"> • Forty-one case files (WIC ID Nos. 1560.2, 3485.1, 1370.3, 1330.1, 1432.2, 2417.1, 3219.1, 2711.2, 3205.1, 1310.1, 2983.1, 3530.1, 3025.1, 3297.2, 1689.1, 2614.2, 2932.1, 2422.1, 1543.1, 2733.1, 1466.2, 2612.1, 2155.2, 1305.2, 2868.1, 3271.1, 2321.1, 2340.1, 2616.1, 2648.2, 1606.2, 2313.2, 2941.1, 2335.1, 1408.2, 2262.2, 3179.1, 2718.1, 2829.3, 1564.1 and 1273.1) have either incomplete nutrition assessments or a nutrition assessment was not performed by a competent professional authority who is not on the WIC staff. • Eleven case files (WIC ID Nos. 3485.1, 1432.2, 2417.1, 2983.1, 3025.1, 1689.1, 2932.1, 1543.1, 1466.2, 2340.1 and 2313.2) were issued food packages that differed from the assigned food package documented in the case file. <p><u>Cause:</u> The cause of the above condition is the lack of adequate procedures to ensure that only eligible recipients receive program assistance.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with eligibility requirements and the possible use of federal funds for ineligible individuals and questioned costs of \$3,667 since the projected costs exceeded \$10,000.</p> <p><u>Recommendation:</u> We recommend that the Program strengthen record keeping controls to ensure that case files supporting eligibility determination are completely maintained and nutrition assessments are performed by a competent professional authority that is not on the WIC staff.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Erin Camacho, Nutrition Services Coordinator and Dianne Esplin, Clinic Manager</p>	<p>3,667</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-27, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Auditee Response and Corrective Action Plan, Continued:</u></p> <p>Corrective Action, Continued:</p> <ul style="list-style-type: none"> • Training conducted for CPA's in completing nutrition assessment questionnaire, including making relevant inquiries to identify nutrition risks and information (anthropometric, biochemical, clinical, dietary, environmental, and family data that affects nutritional status) to be consistent with policy and the Value Enhanced Nutrition Assessment (VENA) Guidance which states that a complete WIC nutrition assessment is necessary in order to tailor this WIC benefits (nutrition education, food package, and referrals) to the participant's needs and interests. • Training for staff in proper documentation of all relevant information identifying nutrition risks to establish eligibility for the purpose of tailoring food packages, nutrition education and referrals. To include in VENA Plan. • Participants' records must include: <ul style="list-style-type: none"> ➤ the food package prescription; and ➤ any documentation related to issuing a non- contract or exempt infant formula or medical foods; and ➤ the rationale for any food package tailoring, if applicable as per 7 CFR 246.10. <p>Since adapting the computer system Arizona in Motion (AIM) in October 2009 we have trained the CPA's to do nutrition assessments via that form of documentation. If a CPA does not complete a Nutrition Assessment, Anthropometric (height and weight) and Hematologic measurements in AIM, it makes it difficult to move on to the next screen and also does not allow for printing of food instruments (FI) beyond one month. AIM only allow the appropriate food package (FP) per category and will not allow a CPA to assign an incorrect FP.</p> <p>We have also adapted Arizona's auditing tools that correspond with doing a chart review and site evaluations using the AIM system. The chart reviews and site evaluations will be scheduled biannually.</p> <p>Proposed Completion Date: March 17, 2008 and ongoing per the VENA Plan.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2008-28

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award #s 05-0805CQ5028, 05-0805CQ5048, 05-0805CQ1935 / Federal Award Period 10/01/07 through 09/30/08</p>	<p><u>Criteria:</u> In accordance with Part 2 of the Medicaid Revised Operational Plan, applicants must be eligible based on the criteria set forth in the Revised Operational Plan prior to receiving Medicaid assistance.</p> <p><u>Condition:</u> Tests of forty eligibility files noted one recipient (case file #14-20677) whose countable income exceeded the maximum Social Security Income Federal Benefit Rate but who was considered eligible.</p> <p><u>Cause:</u> The cause of the above condition is the lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and the possible use of federal funds for ineligible individuals and questioned costs of \$61,307.</p> <p><u>Recommendation:</u> We recommend that the CNMI Medicaid Office establish strict procedures to ensure that only eligible individuals receive Medicaid assistance and benefits.</p> <p><u>Prior Year Status:</u> The lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Helen C. Sablan, Medicaid Administrator</p> <p>Corrective Action: We disagree with the audit findings. Case file no. 14-20677 – The recipient applied for Social Security Disability benefit and usually it takes time for SSA to make their determination for eligibility. Therefore, case file no. 14-20677 were still eligible for Medicaid until such time that SSA approves his application to receive Social Security disability benefits. I have revised the computation sheet dated December 20, 2006 to include his Social Security benefits and he is still eligible for period December 1, 2006 through December 1, 2007. Please see attached revised computation sheet. Case file no. 14-20677 renewed December 3, 2007 and was found ineligible since one of the dependent is out because overage. Therefore, case file no. 14-20677 is eligible for Medicaid up to December 1, 2007 and was denied thereafter. Attached please find a copy of his denial letter.</p> <p>Proposed Completion Date:</p> <p><u>Auditor Response:</u> The recipient’s files examined showed that the applicant has been receiving benefits since June 2006 which was prior to the application in December 2006. Further, the revised calculation provided excluded \$279 in uncounted for income which was not deducted in the original income eligibility determination.</p>	<p>61,307</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Matching, Level of Effort, Earmarking

Finding No. 2008-29

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><u>Criteria:</u> Grant Number CIP-CNMI-2005-2 requires that federal funds for FY 1994 projects be matched by local funds at the ratio of 73.30% federal and 26.70% local.</p> <p><u>Condition:</u> In analyzing the CNMI's accounting records and related Capital Improvement Projects (CIP) financial reports for one project (business unit #4980), we noted improper cost allocations. The 2008 Federal share of expenditures is \$128,065 representing 87% of total expenditures of \$148,048. Per recalculation, 73.3% of the total charged for this project is \$108,519 resulting in an excess of the federal share allowed of \$19,544. Reconciliation and justification of the differences in the matching ratio were not available.</p> <p><u>Cause:</u> The cause of the above condition is improper allocation of federal and local shares.</p> <p><u>Effect:</u> The effect of the above condition is a lack of compliance with grant matching requirements. This condition may also have cash management implications. As the federal share is higher than allowed, the excess of \$19,544 is questioned.</p> <p><u>Recommendation:</u> We recommend that the Department of Finance establish policies and procedures to ensure compliance with matching criteria.</p> <p><u>Prior Year Status:</u> Improper allocation of federal and local shares when preparing CIP financial reports was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Diego Songsong, Secretary of Public Works, Bernadita C. Palacios, Acting Director of Finance & Accounting and Virginia Villagomez, CIP Administrator</p> <p>Corrective Action: We agree with the finding on the differences with the matching ratio on the expense side for the various object codes. The Expenditure Authority and the Department of Finance should verify cost share allocations during processing of obligations, vouchers including payment against a valid contract to ensure that cost share allocations are distributed accordingly.</p> <p>Because the project funds expired on June 30, 2008, the CIP Administrator will process the necessary adjustments to correct the final cost share allocation and request the Department of Finance, Office of the Secretary to process a request for any excess cash on hand resulting from the adjustment be return to the Grantor Agency.</p> <p>Proposed Completion Date: September 30, 2009</p>	<p>19,544</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Period of Availability

Finding No. 2008-30

Program	Reason for Questioned Costs							Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended	<u>Criteria:</u> Projects should be completed within allowable time frames.							
	<u>Condition:</u> Of five (5) grant awards tested, projects were completed after the grant expiration date and approved grantor extensions were not provided for the following:							
	Cost Center	Grant Award	Expiration Date	Deadline to Liquidate (90 Days After Expiration)	Project Status as of 09/30/08	Unliquidated Balance at Expiration Date	Unliquidated Balance at 09/30/08	Amount Liquidated After Allowable Time Frame
	4980	CIP-CNMI-2005-2 (1994)	01/01/08	03/31/08	Ongoing	\$ 137,309	\$ 13,847	\$ 128,064
5834	CIP-CNMI-2006-2	06/30/07	09/30/07	Completed	\$ 60,461	\$ 55,925	4,991	
5101/5110	CIP-CNMI-2007-3	01/01/08	03/31/08	Completed	\$ 11,960	\$ 11,960	482	
							<u>\$ 133,537</u>	

Cause: The cause of the above condition is failure to provide grantor approval for project extensions.

Effect: The effect of the above condition is the lack of compliance with period of availability requirements and questioned costs of \$133,537.

133,537

Recommendation: We recommend that the CNMI ensure compliance with period of availability requirements and maintain grantor approval for those that have passed approved timelines.

Prior Year Status: The failure to provide grantor approval for project extensions was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator

Corrective Action: A request for an extension was granted by the Grantor Agency for the projects that are questioned. The new extension dates are specified below and a copy of the Grantor Agency's schedule of expiration dates is provided for reference. The liquidated amounts specified after the expiration dates were within the 90 day drawdown period allowed for expenditures that were incurred prior to grant expiration date otherwise drawdowns will not be approved. Any unliquidated balance after the grace period will be deobligated.

Grant Title	GR Number	Agency	Project Title	Grant Award	Balance	Expires
CNMI Water-Add-On-2004-1	GR470115	WTF	Well Drilling	\$ 1,000,000	\$ 35,058	06/30/08
CNMI-CIP-2005-2	GR570113	CUC	Beach Rd Sewer Transmission Line	\$ 3,039,279	\$ 330,519	06/30/08
CNMI-CIP-2006-2	GR670133	DPW	CK Susupe Rds & Drainage (Prec. II)	\$ 116,490	\$ -	10/30/07

The CIP Program Office will notify the Agencies within 90 days of the expiration of any project funding. The notice will also request the Agencies to submit a request for extension if the project will not be completed by the initial expiration date. The notice and request for extension is currently being utilized.

Proposed Completion Date: May 1, 2009

Auditor Response: Grantor's approval of the extension was not evident in the schedule of expiration dates provided for reference.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-31

Program	Reason for Questioned Costs	Questioned Costs																								
U.S. Department of Agriculture / Special Supplemental Nutrition Program for Women, Infants, and Children / CFDA #10.557 / Federal Award # 7NM700NM7 / Federal Award Period 10/01/07 through 09/30/08	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of seventeen non-payroll Nutrition Services and Administration costs tested aggregating \$153,171, there is no indication that price or rate quotations were obtained from an adequate number of qualified sources for four items which qualify under small purchase procedures. Details are as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">APV Document No.</th> <th style="text-align: center;">Obligating Document</th> <th style="text-align: center;">Check No.</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">651605</td> <td style="text-align: center;">TA #271974</td> <td style="text-align: center;">318531</td> <td style="text-align: right;">\$ 2,810</td> </tr> <tr> <td style="text-align: center;">684037</td> <td style="text-align: center;">TA #273928</td> <td style="text-align: center;">326224</td> <td style="text-align: right;">2,904</td> </tr> <tr> <td style="text-align: center;">709749</td> <td style="text-align: center;">TA #274755</td> <td style="text-align: center;">328013</td> <td style="text-align: right;">2,361</td> </tr> <tr> <td style="text-align: center;">752564</td> <td style="text-align: center;">TA #275308</td> <td style="text-align: center;">330722</td> <td style="text-align: right;">3,067</td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 11,142</u></td> </tr> </tbody> </table>	APV Document No.	Obligating Document	Check No.	General Ledger Amount	651605	TA #271974	318531	\$ 2,810	684037	TA #273928	326224	2,904	709749	TA #274755	328013	2,361	752564	TA #275308	330722	3,067				<u>\$ 11,142</u>	11,142
APV Document No.	Obligating Document	Check No.	General Ledger Amount																							
651605	TA #271974	318531	\$ 2,810																							
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709749	TA #274755	328013	2,361																							
752564	TA #275308	330722	3,067																							
			<u>\$ 11,142</u>																							

Cause: The cause of the above condition is the lack of policies and procedures in place within the requesting departments to ensure compliance with local and federal procurement regulations.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$11,142.

Recommendation: We recommend that the Program comply with federal procurement regulations related to small purchase procedures.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Derek Sasamoto, Finance Manager and Barbara Pangelinan, Administrative Specialist

Corrective Action: The authorized travel agent for the CNMI government operates based on acquiring the lowest airfare rate between the only two airlines that the CNMI government travels with. It has been an established arrangement that the travel agents are aware of and what the Program continued to operate on. The only exceptions are if travel could not be obtained at the cheaper airline because the traveler was not guaranteed a seat and was waitlisted. This happens on occasion due to the Governments lengthy process in authorizing of Travel Requests and last minute confirmations on when a TA is authorized.

As the program operated based on this, it did not request for a hard copy of both quotations from the travel agent. The program has however, began requesting all quotations from the travel agent in order to document that competitive pricing is being sought and secured.

The Program has also since revised its Policies and Procedures to ensure ongoing monitoring is completed that includes the aforementioned process.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-31, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan, Continued:</u>		
Corrective Action, Continued:		
In October of 2008 the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government.		
Proposed Completion Date: May 2009 ongoing		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-32

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Agriculture / Special Supplemental Nutrition Program for Women, Infants, and Children / CFDA #10.557 / Federal Award # 7NM700NM7 / Federal Award Period 10/01/07 through 09/30/08</p>	<p><u>Criteria:</u> In accordance with Section 3-108 of the CNMI Procurement Regulations, when special circumstances require expedited procurement of goods or services, the official with expenditure authority may request that the Procurement & Supply (P&S) Director approve expedited procurement without solicitation of bids or proposals. The factor to be considered by the P&S Director in approving or disapproving this request shall be:</p> <ul style="list-style-type: none"> (a) The urgency of the government's need for the good or service; (b) The comparative costs of procuring the goods or service from a sole source or through the competitive process; (c) The availability of the goods or service in the Commonwealth and the timeliness in acquiring it; and (d) Any other factors establishing that the expedited procurement is in the best interest of the Commonwealth Government. 	<p>24,960</p>
	<p><u>Condition:</u> Of seventeen non-payroll Nutrition Services and Administration costs tested aggregating \$153,171, one contract (contract no. 481635-OC) was procured using expedited procurement. Although justification was provided for the procurement method utilized, the justification did not appear to satisfy the urgency of the Program's need for the good or service and documentation to support comparative costs of procuring the goods or service from a sole source or through a competitive process were not available for examination. The total related fiscal year 2008 expenditures amounted to \$24,960.</p>	
	<p><u>Cause:</u> The cause of the above condition is the lack of compliance with Section 3-108 of the CNMI Procurement Regulations.</p>	
	<p><u>Effect:</u> The effect of the above condition is noncompliance with Section 3-108 of the CNMI Procurement Regulations and questioned costs of \$24,960.</p>	
	<p><u>Recommendation:</u> We recommend that the Program adhere to established Procurement Regulations.</p>	
	<p><u>Auditee Response and Corrective Action Plan:</u></p>	
	<p>Name of Contact Persons: Derek Sasamoto, Finance Manager and Josephine Tudela, Program Administrator</p>	
	<p>Corrective Action:</p>	
	<p>The urgency of the program acquiring a United States-certified Registered Dietician was great as the program was to begin fiscal year 2008 without one as the volunteer agreement for its previous RD had expired in September of 2007. Moreover, federal regulations require the WIC programs to have an RD in order to operate. Furthermore, there was no other US-certified RD available locally.</p>	
	<p>Thus, the urgency for this mandatory service was quite great. This condition is substantiated by the fact the Procurement and Supply approved the expedited procurement request for this service.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-32, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p data-bbox="513 428 1102 455"><u>Auditee Response and Corrective Action Plan, Continued:</u></p> <p data-bbox="513 478 842 506">Corrective Action, Continued:</p> <p data-bbox="513 531 1317 682">In regards to comparative costs, the former Deputy Secretary for Public Health, reportedly performed research on comparable salaries for RDs across the US in order to determine compensation. The Program has since been able to hire two RD's under FTE's, one of which is a local individual, while the other hails from another WIC Program in California who has temporarily relocated to Saipan due to her spouses job.</p> <p data-bbox="513 707 1182 735">The program is committed to following Procurement Regulations.</p> <p data-bbox="513 758 1317 810">The Program has also since revised its Policies and Procedures to ensure ongoing monitoring is completed that includes the aforementioned process.</p> <p data-bbox="513 833 1317 934">In October of 2008 the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government.</p> <p data-bbox="513 957 813 984">Proposed Completion Date:</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-33

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><u>Criteria:</u> Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.</p> <p><u>Condition:</u> Of twenty-five contracts tested, we noted the following:</p> <ul style="list-style-type: none"> • Relevant procurement documents provided for examination supporting procurement were not complete for Contract 468-OS. While the bid invitation and evidence of public notice were provided, the bid summary, bids received and other relevant procurement documents were not locatable. The related fiscal year 2008 costs of \$81,424 (BU 5602) are questioned. <p><u>Cause:</u> The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.</p> <p><u>Effect:</u> The effect of the above condition is incomplete procurement files and questioned costs of \$81,424.</p> <p><u>Recommendation:</u> We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Herman Sablan, Director of Procurement and Supply</p> <p>Corrective Action: We agree with the finding that the CNMI Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.</p> <p>Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. Procurement should have all pertinent documents in file.</p> <p>A memorandum will be issued by the Director of Procurement and Supply with concurrence of the Acting Secretary of Finance informing all Procurement and Supply Specialists to utilize the checklist developed to ensure that the documents for the procurement of projects are verified and filed properly by solicitation numbers within five business days of receipt of documents.</p> <p>Proposed Completion Date: 2009</p>	<p>81,424</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-34

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><u>Criteria:</u> In accordance with Section 3-106 (2) of the CNMI Procurement Regulations, a written justification for sole source procurement shall be prepared by the official with expenditure authority. The written sole source justification shall contain the following: a) the specific unique capabilities of the contractor selected; b) the specific reasons why such unique capabilities are required for the particular procurement; c) what specific efforts were made to obtain competition and d) what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. Moreover, generalized statements are not adequate and documents to support the statements justifying the sole source procurement are mandatory.</p> <p><u>Condition:</u> Of twenty-five contracts tested, we noted the following:</p> <ul style="list-style-type: none"> • Contract 381-OS was procured using sole source procurement. Although justification was provided for the procurement method utilized, the justification did not contain the specific efforts made to obtain competition and what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. The related fiscal year 2008 costs of \$33,500 (BU 5602) are questioned. • Contract 440-OS was procured using sole source procurement. It was noted that this was originally supposed to be a change order for 415 OS but since it exceeded the 25% limit for change orders, a new contract had to be issued. As a condition for approval of the emergency procurement, the Department of Health was supposed to use the "detailed scope of work" in their 04/09/07 memo to solicit quotes from three other vendors who originally competed for the work on 415 OS. We were not provided the 04/09/07 memo for scope of work and the quotes from the three other vendors. The related fiscal year 2008 costs of \$117,835 (BU 5210) are questioned. • Contract 448-OS was procured using sole source procurement. The contract was issued similarly to a change order for Contract 417-OS as an extension for one more year. The original contract 417-OS did not stipulate an option to renew for another year nor did the related RFP06-GOV-121. The related fiscal year 2008 costs of \$75,000 (BU 5222 - \$13,250; BU 5617 - \$61,750). <p><u>Cause:</u> The cause of the above condition is failure to comply with Sec. 3-106 of the CNMI Procurement Regulations.</p> <p><u>Effect:</u> The effect of the above condition is the lack of compliance with Section 3-106 of the CNMI Procurement Regulation and questioned costs of \$226,335.</p> <p><u>Recommendation:</u> We recommend that the CNMI adhere to established Procurement Regulations.</p> <p><u>Prior Year Status:</u> Failure to comply with Sec. 3-106 of the CNMI Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2006 and 2007.</p>	<p>33,500</p> <p>117,835</p> <p>75,000</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-34, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Diego Songsong, Secretary of Public Works, Pedro Sasamoto, WTF Program Manager and Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: We will verify documents related to 381 OS and 440 OS to confirm the type of procurement method used and also make it available to the auditors for review.</p> <p>For Contract 448 OS, we noted that finding contains an incorrect reference to the CNMI Procurement Regulations which was amended in 2004. The standard was changed and finding must be revised.</p> <p>The justification submitted contained the necessary elements to warrant a sole source contract under the revised regulation. The letter of justification explains Mr. Sasamoto's unique qualifications as a P.E. with utility and management experience, knowledge of the Saipan water system and explains the benefit continuity of management would have for the program. It explains the past efforts to fill the position, the lack of Professional Engineer applicants during the last solicitation.</p> <p>The responsible agencies are required to comply with Part 300 of the CNMI Procurement Regulations. A memorandum issued by the CIP Administrator on May 12, 1999 reminding all expenditure authorities to adhere to the CNMI Procurement Regulations concerning changes in project scope, timetable, quantities, or dollar values. It is recommended that the CNMI Director of Procurement and Supply issue a reminder to all responsible agencies that they must adhere to the CNMI Procurement Regulations pursuant to Part 300 (Procurement of Construction and Architect-Engineer Services, Professional Services and Vehicles).</p> <p>Proposed Completion Date: Immediately</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-35

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><u>Criteria:</u> The <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i> (43 CFR Section 12.76(d)(3)(iv(v))) stipulates “that awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; andThe method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort”. In accordance with Section 3-103(5) of the CNMI Procurement Regulations, the request for proposals shall state the relative importance of price and other evaluation factors. Price or cost to the government shall be included as an evaluation factor in every solicitation of proposals. The P&S Director must ensure that the following requirements are complied with in any evaluation of proposals.</p> <p><u>Condition:</u> Of twenty-five contracts tested, three contracts did not include cost as an evaluating factor in evaluating proposals submitted. Evaluating factors for the related contracts are as follows:</p> <ul style="list-style-type: none"> • Contract 372-OS: 1. Qualifications of key personnel/staff - 30%; 2. Project Approach - 30%; 3. Past experience on similar Construction Management - 30%; 4. Current workload of firm and ability to commit staff to the project - 10%. The related fiscal year 2008 costs of \$46,792 (BU 5218) are questioned. • Contract 436-OS: 1. Evaluation of the critical items referenced in Items A. through D, Section 2 - 40 pts; 2. Prior experience in leak detection and repairs as described in Items A and B, Section 2 - 20 pts; 3. Availability of on-island equipment services necessary to correct system deficiencies - 10 pts; 4. Qualifications of the Proposer's team members - 15 pts; 5. The team's present work load and availability, including performance with similar projects - 10 pts; 6. The proposed timetable for performing the system wide deficiency corrections - 5 pts. Additionally, we were not provided an evaluation report supporting the proposals were evaluated and merit allocated. The related fiscal year 2008 costs of \$3,476,621 (BU 5222 - \$1,490,528; BU 5617 - \$961,526; BU 5618 - \$1,024,567) are questioned. 	<p>46,792</p> <p>3,476,621</p>
	<p><u>Cause:</u> The cause of the above condition is failure to include cost as an evaluating factor.</p>	
	<p><u>Effect:</u> The effect of the above condition is the lack of compliance with Section 3-103(5) of the CNMI Procurement Regulation and questioned costs of \$3,523,413.</p>	
	<p><u>Recommendation:</u> We recommend that the CNMI review evaluating factors to ensure inclusion of cost.</p>	
	<p><u>Prior Year Status:</u> The failure to include cost as an evaluating factor was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.</p>	
	<p><u>Auditee Response and Corrective Action Plan:</u></p>	
	<p>Name of Contact Persons: Diego Songsong, Secretary of Public Works, Pedro Sasamoto, Water Task Force Program Manager and Herman S. Sablan, Director of Procurement and Supply</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-35, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We will verify documents related to 372 OS if costs were to be considered as part of the evaluation factor. The documents will be made available to the auditors for review.

The WTF utilized A&E procurement method for 436 OS since the nature of the work requires engineering expertise. The WTF will not use the A&E procurement method in the future where the work is not exclusively A&E.

The Director of Procurement and Supply will verify with the expenditure/contracting authority of the type of procurement method used for the proposed solicitation to ensure that the required evaluation factors are considered prior to publication of solicitations.

Proposed Completion Date: July 1, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-36

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><u>Criteria:</u> In accordance with Section 5-103 (2) of the CNMI Procurement Regulations, 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 Section 3-101, except when the procurement of the additional work is authorized without using full and open competition under Section 3-104.</p> <p><u>Condition:</u> Of twenty-five contracts tested, we noted change orders (CO) related to one contract (contract # 311-OS, CO #2 for \$525,000) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement. The fiscal year 2008 expenditures tested relating to these change orders are \$63,067 (BU 5238).</p> <p><u>Cause:</u> The cause of the above condition is the failure to justify sole source procurement.</p> <p><u>Effect:</u> The effect of the above condition is the lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation and questioned costs of \$63,067.</p> <p><u>Recommendation:</u> We recommend that the Division of Procurement and Supply review contract change orders to ensure justifications are properly documented, filed and maintained.</p> <p><u>Prior Year Status:</u> The lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Diego Songsong, Secretary of Public Works and Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: We will verify documents related to 311 OS, Change Order No. 2, if the additional work was sole sourced. The original bid will also be verified as it included an additive alternate during solicitation. When the original contract was executed, only the base bid was considered due to funding being insufficient to include the additive portion of the bid until such time that full funding becomes available. Documents will be made available for review by the auditors.</p> <p>The responsible agencies are required to comply with Part 300 of the CNMI Procurement Regulations. A memorandum issued by the CIP Administrator on May 12, 2009 reminded all expenditure authorities to adhere to the CNMI Procurement Regulations concerning changes in project scope, timetable, quantities, or dollar values. It is recommended that the CNMI Director of Procurement and Supply issue a reminder to all responsible agencies that they must adhere to the CNMI Procurement Regulations pursuant to Part 300 (Procurement of Construction and Architect-Engineer Services, Professional Services and Vehicles).</p> <p>Proposed Completion Date: May 12, 2009</p>	<p>63,067</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-37

Program	Reason for Questioned Costs	Questioned Costs																																																
U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 - 09/30/08	<p><u>Criteria:</u> In accordance with 40 CFR Section 31.36 (d)(1), small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of seventeen non-payroll expenditures tested aggregating \$118,245, the following were noted:</p> <p>1. There was no evidence that price quotations were obtained from an adequate number of qualified sources which qualifies under small purchase procedures for the following:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Document Type</th> <th style="text-align: center;">Document No.</th> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">670991</td> <td style="text-align: center;">01/16/08</td> <td style="text-align: right;">\$ 2,909</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">673483</td> <td style="text-align: center;">02/06/08</td> <td style="text-align: right;">1,820</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">672375</td> <td style="text-align: center;">01/29/08</td> <td style="text-align: right;">2,948</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">721914</td> <td style="text-align: center;">07/28/08</td> <td style="text-align: right;">3,750</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">681060</td> <td style="text-align: center;">04/23/08</td> <td style="text-align: right;"><u>1,962</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 13,389</u></td> </tr> </tbody> </table> <p>2. There was no written sole source justification memo on file for the following. Further, there was no documentation evidencing that efforts were exerted to contact other possible vendors that may be supplying the same items purchased.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Document Type</th> <th style="text-align: center;">Document No.</th> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">OP</td> <td style="text-align: center;">480868</td> <td style="text-align: center;">01/07/08</td> <td style="text-align: right;">\$ 26,200</td> </tr> <tr> <td style="text-align: center;">OV</td> <td style="text-align: center;">223596</td> <td style="text-align: center;">11/06/07</td> <td style="text-align: right;">9,500</td> </tr> <tr> <td style="text-align: center;">OV</td> <td style="text-align: center;">224609</td> <td style="text-align: center;">07/10/08</td> <td style="text-align: right;"><u>7,880</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 43,580</u></td> </tr> </tbody> </table> <p>3. For one \$4,200 item (voucher no. 675437), the purchase order date precedes the invoice and service date, thus, the expenditure was incurred prior to approval. No questioned costs result since the related expenditure was approved and is allowable under the program.</p> <p><u>Cause:</u> The cause of the above condition is the lack of policies and procedures in place within the requesting departments to ensure compliance with federal procurement regulations for small purchases.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$56,969.</p> <p><u>Recommendation:</u> We recommend that the Program comply with federal procurement regulations related to small purchase procedures.</p>	Document Type	Document No.	General Ledger Date	General Ledger Amount	PV	670991	01/16/08	\$ 2,909	PV	673483	02/06/08	1,820	PV	672375	01/29/08	2,948	PV	721914	07/28/08	3,750	PV	681060	04/23/08	<u>1,962</u>				<u>\$ 13,389</u>	Document Type	Document No.	General Ledger Date	General Ledger Amount	OP	480868	01/07/08	\$ 26,200	OV	223596	11/06/07	9,500	OV	224609	07/10/08	<u>7,880</u>				<u>\$ 43,580</u>	<p style="text-align: right;">13,389</p> <p style="text-align: right;">43,580</p>
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-37, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Prior Year Status:</u> The lack of policies and procedures in place within the requesting departments to ensure compliance with local and federal procurement regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Frank M. Rabauliman, Director, Division of Environmental Quality</p> <p>Corrective Action: The Division of Environmental Quality (DEQ) has established procedures consistent with the CNMI Procurement Regulations and will utilize competitive procurement to indicate that price or rate quotations are obtained from an adequate number of qualified sources.</p> <p>Condition 1:</p> <p>Document Nos. 673483 and 681060 - Small purchases were done in accordance to Section 3-105 of the CNMI Procurement Regulations.</p> <p>Document Nos. 670991 and 672375 - Air service was made available at the time the travel was requested and grantor approved funds to be used for the travel requested. The CNMI has very limited access to international travel.</p> <p>Document No. 721914 - Contract was awarded through bidding process and open account was established with the vendor for continuous services. The obligating document is the cumulative expenditure drawn from an open account.</p> <p>Condition 2:</p> <p>Document No. 480868 - DEQ followed the sole source procurement method and demonstrated the appropriate use of sole source by meeting the requirements of the CNMI-PR Section 3-106(2) of the CNMI Procurement Regulations.</p> <p>Document No. 223596 - The only provider that will meet DEQ's terms and requirements through open accounts. The obligating document is the cumulative expenditure drawn from an open account.</p> <p>Document No. 224609 - All purchases are done in accordance with the CNMI Procurement Regulations. However, obligating document was an exception, as it is the only sole provider for telephone communications in the CNMI.</p> <p>Condition 3: Voucher no. 675437</p> <ul style="list-style-type: none"> • Purchase requisition was received by Procurement & Supply before the invoice and service date. • The only venue that can accommodate the number of participants and can meet the workshop space requirement. • EPA grant work plan activity that funding was certified for and activity was approved by EPA. <p>Proposed Completion Date: Ongoing</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - Nonmajor Programs

Finding No. 2008-38

Program	Reason for Questioned Costs					Questioned Costs																
	<p><u>Criteria:</u> Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.</p> <p><u>Condition:</u> Of forty-six nonmajor program nonpayroll expenditures tested aggregating \$2,489,586, the following were noted:</p>																					
	<p>1. The relevant procurement documents (i.e., bid invitations, bid summary, bids received, evidence of public notice) supporting the procurement for the following contracts procured through competitive sealed bids were not provided:</p>																					
	<table border="1"> <thead> <tr> <th style="text-align: center;"><u>CFDA No.</u></th> <th style="text-align: center;"><u>Business Unit No.</u></th> <th style="text-align: center;"><u>Contract No.</u></th> <th style="text-align: center;"><u>Document Ref. No.</u></th> <th style="text-align: center;"><u>General Ledger Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">97.036</td> <td style="text-align: center;">M6036F</td> <td style="text-align: center;">443630 OC</td> <td style="text-align: center;">670144 PV</td> <td style="text-align: right;">\$ 31,388</td> </tr> <tr> <td style="text-align: center;">97.044</td> <td style="text-align: center;">J7044F</td> <td style="text-align: center;">470164 OC</td> <td style="text-align: center;">673536 PV</td> <td style="text-align: right;">51,121</td> </tr> <tr> <td colspan="4"></td> <td style="text-align: right;">\$ 82,509</td> </tr> </tbody> </table>	<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>	97.036	M6036F	443630 OC	670144 PV	\$ 31,388	97.044	J7044F	470164 OC	673536 PV	51,121					\$ 82,509	82,509
<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>																		
97.036	M6036F	443630 OC	670144 PV	\$ 31,388																		
97.044	J7044F	470164 OC	673536 PV	51,121																		
				\$ 82,509																		
	<p>2. The relevant quotations from other vendors were not available for the following contracts procured through expedited procedures:</p>																					
	<table border="1"> <thead> <tr> <th style="text-align: center;"><u>CFDA No.</u></th> <th style="text-align: center;"><u>Business Unit No.</u></th> <th style="text-align: center;"><u>Contract No.</u></th> <th style="text-align: center;"><u>Document Ref. No.</u></th> <th style="text-align: center;"><u>General Ledger Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">97.067</td> <td style="text-align: center;">J5067S</td> <td style="text-align: center;">470023 OC</td> <td style="text-align: center;">673718 PV</td> <td style="text-align: right;">\$ 43,059</td> </tr> </tbody> </table>	<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>	97.067	J5067S	470023 OC	673718 PV	\$ 43,059	43,059										
<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>																		
97.067	J5067S	470023 OC	673718 PV	\$ 43,059																		
	<p><u>Cause:</u> The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.</p> <p><u>Effect:</u> The effect of the above condition is incomplete procurement files and questioned costs of \$125,568.</p> <p><u>Recommendation:</u> We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: Consolidated filing of contract and relevant procurement documents has been a continuing problem due to the multiple locations contract and procurement information is filed. Procurement should have all pertinent documents in file. We are in the process of developing a checklist to be reviewed on contract completion to insure all related documents are included. Further, we will continue follow up on locating documents and provide to auditors.</p> <p>Proposed Completion Date: Ongoing</p>																					

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Program Income

Finding No. 2008-39

Program	Reason for Questioned Costs	Questioned Costs
U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 - 09/30/08	<p>Criteria: In accordance with Section N of the Administrative Conditions of the grant award, all program income generated must be retained by, or otherwise be made available to support activities associated with the consolidated environmental program. The Division of Environmental Quality (DEQ) agrees to maintain records that account for program income and to specify how program income has been used. DEQ is required to submit by June 30, 2008, an accounting of all program income earned for the period October 1, 2007, through May 31, 2008, and a description of how those funds have been used or will be used to support the overall environmental program.</p> <p>Condition: Our tests of DEQ's reports accounting for program income received for the period October 1, 2007 through September 30, 2008, reflected program income that was \$11,685 less than program income recorded in the general ledger.</p> <p>Cause: The cause of the above condition is the lack of reconciliation and monitoring of program income collected by the Treasury office and other collection points and the DEQ office.</p> <p>Effect: The effect of the above condition is the lack of compliance with Section N of the grant Administrative Conditions and questioned costs of \$11,685.</p> <p>Recommendation: We recommend that program income be properly accounted for and that reported program income is reconciled to underlying accounting records.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Frank M. Rabauliman, Director, Division of Environmental Quality</p> <p>Corrective Action: DEQ has been monitoring all program income collected by the Treasury Office and other collection points. DEQ will ensure that program income are properly accounted for and reported program income are reconciled with accounting records.</p> <p>Proposed Completion Date: Ongoing</p>	11,685
Total Questioned Costs		\$ <u>7,165,481</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Cash Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-40

Criteria: The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is seven days.

Condition: For seven of sixteen non-payroll samples tested, the following were paid out between four to two hundred and one days after the allowable clearance pattern:

<u>Document No.</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
646937	\$ 10,600	316235	11/28/07	11/08/07	7
646937	\$ 10,600	318172	12/17/07	11/08/07	20
670045	\$ 10,600	321158	02/13/08	01/24/08	7
682359	\$ 10,600	326866	06/11/08	05/12/08	15
748455	\$ 10,600	331673	09/10/08	08/11/08	15
6027	\$ 2,108	none	09/30/08	03/06/08	141
757859	\$ 3,523	332160	09/30/08	09/18/08	1

The CNMI received \$7,358,112 in program benefits related to food costs. Of the total, \$6,922,941 was tested. The following were paid after the allowable clearance pattern:

<u>Document No.</u>	<u>Amount</u>	<u>Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
674668	\$ 501,385	02/07/08	01/24/08	3
702401	\$ 510,955	06/06/08	05/12/08	16
712967	\$ 463,746	07/07/08	06/09/08	13
753627	\$ 113,271	07/07/08	06/09/08	13
753632	\$ 488,416	08/07/08	07/21/08	6
758848	\$ 474,396	09/05/08	08/11/08	12
758842	\$ 65,859	08/07/08	07/21/08	4
764596	\$ 531,494	10/07/08	09/18/08	6

In addition, during fiscal year 2008, the CNMI remitted \$2,529,092 for the employer shares of retirement contributions. Of the amount, the Food Stamps program's retirement contribution totaling \$65,074 was tested. The following were paid after the allowable clearance pattern:

<u>PPE No.</u>	<u>Amount</u>	<u>Check Number</u>	<u>Average Clearance Date</u>	<u>Average Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
10/13/07	\$ 8,084	317762	12/04/07	11/08/07	7
10/27/07	\$ 7,381	317763	12/04/07	11/08/07	6
11/24/07	\$ 7,999	319425	01/15/08	12/06/07	14
01/05/08	\$ 7,705	323757	04/16/08	01/24/08	26
01/19/08	\$ 7,661	323757	04/16/08	02/07/08	19
02/02/08	\$ 7,705	323757	04/16/08	02/11/08	20
02/16/08	\$ 8,801	330787	08/22/08	03/06/08	38

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-40, Continued

Condition, Continued:

<u>PPE No.</u>	<u>Amount</u>	<u>Check Number</u>	<u>Average Clearance Date</u>	<u>Average Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
03/01/08	\$ 7,705	330788	08/22/08	03/06/08	33
03/15/08	\$ 7,705	330789	08/25/08	03/06/08	34
03/29/08	\$ 7,706	330790	08/25/08	04/07/08	28
04/12/08	\$ 7,964	330791	08/25/08	04/28/08	25
04/26/08	\$ 7,888	330792	08/25/08	05/07/08	26
05/10/08	\$ 7,776	330793	08/25/08	05/12/08	26
05/24/08	\$ 7,776	330794	08/25/08	06/09/08	19
06/07/08	\$ 7,685	330795	08/25/08	07/18/08	6
06/21/08	\$ 7,713	330796	08/25/08	07/18/08	6
06/30/08	\$ (107,764)	adjustment	05/18/08	03/04/08	76
07/05/08	\$ 2,326	333866	09/30/08	07/21/08	4
07/19/08	\$ 2,309	333868	09/30/08	08/11/08	4
08/02/08	\$ 2,315	333870	09/30/08	08/11/08	4

Cause: The cause of the above condition is a lack of procedures to ensure cash advanced from the grantor agency is disbursed within a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$2,706 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Agriculture is less than \$10,000.

Recommendation: We recommend that the Department of Finance ensure strict compliance with the clearance pattern as approved and specified in the CMIAA.

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. We note there has been considerable improvement from 2007 in both the number of exceptions and the elapsed days after the clearance pattern. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-40, Continued

Auditee Response and Corrective Action Plan:

Corrective Action, Continued:

Document 6027 is a journal entry which does not appear to be related to a cash transaction. Auditors need to adjust days outstanding noted in condition.

Proposed Completion Date: Ongoing

Auditor Response: Document 6027 is a journal entry and the related disbursement has not occurred as of September 30, 2008. However, federal funds were already drawdown to reimburse the expenditure. As such, days elapsed and corresponding interest liability were determined.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Cash Management - Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.557, Federal Award # 7NM700NM7
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-41

Criteria: The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is three days.

Condition: For five of twenty-three non-payroll Nutrition Services and Administration cost samples tested, the following were paid out between four to seventy-eight days after the allowable clearance pattern:

<u>Document No.</u>	<u>Amount</u>	<u>Check No.</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
224249	\$ 14,765	327210	07/30/08	05/20/08	48
710291	\$ 105,102	328403	07/22/08	07/11/08	4
722955	\$ 1,982	329984	12/11/08	08/20/08	78
757177	\$ 4,999	332410	10/02/08	09/19/08	6
759866	\$ 7,566	333144	10/27/08	10/02/08	14

In addition, during fiscal year 2008, the CNMI remitted the employer shares of retirement contributions of \$2,529,092. Of the total amount, the Program's retirement contribution totaling \$93,621 was tested. The following were paid after the allowable clearance pattern:

<u>PPE No.</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
02/16/08	\$ 3,724	330787	08/22/08	05/20/08	65
03/01/08	\$ 3,464	330788	08/22/08	05/20/08	65
03/15/08	\$ 3,464	330789	08/25/08	05/20/08	66
03/29/08	\$ 3,464	330790	08/22/08	05/20/08	65
04/12/08	\$ 3,464	330791	08/25/08	06/23/08	42
04/26/08	\$ 3,464	330792	08/25/08	06/23/08	42
05/10/08	\$ 3,464	330793	08/25/08	06/23/08	42
05/24/08	\$ 3,464	330794	08/25/08	06/23/08	42
06/07/08	\$ 3,464	330795	08/25/08	07/11/08	30
06/21/08	\$ 3,464	330796	08/25/08	07/11/08	30
07/05/08	\$ 3,464	333866	10/16/08	07/11/08	66
07/19/08	\$ 3,464	333868	10/16/08	08/20/08	38
08/02/08	\$ 3,464	333870	10/16/08	08/20/08	38
08/16/08	\$ 3,386	333872	10/16/08	08/20/08	38
08/30/08	\$ 3,205	333874	10/16/08	09/19/08	16

Cause: The cause of the above condition is the lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner in accordance with the requirement of the CMIAA.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$91 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Agriculture is less than \$10,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-41, Continued

Recommendation: We recommend that the Department of Finance ensure strict compliance with the clearance pattern as approved and specified in the CMIAA.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. CFDA #10.557 shows a receivable of \$292,645 as of the audit date. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Environmental Protection Agency
Cash Management - Environmental Protection Consolidated Grants-Program Support
CFDA #66.600, Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B
Federal Award Period 10/01/03 - 09/30/08

Finding No. 2008-42

Criteria: The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is ten days.

Condition: For one of seventeen non-payroll samples tested, the following were paid out after the allowable clearance pattern:

<u>Document #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipts Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
PV647489	\$20,290	318874	01/16/08	11/29/07	24

The following retirement contributions were paid after the allowable clearance pattern:

<u>PPE No.</u>	<u>Amount Per BU # P2600S</u>	<u>Amount Per BU # P4600D</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
02/16/08	\$ 266	\$ 16,447	330787	08/22/08	04/28/08	74
03/01/08	\$ 266	\$ 15,753	330788	08/22/08	04/28/08	74
03/15/08	\$ 665	\$ 15,144	330789	08/25/08	04/28/08	75
03/29/08	\$ 266	\$ 15,614	330790	08/22/08	04/28/08	74
04/12/08	\$ 266	\$ 15,265	330791	08/25/08	07/23/08	14
04/26/08	\$ 266	\$ 15,299	330792	08/25/08	07/23/08	14
05/10/08	\$ 266	\$ 15,246	330793	08/25/08	07/23/08	14
05/24/08	\$ 266	\$ 14,663	330794	08/25/08	07/23/08	14
06/07/08	\$ 266	\$ 14,727	330795	08/25/08	07/23/08	14
06/21/08	\$ 266	\$ 14,667	330796	08/25/08	07/23/08	14
07/05/08	\$ 266	\$ 14,581	333866	10/16/08	09/19/08	11
07/19/08	\$ 266	\$ 14,575	333868	10/16/08	09/19/08	11
08/02/08	\$ 300	\$ 15,606	333870	10/16/08	09/19/08	11
08/16/08	\$ 287	\$ 13,580	333872	10/16/08	09/19/08	11
08/30/08	\$ 50	\$ 12,383	333874	10/16/08	09/19/08	11

Cause: The cause of the above condition is the lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$377 exists. However, no questioned costs result from the condition as the projected interest liability due to the U.S. Environmental Protection Agency is less than \$10,000.

Recommendation: We recommend that the Department of Finance ensure compliance with the clearance pattern specified in the CMIAA.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-42, Continued

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. CFDA #66.600 shows a receivable of \$36,224 as of the audit date. We note there has been considerable improvement from 2007 in both the number of exceptions and the elapsed days after the clearance pattern. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Health and Human Services
Cash Management - Medical Assistance Program
CFDA #93.778, Federal Award #s 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-43

Criteria: The Cash Management Improvement Act Agreement (CMIAA) requires that the CNMI request funds such that they are deposited by the U.S Treasury on the dollar-weighted average day of clearance for the disbursements of 10 days for the Medicaid Program. Otherwise, CNMI shall be liable for interest on the Federal funds from the date the Federal funds are credited to the State's account until the date those funds are paid out for program purposes.

Condition: For forty-one of eighty samples tested, disbursement checks were released and cleared from one to eighty-eight days after the allowable clearance pattern:

<u>APV #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
649044	\$ 47,500	318184	12/28/07	11/21/07	17
650546	\$ 30,235	321166	02/08/08	12/06/07	36
650547	\$ 17,747	321166	02/08/08	12/06/07	36
675182	\$ 46,458	324152	04/29/08	03/04/08	30
675485	\$ 28,124	324167	04/18/08	03/04/08	23
675491	\$ 22,206	324167	04/18/08	03/04/08	23
675493	\$ 23,982	324167	04/18/08	03/04/08	23
677035	\$ 61,307	325005	05/12/08	04/25/08	1
679824	\$ 27,186	327516	06/26/08	04/25/08	34
681448	\$ 27,538	327516	06/26/08	05/12/08	23
681723	\$ 94,239	328548	08/01/08	05/12/08	49
681867	\$ 22,879	328031	09/23/08	05/12/08	88
682848	\$ 31,173	327516	06/26/08	06/03/08	7
695653	\$ 19,057	328657	07/29/08	06/03/08	32
723345	\$ 23,879	332154	11/04/08	08/20/08	44
724231	\$ 29,617	331689	09/12/08	08/20/08	7
754143	\$ 19,585	333384	10/15/08	09/17/08	10
650519	\$ 3,261	318861	01/04/08	12/06/07	11
650525	\$ 2,153	318861	01/04/08	12/06/07	11
649041	\$ 7,474	318184	12/28/07	11/21/07	19
649043	\$ 9,201	318184	12/28/07	11/21/07	19
649425	\$ 15,647	317648	12/11/07	11/21/07	4
649430	\$ 8,889	317648	12/11/07	11/21/07	4
649431	\$ 11,166	317678	12/11/07	11/21/07	4
649622	\$ 1,545	319230	01/30/08	11/21/07	40
650527	\$ 5,157	318861	01/04/08	12/06/07	9
650530	\$ 11,019	318861	01/04/08	12/06/07	9
650534	\$ 11,355	318861	01/04/08	12/06/07	9
650542	\$ 1,734	318554	12/24/07	12/06/07	2
650545	\$ 9,677	321166	02/08/08	12/06/07	36
650550	\$ 7,675	319185	02/01/08	12/06/07	31
650552	\$ 11,322	321162	02/29/08	12/06/07	51
671697	\$ 2,612	323062	03/25/08	02/04/08	26
675470	\$ 11,606	323477	04/10/08	03/04/08	17

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-43, Continued

Condition, Continued:

<u>APV #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
675474	\$ 12,555	323747	04/23/08	03/04/08	26
675484	\$ 11,711	324167	04/18/08	03/04/08	23
675487	\$ 10,818	324167	04/18/08	03/04/08	23
748788	\$ 1,431	332531	10/03/08	09/17/08	2
754147	\$ 15,905	333384	10/15/08	09/17/08	10
754148	\$ 9,006	333384	10/15/08	09/17/08	10
649405	\$ 39,592	319501	01/22/08	11/21/07	34

Cause: The cause of the above condition is the lack of procedures to ensure cash advanced from the grantor agency is disbursed within a timely manner in accordance with the requirement of the CMIAA.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$2,112 exists. However, no question costs result as the projected interest liability to the U.S. Department of Health and Human Services is below \$10,000.

Recommendation: We recommend that the Department of Finance ensure compliance with the clearance pattern as approved and specified in the CMIAA.

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. CFDA #93.778 shows a receivable of \$1,407,928 as of the audit date. We note there has been considerable improvement from 2007 in both the number of exceptions and the elapsed days after the clearance pattern. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Equipment and Real Property Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-44

Criteria: Title 7 Section 3016.32 of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that a physical inventory of the property must be taken and the results reconciled with the property records at least every two years.

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

Condition: The following were noted during our examination of the Division of Nutrition Assistance Program (NAP) and the Division of Procurement and Supply compliance with the above requirements:

- Reconciliation of property records was not performed by P&S after the biennial physical inventory was taken. Further, of five items tested for physical verification, all five items are not included in the P&S property listing.
- Random audits of property held by NAP to validate the integrity of the property control process were not performed.
- Unit cost information on certain fixed asset items is not consistent between the NAP records and P&S records.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventories of property and equipment and an absence of a reconciliation between the property records maintained by P&S and NAP.

Effect: The effect of the above condition is that the CNMI is not in compliance with federal property standards and the CNMI Property Management Policies and Procedures. The difference in cost between the physical count (\$255,853) and property records (\$84,450) is excess property of \$171,403. No questioned cost is presented at this finding as the physical count indicates the property exists and is in use for the program.

Recommendation: We recommend that the CNMI ensure compliance with applicable federal property rules and regulations and the CNMI 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 lack of reconciliation between the property records maintained by P&S and NAP was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-44, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Eleanor S. Cruz, NAP Administrator and Herman S. Sablan, Director of Procurement and Supply

Corrective Action: Agree to the findings that the Procurement and Supply did not perform reconciliation immediately after the biennial physical inventory was taken. But this has been rectified. Procurement and Supply did thorough inventory of all items at NAP which started on June 3 and ended on June 6, 2009. We are very confident that our records will be synchronized from here forward.

This was resolved on June 06, 2009.

Proposed Completion Date: Completed

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Equipment and Real Property Management - Special Supplemental Nutrition Program for Women,
Infants, and Children
CFDA #10.557, Federal Award # 7NM700NM7
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-45

Criteria: 49 CFR 18.32 (d) provides that procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) 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.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.

In addition, the CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply 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.

Condition: The following were noted during our examination of the Program and Division of Procurement and Supply (P&S) compliance with the above requirements:

- P&S maintained records of equipment and property held by the Program, which includes equipment and property purchased by the Program since 2006 with a total cost of \$214,056. However, the property records did not include information as to the source of the property and percentage of federal participation. Further, of one hundred ninety-two items of property and equipment listed as of September 30, 2008, forty-six items did not have cost information.
- A physical inventory of equipment and property has not been performed since the Program started.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-45, Continued

Effect: The effect of the above condition is that the Program is not in compliance with federal property standards and the CNMI Property Management Policies and Procedures.

Recommendation: We recommend that the Program perform the required inventory procedures of its property and equipment and ensure compliance with applicable federal and local rules and regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: James Montenegro, WIC Systems Administrator and Barbara Pangelinan, Administrative Specialist

Corrective Action: Our inventory records are being adjusted to include the cost per item (current listing shows cost per PO). This was last completed 10/31/08 and is scheduled for September of 2009 and every September thereafter.

Security cameras are in place around the properties to deter theft. Section B of Chapter 17 (p6 and 7) outline our controls for inventory, lost or stolen resources and maintenance.

Our records prior to 2008 fiscal year were being handled by the Finance Office at the Division of Public Health. We have requested a copy of all records for all purchases and deliveries to the CNMI WIC program. Those records are being compared to our on hand inventory. Inventory keeping was not transferred over to the program until after the loss of the Division Systems Administrator.

There was an inventory completed on 10/31/08 which was submitted to the Division Finance Manager and Systems Administrator for review. No comment was returned on said inventory. Future inventories are scheduled for September of 2009 and every September thereafter.

Proposed Completion Date:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Environmental Protection Agency

Equipment and Real Property Management - Environmental Protection Consolidated Grants-
Program Support

CFDA #66.600, Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B

Federal Award Period 10/01/03 - 09/30/08

Finding No. 2008-46

Criteria: 40 CFR Section 31.32 (d) states that procedures for managing equipment, whether acquired in whole or in part with grant funds will meet the following requirements among others:

- (1) 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.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

In addition, the CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply 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.

Condition: The following were noted during our examination of the Division of Environmental Quality (DEQ) and Division of Procurement and Supply (P&S) compliance with the above requirements:

- DEQ and P&S did not reconcile property records. The property records maintained by DEQ are \$709,999 less than property records maintained by P&S.
- Property records maintained by DEQ have incomplete information as to acquisition cost and property number. Further, DEQ's listing did not include acquisition date and location of the property.
- Property records maintained by P&S contain incomplete information as to acquisition cost and did not include the location of the property.
- Of seventeen items tested for physical existence, three (ref. CNMI 13891, US-26740CM and US32284CM) items were not tagged to indicate ownership of the property.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding physical inventory of property and equipment and the lack of reconciliation of property records between DEQ and P&S.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-46, Continued

Effect: The effect of the above condition is that the CNMI is not in compliance with federal equipment and real property management requirements and with the CNMI Property Management Policies and Procedures.

Recommendation: We recommend that the CNMI ensure compliance with applicable federal property rules and regulations and the CNMI Property Management Policies and Procedures.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory of property and equipment and the lack of reconciliation of property records between DEQ and P&S was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frank M. Rabauliman, Director, Division of Environmental Quality

Corrective Action: DEQ is currently conducting another inventory of DEQ property to update the inventory listing for Procurement and Supply (P&S). DEQ will continue to reconcile with the property records of P&S.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2008-47

Criteria: Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. 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. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Condition: The CNMI Procurement Regulations Section 3-105 states the following:

- 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.
- Bidding is not required for procurements under \$2,500.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented and submitted to the Procurement and Supply Director for approval.
- Purchase orders may be utilized for small purchases subparagraphs (2) and (3).

It appears that the absence of competitive procurement for items less than \$2,500 does not conform to the federal requirement. Additionally, it does not appear that funding agencies approved such a threshold. As a result, the above requirement does not appear to conform to federal requirements.

Cause: The cause of the above condition is the lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations.

Effect: The effect of the above condition is lack of full and open competition on federal funded purchases. Expenditures tested that are less than \$2,500 and lack competitive procurement are questioned at Finding No. 2008-37.

Recommendation: We recommend that the CNMI review its current procurement regulations to ensure conformity with applicable federal laws.

Prior Year Status: The lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-47, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply

Corrective Action: We do not agree with the auditor's finding that CNMI provide for competitive procurements in procurements under \$2,500 in order to comply with Federal regulations. The Common Rule Section .36 "Procurement", Subsection (a) "States" says "When procuring property and services under a grant, States will follow the same policies and procedure it uses for procurement from its non-Federal funds." The Common Rule Section .3 "Definitions" defines "State" as "any of the several states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States....." Clearly the CNMI is a "State" under the Common Rule and should follow its standard procurement policies for procurements under Federal grants.

Even in Federal procurement it is practice to avoid obtaining quotes on procurements under \$2,500 (\$2,000 where the Davis-Bacon Act applies). Such procurements are defined as "Micro-Purchases in the Federal Acquisition Regulations (FAR) Subpart 2.1 "Definitions". A micro-purchase is one that does not exceed these dollar limitations. The purchase guidelines for such purchases at FAR Subpart 13.2 state at Subpart 13.202(a)(2) that "Micro-purchases may be awarded without soliciting competitive quotations if the contracting officer appointed in accordance with 1.603-3(b) considers the price to be reasonable", or (a)(3) "The administrative cost of verifying the reasonableness of the price for purchases may more than offset potential savings from detecting instances of overpricing. Therefore action to verify price reasonableness need only be taken if:

- (i) The Contracting Officer or individual appointed in accordance with 1.603-3(b) suspects that the price may not be reasonable (e.g. comparison with the previous price paid or personal knowledge of the supply or service); or
- (ii) Purchasing a supply or service for which no comparable pricing information is readily available.

The CNMI procurement regulations conform to the FAR in regard to the treatment of procurements of \$2,500 or less.

It is also worth noting that the National Association of State Purchasing Officials (NASPO) in its 4th Edition of "State and Local Government Purchasing Handbook" reported that "The current survey indicates that in 42 of the states, only small purchases over a specified amount require obtaining competitive quotation." Also, at a recent meeting of finance officials from the U.S. flag territories and U.S. affiliated islands, it was noted that the CNMI is the only entity with this finding even though small purchases are treated similarly in the other areas.

Proposed Completion Date: Not applicable

Auditor Response: Grantees and subgrantees may use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal laws and regulations. We have not been able to locate a State that utilizes a \$2,500 threshold for determining when competition should be present in a procurement and believe that the CNMI should change its procurement rules to conform to the federal requirement.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2008-48

Criteria: In accordance with OMB Circular A-87, Attachment B, Section 43, costs incurred by employees and officers for travel, including costs of lodging, other subsistence and incidental expenses shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit's written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under Subchapter 1 of Chapter 57, Title 5, United States Code or by the Administrator of General Services or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

Condition: The CNMI procurement regulations do not include procurement procedures relating to airfare. Currently, the CNMI's travel policies are based on directives and memorandums, which do not require competitive procurement when acquiring transportation services.

Cause: The cause of the above condition is the lack of a written procurement policy concerning travel and related expenditures.

Effect: The effect of the above condition is noncompliance with federal regulations on federally funded travel and related expenditures. Expenditures tested relating to airfare which lack competitive procurement are questioned at Finding Nos. 2008-31 and 2008-39.

Recommendation: We recommend that the CNMI adhere to federal travel regulations in the absence of a local procurement policy and/or incorporate procedures relating to the procurement of travel and related expenditures in local procurement regulations.

Prior Year Status: The lack of a written procurement policy on travel and related expenditures was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply

Corrective Action: We disagree with the auditors that separate travel procurement procedures should be included in the CNMI Procurement Regulations or that the CNMI follow Federal travel regulations. We are unaware of any set of procurement regulations which include provisions expressly dealing with expenditures for airline tickets or lodging. For example, the Federal Acquisition Regulations and Model Procurement Code (used in 23 states) do not. The purchase of airline tickets is a procurement which follows the general rules for methods/types of procurement and is therefore not specifically treated in the CNMI Procurement Regulations. Travel policy and per diem rates are typically addressed under separate policies, rules and regulations such as the Federal Travel Regulations (administered by the General Services Administration) or a State Travel Manual. As noted by the auditors, CNMI does have travel policies in place. It should also be noted that in regard to travel funded by Federal grants, most programs require approval of travel the Federal agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-48, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The auditors cite the travel policies in place for not requiring competitive procurement. CNMI travel policies are similar to other travel policies we are aware of. CNMI travel policies provide for limits on per diem rates that use Federal per diem rates for the most part and place limits on other types of travel expense (e.g. car rental, ground transportation, etc.). Airfare is limited to economy class tickets and travelers are required to select the lowest airfare that meets their travel requirements. Competition between airlines for ticket prices is very limited for the CNMI as only two U.S. based airlines (Continental and Northwest) provide air service. The CNMI government has negotiated a 15% discount with Northwest Airlines for government travel. U.S. cabotage laws prohibit non U.S. airlines from carrying passengers between two U.S. points. A large percentage of travel procurements are under \$2,500 and would fall under the small purchase requirements as discussed in the previous finding.

Proposed Completion Date: Not applicable

Auditor Response: Federal regulations require that procurement transactions be conducted in a manner providing full and open competition. This does not exclude transactions relating to airfares. Since multiple airlines service the CNMI and since multiple travel agents do business within the CNMI, it is incumbent on the CNMI to ensure that travel is undertaken at the lowest reasonable fare. Even though 2 airlines service the CNMI, multiple airlines provide service after reaching Hawaii or other destinations. Procurement procedures relating to travel expenses should be addressed by the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Procurement and Suspension and Debarment - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-49

Criteria: Title 7 Section 3016.60(c) of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that a State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts.

Condition: Of sixteen non-payroll samples tested, two items (ref. PV #s 649390 and 702406) awarded through a contract included a local geographical preference clause.

Cause: The cause of the above condition is the lack of procedures in place to ensure that all federally funded procurement of goods and services exclude the local bidder preference clause.

Effect: The effect of the above condition is noncompliance with federal procurement regulations. No questioned costs result from this finding as competition was not limited despite inclusion of a local geographical preference clause.

Recommendation: We recommend that the CNMI ensure that contracts funded by federal awards meet compliance with all applicable laws.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Eleanor S. Cruz, NAP Administrator and Herman S. Sablan, Director of Procurement and Supply

Corrective Action: The CNMI Nutrition Assistance Program and the Division of Procurement and Supply agree to the findings. Local preference instructions will not be included in all specifications for future federally funded procurement of goods and services. In addition, Procurement and Supply Division will not issue any local preference applications and exclude the local geographical preference clause from the Invitation to Bid forms.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

Procurement and Suspension and Debarment - Economic, Social, and Political Development of the Territories - Capital Improvement Projects

CFDA #15.875, Federal Award # Fiscal Years 1996 - 2008 Appropriations Act

Federal Award Period Available Until Expended

Finding No. 2008-50

Criteria: Grantee and subgrantee contracts must include, among others, provisions for: 1) termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement; 2) compliance with Equal Employment Opportunity; 3) compliance with the Copeland "Anti-Kickback" Act; 4) compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act; 5) compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act; and 6) federal access to contractor's records.

Condition: Of twenty-five contracts relating to expenditures of Capital Improvement Projects, we noted the following:

- Thirteen (13) contracts (#s 168-OS, 311-OS, 372-OS, 374-OS, 375-OS, 381-OS, 407-OS, 430-OS, 432-OS, 433-OS, 436-OS, 460-OS and 461-OS) did not contain provisions of compliance under Section 306 of the Clean Air Act.
- Twenty-three (23) contracts (#s 168-OS, 311-OS, 372-OS, 374-OS, 375-OS, 378-OS, 381-OS, 407-OS, 416-OS, 417-OS, 420-OS, 421-OS, 429-OS, 430-OS, 432-OS, 433-OS, 434-OS, 436-OS, 440-OS, 447-OS, 448-OS, 460-OS and 461-OS) did not contain provisions of federal access to contractor's records.
- Nine (9) contracts (#s 372-OS, 407-OS, 416-OS, 430-OS, 433-OS, 436-OS, 447-OS, 460-OS and 461-OS) did not contain provisions for compliance with Section 103 and 107 of Contract Hours and Safety Standards Act or its equivalent.
- One (1) contract (# 372-OS) did not contain provisions indicating compliance requirement on the Equal Opportunity (Executive Order 11246).

Cause: The cause of the above condition is the lack of procedures in place to ensure that contracts include required clauses.

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

Recommendation: We recommend that the CNMI ensure that contracts funded by federal awards specify compliance with all applicable federal laws.

Prior Year Status: The lack of compliance with the federal regulations relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-50, Continued

Auditee Response and Correction Action Plan:

Name of Contact Person: Herman Sablan, Director of Procurement and Supply

Corrective Action: Recommendation accepted. We will insure that all contracts we process funded under Federal grants contain all required provisions. It is recommended that the Office of the Attorney General review contract formats and standardize the forms to contain reference to the required federal provisions and ensure that all agencies use the proper contract forms. The CIP Program Office is in the process of hiring a contracting officer to insure contracts are properly prepared and processed.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Reporting - Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.557, Federal Award # 7NM700NM7
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-51

Criteria: In accordance with 7 CFR section 246.25(b), a State Agency is required to submit monthly financial and program performance (participation) data. Further, State Agencies prepare the FNS-798A annually to report: (1) Nutrition Services and Administration (NSA) expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. Further, total outlays reported to the grantor should correspond to amounts recorded per the general ledger.

Condition: Based on examination of the Program's FNS-798A, the following differences were noted:

	<u>Per FNS-798A</u>	<u>Per General Ledger</u>	<u>Difference</u>
Food costs	\$ 1,899,274	\$ 1,748,369	\$ 150,905
NSA costs	<u>1,091,098</u>	<u>950,521</u>	<u>140,577</u>
Total	\$ <u>2,990,372</u>	\$ <u>2,698,890</u>	\$ <u>291,482</u>

Cause: The cause of the above condition is that the amounts reflected on the FNS-798A for the fiscal year ended September 30, 2008 did not reflect actual expenditures.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No questioned costs result from the condition as funds drawn down correspond with recorded expenditures.

Recommendation: We recommend that steps be taken to ensure that information reported to the grantor is based on actual CNMI financial data.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek Sasamoto, Finance Manager and Josephine Tudela, Program Administrator

Corrective Action: The reason for the discrepancy is that the general ledger data used contains FY 2008 transactions up through September 30, 2008. However, the program continued to liquidate obligations through December 2008. Thus, the general ledger data utilized is incomplete and not representative of all FY 2008 transactions.

Upon, utilization of complete general ledger data, it should be noted that a difference of \$24,601.03 exists. This was due to an error in rebate data entry on the 798 report, as well as due to data entry errors in food outlays. This situation has been addressed by WIC Grantor, USDA-FNS in a joint March through April 2009 State Technical Assistance Review/Financial Management Review. CNMI WIC, currently, is continuing to actively work with USDA FNS to resolve the reporting errors.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior
Reporting - Economic, Social, and Political Development of the Territories - Capital Improvement
Projects and Fiscal Year 2008 Compact Impact
CFDA #15.875, Federal Award #s Fiscal Years 1996 - 2008 Appropriations Act and CNMI-CI-
2008-1
Federal Award Period Available Until Expended and 12/17/07 through 09/30/12

Finding No. 2008-52

Criteria: Total outlays reported to the grantor should correspond to amounts reported in the underlying books and records.

Condition: Of twenty-nine business units for the Capital Projects Fund tested, two business units (5426 and 5428) with FY 08 expenditures incurred were not reported to the grantor agency as projects related to grant INIT-2005-2 were closed in prior years. Combined expenditures for the above two business units are \$64,353.

Cause: The cause of the above condition is the lack of communication between the CIP office and the Department of Finance to ensure that closed projects are no longer charged.

Effect: The effect of the above condition is lack of compliance with reporting requirements. The \$64,353 is not questioned as no drawdown was made.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure compliance with the reporting criteria are met.

Prior Year Status: The lack of updating the federal financial reports submitted to the grantor was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Gregory Baka, Acting Attorney General (for BU 5426) and Gil M. San Nicolas, Secretary of Labor (for BU 5428)

Corrective Action: Combined expenditures incurred amounting \$64,653 related to Business Units 5426 (OAG-Personnel) and 5428 (DOL-Hearing Officers) were not reported to the Grantor Agency because transactions occurred after the grant was closed. The responsible agency should absorb all costs incurred and a journal entry should be process transferring expenses to the local account.

The Department of Finance will require the inclusion of expiration dates of funding when establishing the Business Units. A memorandum will be issued informing the Accountants at Finance and Accounting about the new requirement.

Proposed Completion Date: July 15, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Environmental Protection Agency
Reporting - Environmental Protection Consolidated Grants-Program Support
CFDA #66.600, Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B
Federal Award Period 10/01/03 - 09/30/08

Finding No. 2008-53

Criteria: 40 CFR Section 31.4 requires grantees to submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports. Annual reports shall be due ninety days after the grant year, quarterly or semi-annual reports shall be due thirty days after the reporting period. In addition, a financial status report (SF-269) is required within ninety days of the end of the budget period and a semi-annual Federal Cash Transaction Report (SF-272) is required fifteen days after the end of the period. Further, total outlays reported to the grantor should correspond to amounts recorded per the general ledger.

Condition: Based on our examination of program reporting requirements, we noted the following:

1. The SF-269 for the year ended September 30, 2008 reported total accumulated expenditures that were \$281,383 more than the total accumulated expenditures recorded in the general ledger.
2. Total expenditures reported per the cash transaction report (SF-270) were \$48,311 less than the total accumulated expenditures recorded in the general ledger as of September 30, 2008.

Cause: The cause of the above condition is that the amounts reflected on the SF-269 and SF-270 for the fiscal year ended September 30, 2008 did not reflect actual accumulated expenditures.

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

Recommendation: We recommend that the Department of Finance adhere to grant reporting requirements.

Prior Year Status: The lack of compliance with reporting requirements was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: We will review differences and take appropriate actions. This probably relates to adjustments made after the September 30, 2008 reports were submitted and included in subsequent reports.

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Health and Human Services

Reporting - Medical Assistance Program

CFDA #93.778, Federal Award #s 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935

Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-54

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 (Department of Finance).

Condition: Based on total expenditures reported to the grantor for the period ended September 30, 2008 using the CMS 64 Certification, total federal expenditures reported amounted to \$4,859,071. The actual expenditures per the general ledger amounted to \$4,308,185 resulting in a variance of \$550,886. The funds drawn down, however, correspond with expenditures recorded in the general ledger. Therefore, no questioned costs result from this condition.

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

Effect: The effect of the above condition is noncompliance with Section 4.4 of the Medicaid Operational Plan.

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

Prior Year Status: Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2007.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit findings. The report that we use to prepare the CMS-64 report is based on the general ledger that we received from the Department of Finance and reconciled with our hard copy file. Department of Finance usually do a journal voucher transfer from the Federal account to the local account. We are in the process of reconciling with Department of Finance with our record and their record. Therefore, we will be updating you with our finding when we are done.

Proposed Completion Date:

Auditor Response: Expenditures recorded in the general ledger provided by the CNMI Finance Office did not agree with expenditures reported in the CMS-64 submitted by the Medicaid Office to the federal agency. The CNMI Finance Office and the Medicaid Office should coordinate on a regular and timely basis to ensure the accuracy of expenditures recorded in the general ledger and reported to the federal agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Special Tests and Provisions - Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.557, Federal Award # 7NM700NM7
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-55

Criteria: A State agency operating a retail food delivery system must conduct compliance investigations, which consist of inventory audits and/or compliance buys, on a minimum of 5 percent of the vendors authorized as of October 1 of each year. A State agency must conduct compliance investigations on its high-risk vendors up to the 5 percent minimum. High-risk vendors are identified at least once annually using criteria developed by FNS, and/or other statistically based criteria developed by the State agency and approved by FNS. If the number of high-risk vendors exceeds 5 percent of the total, then the State agency must prioritize vendors for investigative purposes based on their potential for noncompliance and/or loss. If the number of high-risk vendors falls short of 5 percent of the total, the State agency must randomly select enough additional vendors to meet the 5 percent requirement. When a compliance investigation discloses vendor violations, the State agency must take appropriate action against the vendor. Such action includes delaying payment or establishing a claim if a violation affects payment to the vendor; imposing sanctions mandated by program regulations for certain stated violations; and imposing other, less severe sanctions prescribed by the State agency's sanction schedule for lesser violations.

Condition: The Program conducted compliance investigations on three of its four vendors in fiscal year 2008. Noncompliance was noted on the three vendors visited and such noncompliance was communicated to the vendors through formal letters and e-mails. Noncompliance cited for one vendor was resolved. However, the Program did not follow up on noncompliance raised for the other two vendors.

Cause: The cause of the above condition is lack of follow up on vendor noncompliance.

Effect: The effect of the above condition is potential ineligibility of a vendor to participate in the Program's activities.

Recommendation: We recommend that the Program follow up on vendor noncompliance noted in its investigations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Josephine Tudela, Program Administrator

Corrective Action: In March 2008, two USDA FNS auditors conducted an audit of the CNMI WIC program. One particular auditor was present at the compliance investigations in question and was aware of the situation (our vendors did not have the required stock of WIC cheese on hand). The program had informed the vendors of the situation and that corrective action would need to be taken.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-55, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Approximately two days after this notification, our vendors had received their supply of cheese. Two vendors, which operate under the same corporation (Joeten stores), had emailed the program informing us that their supply had arrived (Joeten is the only supplier of this type of WIC cheese in the CNMI). Moreover, the program's other vendor had delivered a copy of its purchase invoice for the required WIC cheese.

As such, a follow up was not necessary as the vendors had taken the initiative to inform, and prove, to the program that they had taken the necessary steps to resolve their state of non-compliance. This was the form of communication used to resolve the situation.

Proposed Completion Date:

Auditor Response: The matter was unresolved as of the date of our testing which was subsequent to September 30, 2008. While the vendor noncompliance was resolved subsequent to our audit fieldwork date, we recommend that documentation to support such be included in the respective vendor compliance file and be provided for examination.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Special Tests and Provisions - Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.557, Federal Award # 7NM700NM7
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-56

Criteria: Per CFR 246.19, the State agency shall establish an on-going management evaluation system which includes at least monitoring of local agency operations, review of local agency financial and participation reports, development of corrective action plans to resolve Program deficiencies, monitoring of the implementation of corrective action plans, and on-site visits. The results of such actions shall be documented.

Condition: The Program has not established a management evaluation system during fiscal year 2008.

Cause: The cause of the above condition is the lack of adherence to the Program's State Plan.

Effect: The effect of the above condition is noncompliance with CFR 246.19.

Recommendation: We recommend that the Program establish its management evaluation system in accordance with the requirements of CFR 246.19.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Quality Assurance Coordinator and Program Managers

Corrective Action: Currently, the Program does not contract out any of its services to local agencies. All services related to WIC, such as Nutrition Services and Vendor Services are managed by the State Agency.

In October of 2008, the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Health and Human Services
Special Tests and Provisions - Medical Assistance Program
CFDA #93.778, Federal Award #s 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-57

Criteria: The Medicaid Program must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems.

Condition: The Medicaid Office performs weekly and quarterly backups of the ADP system; however, regular backups were not performed for the quarters ended June 30, 2008 and September 30, 2008. The backups were not stored in an off-site location. Further, back up files are stored on flash drives, which have limited capacity. Thus, some back up files were deleted when flash drive memory was no longer sufficient, resulting in incomplete back up files for the fiscal year. Additionally, periodic risk analyses are not performed.

Cause: The cause of the above condition is the lack of required policies and procedures.

Effect: The effect of the above condition is the potential loss of data.

Recommendation: We recommend that policies and procedures be established for system security, which would address and reduce risks involved with the ADP system. We further recommend that periodic risk analyses are performed in the system.

Prior Year Status: Lack of required policies and procedures regarding ADP was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2007.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding. We do perform weekly and quarterly backups of the ADP system. It's just that we have not stored in an off-site location.

Proposed Completion Date:

Auditor Response: Documentation evidencing that periodic risk analyses are performed on the EDP system is not evident. Further, the weekly and quarterly backups performed in a flash drive were not completely made through the fiscal year and were not stored in an off-site location. The Medicaid Office should consider other backup facilities to ensure that complete backups of program records are stored and maintained for at least three years.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2008:

Questioned costs as previously reported	\$ 7,249,314
Questioned costs of fiscal year 2008 Single Audit	<u>7,165,481</u>
Unresolved questioned costs at September 30, 2008	\$ <u>14,414,795</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 38 through 140).



**Office of the Secretary
Department of Finance**

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

- Finding No. 2007-1 - Not corrected. See corrective action plan to Finding No. 2008-1.
- Finding No. 2007-2 - Not corrected. See corrective action plan to Finding No. 2008-2.
- Finding No. 2007-3 - Not corrected. See corrective action plan to Finding No. 2008-3.
- Finding No. 2007-4 - Not corrected. See corrective action plan to Finding No. 2008-5.
- Finding No. 2007-5 - Not corrected. See corrective action plan to Finding No. 2008-7.
- Finding No. 2007-6 - Corrective action was taken.
- Finding No. 2007-7 - Not corrected. See corrective action plan to Finding No. 2008-9.
- Finding No. 2007-8 - Not corrected. See corrective action plan to Finding No. 2008-11.
- Finding No. 2007-9 - Not corrected. See corrective action plan to Finding No. 2008-12.
- Finding No. 2007-10 - Not corrected. See corrective action plan to Finding No. 2008-14.
- Finding No. 2007-11 - Not corrected. See corrective action plan to Finding No. 2008-16.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

- Finding No. 2007-12 - Not corrected. See corrective action plan to Finding No. 2008-19.
- Finding No. 2007-13 - Not corrected. See corrective action plan to Finding No. 2008-24.
- Finding No. 2007-14 - Not corrected. See corrective action plan to Finding No. 2008-25.
- Finding No. 2007-15 - Corrective action was taken.
- Finding No. 2007-16 - Not corrected. See corrective action plan to Finding No. 2008-26.
- Finding No. 2007-17 - Not corrected. See corrective action plan to Finding No. 2008-28.

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

- Finding No. 2007-18 - Not corrected. See corrective action plan to Finding No. 2008-30.
- Finding No. 2007-19 - Not corrected. See corrective action plan to Finding No. 2008-34.
- Finding No. 2007-20 - Not corrected. See corrective action plan to Finding No. 2008-35.
- Finding No. 2007-21 - Corrective action was taken.
- Finding No. 2007-22 - Not corrected. See corrective action plan to Finding No. 2008-36.
- Finding No. 2007-23 - Not corrected. See corrective action plan to Finding No. 2008-37.
- Finding No. 2007-24 - Corrective action was taken.
- Finding No. 2007-25 - Not corrected. See corrective action plan to Finding No. 2008-52.
- Finding No. 2007-26 - Corrective action was taken.
- Finding No. 2007-27 - Corrective action was taken.
- Finding No. 2007-28 - Corrective action was taken.
- Finding No. 2007-29 - Corrective action was taken.
- Finding No. 2007-30 - Not corrected. See corrective action plan to Finding No. 2008-40.
- Finding No. 2007-31 - Corrective action was taken.
- Finding No. 2007-32 - Not corrected. See corrective action plan to Finding No. 2008-42.
- Finding No. 2007-33 - Not corrected. See corrective action plan to Finding No. 2008-43.
- Finding No. 2007-34 - Corrective action was taken.
- Finding No. 2007-35 - Corrective action was taken.
- Finding No. 2007-36 - Corrective action was taken.
- Finding No. 2007-37 - Not corrected. See corrective action plan to Finding No. 2008-44.
- Finding No. 2007-38 - Corrective action was taken.
- Finding No. 2007-39 - Not corrected. See corrective action plan to Finding No. 2008-46.
- Finding No. 2007-40 - Corrective action was taken.
- Finding No. 2007-41 - Not corrected. See corrective action plan to Finding No. 2008-29.
- Finding No. 2007-42 - Corrective action was taken.
- Finding No. 2007-43 - Corrective action was taken.

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

- Finding No. 2007-44 - Not corrected. See corrective action plan to Finding No. 2008-47.
- Finding No. 2007-45 - Not corrected. See corrective action plan to Finding No. 2008-48.
- Finding No. 2007-46 - Not corrected. See corrective action plan to Finding No. 2008-50.
- Finding No. 2007-47 - Corrective action was taken.
- Finding No. 2007-48 - Not corrected. See corrective action plan to Finding No. 2008-53.
- Finding No. 2007-49 - Not corrected. See corrective action plan to Finding No. 2008-54.
- Finding No. 2007-50 - Corrective action was taken.
- Finding No. 2007-51 - Corrective action was taken.
- Finding No. 2007-52 - Not corrected. See corrective action plan to Finding No. 2008-57.
- Finding No. 2007-53 - Corrective action was taken.

June 15, 2009

Mr. Robert A. Schrack
Acting Secretary of Finance
Department of Finance
Commonwealth of the Northern Mariana Islands:

In planning and performing our audit of 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, 2008 (on which we have issued our report dated June 15, 2009) and which report was modified to include a reference to other auditors; and was qualified due to: 1) our inability to determine the propriety of the Public School System due from primary government; and 2) had the financial statements of the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Marianas Visitors Authority been audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the CNMI's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CNMI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the CNMI's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Benigno R. Fitial, also dated June 15, 2009, on our consideration of the CNMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of the CNMI and the Office of the Public Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the CNMI for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLC

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving the CNMI's internal control over financial reporting as of September 30, 2008.

(1) Revenue/Receipts

During tests of cash receipts of the Division of Revenue and Taxation, the following exceptions were noted:

- a. One transaction (Ref. receipt #1973264) was posted to the incorrect general ledger account number (acct. #41310). This condition has been corrected by the Division of Revenue and Taxation.
- b. One transaction (Ref. RV-01-2008-282 dated 04/29/08) was not uploaded into the JD Edwards (JDE) system. This condition has been corrected by the Division of Revenue and Taxation.
- c. One transaction (Ref. RV-01-2008-281 dated 04/29/08) was uploaded twice into the JDE system. This condition has been corrected by the Division of Revenue and Taxation.
- d. For one transaction (Ref. receipt #1876855), the related tax return was not made available.
- e. For one transaction (11/02/07 collections), the collections were deposited after more than three business days from collection date.
- f. One collection (Ref. receipt #2031816, in which payment was made thru direct deposit to the bank) was received 12/27/07 but was posted on 09/03/08.

We recommend the Division of Revenue and Taxation ensure that collections are posted to the proper revenue account in a timely manner and ensure that collections are deposited on a timely basis. We also recommend the Division of Treasury strengthen controls over uploading of collections. Further, we recommend the Division of Revenue and Taxation ensure that all tax returns are properly filed and maintained. These matters were discussed in our previous letters dated June 27, 2008, June 18, 2007, June 16, 2006 and March 1, 2006.

(2) Revenue/Receipts

During walkthrough of the cash receipts/revenue transactions for one (transaction for 06/13/08) collection date from the Commonwealth Health Center (CHC), we noted that total collections of \$21,626 for the day included \$239 from the previous day's collections. Additionally, 09/30/08 CHC collections amounting to \$631 were recorded as 10/01/08 revenues. We were informed that these were due to cutoff issues. We recommend that CHC establish policies and procedures to ensure collections are timely identified, posted and recorded to the general ledger. This matter was discussed in our previous letters dated June 27, 2008 and June 18, 2007.

(3) Revenue/Receipts

During tests of cash receipts of CHC, we noted seven instances (Ref. control #s 2099277, 2180234, 2181160, 2143894, 2145407, 2185744 and 2154338) wherein the medical fees billed did not agree to the supporting fee schedules. The fee schedule is either not updated or the billing system does not reflect the revised medical fees. We recommend that CHC ensure that changes to medical and other related fees are communicated and documented on a timely manner. Further, we recommend that relevant documents supporting approval of fee changes be maintained.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(4) Revenue/Receipts

During tests of cash receipts, the following were noted:

- a. The Cashier Deposit Reconciliation Summary Report (CDRSR) for the following did not indicate evidence of review or verification by a supervisor or personnel independent of the cashiering function:

<u>Location Number</u>	<u>Transaction Dates</u>			
121 - Tinian	02/04/08	05/05/08	05/19/08	08/15/08
2 - Labor	10/10/07	12/05/07	01/30/08	06/12/08
	11/06/07	12/06/07	02/22/08	06/23/08
	11/08/07	12/07/07	03/10/08	07/07/08
	11/19/07	12/10/07	03/19/08	07/08/08
	11/30/07	12/26/07	04/11/08	07/31/08
	12/01/07	01/16/08	04/15/08	08/04/08
	12/02/07	01/22/08	04/24/08	08/11/08
	12/03/07	01/28/08	04/30/08	08/18/08
	12/04/07	01/29/08	06/04/08	08/22/08

We recommend that all CDRSRs be examined by a supervisor or by Treasury personnel independent of the cashiering function. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

- b. We noted instances in which total cash and check collections per CDRSR did not agree to amount deposited. In most instances, the variances were not documented or accounted for. Also, the revenue postings to the general ledger were not timely corrected or adjusted for the shortages or overages. Details are as follows:

<u>Location</u>	<u>Transaction Date</u>	<u>Overage (Shortage)</u>
5	02/22/08	\$ (5)
2	01/02/08	\$ (1,170)
4	08/19/08	\$ (191)
2	04/24/08	\$ (35)
2	06/12/08	\$ 5
2	06/23/08	\$ 5
2	06/04/08	\$ (100)

We recommend that cash overages and shortages be investigated and addressed in a timely manner. Additionally, cash overage and shortages should be properly documented along with actions taken to address such. Further, we recommend that errors noted by the cashiers be reviewed and acted upon in a timely manner.

- c. Location 1 - Transaction dated 09/16/08

Total collections for the day included a \$9,620 remittance from the Board of Nursing dated 09/05/08. The remittance consisted of collections relating to various fees which were collected by the Board of Nursing between 07/14/08 through 09/03/08 but were only forwarded to the Division of Treasury on 09/05/08 and was posted in the JDE system on 09/16/08. Additionally, the related collections were deposited on 09/19/08.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(4) Revenue/Receipts, Continued

For business unit/object account # 1922.43080, the account posting summary attached to the CDRSR indicated total revenues of \$7,720 but the amount posted to the general ledger amounted to \$7,670. There was no explanation or reconciliation noted for the \$50 variance.

We recommend that all cash receipts/collections made by the Board of Nursing be remitted to the Division of Treasury on a timely basis. Additionally, we recommend that variances between the account posting summary and the amount posted to the general ledger be reconciled and investigated.

- d. The collections for the following were deposited to the bank more than three business days from the date of collection:

<u>Location</u>	<u>Collection Date</u>	<u>Deposit Date Per Validated Deposit Slip</u>
1	11/28/07	12/04/07
2	04/24/08	05/01/08

We recommend that all collections be deposited on a timely basis.

- e. The receipt details attached to the CDRSR for one transaction (Location 1 - Transaction dated 07/07/08) are not complete. We recommend that cashiers ensure that receipt details attached to the CDRSR are complete.

(5) Purchases/Disbursements

During tests of purchases/disbursements, the invoice date for the following preceded the date of purchase order approval:

<u>Fund</u>	<u>Document Reference #</u>	<u>Amount</u>
1010	496104 PV	\$ 500
1010	506997 PV	1,000
1010	495609 PV	1,000
1010	485501 PV	140
4041	672095 PV	<u>4,680</u>
		\$ <u>7,320</u>

We recommend that the CNMI ensure that expenditures are approved prior to incurrence. This matter was discussed in our previous letter dated June 27, 2008.

(6) Purchases/Disbursements

During tests of purchases/disbursements, the following were noted:

- a. Of seventy-one non-payroll General Fund expenditures tested aggregating \$4,815,809, the following items related to the prior year:

APPENDIX I, CONTINUED

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(6) Purchases/Disbursements, Continued

<u>Fund</u>	<u>Business Unit</u>	<u>Account</u>	<u>Document Ref. #</u>	<u>Amount</u>
1010	1978	62060	510487-PV	\$ 38,495
1010	1351	62250	483911-PV	2,456
1010	1979	62500	484376-PV	8,410
1010	1717	63030	484157-PV	501
1010	1063	62660	485501-PV	140
1012	1848	63020	646101-PV	<u>3,181</u>
				<u>\$ 53,183</u>

- b. Of forty-six nonpayroll federal grants fund - nonmajor program expenditures tested aggregating \$2,489,586, the following items related to the prior year:

<u>Fund</u>	<u>Business Unit</u>	<u>Account</u>	<u>Document Ref. #</u>	<u>Amount</u>
2020	A5664M	62060	647744 PV	\$ 16,525
2020	A6664E	62660	646344 PV	440
2020	H6667A	72750	647751 PV	<u>750</u>
				<u>\$ 17,715</u>

- c. Of forty-three other non-payroll Special Revenue Fund - nonmajor funds expenditures tested, aggregating \$2,423,579, the following items related to the prior year:

<u>Fund</u>	<u>Business Unit</u>	<u>Account</u>	<u>Document Ref. #</u>	<u>Amount</u>
1016	1950	63030	485251 PV	\$ 857
2043	3379A	64430	677903 OV	120,202
2043	3390C	64430	649679 OV	<u>35,301</u>
				<u>\$ 156,360</u>

- d. Of eleven professional services Special Revenue Fund - nonmajor funds expenditures tested, aggregating \$1,671,337, the following items related to the prior year:

<u>Fund</u>	<u>Business Unit</u>	<u>Account</u>	<u>Document Ref. #</u>	<u>Amount Relating to Prior Year</u>
2080	2082	62060	647304 PV	\$ 6,700
1016	1950F	62060	675970 PV	<u>16,858</u>
				<u>\$ 23,558</u>

- e. Of total expenditures tested under the capital projects fund - nonmajor funds of \$1,451,377, the following items related to the prior year:

<u>Fund</u>	<u>Business Unit</u>	<u>Account</u>	<u>Document Ref. #</u>	<u>Amount</u>
4043	T1205B	62060	672873 PV	\$ 197,735
2041	3746	64430	647475 PV	8,623
4043	T2205R	64670	646380 PV	<u>85,940</u>
				<u>\$ 292,298</u>

The above amounts were not considered material to the financial statements.

We recommend that the CNMI Department of Finance ensure that expenditures are recorded in the correct fiscal year.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(7) Cash and Cash Equivalents

At September 30, 2008, the CNMI recorded a cash clearing account of \$1,676,249. This account is expected to be zero at fiscal year end. An audit adjustment of \$1,676,249 was proposed to correct this condition. We recommend that the Department of Finance ensure that the cash clearing account is adjusted and reconciled at fiscal year-end. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007, June 16, 2006 and March 1, 2006.

(8) Receivables

As of September 30, 2008, CHC receivables from the Worker’s Compensation Commission (WCC) of \$110,560 did not agree to the balance confirmed by WCC of \$0. A reconciliation was not available to account for the difference. The difference was not considered material to the financial statements. We recommend CHC perform regular receivable reconciliations. This matter was discussed in our previous letter dated June 27, 2008.

(9) Payables

Of \$7,194,058 in the payable subsidiary ledger, \$414,740 represents payables that have been outstanding for more than three years. Details are as follows:

<u>Fund</u>	<u>Voucher Balance Per Subsidiary Ledger (Excluding Debit Balances)</u>	<u>Outstanding for More Than Three Years</u>
General	\$ 4,387,299	\$ 307,594
Federal Grants	1,295,676	34,282
DOI Capital Projects	431,502	31,230
Special Revenues - Nonmajor	543,928	10,010
Capital Projects - Nonmajor	<u>535,653</u>	<u>31,624</u>
	<u>\$ 7,194,058</u>	<u>\$ 414,740</u>

We recommend the CNMI investigate long outstanding payables and ensure that they are valid.

(10) Security Deposits

At September 30, 2008, approximately \$2,984,792 was held by the CNMI representing monies received for bail, restitution, child support and other related funds received in a fiduciary capacity. The Division of Treasury is not a signatory to the related bank accounts. This condition could result in unrecorded bank accounts. We recommend that all bank accounts be established through the Division of Treasury unless legislation requires otherwise. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007 and June 16, 2006.

(11) Compensated Absences

Of nine accrued leave balances tested, the following were noted:

APPENDIX I, CONTINUED

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(11) Compensated Absences, Continued

- a. Variances exist between amounts accrued and expectations. A reconciliation of the variance was not provided:

<u>Employee No.</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
101820	\$ 5,756	\$ 6,000	\$ (244)
168409	6,828	7,604	(776)
402197	<u>7,536</u>	<u>6,695</u>	<u>841</u>
	<u>\$ 20,120</u>	<u>\$ 20,299</u>	<u>\$ (179)</u>

- b. Approved annual leave forms were not provided for the following:

<u>Employee No.</u>	<u>Leave Taken During FY 2008 (in hours)</u>	<u>Leave Taken With No Approved Leave Forms (in hours)</u>
101173	198	198
101820	175	175
102459	232	40
514388	273	273

We recommend the CNMI ensure annual leave hours taken are supported with approved leave forms. Further, we recommend the CNMI perform periodic reviews of accrued leave balances. These matters were discussed in our previous letters dated June 27, 2008 and June 18, 2007.

(12) Intergovernmental Balances

A reconciliation of confirmed balances with the general ledger was not provided for the following variances in intergovernmental receivables:

<u>Entity</u>	<u>Per CNMI</u>	<u>Per Confirmation</u>	<u>Variance</u>
WCC	\$ -	\$ 21,422	\$ (\$21,422)
CUC	\$ 2,415,503	\$ 2,555,223	\$ (139,720)

We recommend the CNMI reconcile intergovernmental balances with the above entities.

(13) Encumbrances - General Fund

Of eleven General Fund encumbrances tested aggregating \$514,346, the following exceptions were noted:

- a. The obligating/encumbering document for the items below could not be located:

<u>Fund</u>	<u>Business Unit</u>	<u>Obligating Document Number</u>	<u>Encumbrance Amount</u>
1010	1070	266580-OT	\$ 5,073
1010	1901	494689-OP	49,450
1010	1951	461877-OM	<u>12,217</u>
			<u>\$ 66,740</u>

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(13) Encumbrances - General Fund, Continued

- b. Accounts payable vouchers and supporting invoices evidencing subsequent liquidation of the following encumbrance was not provided:

<u>Fund</u>	<u>Obligating Document Number</u>	<u>APV Reference Number</u>	<u>Encumbrance Amount</u>	<u>APV Amount</u>
1010	494689-OP	225481-OV	\$ 49,450	\$ 49,450

- c. Variances detailed hereunder exist between amounts encumbered and the expectation (original encumbrance less related expenditures); however, a reconciliation was not provided for the difference:

<u>Fund/Business Unit</u>	<u>Obligating Document Number</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
1010.1011	437315-OC	\$ 55,648	\$ 112,876	\$ (57,228)
1012.1812	459362-OC	\$ 323,352	\$ 171,940	151,412
				\$ <u>94,184</u>

- d. Variances detailed hereunder exist between amounts encumbered and expectations. The variances occurred either due to untimely updating of encumbrances for actual expenditures or due to fiscal year 2008 expenditures not accrued at year-end. The amount was not considered material to the financial statements.

<u>Fund/ Business Unit</u>	<u>Obligating Document Number</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>	<u>PV Reference</u>
1010.1220	485574-OP	\$ 1,500	\$ -	\$ 1,500	520426-PV
1010.1484	479763-OP	\$ 126	\$ 20	106	518500-PV
1010.17101	493369-OP	\$ 332	\$ -	332	518308-PV
				\$ <u>1,938</u>	

- e. The following item encumbered at year-end represents a current year expenditure:

<u>Fund</u>	<u>Business Unit/Object Account</u>	<u>Obligating Document</u>	<u>Document Reference</u>	<u>General Ledger Amount</u>
1012	1812.63030	459362-OC	762430-PV	\$ 8,362

- f. The following fiscal year 2008 expenditure was not accrued at year-end but had already been deducted from fiscal year 2008 encumbrances:

<u>Fund</u>	<u>Business Unit/Object Account</u>	<u>Obligating Document</u>	<u>Document Reference</u>	<u>General Ledger Amount</u>
1012	1852.62750	470888-OC	762421-PV	\$ 24,884

We recommend the Department of Finance ensure that all encumbrances are supported by encumbering documents. Further, we recommend the Department of Finance ensure that encumbrances are updated for actual expenditures. Additionally, we recommend that supporting accounts payable vouchers, invoices and other relevant documents be properly filed and maintained. These matters were discussed in our previous letters dated June 27, 2008, June 18, 2007 and June 16, 2006.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(14) Encumbrances - Capital Projects Fund

Our tests of Capital Project Funds encumbrances noted the following:

- a. Of twelve Capital Project funds encumbrances tested, aggregating \$3,899,438, the following exceptions were noted:

1. The obligating/encumbering documents for the item below was not located:

<u>Fund</u>	<u>Obligating Document Number</u>	<u>Encumbrance Amount</u>
4042	391-OS (Original)	\$ 86,770

2. Variances detailed hereunder exist between amounts encumbered and expectations. The variances occurred either due to untimely updating of encumbrances for actual expenditures or due to fiscal year 2008 expenditures not accrued at year-end.

<u>Fund/Business Unit/Account #</u>	<u>Obligating Document Number</u>	<u>Encumbrance Per General Ledger</u>	<u>Encumbrance Per Expectation</u>	<u>Variance</u>	<u>Document Reference</u>
4042.4637.64280	367-OS (Original)	\$ 33,295	\$ 14,181	\$ 19,114	764695 OV
4042.4637.64320	469-OS (Original)	\$ 671,664	\$ 580,897	90,767	770420 OV
4042.4637.64570	469-OS (Original)	\$ 138,336	\$ 119,640	18,696	770420 OV
				\$ <u>128,577</u>	

Of the total variance, \$109,463 was corrected through a proposed audit adjustment. The difference of \$19,114 was not considered material to the financial statements.

3. The following expenditure, incurred in fiscal year 2008, was recorded in the subsequent year but was already deducted from current year encumbrances. The amount is not considered material to the financial statements.

<u>Fund/Business Unit /Object Account</u>	<u>Obligating Document</u>	<u>Document Reference</u>	<u>General Ledger Amount</u>
4043. T5205K.62060	485087-OC	762163 – PV	\$ 17,166

4. The following Capital Projects Funds encumbrances have been outstanding or did not indicate any activity for more than three years. Details are as follows:

<u>Fund</u>	<u>Business Unit #</u>	<u>General Ledger Account #</u>	<u>Obligating Document</u>	<u>Amount</u>
4043	T85164	64670	333747- OC (Original)	\$ 669,480
4043	T85164	64670	333747- OC (CO #1)	210,227
4046	5643	64040	70356-OS	24,389
4043	T2205K	62060	384927-OC	49,483
				\$ <u>953,579</u>

- b. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of \$1,043,110 have been outstanding for more than five years.

We recommend the Department of Finance ensure that all encumbrances are supported by encumbering documents. Further, we recommend the Department of Finance ensure that encumbrances are updated for actual expenditures. Additionally, we recommend that long outstanding encumbrances be examined to ensure validity. These matters were discussed in our previous letter dated June 27, 2008.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(15) Encumbrances - DOI Capital Projects Fund

Our tests of DOI Capital Projects Funds encumbrances noted the following:

- a. At September 30, 2008, the subsidiary ledger balance of the DOI Capital Project Funds encumbrance of \$7,547,513 is net of debit balances of \$2,243,136. Of the total debit balances, encumbrances amounting to \$1,583,321 have been outstanding for more than five years. Further, we did not note any review performed by the Department of Finance on these debit balances. This condition was corrected through a proposed audit reclassification.
- b. An aging of the reserve for encumbrances, excluding debit balances, by fiscal year indicates encumbrances totaling \$1,786,804 have been outstanding for more than five years. We did not note any review performed by the Department of Finance on long outstanding encumbrances.
- c. Of twenty-four DOI Capital Projects Funds encumbrances tested aggregating \$6,616,700, the following exceptions were noted:

- 1. The obligating/encumbering document for the items below were not provided:

<u>Fund</u>	<u>Obligating Document Number</u>	<u>Encumbrance Amount</u>
4045	44-OS	\$ 2,700
4045	50346-OS	<u>30,228</u>
		\$ <u>32,928</u>

- 2. Variances detailed hereunder exist between amounts encumbered and expectations. The variances occurred either due to untimely updating of encumbrances for actual expenditures or due to fiscal year 2008 expenditures not accrued at year-end.

<u>Fund/Business Unit/ General Ledger Account</u>	<u>Obligating Document Number</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>	<u>APV Reference</u>
4052.5237.64100.64320	311-OS	\$ 80,000	\$ 48,662	\$ 31,338	766779-OV
4052.5237.64300.64320	311-OS	80,000	48,662	31,338	766779-OV
4052.5238.64100.64320	311-OS	91,630	16,912	74,718	766778-OV
4052.5238.64300.64320	311-OS	92,763	18,045	74,718	766778-OV
4052.5178.64100.64320	375-OS	67,493	28,528	38,965	770362-OV
4052.5178.64300.64320	375-OS	67,493	28,528	38,965	770362-OV
4058.5602.64100.64280	468-OS	547,576	474,035	73,541	765744-OV
4058.5612.64100.64280	472-OS	563,000	468,000	95,000	772001-OV
4052.5154.64100.64320	416-OS	35,153	-	35,153	763613-OV
4052.5154.64200.64320	416-OS	35,153	-	35,153	763613-OV
4052.5155.64100.64320	416-OS	74,641	49,644	24,997	763613-OV
4052.5155.64300.64320	416-OS	74,641	49,644	24,997	763613-OV
4058.5615.64100.64520	454-OS	356,324	-	356,324	765291 OV
4045.4920.64200.64320	50346-OS	<u>(787)</u>	<u>-</u>	<u>(787)</u>	none
		\$ <u>2,165,080</u>	\$ <u>1,230,660</u>	\$ <u>934,420</u>	

Of the variance, \$861,666 was corrected through a proposed audit adjustment. The difference of \$72,754 was not considered material to the financial statements.

- 3. The following 2008 expenditures were recorded in the subsequent year but were already deducted from current year encumbrances.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(15) Encumbrances - DOI Capital Projects Fund, Continued

<u>Fund/Business Unit /Object Account</u>	<u>Obligating Document</u>	<u>Document Reference</u>	<u>General Ledger Amount</u>
4058.5626.64100.64320	436-OS	762902-OV	\$ 132,546
4058.5626.64100.64320	474-OS	762903-OV	52,987
4052.5227.64100.64050	487482-OC	761342-PV	<u>1,720</u>
			<u>\$ 187,253</u>

Of the above, \$132,546 was corrected through a proposed audit adjustment. The remaining \$54,707 was not considered material to the financial statements.

4. The following DOI Capital Projects Funds encumbrances have been outstanding or did not indicate any activity for more than three years. Details are as follows:

<u>Fund</u>	<u>Business Unit #</u>	<u>General Ledger Account #</u>	<u>Obligating Document</u>	<u>Amount</u>
4052	5126	64100.64320	243-OS	\$ 458,117
4052	5126	64200.64320	243-OS	458,177
4045	4781	64100.64290	44-OS	1,979
4045	4781	64200.64290	44-OS	721
4052	5122	64100.64280	144-OS	98,152
4052	5122	64300.64280	144-OS	98,152
4045	4920	64100.64320	50346-OS	8,365
4045	4920	64200.64320	50346-OS	(787)
4045	4914	64100.64320	50346-OS	16,605
4045	4914	64200.64320	50346-OS	<u>6,045</u>
				<u>\$ 1,145,526</u>

We recommend the Department of Finance ensure that all encumbrances are supported by encumbering documents. Further, we recommend the Department of Finance ensure that encumbrances are updated for actual expenditures. Additionally, we recommend that long outstanding encumbrances and debit balances be examined to ensure validity.

(16) Encumbrances - Federal Grants Fund

Of twelve Federal Grants Fund encumbrances tested, aggregating \$931,261, the following were noted:

- a. Variances detailed hereunder exist between amounts encumbered and expectations. The variances occurred either due to untimely updating of encumbrances for actual expenditures or due to cancellations/deletions made subsequent to year-end. The following was corrected through a proposed audit adjustment:

<u>Fund/Business Unit</u>	<u>Obligating Document Number</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>	<u>PV Reference #</u>	<u>Unrecorded Expenditure/ Liability</u>
2020.J4067A.62060	448629-OC	\$ 85,175	\$ 43,685	\$ 41,490	768488 PV	\$ 41,490
2020.J4074B.64540	449829-OC	41,794	-	41,794	None	-
2020.A75570.64520	478939-OC	87,676	-	87,676	765389 PV	87,676
2020.A85570.64520	478939-OC	<u>4,807</u>	<u>-</u>	<u>4,807</u>	765389 PV	<u>4,807</u>
		<u>\$ 219,452</u>	<u>\$ 43,685</u>	<u>\$ 175,767</u>		<u>\$ 133,973</u>

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(16) Encumbrances - Federal Grants Fund, Continued

- b. The following fiscal year 2008 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2008 encumbrances:

<u>Fund/Business Unit/Object Account</u>	<u>Obligating Document</u>	<u>Document Reference</u>	<u>General Ledger Amount</u>
2020.A85570.64520	478939-OC	765389 PV	\$ 4,000
2020.M4036N.65400	487482-OC	761342 PV	8,080
2020.M60397.64430	487482-OC	761342 PV	15,478
2020.J6073L.62060	489954-OC	761340 PV	<u>4,167</u>
			\$ <u>31,725</u>

The above unrecorded expenditures were corrected through proposed audit adjustments.

We recommend the Department of Finance ensure that encumbrances are updated for actual expenditures.

(17) Encumbrances - Special Revenue Fund

Of eleven Special Revenue Fund encumbrances tested aggregating \$1,080,383, the following exceptions were noted:

- a. The obligating/encumbering document for the items below were not provided:

<u>Fund</u>	<u>Obligating Document Number</u>	<u>Encumbrance Amount</u>
2043	426801-OM	\$ 196,725
2043	265270-OT	<u>1,750</u>
		\$ <u>198,475</u>

- b. The following variance between the amount encumbered and our expectation is due to cancellation of the encumbrance subsequent to year-end and this was corrected through a proposed audit reclassification:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document Number</u>	<u>Encumbrance Per General Ledger</u>	<u>Encumbrance Per Expectation</u>	<u>Variance</u>
2043.3382.64430	426801-OM	\$ 196,725	\$ -	\$ 196,725

- c. Variance detailed hereunder exists between amounts encumbered and expectations. The variance occurred either due to untimely updating of encumbrances for actual expenditures or due to fiscal year 2008 expenditures not accrued at year-end. The amount was not considered material to the financial statements.

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document Number</u>	<u>Per General Ledger</u>	<u>Per Expectation</u>	<u>Variance</u>
2043.3379A.64430	401-OS	\$ 39,148	\$ 20,000	\$ 19,148

- d. The following fiscal year 2008 expenditures were not accrued at year-end but had already been deducted from the fiscal year 2008 encumbrances:

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(17) Encumbrances - Special Revenue Fund, Continued

<u>Fund</u>	<u>Business Unit /Object Account</u>	<u>Obligating Document</u>	<u>Document Reference</u>	<u>General Ledger Amount</u>
2043	3381.64430	437-OS	762414 - OV	\$ 8,165
2043	3390C.64430	437-OS	762414 - OV	42,365
2080	2082.62060	465166-OC	763845 - PV	6,677
2080	2082.62060	465166-OC	760888 - PV	3,785
2080	2082.62470	474876-OC	763607 - PV	62,913
2080	2082.62060	476569-OC	763604 - PV	<u>7,279</u>
				\$ <u>131,184</u>

Of the total, \$124,507 was corrected through a proposed audit adjustment. The difference of \$6,677 was not considered material to the financial statements.

We recommend the Department of Finance ensure that all encumbrances are supported by encumbering documents. Further, we recommend the Department of Finance ensure that encumbrances are updated for actual expenditures.

(18) Computer Processing Environment

During our understanding of the entity's computer processing environment, the following were noted:

- a. There is no segregation of duties between the test and production environment. Programmers have access to modify code or production data directly in the production environment for financial applications. Also, programmers have access to migrate their own changes into the production environment. Further, EDP programmers have super level access to the application system. We recommend that segregation of duties be maintained if programmers work in the test environment only and the migration of modified code to the production environment is performed by EDP personnel other than programmers. If segregation of duties cannot be maintained due to resource constraints, we recommend that CNMI EDP Department consider limiting programmer access rights in the production environment. The EDP manager and/or division heads should closely monitor what the programmers performed in the production environment (e.g. review the audit trails of JDE on a regular basis). The version control should also be established to prevent unauthorized changes.
- b. There is no documentation for network modifications. We recommend that all significant network modifications (e.g. changes of network settings, update of network software, installation of new network components) be documented in change forms before the modifications are implemented. The forms should be approved by EDP management and/or division management.

SECTION II - OTHER MATTERS

We identified, and have included below, other matters involving the CNMI’s internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

(1) Revenue/Receipts

During walkthrough of the cash receipts/revenue transactions for one (transaction for 06/13/08) collection date from the Division of Customs, the supporting Declaration of Entry (DOE) forms for twelve of twenty-eight DOE collections were not provided. We were unable to verify if the DOE forms were reviewed by an officer from the Division of Customs. We recommend that the Division of Customs ensure that daily cash reports and relevant customs documents are filed and maintained.

(2) Revenue/Receipts

Of forty-seven cash receipts of the Division of Customs tested, the following exceptions were noted:

- a. The relevant Division of Customs documents (invoice, certification of entry or declaration of entry, etc.) supporting the cash receipts for two transactions (March 5, 2008 and March 7, 2008) were not available.
- b. Two transactions (August 28, 2008, acct. 40570 for \$5,803 and June 13, 2008, acct. 40690 for \$355) were posted to the incorrect revenue general ledger accounts.

We recommend that the Division of Customs ensure that Daily Cash Reports and relevant customs documents are properly filed and maintained. Further, we recommend that the Division of Customs ensure that collections are posted to the proper revenue account. These matters were discussed in our previous letters dated June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006, May 23, 2005, October 14, 2003, August 13, 2002, June 5, 2001 and May 12, 2000 and our previous report on the internal control over financial reporting dated June 28, 1999.

(3) Revenue/Receipts

During tests of game of chance revenues (business unit 1000, account #41620), one game of chance revenue collection (Ref. receipt #2042241) of \$12,000 was posted to account #42210 instead of to account #41620. We recommend that the CNMI ensure that collections are posted to correct general ledger accounts. This matter was discussed in our previous letter dated June 27, 2008.

(4) Purchases/Disbursements

The cancelled check image on the bank statement for the following checks was blank and the carbon copy was not provided:

<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>
326032	\$ 122,934	323746	\$ 91,764	331790	\$ 15,528
315954	\$ 250,000	326032	\$ 122,934	316733	\$ 8,000
316632	\$ 16,693	331802	\$ 140,777	326974	\$ 8,798
325038	\$ 16,693	327008	\$ 252,000	323172	\$ 8,073
327355	\$ 25,350	323755	\$ 98,000	325718	\$ 20,000
318108	\$ 72,350	318162	\$ 7,500	324496	\$ 29,222
322342	\$ 16,858	319881	\$ 228,153	4091	\$ 972,806

SECTION II - OTHER MATTERS, CONTINUED

(4) Purchases/Disbursements, Continued

<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>	<u>Check #</u>	<u>Amount</u>
325457	\$ 150	324641	\$ 115,475	318153	\$ 16,525
319399	\$ 76,977	329349	\$ 277,811	318347	\$ 1,940
323807	\$ 119,085	330885	\$ 38,495	326525	\$ 136,307
324458	\$ 9,345	315479	\$ 4,000	316202	\$ 24,540
322836	\$ 15,060	315545	\$ 717	324990	\$ 23,500
326012	\$ 1,155	322407	\$ 35,443	326153	\$ 6,322
317619	\$ 159,344	325753	\$ 161,386	319941	\$ 41,850
4019	\$ 223,615	332498	\$ 190,278	318847	\$ 48,750
318107	\$ 47,543				

We recommend that the CNMI Division of Treasury review cancelled checks and follow-up on those with blank images. Further, we recommend that the CNMI Division of Treasury ensure that carbon copies of checks are maintained.

(5) Payroll

Our walkthrough of the payroll and personnel flow of transactions noted the following for one employee selected (employee #100225):

- a. The W-4 form was not provided.
- b. Employee authorizations for the following allotments/deductions for pay period ended 05/10/08 were not provided:

<u>Allotment Reference</u>	<u>Amount</u>
3200	\$ 15
3335	216
3400	55
3517	<u>5</u>
	\$ <u>291</u>

We recommend that the Department of Finance ensure that all employees file a Form W-4 and ensure this form is retained on file. Also, relevant payroll documents and reports should be filed and maintained.

(6) Payroll - General Fund

Of one hundred thirty-one General Fund payroll items tested, we noted the following:

- a. A copy of the cancelled check for the following payroll checks was not provided:

<u>Check Number</u>	<u>Check Date</u>	<u>Check Amount</u>
591906	06/18/08	\$ 676
582790	03/11/08	1,539
592348	06/18/08	<u>1,345</u>
		\$ <u>3,560</u>

SECTION II - OTHER MATTERS, CONTINUED

(6) Payroll - General Fund, Continued

b. Approved annual leave forms for the following employee were not available:

<u>Pay Period Ended</u>	<u>Employee Number</u>	<u>Annual Leave Hours Taken</u>
11/10/07	211072	72

c. A timesheet was not available for the following employee:

<u>Pay Period Ended</u>	<u>Employee Number</u>
03/29/08	412002

d. The obligating document supporting administrative hours charged was not provided for the following employee:

<u>Pay Period Ended</u>	<u>Employee Number</u>
08/16/08	307189

We recommend that the Department of Finance ensure that relevant payroll documents and reports are filed and maintained. This matter was discussed in our previous letter dated June 27, 2008.

(7) Payroll - All Funds

The regular payroll register for one pay period (PPE 04/12/08) and the supplemental payroll register for one pay period (PPE 01/19/08) were not provided. We were informed by payroll personnel that the reports had been accidentally deleted and a backup copy was not made. We recommend the Payroll Section of the Division of Accounting and Finance ensure that all relevant payroll reports are filed and maintained.

(8) Cash and Cash Equivalents

The following cash account was confirmed by the bank but is not recorded:

<u>Reference #</u>	<u>Account Name</u>	<u>Amount</u>
0003-9546	Worker's Compensation Commission	\$ 131,829

The amount was not considered material to the financial statements. We recommend that the Department of Finance review this account to determine whether it should be recorded. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007 and June 16, 2006.

(9) Accounts Receivable

At September 30, 2008, the General Fund recorded the following accounts receivable that indicated little or no movement from the prior year:

SECTION II - OTHER MATTERS, CONTINUED

(9) Accounts Receivable, Continued

<u>Account No.</u>	<u>Description</u>	<u>Amount</u>
12020.1010	General Account Receivables	\$ 140,699
12022.1010	AGO/Dept. of Labor W/SL	500
12030.1010	A/R Travel Agents	37,364
12110.1010	A/R Vendor Overpayments	22,371
12111.1010	A/R Vendor Overpayments W/ SL	40,641
12150.1010	A/R Funeral Services	52,466
12350.1010	A/R Medical Referral Patients	(1,350)
12360.1010	Government Health Insurance Advances	<u>24,943</u>
		\$ <u>317,634</u>

In addition, the General Fund also recorded advances (A/c # 12100.1010) of \$31,621 at September 30, 2008 that have not changed since the prior year. An allowance for doubtful accounts of \$282,952 was recorded in the General Fund to provide for these accounts. Although the difference of \$66,303 is not material to warrant a proposed audit adjustment, we recommend that the Department of Finance review these accounts to determine their collectability. This matter was discussed in our previous letter dated June 27, 2008.

(10) Receivables

As of September 30, 2008, the General Fund has a fully allowed outstanding receivable from the Tinian Casino Gaming Control Commission (TCGCC) (A/c # 12340-1010, totaling \$3,103,610). This balance should have been paid in full during fiscal year 2001 in accordance with a Memorandum of Agreement between the Office of the Governor and TCGCC. We recommend the Department of Finance ensure that receivables are collected in accordance with established repayment plans. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005 and in our previous reports on the internal control over financial reporting dated October 14, 2003 and August 13, 2002.

(11) Receivables

Tests of receivables noted credit card error receivables (GL 1010.12028) of \$594,175 pertaining to remaining credit card collections not credited to the CNMI's bank account for fiscal year 2007 collections. This condition was due to a system upgrade by the bank. While CNMI's daily closing of cash machines indicated online connectivity and gives authorization codes for cards swiped as well as settlement summaries, some transactions were not properly processed by the bank. The total discrepancy identified by the CNMI is \$2,306,975 of which \$1,712,800 was resolved in fiscal year 2007. At September 30, 2008, an audit adjustment was proposed to record an allowance of \$594,175. We recommend CNMI continue its efforts to resolve the remaining discrepancy of \$594,175.

(12) Inventory

In fiscal year 2002, ServMart suspended its operations. Inventory of \$154,233, representing old and expired items, remains in the general ledger at September 30, 2008. We recommend the Division of Procurement and Supply take action to dispose of these items and adjust the general ledger. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007 and June 16, 2006.

SECTION II - OTHER MATTERS, CONTINUED

(13) Inventory

Of three CHC inventory items price tested, invoices and relevant supporting documents for two items (# 15644 and 30147) were not available. Further, we were advised that these items are old and non-moving inventory. We recommend CHC ensure that all invoices/supporting documents be properly filed and maintained. Further, we recommend the Division of Procurement and Supply take action to identify and account for all old and non-moving inventory items.

(14) Capital Assets

Tests of capital asset physical existence noted one item (ref. 493879 PV) which was not available for inspection. Additionally, the supporting vehicle registration and shipping documents were not provided. We recommend the CNMI ensure that recorded capital assets are valid and ownership is supported with relevant documentation.

(15) Payables

At September 30, 2008, the general fund payable subsidiary ledger includes invalid debit items aggregating \$3,962,122. While the fiscal year 2008 general ledger had been adjusted, the debit items have not been deleted from the subsidiary ledger. We recommend the CNMI ensure that invalid debit items are deleted from the payable subsidiary ledger.

(16) CNMI Local Noncompliance

Pursuant to Public Law (PL) No. 13-42, Section 3, the Solid Waste Management Revolving Account (SWMRA), the Commonwealth Treasury should establish and maintain a SWMRA which shall be accounted for separately from the General Fund. As of September 30, 2008, the SWMRA Fund was not established. We have been advised that such a fund has not been established due to the timeframe in which revenues are received and disbursements are processed. We recommend the Department of Finance ensure that funds relating to the SWMRA are separately accounted for as required by PL 13-42. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

(17) CNMI Local Noncompliance

Public Law 12-61 requires that all deposits of public funds be 100% collateralized by U.S. Government securities. As of September 30, 2008, compliance with the collateralization requirement for deposits with one bank of \$723,818 was unable to be verified. We recommend the Department of Finance ensure that sufficient documentation is obtained and is periodically updated to demonstrate compliance with Public Law 12-61 requirements. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007 and June 16, 2006.

(18) CNMI Local Noncompliance

The following nonmajor Special Revenue Funds had total fund deficit at September 30, 2008 due to expenditure of funds in excess of revenues collected:

<u>Fund</u>	<u>Deficit</u>
Commonwealth Arts Council	\$ 9,270
Commonwealth Nonresident Workers' Fee	\$ 267,453
Commonwealth Alien Deportation	\$ 152,871
Commonwealth Museum	\$ 32,686
La Fiesta Revolving Fund	\$ 97,697

SECTION II - OTHER MATTERS, CONTINUED

(18) CNMI Local Noncompliance, Continued

Additionally, the American Memorial Park Fund, a nonmajor Capital Project Fund, had a total fund deficit of \$139,733 at September 30, 2008. We recommend the Office of Management and Budget develops a budget strategy to finance the above deficits. This matter was discussed in our previous letters dated June 27, 2008, June 18, 2007 and June 16, 2006.

SECTION III - DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT’S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management’s responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management’s Responsibility

The CNMI’s management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity’s objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.