

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2007

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, 2007, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated June 27, 2008, which report was modified to include a reference to other auditors; and was qualified due to: 1) our inability to determine the propriety of tax rebates payable and due to component units balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information; 2) our inability to determine the propriety of receivable from related party of the Commonwealth Ports Authority; and 3) had the financial statements of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund, the CNMI's Workers' Compensation Commission, the Commonwealth Development Authority, the Commonwealth Utilities Corporation, the Public School System 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 Marianas Visitors Authority, as described in our report on the CNMI's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Commonwealth Ports Authority, the 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 40 through 133) to be significant deficiencies in internal control over financial reporting as items 2007-1 through 2007-10.

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 2007-1, 2007-2, 2007-8, 2007-9 and 2007-10 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 2007-11.

We noted certain matters that we reported to management of the CNMI in a separate letter dated June 27, 2008.

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 it.

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 27, 2008

**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, 2007. 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 40 through 133). 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, 2007. 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 2007-12 through 2007-53 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding cash management, equipment and real property management, procurement and suspension and debarment, reporting and special tests and provisions that are applicable to its Food Stamps major program (CFDA # 10.551), allowable costs/cost principles, cash management, period of availability, procurement and suspension and debarment, reporting and matching that are applicable to its Economic, Social, and Political Development of the Territories major program (CFDA # 15.875), allowable costs/cost principles, cash management, Davis-Bacon Act and equipment and real property management that are applicable to its Highway Planning and Construction major program (CFDA # 20.205), procurement and suspension and debarment, cash management, equipment and real property management and reporting that are applicable to its Environmental Protection Consolidated Grants-Program Support major program (CFDA # 66.600), allowable costs/cost principles, activities allowed or unallowed, eligibility, special tests and provisions, cash management, matching, level of effort, or earmarking, procurement and suspension and debarment and reporting that are applicable to its Medical Assistance Program major program (CFDA # 93.778), and allowable costs/cost principles, procurement and suspension and debarment, reporting, special tests and provisions, cash management, equipment and real property management, matching, level of effort, earmarking and subrecipient monitoring that are applicable to its Disaster Grants - Public Assistance (Presidentially Declared Disasters) major program (CFDA # 97.036). 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 its Food Stamps major program (CFDA # 10.551), its Economic, Social, and Political Development of the Territories major program (CFDA # 15.875), its Highway Planning and Construction major program (CFDA # 20.205), its Environmental Protection Consolidated Grants-Program Support major program (CFDA # 66.600), its Medical Assistance Program major program (CFDA # 93.778), and its Disaster Grants - Public Assistance (Presidentially Declared Disasters) major program (CFDA # 97.036) for the year ended September 30, 2007.

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 2007-12 through 2007-53 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 2007-16, 2007-21, 2007-36, 2007-37, 2007-38, 2007-39, 2007-40, 2007-44, 2007-45, 2007-51, 2007-52 and 2007-53 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 it.

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, 2007, which collectively comprise the CNMI's basic financial statements and have issued our report thereon dated June 27, 2008, which report was modified to include a reference to other auditors; and was qualified due to: 1) our inability to determine the propriety of tax rebates payable and due to component units balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information; 2) our inability to determine the propriety of receivable from related party of the Commonwealth Ports Authority; and 3) had the financial statements of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund, the CNMI's Workers' Compensation Commission, the Commonwealth Development Authority, the Commonwealth Utilities Corporation and the Public School System 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 9 through 36) 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, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of tax rebates payable and due to component units balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information been determinable, 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 27, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2007

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	\$ 13,296,395
U.S. Department of Agriculture	10.551	Food Stamps	9,308,013
U.S. Department of Transportation	20.205	Highway Planning and Construction	724,354
U.S. Environmental Protection Agency	66.600	Environmental Protection Consolidated Grants - Program Support	2,297,620
U.S. Department of Health and Human Services	93.778	Medical Assistance Program	5,377,787
U.S. Department of Homeland Security	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	<u>1,890,191</u>
		Total program expenditures tested	\$ <u>32,894,360</u>
		Total program expenditures	\$ 61,741,240
		Unallocated expenditures	<u>(186,909)</u>
		Total federal program expenditures	\$ <u>61,554,331</u>
		% of total federal program expenditures tested	<u>53%</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2007

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. Department of the Treasury	\$ (109,343)	\$ -	\$ 42,313	\$ (67,030)
U.S. Department of Agriculture	717,314	10,556,054	9,987,228	148,488
U.S. Department of Commerce	140,489	1,609,484	1,620,956	151,961
Institute of Museum and Library Services	105,271	173,655	97,106	28,722
U.S. Department of Education	401,408	1,261,908	1,629,410	768,910
U.S. Department of Energy	4,073	198,521	199,889	5,441
U.S. Department of Defense	(13,725)	2,108	-	(15,833)
U.S. Environmental Protection Agency	124,189	2,375,836	2,310,617	58,970
U.S. Department of Homeland Security	1,799,055	6,407,401	5,435,621	827,275
U.S. Department of Health and Human Services	1,578,743	10,872,231	13,018,143	3,724,655
U.S. Department of Housing and Urban Development	(105,491)	-	-	(105,491)
U.S. Department of the Interior	655,176	8,125,711	8,545,501	1,074,966
U.S. Department of Justice	1,124,918	1,340,388	2,250,188	2,034,718
U.S. Department of Labor	507,430	1,496,312	1,321,994	333,112
U.S. National Endowment for the Arts	574,581	155,583	196,770	615,768
U.S. Department of Transportation	436,237	695,616	705,858	446,479
U.S. Department of Veterans Affairs	240,417	482,067	210,036	(31,614)
Unallocated cash receipts/expenditures	1,028,716	(258,839)	(186,909)	1,100,646
GRAND TOTAL	\$ 9,209,458	\$ 45,494,036	\$ 47,384,721	\$ 11,100,143

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

Reconciliation:

Receivable from grantor at September 30, 2007	\$ 11,100,143
Provision for uncollectible accounts	(3,843,022)
	<u>\$ 7,257,121</u>
Expenditures per above	\$ 47,384,721
Local match	5,281,435
	<u>\$ 52,666,156</u>
Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)	\$ 49,844,242
Operating Transfers Out	2,821,914
	<u>\$ 52,666,156</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, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
U.S. DEPARTMENT OF THE TREASURY					
21.Unknown	Tax Relief Recon Act 2003	\$ (109,343)	\$ -	\$ 42,313	\$ (67,030)

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF AGRICULTURE					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 514	\$ 514	\$ -	\$ -
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	(145,441)	41,204	3,739	(182,906)
10.551	Food Stamps	413,900	9,763,371	9,308,013	(41,458)
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	-	301,213	443,068	141,855
10.570	Nutrition Services Incentive	68,195	-	-	68,195
10.664	Cooperative Forestry Assistance	372,859	442,906	221,303	151,256
10.677	Forest Land Enhancement Program	2,737	6,846	11,105	6,996
10.904	Watershed Protection and Flood Prevention	2	-	-	2
10.912	Environmental Quality Incentives Program	(1,700)	-	-	(1,700)
10.950	Agricultural Statistics Reports	6,248	-	-	6,248
	TOTAL	\$ 717,314	\$ 10,556,054	\$ 9,987,228	\$ 148,488

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF COMMERCE					
11.Unknown	CENSUS 2000 PL105-277	\$ (1)	\$ -	\$ -	\$ (1)
11.300	Grants for Public Works and Economic Development Facilities	(281,668)	94,077	375,745	-
11.407	Interjurisdictional Fisheries Act of 1986	6,954	7,754	-	(800)
11.419	Coastal Zone Management Administration Awards	370,317	1,043,279	848,096	175,134
11.426	Financial Assistance for National Centers for Coastal Ocean Science	39,553	125,216	125,738	40,075
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	(4,671)	-	15,373	10,702
11.437	Pacific Fisheries Data Program	(3,221)	226,367	159,848	(69,740)
11.452	Unallied Industry Projects	3,570	7,027	3,957	500
11.454	Unallied Management Projects	9,764	97,788	90,223	2,199
11.463	Habitat Conservation	-	7,976	1,976	(6,000)
	TOTAL	\$ 140,489	\$ 1,609,484	\$ 1,620,956	\$ 151,961

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, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES					
45.310	Grants to States	\$ 105,271	\$ 173,655	\$ 97,106	\$ 28,722

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
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	248,326	846,463	1,201,413	603,276
84.154	Public Library Construction and Technology Enhancement	8,834	-	-	8,834
84.169	Independent Living - State Grants	3,727	14,249	31,834	21,312
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	17,174	21,374	25,729	21,529
84.187	Supported Employment Services for Individuals with Severe Disabilities	57,347	-	-	57,347
84.224	State Grants for Assistive Technology	2,094	353,685	360,282	8,691
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	64,456	26,137	10,152	48,471
TOTAL		\$ 401,408	\$ 1,261,908	\$ 1,629,410	\$ 768,910

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF ENERGY					
81.041	State Energy Program	\$ 13,040	\$ 194,747	\$ 196,115	\$ 14,408
81.052	Energy Conservation for Institutional Building	(9,512)	-	-	(9,512)
81.074	Alcohol Fuels Loan Guarantees	545	-	-	545
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	-	3,774	3,774	-
TOTAL		\$ 4,073	\$ 198,521	\$ 199,889	\$ 5,441

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF DEFENSE					
12.113	State Memorandum of Agreement for the Reimbursement of Technical Services	\$ (14,104)	\$ 2,108	\$ -	\$ (16,212)
61.755	U.S. Dept. of Defense (Navy)	<u>379</u>	<u>-</u>	<u>-</u>	<u>379</u>
	TOTAL	<u>\$ (13,725)</u>	<u>\$ 2,108</u>	<u>\$ -</u>	<u>\$ (15,833)</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, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY					
66.461	Regional Wetland Program Development Grants	\$ -	\$ -	\$ 8,166	\$ 8,166
66.600	Environmental Protection Consolidated Grants - Program Support	124,189	2,375,836	2,297,620	45,973
66.805	Leaking Underground Storage Tank Trust Fund Program	-	-	4,831	4,831
	TOTAL	<u>\$ 124,189</u>	<u>\$ 2,375,836</u>	<u>\$ 2,310,617</u>	<u>\$ 58,970</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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF HOMELAND SECURITY					
97.004	Homeland Security Grant Program	\$ 33,574	\$ 290,191	\$ 259,511	\$ 2,894
97.012	Boating Safety Financial Assistance	355,415	-	165,629	521,044
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	-	151,689	154,500	2,811
97.024	Emergency Food and Shelter National Board Program	4,285	21,126	10,541	(6,300)
97.034	Disaster Unemployment Assistance	(10,936)	-	-	(10,936)
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	1,359,467	3,122,525	1,890,191	127,133
97.039	Hazard Mitigation Grant	44,206	717,800	750,708	77,114
97.042	Emergency Management Performance Grants	32,049	253,237	365,079	143,891
97.044	Assistance to Firefighters Grant	(2,057)	139,728	138,064	(3,721)
97.053	Citizen Corps	1,146	3,895	5,401	2,652
97.067	Homeland Security Grant Program	44,454	1,344,374	1,340,852	40,932
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	82,279	362,836	355,145	74,588
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	\$ 1,799,055	\$ 6,407,401	\$ 5,435,621	\$ 827,275

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
93.003	Public Health and Social Services Emergency Fund	\$ 992	\$ 58,028	\$ 57,037	\$ 1
93.043	Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	-	3,563	3,563	-
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	(44,963)	147,950	179,062	(13,851)
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	141,294	340,991	412,837	213,140
93.046	Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals	(8,860)	-	-	(8,860)
93.052	National Family Caregiver Support	1,103	64,404	69,641	6,340
93.053	Nutrition Services Incentive Program	-	145,739	25,504	(120,235)
93.069	Public Health Emergency Preparedness	-	-	11,696	11,696
93.110	Maternal and Child Health Federal Consolidated Programs	11,065	127,355	158,564	42,274
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	57,041	520,574	503,741	40,208
93.126	Small Business Innovation Research	327	966	639	-
93.127	Emergency Medical Services for Children	4,261	73,308	79,356	10,309
93.150	Projects for Assistance in Transition from Homelessness (PATH)	(712)	37,326	46,009	7,971
93.217	Family Planning - Services	76,801	298,778	263,339	41,362
93.230	Consolidated Knowledge Development and Application (KD&A) Program	2,348	-	-	2,348
93.234	Traumatic Brain Injury State Demonstration Grant Program	1,108	35,395	34,209	(78)
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	1,373	62,378	68,818	7,813
93.251	Universal Newborn Hearing Screening	13,872	79,231	73,852	8,493
93.268	Immunization Grants	23,772	415,883	539,029	146,918
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	87,246	713,353	737,542	111,435
93.556	Promoting Safe and Stable Families	3,706	-	-	3,706
93.568	Low-Income Home Energy Assistance	57,838	216,923	181,133	22,048
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	14,313	189,309	200,820	25,824
93.631	Developmental Disabilities Projects of National Significance	14,996	226,515	252,849	41,330
93.643	Children's Justice Grants to States	-	-	1,079	1,079

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED					
93.667	Social Services Block Grant	(111,879)	735,965	880,235	32,391
93.669	Child Abuse and Neglect State Grants	(1)	-	-	(1)
93.767	State Children's Insurance Program	81,300	52,711	1,280,229	1,308,818
93.778	Medical Assistance Program	520,826	4,711,434	5,377,787	1,187,179
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	18,687	183,606	166,414	1,495
93.782	Medicare Transitional Drug Assistance Program for Territories	38,554	38,554	-	-
93.824	Basic/Core Area Health Education Centers	68,116	127,184	42,549	(16,519)
93.889	National Bioterrorism Hospital Preparedness	16,512	120,416	226,703	122,799
93.917	HIV Care Formula Grants	393	15,499	25,116	10,010
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	32,199	148,539	123,481	7,141
93.944	Human Immunodeficiency Virus (HIV) /Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	-	1,151	1,151	-
93.952	Trauma Care Systems Planning and Development	(1)	-	-	(1)
93.958	Block Grants for Community Mental Health Services	(4,878)	70,988	79,972	4,106
93.959	Block Grants for Prevention and Treatment of Substance Abuse	61,556	391,272	356,645	26,929
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	30,003	95,202	71,451	6,252
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	4,703	54,649	76,074	26,128
93.991	Preventive Health and Health Services Block Grant	(9,693)	28,876	37,624	(945)
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	8,412	338,216	372,393	42,589
	TOTAL	\$ 1,578,743	\$ 10,872,231	\$ 13,018,143	\$ 3,724,655

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
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	(146,940)	-	-	(146,940)
	TOTAL	\$ (105,491)	\$ -	\$ -	\$ (105,491)

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF THE INTERIOR					
15.605	Sport Fish Restoration	\$ 82,241	\$ 992,469	\$ 990,503	\$ 80,275
15.608	Fish and Wildlife Management Assistance	-	7,993	77,026	69,033
15.611	Wildlife Restoration	59,466	269,883	267,122	56,705
15.614	Coastal Wetlands Planning, Protection and Restoration Act	(2,578)	-	2,325	(253)
15.615	Cooperative Endangered Species Conservation Fund	(1)	370,639	372,376	1,736
15.622	Sportfishing and Boating Safety Act	5,188	147,633	153,778	11,333
15.634	State Wildlife Grants	4,223	143,211	142,917	3,929
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands Compact Impact	384,890	829,449	1,124,817	680,258
15.876	Unknown	-	5,171,914	5,171,914	-
15.876	Unknown	40,449	-	-	40,449
15.904	Historic Preservation Fund Grants- In-Aid	80,084	189,370	239,573	130,287
15.916	Outdoor Recreation - Acquisition, Development and Planning	1,214	3,150	3,150	1,214
	TOTAL	\$ 655,176	\$ 8,125,711	\$ 8,545,501	\$ 1,074,966

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
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 Incentive Block Grants	-	-	13,071	13,071
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	19,191	73,566	76,403	22,028
16.541	Part E - Developing, Testing and Demonstrating Promising New Programs	18,315	62,180	89,176	45,311
16.542	Part D - Research, Evaluation, Technical Assistance and Training	1	801	2,033	1,233
16.548	Title V - Delinquency Prevention Program	14,712	37,142	32,832	10,402
16.550	State Justice Statistics Program for Statistical Analysis Centers	4,875	-	5,221	10,096
16.554	National Criminal History Improvement Program	110,732	134,393	23,660	(1)
16.575	Crime Victim Assistance	88,922	282,206	277,400	84,116
16.579	Edward Byrne Memorial Formula Grant Program	187,260	244,891	648,275	590,644
16.583	Children's Justice Act Partnerships for Indian Communities	183,486	295,951	159,842	47,377
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	510,407	84,442	570,875	996,840
16.588	Violence Against Women Formula Grants	-	5,887	61,550	55,663
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	63,011	80,489	69,470	51,992
16.592	Local Law Enforcement Block Grants	(81,908)	-	-	(81,908)
16.609	Community Prosecution and Project Safe Neighborhoods	3,073	13,941	53,176	42,308
16.710	Public Safety Partnership and Community Policing Grants	(916)	24,499	24,567	(848)
16.738	Edward Byrne Memorial Justice Assistance Grant Program	-	-	142,637	142,637
	TOTAL	\$ 1,124,918	\$ 1,340,388	\$ 2,250,188	\$ 2,034,718

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF LABOR					
17.235	Senior Community Service Employment Program	\$ 44,430	\$ 221,275	\$ 234,269	\$ 57,424
17.250	Job Training Partnership Act	(11,225)	-	-	(11,225)
17.258	WIA Adult Program	65,822	242,470	344,961	168,313
17.259	WIA Youth Activities	173,332	466,620	329,119	35,831
17.260	WIA Dislocated Workers	124,348	382,513	280,888	22,723
17.504	Consultation Agreements	110,723	183,434	132,757	60,046
	TOTAL	\$ 507,430	\$ 1,496,312	\$ 1,321,994	\$ 333,112

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund
 Year Ended September 30, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
U.S. NATIONAL ENDOWMENT FOR THE ARTS					
45.025	Promotion of the Arts - Partnership Agreements	\$ 574,581	\$ 155,583	\$ 196,770	\$ 615,768

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF TRANSPORTATION					
20.218	National Motor Carrier Safety	\$ 229,753	\$ 225,410	\$ 205,595	\$ 209,938
20.600	State and Community Highway Safety	182,816	425,774	464,806	221,848
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	23,668	44,432	35,457	14,693
	TOTAL	\$ 436,237	\$ 695,616	\$ 705,858	\$ 446,479

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, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS					
64.203	State Cemetery Grants	\$ 240,417	\$ 482,067	\$ 210,036	\$ (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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories				
	Second Covenant	\$ 1,422,820	\$ 2,092,147	\$ 1,725,615	\$ 1,056,288
	FY93 and FY94 Appropriations Act Grant	684,549	1,420,757	1,379,728	643,520
	FY95 Appropriations Act Grant	387,521	215,138	279,123	451,506
	FY96 - FY02 Appropriations Act Grant	6,194,624	11,504,566	12,734,813	7,424,871
	Public School System P.L. 11-89	369,840	1,420,560	1,250,551	199,831
	CDA CIP Bond App. Act 2000 P.L. 11-119	674	674	-	-
	FY03 Appropriations Act Grant	-	90,514	90,514	-
	FY04 Appropriations Act Grant	117,638	1,304,586	1,613,393	426,445
		9,177,666	18,048,942	19,073,737	10,202,461
	Less local match	-	(4,974,765)	(5,777,342)	(802,577)
	TOTAL	\$ 9,177,666	\$ 13,074,177	\$ 13,296,395	\$ 9,399,884
Reconciliation:					
	Receivable from grantor at September 30, 2007				\$ 9,399,884
	Provision for uncollectible accounts				(5,690,150)
					<u>\$ 3,709,734</u>
	Federal awards expenditures, as stated above			\$ 13,296,395	
	Debt service related:				
	Interest			1,933,352	
	Operating transfers out			479,768	
	Local match			5,777,342	
				<u>\$ 21,486,857</u>	
	Expenditures per Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)			\$ 21,007,089	
	Operating transfers out			479,768	
				<u>\$ 21,486,857</u>	

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
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	555,463	698	54,108	608,873
	Other	(50,670)	-	-	(50,670)
		(146,617)	698	54,108	(93,207)
	Less local match	-	(698)	(54,108)	(53,410)
	TOTAL	\$ (146,617)	\$ -	\$ -	\$ (146,617)

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, 2007

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. Department of Transportation	\$ 687,650	\$ 677,433	\$ 724,354	\$ 734,571
U.S. Department of Homeland Security	493,901	72,474	125,861	547,288
U.S. Department of the Interior	(3,175)	-	23,000	19,825
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>\$ 65,348</u>	<u>\$ 749,907</u>	<u>\$ 873,215</u>	<u>\$ 188,656</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, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
U.S. DEPARTMENT OF TRANSPORTATION					
20.205	Highway Planning and Construction	\$ 687,650	\$ 677,433	\$ 724,354	\$ 734,571

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, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
U.S. DEPARTMENT OF HOMELAND SECURITY					
83.516	Disaster Assistance	\$ 493,901	\$ 72,474	\$ 125,861	\$ 547,288

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, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories	\$ (3,175)	\$ -	\$ 23,000	\$ 19,825

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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
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, 2007

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2006</u>	<u>Cash Receipts FY07</u>	<u>Expenditures FY07</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2007</u>
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, 2007

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2006	Cash Receipts FY07	Expenditures FY07	Receivable From Grantor (Deferred Revenue) at September 30, 2007
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories	\$ 19,629	\$ 1	\$ -	\$ 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, 2007

(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, 2007

(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, 2007, are as follows:

Commonwealth Ports Authority	\$ 702,976
Northern Marianas College	\$ 218,150

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, 2007 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, 2007.

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, 2007:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2007**

(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 Received</u>	<u>Funds Expended</u>
Commonwealth Ports Authority:				
Economic, Social, and Political Development of the Territories	U.S. Department of the Interior	15.875	\$ 5,684,876	\$ 5,289,901
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	U.S. Department of Homeland Security	97.036	\$ 457,030	\$ 255,087
Homeland Security Grant Program		97.067	\$ 92,074	\$ 35,538
Law Enforcement Terrorist Prevention Program		97.074	\$ 223,001	\$ 246,264

d. Indirect Cost Allocation

Due to the absence of a completed indirect cost rate for fiscal year 2007, the CNMI utilized the indirect cost rate approved by the U.S. Department of the Interior for fiscal year 2003 in fiscal year 2007. 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, 2007. 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 9 through 36) 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	\$ 47,384,721	\$ 5,281,435	\$ 52,666,156
Capital Projects - U.S. Department of the Interior	13,296,395	5,777,342	17,073,737
Capital Projects - Public Works	<u>873,215</u>	<u>-</u>	<u>873,215</u>
	<u>\$ 61,554,331</u>	<u>\$ 11,058,777</u>	<u>\$ 70,613,108</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements of the CNMI due to: 1) our inability to determine the propriety of tax rebates payable and due to component units balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information; 2) our inability to determine the propriety of receivable from related party of the Commonwealth Ports Authority; and 3) had the financial statements of the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund, the CNMI's Workers' Compensation Commission, the Commonwealth Development Authority, the Commonwealth Utilities Corporation, the Public School System been audited.
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements, some of which are considered to be material weaknesses.
3. Instances of noncompliance material to the financial statements of the CNMI were disclosed during the audit.
4. Significant deficiencies in internal control were disclosed by the audit of the major federal award programs, some of which are considered to be material weaknesses.
5. The auditors' report on compliance for the major federal award programs for the CNMI expresses a qualified opinion.
6. There were audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

<u>Name or Cluster</u>	<u>CFDA Number</u>
Food Stamps	10.551
Economic, Social, and Political Development of the Territories	15.875
Highway Planning and Construction	20.205
Environmental Protection Consolidated Grants-Program Support	66.600
Medical Assistance Program	93.778
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036

8. The threshold for distinguishing Types A and B programs was \$1,852,237.
9. The CNMI was not determined to be a low-risk auditee.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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

Reference Number	Findings	Refer Page #
2007-1	External Financial Reporting	42
2007-2	Cash Flows	43 - 44
2007-3	Purchases/Disbursements	45
2007-4	Cash and Cash Equivalents	46 - 47
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2007-7	Travel Advances	50 - 51
2007-8	Retirement Contributions - General Fund	52 - 53
2007-9	Tax Rebates Payable	54 - 56
2007-10	Due to Component Units	57 - 58
2007-11	CNMI Local Noncompliance	59 - 60

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

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2007-12	15.875	Allowable Costs/Cost Principles	\$ 16,286	61 - 62
2007-13	93.778	Allowable Costs/Cost Principles	\$ 1,989	63 - 66
2007-14	93.778	Allowable Costs/Cost Principles/ Activities Allowed or Unallowed	\$ 225,149	67 - 69
2007-15	97.036	Allowable Costs/Cost Principles	\$ 9,304	70 - 71
2007-16	15.875	Cash Management	\$ 8,773	72 - 74
2007-17	93.778	Eligibility	\$ 503	75
2007-18	15.875	Period of Availability	\$ 583,660	76
2007-19	15.875	Procurement and Suspension and Debarment	\$ 90,000	77
2007-20	15.875	Procurement and Suspension and Debarment	\$ 62,847	78
2007-21	15.875	Procurement and Suspension and Debarment	\$ 64,900	79
2007-22	15.875	Procurement and Suspension and Debarment	\$ 658,149	80
2007-23	66.600	Procurement and Suspension and Debarment	\$ 17,027	81 - 82
2007-24	97.036	Procurement and Suspension and Debarment	\$ 80,927	83 - 84
2007-25	15.875	Reporting	\$ 41,196	85
2007-26	97.036	Reporting	\$ 88,815	86 - 87
2007-27	93.778	Special Tests and Provisions	\$ 251,170	88
2007-28	97.036	Special Tests and Provisions	\$ 13,114	89 - 90
2007-29	20.205	Allowable Costs/Cost Principles	\$ -	91 - 92
2007-30	10.551	Cash Management	\$ -	93 - 94
2007-31	20.205	Cash Management	\$ -	95 - 96
2007-32	66.600	Cash Management	\$ -	97 - 98
2007-33	93.778	Cash Management	\$ -	99 - 101
2007-34	97.036	Cash Management	\$ -	102 - 103
2007-35	20.205	Davis-Bacon Act	\$ -	104
2007-36	93.778	Eligibility	\$ -	105
2007-37	10.551	Equipment and Real Property Management	\$ -	106 - 107
2007-38	20.205	Equipment and Real Property Management	\$ -	108 - 109
2007-39	66.600	Equipment and Real Property Management	\$ -	110 - 111
2007-40	97.036	Equipment and Real Property Management	\$ -	112 - 113
2007-41	15.875	Matching	\$ -	114
2007-42	93.778	Matching, Level of Effort, Earmarking	\$ -	115
2007-43	97.036	Matching, Level of Effort, Earmarking	\$ -	116 - 117
2007-44	All Major Programs	Procurement and Suspension and Debarment	\$ -	118 - 119
2007-45	All Major Programs	Procurement and Suspension and Debarment	\$ -	120 - 121
2007-46	15.875	Procurement and Suspension and Debarment	\$ -	122 - 123
2007-47	10.551	Reporting	\$ -	124
2007-48	66.600	Reporting	\$ -	125 - 126
2007-49	93.778	Reporting	\$ -	127
2007-50	97.036	Reporting	\$ -	128 - 129
2007-51	10.551	Special Tests and Provisions	\$ -	130
2007-52	93.778	Special Tests and Provisions	\$ -	131
2007-53	97.036	Subrecipient Monitoring	\$ -	132 - 133

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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

External Financial Reporting

Finding No. 2007-1

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, 2007, the Commonwealth Development Authority (CDA), the Commonwealth Utilities Corporation (CUC) and the Public School System (PSS), discretely presented component units, and the Northern Mariana Islands Retirement Fund (NMIRF), the Northern Mariana Islands Government Health and Life Insurance Trust Fund (GHLITF) and the CNMI Workers' Compensation Commission (WCC), fiduciary funds, were unaudited at September 30, 2007.

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, CUC, PSS, NMIRF, GHLITF and WCC was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Eloy S. Inos, Secretary of Finance and Michael S. Sablan, 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: 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Cash Flows

Finding No. 2007-2

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:

	2007	2006	2005	2004	2003
Total assets	\$ 84,562,318	\$ 73,178,439	\$ 74,676,988	\$ 95,490,132	\$ 63,483,266
Total liabilities	\$ 283,813,688	\$ 225,281,973	\$ 210,539,483	\$ 201,378,383	\$ 157,467,782
Total fund deficit	\$ (199,251,370)	\$ (152,103,534)	\$ (135,862,495)	\$ (105,888,251)	\$ (93,984,516)
Total revenues	\$ 159,879,556	\$ 192,660,289	\$ 214,891,036	\$ 210,630,807	\$ 200,744,520
Total expenditures	\$ 193,136,802	\$ 209,039,185	\$ 244,881,423	\$ 246,858,759	\$ 211,223,864
Other financing sources (uses)	\$ (2,996,864)	\$ 137,857	\$ 16,143	\$ 25,532,709	\$ (2,583,731)

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 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos, Secretary of Finance

Corrective Action: See also Finding No. 2007-8 relating to the liability to the retirement fund. Since the liability to the retirement fund is \$172.6 million and the fund balance deficit is \$199.2 million, resolving the retirement fund issues will also be resolving this finding. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The difference between revenues and expenditures for 2004, 2005 and 2006 is overstated as \$28 million in bond proceeds received in 2004 for land compensation payments are excluded as revenues but the disbursement of those proceeds are included as expenditures. Disbursements were \$2.9 million in 2004, \$18.9 million in 2005 and \$6.7 million in 2006.

In addition, the 2006 and 2007 expenditure amounts include employer retirement contributions of \$9 million and \$17 million where payment was suspended but the expenditure and liability recorded.

Various austerity measures, including reduced work hours, hiring freeze, stringent review of non personnel expenditures and reduced budget allotments have reduced expenditures from \$245 million in 2005 to \$180 million in 2007 as noted above.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Purchases/Disbursements

Finding No. 2007-3

Criteria: Expenditures should be recorded when incurred.

Condition: Of total medical related expenditures of \$4,713,098 at September 30, 2007, professional services of \$3,098,902 and nonpayroll expenses of \$157,162 were tested. Of ninety-three items tested, fifty-eight items, totaling \$834,696 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. Further, for eight expenditures tested, totaling \$145,312, the amount recorded in the general ledger was only the amount actually paid and accrual was not made for the unpaid balance. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of established policies and procedures to 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 2006.

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.

The Department of Finance will not accept any claims and will reject the claims once there is no funding available in our Medicaid accounts.

Proposed Completion Date: N/A

Auditor Response: While expenditures are reported on the CMS 64 based on date of payment, expenditures should be recorded in the general ledger when incurred regardless of when paid. This is an issue regarding compliance with generally accepted accounting principles and is not a Medicaid program compliance issue.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Cash and Cash Equivalents

Finding No. 2007-4

Criteria: Bank reconciliations should be performed in a timely manner.

Condition: During the fiscal year ended September 30, 2007, bank reconciliations for the following accounts were prepared two to three months after month end.

Bank Code	Account Name
11190	Treasury (DOF) Imprest Fund
11830	Law Revision Commission Imprest Fund
11570	Federal Grants Fund
11520	Credit Card
11480	Lottery Commission Imprest Fund
11320	Las Fiesta Revolving Imprest Fund
11180	Guam Operation Imprest Fund
11170	Guam Medical Referral Imprest Fund
11430	General Fund
11410	Special Disability Imprest Fund
11230	Food Stamps
11130	LNO Hawaii - Medical Referral
11120	LNO Hawaii - Operation

Further, book reconciling items identified during the monthly bank reconciliation process 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 the timely reconciliation of bank accounts.

Prior Year Status: The lack of adequate policies and procedures related to the timely preparation of bank reconciliations was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2006.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-4, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree with the finding. 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 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 with our bank. 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, 2007

Receivables

Finding No. 2007-5

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

Condition: As of September 30, 2007, the receivable balance at CHC was \$104,598,219. The subsidiary ledger indicates that this balance represents accounts outstanding in excess of 120 days. The large receivable balance, the many aged individual balances, and the backlog of billing files all reflect inadequate billing and collection procedures.

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 of \$104,598,219.

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

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 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: DPH agrees with the findings but has made major progress in the past years in correcting the problems. 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 non payment 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.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Receivables

Finding No. 2007-6

Criteria: Receivables should be properly identified, recorded and reconciled.

Condition: The CNMI Group Health and Life Insurance (GHLI) Program confirmed amount due to the CNMI of \$15,269,405. However, these balances are not reconciled to CNMI's records. Details are as follows:

	GHLI	CNMI	Difference
Commonwealth Health Center (CHC)	\$ 14,829,951	\$ 24,219,543	\$ (9,389,592)
Tinian Health Center (THC)	247,215	-	247,215
Rota Health Center (RHC)	<u>192,239</u>	<u>-</u>	<u>192,239</u>
	<u>\$ 15,269,405</u>	<u>\$ 24,219,543</u>	<u>\$ (8,950,138)</u>

CHC receivables are fully allowed for as of September 30, 2007. Further, the amount due to THC and RHC totaling \$439,454 were not recorded as receivables in the CNMI's books. This was corrected through an audit adjustment.

Cause: The cause of the above condition is the lack of policies and procedures to ensure that all valid receivables are identified, recorded and reconciled on a timely manner.

Effect: The effect of the above condition is the possibility of a misstatement of receivable balances; however, this effect is mitigated by a corresponding 100% allowance for uncollectible accounts.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure that all valid receivables are properly identified, recorded and reconciled. Further, we recommend the CHC, THC and RHC establish policies and procedure for periodic reconciliation of balances with GHLI.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Joseph Kevin Villagomez, Secretary of Public Health and Eloy S. Inos, Secretary of Finance

Corrective Action: We agree with the finding although for all intents and purposes, the GHLI Trust Fund has ceased to exist. Effective November 1, 2007, the GHLI program was privatized under the new Health Insurance Provider for the Northern Mariana Islands Government, Aetna Global Benefits. Since no payment will be forthcoming from GHLI and the receivable is fully reserved for, the final amounts will be written off on both sides.

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Travel Advances

Finding No. 2007-7

Criteria: Travel advances to employees should be liquidated in a timely manner through the submission of a travel authorization/voucher or the return of unexpended funds.

Condition: As of September 30, 2007, the General Fund recorded travel advances of \$1,532,772, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, approximately \$1,139,546 represents carryforwards from prior years.

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

Employee Number	Travel Advance at September 30, 2007
100399	\$ 20,601
310916	\$ 18,274
443058	\$ 17,440
102581	\$ 17,339

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 2006.

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, 2007

Finding No. 2007-7, 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 05/31/08 has been reduced to \$1,365,496. This is less than half the amount outstanding two years ago. The amount outstanding is reserved against fund balance on the balance sheet either through the reserve for encumbrances or reserve for related assets.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Retirement Contributions - General Fund

Finding No. 2007-8

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. Further, effective October 1, 2005 the employer contribution rate increased from 24% to 36.7727%.

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

- As of September 30, 2007, the CNMI recorded a contribution liability of \$114,878,126 of which \$97,382,599 dates back to fiscal year 2006 and prior. An aging of the outstanding contribution liability by fiscal year is as follows:

2007	\$ 17,495,526
2006	16,806,429
2005	24,006,548
2004	24,489,210
2003	23,427,715
2002 and prior	<u>8,652,697</u>
	\$ <u>114,878,125</u>

- The Fund assessed the CNMI an additional penalty of \$4,442,262 for the year ended September 30, 2007. The CNMI, however, has determined that no penalty can be assessed for fiscal year 2007 due to the suspension of employer contributions pursuant to Public Law 15-15. As of September 30, 2007, the Fund has assessed total penalties of \$33,045,966 on outstanding contributions of which only \$21,100,949 is recorded by the CNMI. The CNMI is currently contesting the balance of \$11,945,017 in penalties.

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. This condition results in a qualification of the due to pension (and other employee benefit) trust fund account.

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 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-8, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos, Secretary of Finance

Corrective Action: 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.

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, 2007

Tax Rebates Payable

Finding No. 2007-9

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, 2007, estimated tax rebates payable aggregated \$33,460,325. The estimate consists of the following:

Estimated 2007 liability based on fiscal year 2007 collections	\$ 3,767,275
2006 and prior rebates unpaid as of September 30, 2007	<u>29,693,050</u>
	<u>\$ 33,460,325</u>

The unpaid 2006 and prior rebates consist of completed tax returns and the value of matched and unmatched tax returns. The detailed listings of the matched and unmatched tax returns for the tax years 2001 through 2006 and unmatched tax returns for tax year 2000 were generated as of September 30, 2007. A comparison of the tax rebate payable summary report to the detailed listings revealed that tax rebate payables reflected in the summary report is higher by \$656,448 than the amount in the detailed listings. This condition was corrected through a proposed audit adjustment.

The detailed listings for the matched returns for tax year 2000 for individual returns amounting to \$113,439 and corporate returns amounting to \$1,173,243 per summary report were not generated as of September 30, 2007. Detailed listings relating to the 2000 matched returns were generated as of March 25, 2008 reflecting rebate payables of \$87,782 and \$397,207 as of March 25, 2008 for individual and corporate returns, respectively. Rebate payments from October 1, 2007 to March 25, 2008 relating to matched returns for tax year 2000 amounted to \$1,146. As of September 30, 2007, the summary report is higher by \$800,447 than detailed listings. This condition was corrected through a proposed audit adjustment.

According to the Division of Revenue and Taxation, the variances between the summary report and detailed listings were due to the database change during the fiscal year 2007 whereby the summary report feature of the tax system was not programmatically pulling all information into the report and creating a variance between the summary schedules and the detailed schedules.

In addition, our detailed tests of the unpaid 2006 and prior rebates noted the following:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-9, Continued

Condition, Continued:

- Of twenty-four unmatched filings relating to individual tax rebate payable aggregating to \$711,602, sixteen items totaling to \$526,294 did not agree to the tax returns filed either due to errors in tax calculation, errors in the system where estimated tax penalties are duplicated and data entry error, among others. Further, four items totaling to \$81,603 may be overstated due to the related estimated tax penalty being deducted twice. For one item amounting to \$12,769 subsequently paid, the cancelled or carbon copy of check has not been made available. Further, subsequent payments for two items totaling to \$29,713 did not agree to the recorded rebate payable amount of \$29,551.
- Of forty-two matched filings relating to individual tax rebate payable aggregating to \$801,027, twenty items totaling to \$497,181 did not agree to the tax returns filed either due to incorrect calculations by taxpayers, estimated penalty being duplicated in the system, programming errors where the system added the tax deposits to the tax returns, data entry error, and calculation error, among others. The tax return was not made available for one item amounting to \$12,362. Four items totaling to \$185,650 were overstated by \$141,798 due to the estimated tax deposits included as rebate payable. Further, two items totaling to \$42,269 may be overstated due to the related estimated tax penalty being deducted twice. Further, for eight items totaling to \$112,032 that were paid subsequent to September 30, 2007, the cancelled or a duplicate copy of check has not been made available. Additionally, for one item amounting to \$52,040 a check payment was issued for \$24,040 however, the system did not deduct the estimated tax penalty.
- Of twenty-five unmatched filings relating to corporate tax rebate payable aggregating to \$5,745,211, the taxpayers name for seven items totaling \$1,284,529 were not found in the JDE system. Additionally, four items totaling \$965,603 did not agree to the tax returns filed due to taxpayers not attaching the relevant supporting documentation to properly calculate tax.
- Of ten matched filings relating to corporate tax rebate payable aggregating to \$1,976,798, nine items totaling to \$1,891,191 did not agree to the tax returns either due to the system creating double payable or the taxpayers did not submit the relevant supporting documentation to properly calculate tax. Further, seven items totaling to \$1,746,060 were overstated by \$911,668 due to the tax system creating double rebate payable. This was due to a glitch in the system. In addition, for one item amounting to \$44,846, the taxpayer's name was not found in the JDE system.
- Of four matched filings relating to tax year 2000 aggregating to \$321,777, three items totaling \$289,654 did not agree to the tax returns due to rebate payable amount being doubled in the detailed schedule. Further, the taxpayers' names for these three items were not found in the JDE system.

Further, no interest is calculated or paid on overpayments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-9, Continued

Cause: The cause of the above condition is the failure to ensure the integrity of the database change made during fiscal year 2007 and the lack of review of the related rebate payable summary reports and detailed listings to ensure accuracy and completeness. Further, there is a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments.

Effect: The effect of the above condition is the misstatement of tax rebates payable. This condition results in a qualified opinion on tax rebates payable.

Recommendation: We recommend that the Division of Revenue and Taxation ensure the integrity of changes to the database. Further, we recommend that policies and procedures be established for the review of tax rebate summary reports and detailed listings to ensure accuracy and completeness of supporting reports and schedules. Additionally, we recommend that the Division of Revenue and Taxation ensure that all tax forms are properly filed and maintained. . We also recommend that recorded rebate payable should be reconciled with the liability indicated in the tax forms and significant variances, if any, should be investigated, monitored, adequately documented and addressed in a timely manner.

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 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos, Secretary of Finance

Corrective Action: The Division of Revenue and Tax has begun reviewing the discrepancies in the summary and detail payable reports and has identified the cause of the discrepancy for tax year 2000 as inconsistent program code in selecting records between the two reports. A detail review of the program code and records for each tax year through 2006 will need to be done to insure the summary and detail reports are consistent.

Once that is completed, Revenue and Tax will address the other detailed findings and will need to coordinate with the auditors for information on the specific documents reviewed so that the issues raised in the finding can be traced through the system.

As this is a lengthy and detailed finding, Revenue and Tax will need to perform an initial review to determine the time frame and steps to be taken to address the individual findings.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Due to Component Units

Finding No. 2007-10

Criteria: Amounts due to component units should be reconciled in a timely manner.

Condition: During tests of the due to component units balances, we noted the following:

- As of September 30, 2007, the due to component unit - PSS of \$620,975 recorded in the General Fund did not agree to the due from primary government of \$2,693,942 recorded by the Public School System. The difference of \$2,000,000 is a carry over from fiscal year 2006 and is currently being contested by the CNMI. Further, PSS reported total appropriations from the CNMI of \$36,721,414. The total transfers out, however, per the CNMI amounted to \$35,915,769 resulting in a variance of \$805,645. Of the total variance, approximately \$367,214 relates to 1% OPA fees and the remaining \$438,431 is due to timing differences.
- As of September 30, 2007, the due to component unit - MVA of \$2,001,847 recorded in the General Fund did not agree to the due from primary government of \$2,201,848 recorded by the Marianas Visitors Authority. The difference of \$200,000 is due to the supplemental budget recognized by MVA. The CNMI considered the \$200,000 as part of the current year appropriations.
- As of September 30, 2007, the preliminary balance of the due from component unit - CUC of \$214,449 recorded in the General Fund did not agree to the utility receivables from the CNMI of \$2,486,387 confirmed by the Commonwealth Utilities Corporation. A reconciliation made by the CNMI reflected amount due to CUC of \$763,602 as of September 30, 2007. The CNMI determined that the remaining variance of \$1,722,785 is CUC's receivables from other autonomous agencies and not receivables from the CNMI government.

Cause: The cause of the above condition is disputed balances and the lack of timely reconciliation of balances with component units.

Effect: The effect of the above condition is the qualification of due to component units.

Recommendation: We recommend the Department of Finance establish policies and procedures for the timely reconciliation of balances with component units. Further, we recommend the Department of Finance ensure that difference in balances with PSS, MVA and CUC are properly addressed and adjusted as necessary.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos, Secretary of Finance

Corrective Action: The Department of Finance only controls one side of the reconciliation and correction process. Delays in the reconciliation process or differences of opinion in regard to the nature of the corrections by the component units result in delays in processing offsetting corrections.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-10, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

In the case of the \$2 million difference with Public School System, PSS has not recognized the reduction in their 2006 appropriation resulting from mid year allotment adjustments due to a decrease in estimated revenues for the year. The Office of the Public Auditor is reviewing the validity of the \$2 million receivable and will issue a recommendation shortly. Corrections will be made based on the OPA recommendation.

MVA received \$200,000 for additional marketing efforts in 2007. Unspent, unobligated appropriations lapse at the end of each fiscal year. MVA has not responded to the Secretary of Finance's request for a list of obligations supporting the \$2,001,847 remaining appropriations from 2006 and 2007 included as payables on CNMI's records. Since it appears there are substantial lapsed funds we consider the \$200,000 payment to have been made from 2007 appropriations.

For CUC, CNMI's records show \$763,602 payable to CUC from the central government as of 09/30/07. The latest reconciliation from CUC shows \$877,172. Our reconciliation determined that the difference was due to CUC not applying payments made by the Tinian finance office during the January to June, 2007 period to the receivable.

Proposed Completion Date: 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

CNMI Local Noncompliance

Finding No. 2007-11

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. Total estimated local revenues and resources available and identified for fiscal year 2007 is \$193,483,041 under PL 15-28. 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. Total estimated local revenues and resources available and identified is \$163,260,013 under PL 15-71. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2007:

	<u>Budgeted Level of Expenditures</u>	<u>Actual Expenditures</u>	<u>Over- Expenditure</u>
Executive Branch:			
Corrections	\$ 2,536,497	\$ 2,932,220	\$ (395,723)
Finance	\$ 5,329,812	\$ 6,154,928	\$ (825,116)
Independent Programs:			
Joeten/Kiyu Public Library	\$ 138,191	\$ 168,484	\$ (30,293)
Utilities	\$ 2,538,867	\$ 2,564,512	\$ (25,645)
Office of the Washington Representative	\$ 899,941	\$ 955,661	\$ (55,720)

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 only authorize expenditures within budget 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 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Eloy S. Inos, Secretary of Finance and Esther Fleming, Special Assistant for Administration

Corrective Action: We agree with the following items above:

- Department of Corrections shows over expenditure of \$95,723 (less compact impact expense). This occurred due to difference in encumbrance amounts as calculated by the FMS and the auditors. We are reconciling to determine what caused the difference.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-11, Continued

Corrective Action, Continued:

- Department of Finance shows over expenditure of \$825,116. This occurred as the result of a year end adjustment of \$1,101,256 to record credit card fees as a DOF expense.
- Joeten-Kiyu Library shows over expenditure of \$29,643 which resulted from a \$30,000 year end reprogramming being entered twice.
- Unallocated utilities shows over expenditure of \$978,051 due to an audit adjustment of the same amount to agree DOF and CUC records.
- The above amounts could have been corrected through reprogramming or Public law 15-71 expense transfers if noted prior to audit.
- The Washington Representative's office shows an over expenditure of \$55,440. Legislation prevented the Governor from reprogramming from other accounts to cover this amount.

Proposed Completion Date: Budget control is ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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

Allowable Costs/Cost Principles

Finding No. 2007-12

Program	Reason for Questioned Costs	Questioned Costs																								
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended	<p><u>Criteria:</u> Expenditures and disbursements should be supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p><u>Condition:</u> Of sixty-two non-payroll expenditures of the DOI Capital Projects Fund tested, aggregating \$7,370,412, we noted the following:</p> <ul style="list-style-type: none"> • We could not verify the payee for the following as the cancelled check image on the bank statement was blank or the check had not cleared as of our test date; and the carbon copy was not provided: <table style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">BU#</th> <th style="text-align: center;">Check #</th> <th style="text-align: center;">APV #</th> <th style="text-align: center;">General Ledger Amount Tested</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">5602</td> <td style="text-align: center;">3840</td> <td style="text-align: center;">636626</td> <td style="text-align: right;">\$ 90,000</td> </tr> <tr> <td style="text-align: center;">5605</td> <td style="text-align: center;">3860</td> <td style="text-align: center;">638770</td> <td style="text-align: right;">105,112</td> </tr> <tr> <td style="text-align: center;">5175</td> <td style="text-align: center;">3856</td> <td style="text-align: center;">638765</td> <td style="text-align: right;">147,384</td> </tr> <tr> <td style="text-align: center;">5220</td> <td style="text-align: center;">3777</td> <td style="text-align: center;">631625</td> <td style="text-align: right;"><u>64,900</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">\$ 407,396</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Unit costs for two items (ref. EQ-4 and EQ-11) per invoice (ref. APV #618924 for BU#5018) were more than the unit costs stipulated in the related contract (ref. 405-OS) by \$16,286. 	BU#	Check #	APV #	General Ledger Amount Tested	5602	3840	636626	\$ 90,000	5605	3860	638770	105,112	5175	3856	638765	147,384	5220	3777	631625	<u>64,900</u>				\$ 407,396	<p style="text-align: right;">\$ 16,286</p>
BU#	Check #	APV #	General Ledger Amount Tested																							
5602	3840	636626	\$ 90,000																							
5605	3860	638770	105,112																							
5175	3856	638765	147,384																							
5220	3777	631625	<u>64,900</u>																							
			\$ 407,396																							
	<p><u>Cause:</u> The cause of the above condition is the lack of timely follow up with financial institutions of blank images of cancelled checks and lack of proper analysis of vendor invoices submitted.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$16,286. While the cancelled checks were not available for the \$407,396, no question costs result as the related expenditures are properly supported with invoices and other relevant documents.</p> <p><u>Recommendation:</u> We recommend the CNMI's Department of Finance ensure all expenditures and disbursements recorded in the general ledger are properly supported by invoices, checks, contracts and other relevant documents.</p> <p><u>Prior Year Status:</u> 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 2006.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Virginia Villagomez, CIP Coordinator, Office of the Governor</p>																									

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-12, 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:

- The CIP Program Office is not provided copies of the checks by the CNMI Treasury Office for funds paid out from the CIP account. The CIP Program Office will maintain a printout of the transactions processed by the CNMI Treasurer reflecting the payee, the check number, check date, check amount and payment voucher number. The CNMI Treasurer is encouraged to provide copies of the checks to the CIP Program Office on a weekly basis if the printout of transactions from the general ledger is insufficient for compliance.
- The unit costs for two items invoiced above the costs stipulated in contract # 405-OS resulted in an offset of other items not invoiced. The items were certified by the CNMI's Project Manager (Azuma Ltd.) and they should have recommended that any offset be reflected in a change order instead of a direct offset in the invoice. The CIP Administrator will issue a notice to the agencies that any changes in units to be delivered specified in the contract must be processed in a written form of a change order.

Proposed Completion Date: September 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-13

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/06 through 09/30/07</p>	<p>Criteria: 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>Condition: Of total program expenditures of \$4,713,098 at September 30, 2007, professional services of \$3,098,902 and other program expenses of \$157,162 were tested. Of ninety-three items tested, items totaling \$2,807,812 were not completely reviewed for propriety of rates charged and 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.	Amount
02/08/07	62060	PV460686	\$ 43,208
02/08/07	62060	PV460687	30,138
10/11/06	62060	PV447026	20,836
12/13/06	62060	PV453361	26,876
12/13/06	62060	PV453366	19,344
12/13/06	62060	PV453382	20,324
12/13/06	62060	PV453388	25,761
06/20/07	62060	PV472929	24,343
12/13/06	62060	PV453364	16,068
12/13/06	62060	PV453373	14,084
12/13/06	62060	PV453384	12,405
12/27/06	62060	PV454851	16,591
12/27/06	62060	PV454867	13,048
12/27/06	62060	PV454872	15,192
02/26/07	62060	PV462687	12,634
02/26/07	62060	PV462711	12,132
02/26/07	62060	PV462714	12,042
02/26/07	62060	PV462717	13,122
02/26/07	62060	PV462719	12,607
02/26/07	62060	PV462722	10,770
02/26/07	62060	PV462724	13,297
02/26/07	62060	PV462727	12,140
02/26/07	62060	PV462728	11,300
02/27/07	62060	PV462747	12,536
02/27/07	62060	PV462750	10,558
02/27/07	62060	PV462751	13,092
02/27/07	62060	PV462755	12,723
02/27/07	62060	PV462758	11,846
03/05/07	62060	PV463363	13,986
03/05/07	62060	PV463365	11,355
03/05/07	62060	PV463366	10,484
03/05/07	62060	PV463368	15,916
03/05/07	62060	PV463370	12,406
03/20/07	62060	PV465681	13,447
04/11/07	62060	PV467222	13,911
04/11/07	62060	PV467225	10,841
04/11/07	62060	PV467227	11,769
04/11/07	62060	PV467230	10,591
04/11/07	62060	PV467234	11,478
04/11/07	62060	PV467247	11,743
04/25/07	62060	PV468339	15,406
04/25/07	62060	PV468341	12,356

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13, Continued

Program	Reason for Questioned Costs			Questioned Costs
<u>Condition, Continued:</u>				
General Ledger Date	General Ledger Account	Reference No.	Amount	
04/25/07	62060	PV468343	13,605	
05/02/07	62060	PV468847	12,579	
05/02/07	62060	PV468851	11,987	
06/07/07	62060	PV471850	14,187	
06/20/07	62060	PV472938	11,454	
06/20/07	62060	PV472941	11,667	
06/20/07	62060	PV472944	11,105	
07/17/07	62060	PV475307	14,082	
08/20/07	62060	PV478555	12,854	
08/20/07	62060	PV478560	12,734	
08/20/07	62060	PV478566	14,922	
08/20/07	62060	PV478569	10,616	
08/20/07	62060	PV478583	11,211	
08/20/07	62060	PV478588	12,592	
08/20/07	62060	PV478591	11,540	
08/20/07	62060	PV478594	13,673	
09/06/07	62060	PV480783	12,004	
09/06/07	62060	PV480785	14,809	
09/20/07	62060	PV643641	24,000	
09/20/07	62060	PV643658	24,574	
09/20/07	62060	PV643664	23,493	
09/20/07	62060	PV643670	25,619	
09/20/07	62060	PV643671	22,186	
06/06/07	62060	JE137728	256,271	
06/06/07	62060	JE138114	58,768	
08/21/07	62060	JE140555	1,123,500	
08/21/07	62060	JE140556	255,506	
09/30/07	62060	JE144075	<u>121,568</u>	
			<u>\$ 2,807,812</u>	

Additionally for some items, there was no evidence of rate verification and review of accuracy of billings resulting in either double charges or incorrect rates paid. Details are as follows:

- For twenty-four prescription and pharmacy claims, the rate charged and paid by Medicaid was higher than the Estimated Acquisition Cost (EAC) as agreed in the service provider agreement. Details follow:

General Ledger Date	General Ledger Account	Reference No.	Amount	
12/27/06	62060	PV454872	\$	13
02/26/07	62060	PV462717		18
02/26/07	62060	PV462719		17
02/27/07	62060	PV462747		17
02/27/07	62060	PV462751		5
02/27/07	62060	PV462755		24
03/05/07	62060	PV463363		3
03/05/07	62060	PV463365		4
03/05/07	62060	PV463366		16
04/11/07	62060	PV467222		26
04/11/07	62060	PV467230		16
05/02/07	62060	PV468847		7
05/02/07	62060	PV468851		8
06/07/07	62060	PV471850		20
06/20/07	62060	PV472938		84

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13, Continued

Program	Reason for Questioned Costs			Questioned Costs
<u>Condition, Continued:</u>				
	<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
	08/20/07	62060	PV478560	23
	08/20/07	62060	PV478569	26
	08/20/07	62060	PV478583	8
	08/20/07	62060	PV478591	34
	08/20/07	62060	PV478594	51
	09/20/07	62060	PV643641	15
	09/20/07	62060	PV643658	106
	09/20/07	62060	PV643664	72
	09/20/07	62060	PV643671	36
				\$ <u>649</u>
				649
	<ul style="list-style-type: none"> For three prescription and pharmacy claims, the rate could not be verified since the related drugs were not included in the list of Average Wholesale Price list maintained by Medicaid to compute the EAC. Details follow: 			
	<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
	02/26/07	62060	PV462724	\$ 197
	06/20/07	62060	PV472941	67
	08/20/07	62060	PV478566	76
				\$ <u>340</u>
				340
	<ul style="list-style-type: none"> For one prescription and pharmacy claim (PV447026 amounting to \$123), the rate could not be verified as the attached printed summary spreadsheet did not include information on the NDC number and/or drug name. 			
				123
	<ul style="list-style-type: none"> For thirteen optometrist expenses, the rate charged and paid by Medicaid was higher than the established Medicare rate for similar service. Details follow: 			
	<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
	02/08/07	62060	PV460686	\$ 4
	12/13/06	62060	PV453361	202
	12/13/06	62060	PV453366	23
	06/20/07	62060	PV472929	3
	12/13/06	62060	PV453364	3
	12/13/06	62060	PV453373	16
	12/13/06	62060	PV453384	4
	03/05/07	62060	PV463368	6
	03/05/07	62060	PV463370	2
	03/20/07	62060	PV465681	18
	04/25/07	62060	PV468339	15
	04/25/07	62060	PV468343	1
	09/06/07	62060	PV480785	249
				\$ <u>546</u>
				546

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>			<u>Questioned Costs</u>
<u>Condition, Continued:</u>				
<ul style="list-style-type: none"> For two optometrist expenses, rates could not be verified as the optometrist services were not included in the established Medicare rates maintained by Medicaid. Further, rates did not agree with the rates listed in the service provider agreement. Details follow: 				
<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>	
12/13/06	62060	PV453382	\$ 301	
12/13/06	62060	PV453388	_____30	
			\$ _____331	331

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 under the Medicaid Program and possible misuse of federal expenditures and questioned costs of \$1,989 since the projected costs exceeded \$10,000.

Recommendation: We recommend that control procedures be clearly defined and communicated over verification of services charged to the Medicaid Program and review of accuracy of billings shall be made 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 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. Due to the 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 reviewed rates and eligibility date. If the drugs were not included in the Average Wholesale Price list that we maintain to compute EAC or any CPT codes for other services that are not available as per what our negotiated rate on our contract, we will only pay 50% of the 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 based on either the Hawaii Medicaid rate or Medicare rate that we should only pay 50% of the charges. For optometrists' expenses, there are some CPT codes that we pay at the negotiated rate based on our contract agreement and not the Medicare rate. For duplicate payments, we will adjust on the current claims.

Proposed Completion Date: N/A

Auditor Response: We did not note any evidence of review (tickmarks, initials, etc.) in the claims tested and noted above. The Medicaid Revised Operational Plan requires that Medicaid reimbursement are claimed based on the 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 verification should be performed on claims to ensure that rates paid are in accordance with CHC or Medicare rates.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles/Activities Allowed or Unallowed

Finding No. 2007-14

<u>Program</u>	<u>Reason for Questioned Costs</u>				<u>Questioned Costs</u>
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/06 - 09/30/07	Criteria: Expenditures recorded in the general ledger should be authorized, supported by certified accounts payable vouchers, invoices and other relevant documents, and approved prior to incurrence.				
	Condition: Of total program expenditures of \$4,713,098 at September 30, 2007, professional services of \$3,098,902 and other program expenses of \$157,162 were tested. Out tests noted the following:				
	<ul style="list-style-type: none"> The supporting accounts payable vouchers, invoices, transmittal, and relevant documents for the following were not available: 				
	General Ledger <u>Date</u>	General Ledger <u>Account</u>	<u>Reference No.</u>	<u>Amount</u>	
	02/06/07	62500	PV460248	\$ 2,835	
	12/06/06	62500	PV616641	1,376	
	08/30/07	62500	PV480987	456	
				<u>\$ 4,667</u>	4,667
	<ul style="list-style-type: none"> For one travel related expense (PV452444), the supporting travel authorization was not available. 				1,977
	<ul style="list-style-type: none"> The supporting medical referral could not be located for the following off-island expenditures: 				
General Ledger <u>Date</u>	General Ledger <u>Account</u>	<u>Reference No.</u>	<u>Amount</u>		
06/08/07	62060	PV471897	\$ 63,756		
03/13/07	62060	PV464475	33,204		
			<u>\$ 96,960</u>	96,960	
<ul style="list-style-type: none"> For three off-island expenditures, the medical referral was provided; however, there was no evidence of approval by at least two committee members. 					
General Ledger <u>Date</u>	General Ledger <u>Account</u>	<u>Reference No.</u>	<u>Amount</u>		
03/13/07	62060	PV464451	\$ 32,678		
03/13/07	62060	PV464453	18,574		
03/13/07	62060	PV464454	15,448		
			<u>\$ 66,700</u>	66,700	
<ul style="list-style-type: none"> Of total payroll expenditures of \$75,476, the supporting timesheet for one employee tested did not have evidence of approval. 					
<ul style="list-style-type: none"> Cancelled check copy could not be provided for two disbursements: 					

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-14, Continued

Program	Reason for Questioned Costs						Questioned Costs
<u>Condition, Continued:</u>							
	Check Date	Check No.	Amount	General Ledger Account	Reference No.	General Ledger Amount	
	02/06/07	304269	\$ 26,622	62060	PV454867	\$ 13,048	
	09/25/07	314433	\$ 130,922	62060	PV478351	18,949	
						<u>\$ 31,997</u>	31,997
	<ul style="list-style-type: none"> For two disbursements, check payment was made payable to CNMI Treasury instead of the service provider as recorded in the general ledger. 						
	Check Date	Check No.	Amount	General Ledger Account	Reference No.	General Ledger Amount	
	08/07/07	311673	\$ 80,529	62060	PV472944	\$ 11,105	
	05/17/07	308827	\$ 84,007	62060	PV467247	11,743	
						<u>\$ 22,848</u>	22,848

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.

Effect: The effect of the above condition is the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of \$225,149.

Recommendation: We recommend that the Medicaid office and Department of Finance obtain all necessary approvals/authorizations prior to incurring/payment of expenditures and ensure that supporting documents are on file.

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 and 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. If we do have the supporting documents at our office, then the Department of Finance should have a copy of the accounts payable vouchers. The Medical Referral authorizations are maintained at the Medical Referral Office. We do not feel that the cause is lack of approvals and/or authorizations but rather that documents are filed in several offices. However, our Operational Plan does not specify or require a treatment authorization so long as the Medical Referral Committee approves the referral of the Medicaid patient for treatment off-island.

Proposed Completion Date: N/A

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-14, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Auditor Response:</u> Documents supporting Medicaid program expenditures should be maintained both in the Medicaid Office and CNMI Finance Office. However, requested documents supporting expenditures for items noted above were not made available by either of the offices. For off-island treatments, we asked the Medicaid office to request copies of medical referrals from the Medical Referral Committee office; however, copies of approved medical referrals could not be provided for the two items noted above. Further, for the three off-island expenditures noted above, the medical referrals were not signed by at least two committee members.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-15

Program	Reason for Questioned Costs	Questioned Costs																																																		
<p>U.S. Department of Homeland Security / Disaster Grants - Public Assistance (Presidentially Declared Disasters) / CFDA #97.036 / Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion</p>	<p>Criteria: Expenditures recorded in the general ledger should be supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p>Condition: Of \$922,758 in non-payroll expenditures of the Disaster Grants - Public Assistance (Presidentially Declared Disasters) tested, we noted the following:</p> <ul style="list-style-type: none"> Local share was reimbursed to one subrecipient (PSS) for the following: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>DB</th> <th>PW #</th> <th>Subrecipient</th> <th>APV</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1447</td> <td>80</td> <td>PSS</td> <td>622851</td> <td>\$ 68,000</td> </tr> <tr> <td>1447</td> <td>91</td> <td>PSS</td> <td>622851</td> <td>8,447</td> </tr> <tr> <td>1447</td> <td>212</td> <td>PSS</td> <td>633520</td> <td>9,222</td> </tr> <tr> <td colspan="4" style="text-align: right;">Total</td> <td>\$ <u>85,669</u></td> </tr> </tbody> </table> <p>As a result of the above, \$8,567, which represents the subrecipient's share, should be returned back to the CNMI. The CNMI properly recorded this as local share in their records. Therefore, no questioned cost results from this item.</p> <ul style="list-style-type: none"> We could not verify the payee for the following as the cancelled check image was blank or the check had not cleared as of our test date; and the carbon copy was not provided for our review: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>DR</th> <th>PW #</th> <th>Check #</th> <th>APV</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>1447</td> <td>3</td> <td>312558</td> <td>635726</td> <td>\$ 21,195</td> </tr> <tr> <td>1447</td> <td>196</td> <td>315801</td> <td>640085</td> <td>9,063</td> </tr> <tr> <td>1532</td> <td>52</td> <td>316314</td> <td>642462</td> <td>21,000</td> </tr> <tr> <td colspan="4" style="text-align: right;">Total</td> <td>\$ <u>51,258</u></td> </tr> </tbody> </table> <ul style="list-style-type: none"> We were not provided the project worksheet for one accounts payable voucher (APV #632154) in the amount of \$9,304. <p>Cause: The cause of the above condition is the lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents.</p> <p>Effect: The effect of the above condition is questioned costs of \$9,304. This matter is reportable as the projected questioned costs exceed the threshold.</p> <p>Recommendation: We recommend that the Department of Finance ensure that all expenditures recorded in the general ledger are supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p>Prior Year Status: Lack of proper 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 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor</p>	DB	PW #	Subrecipient	APV	Amount	1447	80	PSS	622851	\$ 68,000	1447	91	PSS	622851	8,447	1447	212	PSS	633520	9,222	Total				\$ <u>85,669</u>	DR	PW #	Check #	APV	Amount	1447	3	312558	635726	\$ 21,195	1447	196	315801	640085	9,063	1532	52	316314	642462	21,000	Total				\$ <u>51,258</u>	<p>9,304</p>
DB	PW #	Subrecipient	APV	Amount																																																
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-15, 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: The Public Assistance Program Office will maintain a printout of the transactions processed by the CNMI Treasurer reflecting the payee, the check number, check date, check amount and payment voucher number. The CNMI Treasurer is encouraged to provide copies of the checks to the CIP Office on a weekly basis if the printout of transactions from the general ledger is insufficient for compliance. The Governor's Authorized Representative will issue a memorandum to the Public Assistance Program staff to verify all payments being processed will not exceed the authorized project worksheet approved for the Federal and local shares and at the correct cost share ratio.

Proposed Completion Date: September 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Cash Management

Finding No. 2007-16

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended	<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 sixty-two samples tested relating to the DOI Capital Projects Fund, forty-four 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>	

APV #	Drawdown Amount	Cash Receipts Date	Check Clearance Date	Days Elapsed After the Allowable Clearance Pattern
613616	\$ 62,847	11/14/06	12/06/06	19
613623	\$ 158,732	11/13/06	11/29/06	13
613843	\$ 207,881	11/16/06	12/26/06	37
613870	\$ 71,106	12/06/06	02/09/07	62
614493	\$ 206,947	12/01/06	12/19/06	15
615658	\$ 157,174	12/13/06	01/09/07	24
616053	\$ 91,325	12/13/06	01/18/07	33
616774	\$ 218,099	01/31/07	02/08/07	5
617868	\$ 191,870	01/24/07	01/31/07	4
617868	\$ 74,398	01/24/07	01/31/07	4
618751	\$ 104,746	12/13/06	01/10/07	25
618922	\$ 62,524	01/11/07	01/29/07	15
618924	\$ 80,929	01/03/07	01/19/07	13
619149	\$ 85,356	01/11/07	01/22/07	8
619150	\$ 144,922	01/11/07	01/25/07	11
619152	\$ 294,255	01/11/07	01/18/07	4
619152	\$ 117,702	01/11/07	01/18/07	4
619895	\$ 84,093	01/24/07	01/31/07	4
619898	\$ 152,986	01/24/07	02/13/07	17
620023	\$ 120,964	01/31/07	02/16/07	13
620023	\$ 144,428	01/31/07	02/16/07	13
622843	\$ 62,290	02/28/07	03/09/07	6
622956	\$ 121,521	02/28/07	03/09/07	6
626173	\$ 200,900	03/14/07	03/19/07	2
626173	\$ 80,360	03/14/07	03/19/07	2
627109	\$ 43,126	03/21/07	03/29/07	5
627344	\$ 108,692	05/01/07	05/17/07	13
627344	\$ 89,447	05/01/07	05/17/07	13
627462	\$ 152,986	03/28/07	04/13/07	13
629092	\$ 98,551	04/13/07	04/23/07	7
631625	\$ 64,900	06/01/07	06/12/07	8
632271	\$ 79,083	07/02/07	07/06/07	1
633178	\$ 71,045	06/11/07	07/02/07	18
633179	\$ 109,688	06/06/07	06/19/07	10
633181	\$ 68,933	06/11/07	06/18/07	4
634732	\$ 76,492	06/27/07	07/06/07	6
635394	\$ 57,568	07/02/07	07/06/07	1
635723	\$ 197,896	07/11/07	08/03/07	20
636626	\$ 90,000	07/27/07	08/16/07	17
636850	\$ 98,038	07/26/07	08/10/07	12
638765	\$ 147,384	08/20/07	08/29/07	6
638769	\$ 64,839	08/20/07	09/28/07	36
638770	\$ 105,112	08/20/07	09/18/07	26
640054	\$ 107,991	09/06/07	09/13/07	4

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-16, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Condition, Continued:</u></p> <p>The CNMI has not recognized the potential interest liability of \$8,773 related to the time elapsed after the allowable clearance pattern from the date federal funds were received to the date these funds were deducted from the CNMI's account for the above samples.</p> <p>The results of cash management tests indicated that the terms set forth in the CMIAA are not being followed.</p> <p><u>Cause:</u> The cause of the above condition is due to the delays in which internal payment requests are routed.</p> <p><u>Effect:</u> The effect the above condition is lack of compliance with grant requirements relating to cash management, a potential interest liability and questioned costs of \$8,773. This matter is reportable as the projected questioned costs exceed the threshold.</p> <p><u>Recommendation:</u> We recommend that the Department of Finance ensure strict compliance with the clearance pattern as approved and specified in the CMIAA.</p> <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 2006.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Antoinette Calvo, CNMI Treasurer and Eloy S. Inos, Secretary of Finance</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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007. The vouchers in this finding relate to DOI Capital Improvement Project Grants which had a net overall receivable balance of \$7,578,412 as of the audit date.</p> <p>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. We reviewed each project with checks clearing more than 30 days after the drawdown was received noted in the findings. In each case the project still had a net receivable balance after the drawdown was received. Since the Federal agencies also have responsibilities to disburse requested funds in a timely manner under the CMIA, we think the audit testing should include the date the drawdown was requested as well as when it was received.</p>	<p>8,773</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-16, 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, Continued: We have been working with U.S. Treasury regarding implementation of the Cash Management Improvement Act (CMIA) for CNMI. Federal agencies would owe interest under the CMIA for drawdowns not remitted within the time frame shown in the Treasury-State agreement as well as CNMI owing interest if we do not disburse Federal Funds within the agreed period. There seem to be different expectations between U.S. Treasury and our grantor agencies that needs to be resolved. A particular problem for us relates to the dollar amounts being disbursed. The invoices selected all relate to large construction projects where substantial payments were 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

Proposed Completion Date: Ongoing

Auditor Response: The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Eligibility

Finding No. 2007-17

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/06 - 09/30/07</p>	<p>Criteria: In accordance with Part 2 of the Medicaid Revised Operational Plan, applicants must be eligible based on the criteria set forth in the Revised Operational Plan prior to receiving Medicaid assistance.</p> <p>Condition: Our tests of forty eligibility files noted the following:</p> <ul style="list-style-type: none"> • One recipient (case file #30-20924) whose countable income exceeded the maximum Social Security Income Federal Benefit Rate but was considered eligible. • One recipient's (case file #15-14410) eligibility was not determined within sixty days from date of application. • For one recipient's spouse (case file #13-02336), marriage certificate or any equivalent documentation was not on file. <p>Cause: The cause of the above condition is lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance.</p> <p>Effect: The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and the possible use of federal funds to ineligible individuals and questioned costs of \$503 since the projected costs exceeded \$10,000.</p> <p>Recommendation: We recommend that CNMI Medicaid establish strict procedures to ensure that only eligible individuals receive Medicaid assistance and benefits. Further, we recommend that CNMI Medicaid strengthen record keeping controls to ensure that case files supporting eligibility determination are completely maintained.</p>	<p>503</p>
<p>Auditee Response and Corrective Action Plan:</p>		
<p>Name of Contact Person: Helen C. Sablan, Medicaid Administrator</p>		
<p>Corrective Action: We agree with this finding. For case file #30-20924, a copy of the Notice of Decision denial letter was sent to the recipient informing them that we have denied Medicaid eligibility because of excess income. For case file #15-14410, the recipient delayed the determination because we were waiting for the Social Security benefit amount statement. For case file #13-02336, this recipient is an SSI recipient and therefore, we do not require the submission of supporting documents since the Social Security Office reviews and maintains the supporting documents.</p>		
<p>Proposed Completion Date: N/A</p>		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Period of Availability

Finding No. 2007-18

Program	Reason for Questioned Costs	Questioned Costs																																												
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended	<p><u>Criteria:</u> Projects should be completed within the allowable time frame.</p> <p><u>Condition:</u> For five (5) grant awards, projects were completed after the grant expiration date and no grantor approval of the extension was provided. Details are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2" style="text-align: center;">Business Unit</th> <th rowspan="2" style="text-align: center;">Grant Award Reference No.</th> <th rowspan="2" style="text-align: center;">Expiration Date</th> <th rowspan="2" style="text-align: center;">Project Status as of 9/30/07</th> <th colspan="2" style="text-align: center;">Unexpended</th> <th rowspan="2"></th> </tr> <tr> <th style="text-align: center;">Balance at Expiration Date</th> <th style="text-align: center;">Balance at 09/30/07</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">5018</td> <td style="text-align: center;">CIP-CNMI-2005-2 (1993)</td> <td style="text-align: center;">01/01/07</td> <td style="text-align: center;">Closed, 6/30/07</td> <td style="text-align: right;">\$ 455,008</td> <td style="text-align: right;">\$ -</td> <td style="text-align: right;">455,008</td> </tr> <tr> <td style="text-align: center;">5009</td> <td style="text-align: center;">CIP-CNMI-2005-2 (1994)</td> <td style="text-align: center;">01/01/06</td> <td style="text-align: center;">Closed, 12/31/06</td> <td style="text-align: right;">\$ 126,771</td> <td style="text-align: right;">\$ 78,267</td> <td style="text-align: right;">48,504</td> </tr> <tr> <td style="text-align: center;">5834</td> <td style="text-align: center;">CIP-CNMI-2006-2</td> <td style="text-align: center;">01/01/07</td> <td style="text-align: center;">Ongoing</td> <td style="text-align: right;">\$ 104,268</td> <td style="text-align: right;">\$ 104,268</td> <td></td> </tr> <tr> <td style="text-align: center;">5837</td> <td style="text-align: center;">CIP-CNMI-2006-2</td> <td style="text-align: center;">01/01/07</td> <td style="text-align: center;">Ongoing</td> <td style="text-align: right;">\$ 82,059</td> <td style="text-align: right;">\$ 1,911</td> <td style="text-align: right;">80,148</td> </tr> <tr> <td style="text-align: center;">5822</td> <td style="text-align: center;">CIP-CNMI-2006-2</td> <td style="text-align: center;">01/01/07</td> <td style="text-align: center;">Ongoing</td> <td style="text-align: right;">\$ 120,900</td> <td style="text-align: right;">\$ 120,900</td> <td></td> </tr> </tbody> </table>	Business Unit	Grant Award Reference No.	Expiration Date	Project Status as of 9/30/07	Unexpended			Balance at Expiration Date	Balance at 09/30/07	5018	CIP-CNMI-2005-2 (1993)	01/01/07	Closed, 6/30/07	\$ 455,008	\$ -	455,008	5009	CIP-CNMI-2005-2 (1994)	01/01/06	Closed, 12/31/06	\$ 126,771	\$ 78,267	48,504	5834	CIP-CNMI-2006-2	01/01/07	Ongoing	\$ 104,268	\$ 104,268		5837	CIP-CNMI-2006-2	01/01/07	Ongoing	\$ 82,059	\$ 1,911	80,148	5822	CIP-CNMI-2006-2	01/01/07	Ongoing	\$ 120,900	\$ 120,900		
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Although the above questioned amounts have been drawdown as of September 30, 2007, they were expended after the grant expiration date.

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 \$583,660.

Recommendation: We recommend that the CNMI ensure compliance with period of availability requirements and maintain grantor approval for those that have passed the approved timeline.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of the Governor

Corrective Action: The CIP Program Office will notify the agencies within ninety days of the expiration of any project funding. The notice will also request the agencies to submit a request for an extension if the project will not be completed by the initial expiration date. The notice and request for extension will be executed utilizing the templates developed.

Proposed Completion Date: September 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-19

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended</p>	<p>Criteria: 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>Condition: One 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 total related fiscal year 2007 expenditures amounted to \$90,000.</p> <p>Cause: The cause of the above condition is failure to comply with Sec. 3-106 of the CNMI Procurement Regulations.</p> <p>Effect: The effect of the above condition is the lack of compliance with Section 3-106 of the CNMI Procurement Regulation and questioned costs of \$90,000.</p> <p>Recommendation: We recommend that the CNMI adhere to established Procurement Regulations.</p> <p>Prior Year Status: Failure to comply with Sec. 3-106 of the CNMI Procurement Regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply</p> <p>Corrective Action: Sole source justifications will require consideration of whether competition was available and other contractors existed who could do this job. For contract 381-OS, the finding is accepted.</p> <p>Proposed Completion Date: Effective immediately</p>	<p>90,000</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-20

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended	<p>Criteria: 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>Condition: Of twenty-three (23) contracts tested, one (1) contract (372-OS) 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 2007 costs of \$62,847 are questioned. <p>Cause: The cause of the above condition is failure to include cost as an evaluating factor.</p> <p>Effect: 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 \$62,847.</p> <p>Recommendation: We recommend that the CNMI review evaluating factors to ensure inclusion of cost.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply, Joseph M. Inos, Jr., Director of TSD, Department of Public Works and Pedro Sasamoto, Program Manager, Water Task Force</p> <p>Corrective Action: Every evaluation committee's decision will be reviewed and will be required to demonstrate the effect of the cost factor in its decision.</p> <ol style="list-style-type: none"> 1. 372-OS (DPW04-RFP-015) while cost is stated as a factor in the RFP, there is no evidence of what effect it had on the evaluation committee's decision. <p>The WTF request for proposal states the relevant importance of price and other evaluation factors. Price is always included as an evaluation factor in every solicitation for proposals. DPW shall ensure compliance with Section 3-103(5) of the CNMI Procurement Regulations and appropriately train evaluation committee members in enforcing the requirement.</p> <p>Proposed Completion Date: Ongoing</p>	62,847

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-21

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended	<p>Criteria: In accordance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulations, advance payments shall only be authorized in certain circumstances as provided below:</p> <ul style="list-style-type: none"> The official with expenditure authority demonstrates in writing that the common business practice of a particular industry requires buyers to pay on an advance payment basis. Such advance payment shall be limited to not more than 50 percent of the contract price. Pertinent documents supporting such business practice shall be attached to the written justification. <p>Condition: Of sixty-two non-payroll expenditures of the DOI Capital Projects Fund tested aggregating \$7,370,412, one contract (contract # 424-OS) provided for advance payments of more than 25% of the contract amount. Additionally, we did not note the presence of written justification that common business practice of the related industry requires buyers to pay on an advance payment basis. The fiscal year 2007 expenditures tested representing advance payments relating to this contract amounted to \$64,900 (ref. APV #631625).</p> <p>Cause: The cause of the above condition is the failure to justify advance payments exceeding 25% of the contract amount.</p> <p>Effect: The effect of the above condition is the lack of compliance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulation and questioned costs of \$64,900.</p> <p>Recommendation: We recommend that the Division of Procurement and Supply ensure that advance payments in excess of twenty-five percent of the contract amounts are justified and documented in writing.</p> <p>Prior Year Status: The lack of compliance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulation was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 and 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply</p> <p>Corrective Action: The CNMI Procurement Director will ensure that agencies comply with Section 5-101 (2) (a)(ii) when advance payments are involved.</p> <p>Proposed Completion Date: Effective immediately in all advance payment situations</p>	64,900

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-22

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended	<p>Criteria: 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>Condition: Of twenty-two contracts tested, we noted change orders (CO) related to two contracts (contract #s , 201-OS - CO #5 for \$3,616,958 and 358-OS - CO #7 for \$530,857) 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 2007 expenditures tested relating to these change orders is \$658,149.</p> <p>Cause: The cause of the above condition is the failure to justify sole source procurement.</p> <p>Effect: 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 \$658,149.</p> <p>Recommendation: We recommend that the Division of Procurement and Supply review contract change orders to ensure justifications are properly documented, filed and maintained.</p> <p>Prior Year Status: 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 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply</p> <p>Corrective Action: Recommendation accepted. Effectively immediately, all change orders which exceed 25% of the cumulative contract price will be bid out, or justified using a non-competitive procurement method.</p> <p>Proposed Completion Date: Immediately</p>	658,149

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-23

Program	Reason for Questioned Costs	Questioned Costs																																
U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award # M 09156-04 / Federal Award Period 10/01/03 - 09/30/08	<p>Criteria: 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>Condition: Of thirty-five non-payroll expenditures of the Environmental Protection Consolidated Grants program tested aggregating \$320,208, there is no indication that price or rate quotations were obtained from an adequate number of qualified sources for six 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 No.</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;">PV629098</td> <td style="text-align: center;">462017-OP</td> <td style="text-align: center;">308675</td> <td style="text-align: right;">\$ 6,000</td> </tr> <tr> <td style="text-align: center;">PV626402</td> <td style="text-align: center;">463839-OP</td> <td style="text-align: center;">308333</td> <td style="text-align: right;">2,438</td> </tr> <tr> <td style="text-align: center;">OV222195</td> <td style="text-align: center;">454674-OA</td> <td style="text-align: center;">294760</td> <td style="text-align: right;">2,150</td> </tr> <tr> <td style="text-align: center;">PV628343</td> <td style="text-align: center;">469233-OA</td> <td style="text-align: center;">307896</td> <td style="text-align: right;">1,740</td> </tr> <tr> <td style="text-align: center;">PV634923</td> <td style="text-align: center;">472876-OP</td> <td style="text-align: center;">312026</td> <td style="text-align: right;">1,152</td> </tr> <tr> <td style="text-align: center;">PV629745</td> <td style="text-align: center;">468863-OP</td> <td style="text-align: center;">307792</td> <td style="text-align: right;"><u>3,547</u></td> </tr> <tr> <td colspan="3" style="text-align: right;">Total</td> <td style="text-align: right;">\$ <u>17,027</u></td> </tr> </tbody> </table>	APV Document No.	Obligating Document No.	Check No.	General Ledger Amount	PV629098	462017-OP	308675	\$ 6,000	PV626402	463839-OP	308333	2,438	OV222195	454674-OA	294760	2,150	PV628343	469233-OA	307896	1,740	PV634923	472876-OP	312026	1,152	PV629745	468863-OP	307792	<u>3,547</u>	Total			\$ <u>17,027</u>	17,027
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Total			\$ <u>17,027</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 established procurement regulations and questioned costs of \$17,027.

Recommendation: We recommend that the CNMI require that all departments establish policies and procedures consistent with procurement regulations to ensure that all commitments to vendors are obtained and processed through the Division of Procurement and Supply in a timely manner and that sole-sourcing is approved by the grantor and is adequately documented in accordance with CNMI Procurement Regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frank M. Rabauliman, Director, Division of Environmental Quality

Corrective Action:

- Obligating document no. 462017-OP for \$6,000 - Sole source procurement of professional services for Next Generation Information Integrators was approved by Procurement and Supply because DEQ met the requirements of the CNMI-PR Section 3-106(2) for approval of a sole source procurement.
- Obligating document no. 463839-OP for \$2,438 - Cumulative expenditure drawn from the \$2,500 open account for repair and maintenance services at Joeten Motors Co., Inc.
- APV document no. OV222195 in the amount of \$2,150 cannot be found in DEQ's records. DEQ will continue to locate the documents.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-23, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	Corrective Action, Continued:	
	<ul style="list-style-type: none">• Obligating document no. 469233-OA for \$1,740 - DEQ will continue to seek and obtain rate quotations from an adequate number of available qualified sources.• Obligating document no. 472876-OP in the amount of \$1,152 is for an open account for rental of basic services and broadband internet services at Marianas CableVision. This is a back-up account for DEQ to ensure that email access is available should the DEQ primary internet access from PTI goes down.• Obligating document no. 468863-OP in the amount of \$3,547 is a cumulative expenditure drawn from DEQ's open account with PTI.	
	Proposed Completion Date: Ongoing	
	<u>Auditor Response:</u>	
	<ul style="list-style-type: none">• Obligating document no. 462017-OP Additional quotations provided were obtained subsequent to the incurrence of the expenditures. There is no evidence that competitive procurement was utilized. Further, the appropriate use of sole source was not demonstrated.• Obligating document nos. 463839-OP, 472876-OP and 468863-OP Relevant documents supporting competitive procurement were not provided.	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-24

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Homeland Security / Disaster Grants - Public Assistance (Presidentially Declared Disasters) / CFDA #97.036 / Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion</p>	<p>Criteria: 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 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>Condition: Of \$922,758 in non-payroll expenditures tested, we noted the following:</p> <ul style="list-style-type: none"> • For Typhoon Tingting (DR 1532) PW#118, public advertisement and bids from other contractors for contract 433418-OC were not provided. As such, related costs of \$5,795 are questioned. • For Typhoon Nabi (DR 1611) PW#12, quotations were obtained and a purchase order issued for services amounting to \$39,200 (ref. # 459332 OP) when CNMI Procurement Regulations stipulate that procurements exceeding \$10,000 requires competitive bidding. A justification stating the use of purchase order and not competitive bidding was not provided. As such, related costs of \$18,735 relating to federal share are questioned. • For Typhoon Pongsona (DR 1447) PW#19 (reference # 468650-OP and 469509-OP), PW#121 (reference #450637-OF), and PW#150 (reference #470254-OP), vendor was sole sourced when other vendors with similar capabilities exist. The related expenditures tested amounted to \$18,545. Of this total, \$9,304 relating to PW 150 has already been questioned at Finding No. 2007-19. As such, the remaining costs of \$9,241 relating to federal share are questioned. • For Typhoon Pongsona (DR 1447) PW #19, quotations were obtained and purchase orders issued for services amounting to \$53,396 (465339 OP and 465340 OP) when CNMI Procurement Regulations stipulate that anything exceeding \$10,000 requires competitive bidding. A justification stating the use of purchase orders and not the use competitive bidding was not provided. The related expenditures tested of \$47,156 relating to federal share are questioned. <p>Cause: The cause of the above condition is lack of policies and procedures in place within the requesting departments to ensure compliance with local and federal procurement regulations.</p> <p>Effect: The effect of the above condition is noncompliance with established procurement regulations and questioned costs of \$80,927.</p> <p>Recommendation: We recommend that the CNMI require that all departments establish policies and procedures consistent with procurement regulations to ensure that all commitments to vendors are obtained and processed through the Department of Procurement and Supply in a timely manner and that sole-sourcing is approved by the grantor and is adequately documented in accordance with CNMI Procurement Regulations.</p> <p>Prior Year Status: The lack of compliance with federal procurement rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.</p>	<p>5,795</p> <p>18,735</p> <p>9,241</p> <p>47,156</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-24, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor</p> <p>Corrective Action: The Governor's Authorized Representative has updated the Public Assistance Guidelines to include procurement guidelines which ensures compliance with local and Federal procurement regulations. The Public Assistance Office will distribute to all agencies the updated Public Assistance Guidelines containing procurement guidelines which instruct the agencies to follow Federal and CNMI Procurement Regulations. Guidelines include but are not limited to provisions requiring: a) uniform solicitations of written quotations from a minimum of three vendors for all purchases under \$10,000, b) competitive, sealed bid procurement for purchases over \$10,000 and purchases of equipment over \$2,500, and c) ratification for any work completed without proper contract documentation.</p> <p>Proposed Completion Date: Ongoing</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Reporting

Finding No. 2007-25

Program	Reason for Questioned Costs						Questioned Costs																					
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended	<p>Criteria: Total outlays reported to the grantor should correspond to amounts reported per the general ledger and amounts submitted to the grantor agency.</p> <p>Condition: Of thirty-two business units of the Capital Projects Fund tested, two business units reflected differences in reported drawdowns and expenditures in the CIP Status Report and one business unit did not reflect actual expenditures on the CIP Status Report submitted to the grantor agency. Details follow:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Business Unit</th> <th style="text-align: center;">Drawdown Per CIP Status Report</th> <th style="text-align: center;">Expenditure Per CIP Status Report (Federal Portion Only)</th> <th style="text-align: center;">Drawdown Variance</th> <th style="text-align: center;">Amount Per CIP Status Reports (Total Federal and Local)</th> <th style="text-align: center;">Amount Per GL (Total Federal and Local)</th> <th style="text-align: center;">General Ledger Variance</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">5135</td> <td style="text-align: right;">\$ 171,170</td> <td style="text-align: right;">\$ 137,474</td> <td style="text-align: right;">\$ 33,696</td> <td style="text-align: right;">\$ 274,947</td> <td style="text-align: right;">\$ 274,947</td> <td style="text-align: center;">\$ -</td> </tr> <tr> <td style="text-align: center;">5222</td> <td style="text-align: right;">\$ 331,749</td> <td style="text-align: right;">\$ 324,249</td> <td style="text-align: right;">\$ 7,500</td> <td style="text-align: right;">\$ 324,249</td> <td style="text-align: right;">\$ 324,031</td> <td style="text-align: right;">\$ 218</td> </tr> </tbody> </table>						Business Unit	Drawdown Per CIP Status Report	Expenditure Per CIP Status Report (Federal Portion Only)	Drawdown Variance	Amount Per CIP Status Reports (Total Federal and Local)	Amount Per GL (Total Federal and Local)	General Ledger Variance	5135	\$ 171,170	\$ 137,474	\$ 33,696	\$ 274,947	\$ 274,947	\$ -	5222	\$ 331,749	\$ 324,249	\$ 7,500	\$ 324,249	\$ 324,031	\$ 218	33,696 7,500
Business Unit	Drawdown Per CIP Status Report	Expenditure Per CIP Status Report (Federal Portion Only)	Drawdown Variance	Amount Per CIP Status Reports (Total Federal and Local)	Amount Per GL (Total Federal and Local)	General Ledger Variance																						
5135	\$ 171,170	\$ 137,474	\$ 33,696	\$ 274,947	\$ 274,947	\$ -																						
5222	\$ 331,749	\$ 324,249	\$ 7,500	\$ 324,249	\$ 324,031	\$ 218																						

Cause: The cause of the above condition is the subsequent transactions/adjustments made to the general ledger after report submission. Further, there is a lack of adherence to established procedures ensuring that supporting documentation is properly maintained.

Effect: The effect of the above condition is the over/understatement of reported expenditures/drawdowns, an overdrawn amount and questioned costs of \$41,196 at September 30, 2007.

Recommendation: We recommend that the federal financial reports reflect actual transactions recorded in the general ledger and that all transactions be properly supported.

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 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of the Governor

Corrective Action: The CIP Administrator prepares the financial reports based on the general ledger transactions posted at the end of each semi-annual reporting period. The report, however, reflects actual drawdowns processed at the end of each semi-annual period which are not posted. The CIP Administrator will no longer include drawdown transactions processed to the grantor in the semi-annual report that are not posted in the general ledger. The CIP Administrator encourages the Division of Treasury to promptly post receipts of the drawdowns processed for transactions to be included in the report.

Proposed Completion Date: June 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Reporting

Finding No. 2007-26

<u>Program</u>	<u>Reason for Questioned Costs</u>				<u>Questioned Costs</u>																								
U.S. Department of Homeland Security / Disaster Grants - Public Assistance (Presidentially Declared Disasters) / CFDA #97.036 / Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion	<p><u>Criteria:</u> Financial Status Reports (FEMA 20-10) and Federal Cash Transaction Reports (SF-272) should reflect actual expenditures at the proper cost share.</p> <p><u>Condition:</u> The State Management Administrative Cost (SMAC) related cost centers are reported as 100% federal share. Per tests of several payroll expenditures posted to the related cost centers, total eligible costs (both local and federal share) are being posted and thus should have been adjusted for the relevant cost share percentages when being reported on the FEMA 20-10 and SF 272 for the following:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Cost Center</u></th> <th style="text-align: left;"><u>DR</u></th> <th style="text-align: right;"><u>Cumulative Costs at September 30, 2007</u></th> <th style="text-align: right;"><u>Federal share over reported by:</u></th> </tr> </thead> <tbody> <tr> <td>M31447</td> <td>1447</td> <td style="text-align: right;">\$ 294,762</td> <td style="text-align: right;">\$ 29,476</td> </tr> <tr> <td>M30360</td> <td>1532</td> <td style="text-align: right;">\$ 156,013</td> <td style="text-align: right;">15,601</td> </tr> <tr> <td>M40366</td> <td>1541</td> <td style="text-align: right;">\$ 284,035</td> <td style="text-align: right;">28,404</td> </tr> <tr> <td>M60360</td> <td>1611</td> <td style="text-align: right;">\$ 61,337</td> <td style="text-align: right;"><u>15,334</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ 88,815</td> </tr> </tbody> </table>				<u>Cost Center</u>	<u>DR</u>	<u>Cumulative Costs at September 30, 2007</u>	<u>Federal share over reported by:</u>	M31447	1447	\$ 294,762	\$ 29,476	M30360	1532	\$ 156,013	15,601	M40366	1541	\$ 284,035	28,404	M60360	1611	\$ 61,337	<u>15,334</u>				\$ 88,815	88,815
<u>Cost Center</u>	<u>DR</u>	<u>Cumulative Costs at September 30, 2007</u>	<u>Federal share over reported by:</u>																										
M31447	1447	\$ 294,762	\$ 29,476																										
M30360	1532	\$ 156,013	15,601																										
M40366	1541	\$ 284,035	28,404																										
M60360	1611	\$ 61,337	<u>15,334</u>																										
			\$ 88,815																										

Furthermore, per final report (FEMA 20-10 and SF 272) for the period ended December 31, 2007 submitted for DR 1447, the cumulative SMAC expenditures as of December 31, 2007 is \$298,876 resulting in the federal share being over reported by \$29,888.

Cause: The cause of the above condition is the lack of coordination and communication between the Public Assistance Office (which is responsible for indicating the general ledger accounts to be charged) and the Department of Finance - Federal Grants Division (which is responsible for the preparation of the Federal reports).

Effect: The effect of the above condition is noncompliance with reporting requirements and questioned costs of \$88,815.

Recommendation: We recommend that the Department of Finance implement procedures to ensure that expenditures are reported at the proper federal cost share percentages.

Prior Year Status: Miscommunication between the Public Assistance Office, which is responsible for indicating which general ledger accounts are to be charged, and the Federal Grants Division, which is responsible for preparation of the Federal reports was reported as a finding in the Single Audit of the CNMI for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-26, 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: The Governor's Authorized Representative agrees with this finding. It has been the practice that all state management administrative costs are paid 100% from the associated federal cost centers. Local matching funds are transferred into these cost centers at various times throughout the fiscal year. The budget amount for these cost centers will be amended to reflect the 100% grant amount. The Public Assistance Office will obtain written verification from FEMA Region IX that this established practice is permissible. The Governor's Authorized Representative has submitted a request to the Division of Finance and Accounting and the Office of Management and Budget to show the budget level of the state management administrative cost centers at the 100% level.

Proposed Completion Date: September 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Special Tests and Provisions

Finding No. 2007-27

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/06 - 09/30/07</p>	<p>Criteria: In accordance with Section 4.7 of the Medicaid Operational Plan, Medicaid must maintain agreements with all providers in the CNMI and Guam who furnish reimbursable services. For providers in Hawaii or in off-island jurisdictions other than Guam, Medicaid relies on the provider agreements in place for the Medicaid programs in the respective State(s).</p> <p>Condition: The service provider agreement with Commonwealth Health Center (CHC) covered only the period from April 1, 2005 to March 31, 2006 and January 1, 2007 to January 1, 2008. The agreement covering the period April 1, 2006 to December 31, 2006 could not be provided. Of total program expenditures of \$4,713,098 at September 30, 2007, professional services of \$3,098,902 were tested. Of ninety-three items tested, twenty-seven items totaling \$251,170 pertain to expenditures incurred during the period not covered by the service agreement.</p> <p>Cause: The cause of the above condition is the lack of file maintenance and the lack of adequate procedures to ensure service agreements are renewed in a timely manner.</p> <p>Effect: The effect of the above condition is questioned costs of \$251,170.</p> <p>Recommendation: We recommend that the Medicaid office ensure all service provider agreements are kept current, are filed and are properly maintained.</p> <p>Prior Year Status: The lack of proper file maintenance was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Helen C. Sablan, Medicaid Administrator</p> <p>Corrective Action: We agree with the finding. The Provider Agreement application form for the Commonwealth Health Center was with the former legal counsel who resigned and was unable to retrieve. However, the Commonwealth Health Center is the only hospital that accepts our Medicaid recipients and therefore, they have no place to go.</p> <p>Proposed Completion Date: N/A</p>	<p>251,170</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Special Tests and Provisions

Finding No. 2007-28

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Homeland Security / Disaster Grants - Public Assistance (Presidentially Declared Disasters) / CFDA #97.036 / Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion	<p>Criteria: In accordance with 44 CFR Section 206.205, the State is required to make an accounting to FEMA of eligible costs for each approved large project. Similarly, the subgrantee must make an accounting to the State. In submitting the accounting, the entity is required to certify that reported costs were incurred in performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-State Agreement, and that payments for that project were made in accordance with the 44 CFR section 13.21 payment provisions. Each large project shall be submitted as soon as practicable after the subgrantee has completed the approved work and requested payment.</p> <p>Condition: Of sixteen large projects tested for Typhoon Pongsona, MP03PA1447, that closed on June 30, 2007, we noted the following:</p> <ul style="list-style-type: none"> We were not provided the individual project completion notices and project status worksheets to test for financial reconciliation with the State's accounting records in ensuring that the appropriate payments have been made for the following: 	

Applicant	PW #	Project Amount
EMO	179	\$ 126,703
CUC	185	\$ 129,741
CUC	197	\$ 541,704
CUC	202	\$ 164,580
NMHC	2	\$ 70,702
PSS - ROTA HS	72	\$ 302,431
PSS - ROTA HS	212	\$ 88,400
DPW - ROTA	143	\$ 545,745
DPW - ROTA	134	\$ 126,239
PAO	204	\$ 298,895

Of the above projects, we were not provided the P.4 project certification required to be made to FEMA for PW 179, 185, 197, 202, 2, 143, 134 and 204.

- A portion of actual costs certified to FEMA through the P.4 report for project completion has not been encumbered, accrued, or paid per the State's records as of September 30, 2007, for the following:

Applicant	PW #	Project Amount	Document Ref (not found in CNMI books)	Amount
Rota - DLNR	19	\$ 69,702	465287 OP	\$ 3,167
Rota - DPW	133	\$ 141,713	466022/466019/427293/43	
			4642 OF and 464767 OP	<u>4,165</u>
				<u>\$ 7,332</u>

- We noted under runs for one large project. The amount of expenditures incurred per CNMI records is less than the amount certified to the grantor for project closeout. The CNMI had drawn down remaining funds, which are based on capped amounts certified to FEMA, for this disaster as of October 2007. We were not provided cancelled checks for payment to reimburse FEMA for the underrun or grantor approval waiving the requirement to reimburse any underruns for large projects. Details are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-28, Continued

Program	Reason for Questioned Costs					Questioned Costs
	<u>Condition, Continued:</u>					
	<u>Applicant</u>	<u>PW #</u>	<u>Project Amount</u>	<u>Reconciled to CNMI Books</u>	<u>Underrun</u>	
	PSS	91	\$ 324,157	\$ 311,043	\$ (13,114)	13,114
	<ul style="list-style-type: none"> Amount of unliquidated obligations reported to FEMA per FEMA 20-10 as of 06/30/07 (disaster closing date) is \$100,794. Liquidated expenditures reported per the SF 272 for the quarters ended 09/30/07 and 12/31/07 are \$42,408 and \$12,090 respectively. Due to the lack of project completion notices and/or project status worksheets for the large projects noted above, we are unable to determine if expenditures liquidated after 06/30/07 are compliant with the disaster's close out reconciliation requirements. Of three large projects tested for Typhoon Nabi, 1611DRMPP00000001, for which Category A & B projects should have been completed by year end, we were not provided the project completion notice for PW 12 (Category A; FIPS #110-99110-02) or grantor approval of project period extension, if applicable. 					
	<p><u>Cause:</u> The cause of the above condition is the lack of timely preparation of the necessary project completion notices and project status reports by the Public Assistance Office to ensure compliance of project close-out and reconciliation to State accounting records.</p>					
	<p><u>Effect:</u> The effect of the above condition is questioned costs of \$13,114. As cash draw downs are not accounted for on a project-by-project basis, the effect is also the possibility of noncompliance with cash management requirements.</p>					
	<p><u>Recommendation:</u> We recommend that the Public Assistance Office implement procedures to ensure that project completion notices and project status reports are prepared on a timely basis to ensure proper financial management and reporting of federal funds.</p>					
	<p><u>Auditee Response and Corrective Action Plan:</u></p>					
	<p>Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor</p>					
	<p>Corrective Action: The Governor's Authorized Representative agrees with this finding. The Governor's Authorized Representative will review and make revisions to existing procedures regarding Quarterly Reporting and Project Completion Notices procedures. Revised procedures will require timely project status reports and project completion notices from both the grantee and subgrantee. These procedures will then be provided to the Public Assistance Office staff and all agencies and will stipulate timely submissions.</p>					
	<p>Proposed Completion Date: Ongoing</p>					
	Total Questioned Costs					\$ <u>2,213,809</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Transportation
Allowable Costs/Cost Principles - Highway Planning and Construction
CFDA #20.205, Federal Award # 0075(006)
Federal Award Period Available Until Expended

Finding No. 2007-29

Criteria: OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 11.h (4) states that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary report will be required where employees work on more than one Federal award or a Federal award and a non-Federal award.

Further, under Section 11.h (5) of OMB Circular A-87 Attachment B, personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee;
- (b) They must account for the total activity, for which each employee is compensated;
- (c) They must be prepared at least monthly and must coincide with one or more pay periods; and
- (d) They must be signed by the employee.

Condition: During tests of payroll expenditures charged to the Federal-Aid Highway Program, the personnel activity reports for three of eight employees tested were not available. Details are as follows:

<u>Employee No.</u>	<u>Payroll Period Ending</u>
478529	10/14/06 and 11/25/06
516208	04/14/07

Fifty percent of the total salaries and wages of the above employees were charged to the Federal-Aid Highway Program.

Cause: The cause of the above condition is the lack of monitoring procedures to ensure that employees working on more than one federal award or a federal award and a non-federal award prepare the required payroll activity report.

Effect: The effect of the above condition is noncompliance with the provisions of OMB Circular A-87 Attachment B sections 11.h (4) and (5) and questioned costs of \$2,590. The \$2,590 has been included in the questioned costs of \$132,468 in Finding No. 2007-17.

Recommendation: We recommend the Department of Public Works ensure that personnel activity reports or equivalent documentation to reflect after-the-fact distributions of the actual activity of each employee are prepared and maintained for all employees who work on more than one federal award or on a federal award and a non-federal award.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-29, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Winnie P. Taitano, Program Coordinator

Corrective Action: We will enforce the required documentation, preparation and filing procedures of activity reports for all employees who perform work on one or more federally funded award or on a federal award and a non-federal award to meet the required standards. Further, we will issue a memo to all DPW employees to comply with the required documentation.

Proposed Completion Date: June 5, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Cash Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-30

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 ten nonpayroll samples tested, the following were paid out between eight to one hundred twenty-six days after the allowable clearance pattern from the date federal funds were credited to the CNMI's account:

Document No.	Amount	Check Number	Check Clearance Date	Cash Receipts Date	Days Elapsed After the Allowable Clearance Pattern
PV615164	\$ 17,788	304433	06/01/07	11/28/06	126
PV618237	\$ 2,615	302701	01/18/07	12/28/06	8
PV590705	\$ 13,212	303542	01/30/07	12/28/06	16
		304402	03/30/07	12/28/06	59
		305799	03/30/07	12/28/06	59
PV590707	\$ 7,200	310522	07/11/07	04/27/07	46
		311667	08/08/07	04/27/07	66
		313166	09/07/07	04/27/07	88
		304491	03/23/07	02/01/07	29
PV619384	\$ 1,090	308963	05/29/07	04/27/07	15
		309411	06/28/07	04/27/07	37
PV590706	\$ 4,800	301186	02/08/07	11/28/06	45

In addition, during fiscal year 2007, the CNMI remitted the employer shares of retirement contributions of \$1,753,374. Of the total amount, the Food Stamps program's retirement contribution totaling \$132,105 was tested. The following were paid after the allowable clearance patterns from the date federal funds were credited to the CNMI's account:

PPE No.	Amount	Check Number	Check Clearance Date	Cash Receipts Date	Days Elapsed After the Allowable Clearance Pattern
10/14/06	\$ 4,566	310054	6/27/07	11/29/06	203
10/28/06	\$ 4,571	310055	6/26/07	11/29/06	202
11/11/06	\$ 4,523	310056	6/26/07	11/29/06	202
11/25/06	\$ 4,890	310057	6/26/07	01/04/07	166
12/09/06	\$ 4,673	310058	6/26/07	01/04/07	166
12/23/06	\$ 4,697	310059	6/26/07	01/04/07	166
01/06/07	\$ 4,709	310060	6/26/07	02/02/07	137
01/20/07	\$ 4,722	310061	6/26/07	02/02/07	137
02/03/07	\$ 4,709	310062	6/26/07	03/30/07	81
02/17/07	\$ 4,678	310063	6/26/07	03/30/07	81
03/03/07	\$ 4,718	310064	6/26/07	03/30/07	81
03/17/07	\$ 4,843	310065	6/26/07	03/30/07	81
03/31/07	\$ 4,862	310066	6/26/07	04/30/07	50
04/14/07	\$ 8,288	311833	8/14/07	04/30/07	50
04/28/07	\$ 4,862	311834	8/14/07	05/24/07	99
05/12/07	\$ 5,402	311835	8/14/07	05/24/07	75
05/26/07	\$ 4,913	311836	8/14/07	07/09/07	29
06/09/07	\$ 5,887	311837	8/14/07	07/09/07	29
06/23/07	\$ 5,108	311838	8/14/07	07/09/07	29
07/07/07	\$ 5,272	311839	8/14/07	08/06/07	1

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-30, Continued

<u>PPE No.</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>
07/21/07	\$ 5,340	311840	8/14/07	08/06/07	1
08/04/07	\$ 4,955	317757	12/4/07	09/04/07	26
08/18/07	\$ 5,734	317758	12/4/07	09/04/07	26
09/01/07	\$ 4,775	317759	12/04/07	09/18/07	12

Cause: The cause of the above condition is 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 \$1,790 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.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Antoinette Calvo, CNMI Treasurer and Eloy S. Inos, Secretary of Finance

Auditee Response and Corrective Action Plan, Continued:

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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

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 the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows deferred revenue balances as of the audit date of \$41,458 for CFDA #10.551 (U.S. Department of Agriculture).

Proposed Completion Date: Ongoing

Auditor Response: The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Transportation
Cash Management - Highway Planning and Construction
CFDA #20.205, Federal Award # 0075(006)
Federal Award Period Available Until Expended

Finding No. 2007-31

Criteria: In accordance with OMB Circular A-133, Part III, Compliance Requirements - Cash Management, when entities 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 allowable clearance pattern is three days.

Condition: For three of seven samples tested related to the Federal-Aid Highway Program, the following disbursements were cleared after the allowable clearance pattern from the date funds were received from the grantor agency:

<u>APV No.</u>	<u>Check No.</u>	<u>Amount</u>	<u>Cash Receipts Date</u>	<u>Check Clearance Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
613537	300975	\$ 351,348	11/03/06	11/27/06	21
613535	300976	\$ 123,290	11/03/06	11/27/06	21
623607	308087	\$ 41,738	03/15/07	05/01/07	44

Cause: The cause of the above condition is due to delays in which internal payment requests are routed.

Effect: The effect of the above condition is noncompliance with grant requirements relating to cash management. An interest liability of \$1,644 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Transportation 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.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Antoinette Calvo, CNMI Treasurer and Eloy S. Inos, Secretary of Finance

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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-31, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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 the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$734,571 for CFDA #20.205 (U.S. Department of Transportation).

Proposed Completion Date: Ongoing

Auditor Response: The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Environmental Protection Agency
Cash Management - Environmental Protection Consolidated Grants-Program Support
CFDA #66.600, Federal Award # M-00915604
Federal Award Period 10/01/03 - 09/30/08

Finding No. 2007-32

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 seven of thirty-five nonpayroll samples tested, the following were paid out after the allowable clearance pattern from the date federal funds were credited to the CNMI's account:

<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>
OV222195	\$ 2,150	294760	09/30/07	06/15/07	97
PV589644	\$ 2,683	303175	09/30/07	02/20/07	212
PV616502	\$ 1,224	304310	03/05/07	02/20/07	3
PV626402	\$ 2,438	308333	07/02/07	06/15/07	7
PV634923	\$ 1,153	312026	09/05/07	08/06/07	20
PV634951	\$ 22,416	311382	08/06/07	06/15/07	42
PV640209	\$ 4,339	315190	10/08/07	09/19/07	9

In addition, during fiscal year 2007, the CNMI remitted the employer share of retirement contributions of \$1,753,374. Of the total amount, the Environmental Protection Consolidated Grants-Program Support retirement contribution totaling \$266,984 was tested. The following were paid after the allowable clearance patters from the date federal funds were credited to the CNMI's account:

<u>PPE No.</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>
10/14/06	\$ 10,360	310054	6/27/07	02/20/07	117
10/28/06	\$ 10,734	310055	6/26/07	02/20/07	116
11/11/06	\$ 10,758	310056	6/26/07	02/20/07	116
11/25/06	\$ 10,756	310057	6/26/07	02/20/07	116
12/09/06	\$ 10,647	310058	6/26/07	02/20/07	116
12/23/06	\$ 5,650	310059	6/26/07	02/20/07	116
01/06/07	\$ 10,127	310060	6/26/07	06/15/07	1
01/20/07	\$ 11,062	310061	6/26/07	06/15/07	1
02/03/07	\$ 10,628	310062	6/26/07	06/15/07	1
02/17/07	\$ 10,470	310063	6/26/07	06/15/07	1
03/03/07	\$ 10,495	310064	6/26/07	06/15/07	1
03/17/07	\$ 10,375	310065	6/26/07	06/15/07	1
03/31/07	\$ 10,265	310066	6/26/07	06/15/07	1
08/18/07	\$ 10,778	317757	12/4/07	09/19/07	11
08/18/07	\$ 10,762	317758	12/4/07	09/19/07	11

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-32, Continued

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 \$1,065 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Environmental Protection Agency 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 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Antoinette Calvo, CNMI Treasurer and Eloy S. Inos, Secretary of Finance

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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

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 the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$45,973 for CFDA #66.600 (U.S. Environmental Protection Agency).

Proposed Completion Date: Ongoing

Auditor Response: The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Health and Human Services
Cash Management - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CO5028
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-33

Criteria: The Cash Management Improvement Act Agreement requires that 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 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 sixty-four of ninety-three samples tested, disbursement checks were released and cleared from five to two hundred forty days after cash was received from the grantor agency, as follows:

<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>
460686	\$ 43,208	305468	03/09/07	02/22/07	5
460687	\$ 30,138	305468	03/09/07	02/22/07	5
464451	\$ 32,678	311859	08/30/07	03/29/07	144
464475	\$ 33,205	311786	12/04/07	03/29/07	240
467081	\$ 45,458	308234	06/13/07	04/25/07	39
447026	\$ 20,836	302228	01/04/07	10/24/06	62
453361	\$ 26,876	306902	03/30/07	12/20/06	90
453364	\$ 16,068	306902	03/30/07	12/20/06	90
453366	\$ 19,344	306902	03/30/07	12/20/06	90
453373	\$ 14,084	306902	03/30/07	12/20/06	90
453382	\$ 20,324	306902	03/30/07	12/20/06	90
453384	\$ 12,405	308232	05/03/07	12/20/06	124
453388	\$ 25,761	308232	05/14/07	12/20/06	135
454851	\$ 16,591	303551	02/05/07	01/09/07	17
454867	\$ 13,048	304269	02/19/07	01/09/07	31
454872	\$ 15,192	305590	03/15/07	01/09/07	55
462687	\$ 12,634	308214	05/04/07	03/29/07	26
462711	\$ 12,132	308214	05/04/07	03/29/07	26
462714	\$ 12,042	308214	05/04/07	03/29/07	26
462717	\$ 13,122	308214	05/04/07	03/29/07	26
462719	\$ 12,607	308214	05/04/07	03/29/07	26
462722	\$ 10,770	308214	05/04/07	03/29/07	26
462724	\$ 13,297	308214	05/04/07	03/29/07	26
462727	\$ 12,140	308214	05/04/07	03/29/07	26
462728	\$ 11,300	308214	05/04/07	03/29/07	26
462747	\$ 12,536	308214	05/04/07	03/29/07	26
462750	\$ 10,558	308214	05/04/07	03/29/07	26
462751	\$ 13,092	308214	05/04/07	03/29/07	26
462755	\$ 12,723	308214	05/04/07	03/29/07	26
462758	\$ 11,846	308214	05/04/07	03/29/07	26

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-33, Continued

Condition, Continued:

<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>
463363	\$ 13,986	308214	05/04/07	03/29/07	26
463365	\$ 11,355	308214	05/04/07	03/29/07	26
463366	\$ 10,484	308214	05/04/07	03/29/07	26
463368	\$ 15,916	308232	05/14/07	03/29/07	36
463370	\$ 12,406	308232	05/14/07	03/29/07	36
464453	\$ 18,574	311859	08/30/07	03/29/07	144
464454	\$ 15,448	311859	08/30/07	03/29/07	144
465681	\$ 13,447	308232	05/14/07	03/29/07	36
467078	\$ 20,314	308234	06/13/07	04/25/07	39
467222	\$ 13,911	309459	06/08/07	04/25/07	34
467225	\$ 10,841	309459	06/08/07	04/25/07	34
467227	\$ 11,769	309459	06/08/07	04/25/07	34
467230	\$ 10,591	309459	06/08/07	04/25/07	34
467234	\$ 11,478	309459	06/08/07	04/25/07	34
467247	\$ 11,743	308827	05/22/07	04/25/07	17
468339	\$ 15,406	311877	08/20/07	06/12/07	59
468341	\$ 12,356	311877	08/20/07	06/12/07	59
471850	\$ 14,187	310026	06/27/07	06/12/07	5
472944	\$ 11,105	311673	08/21/07	07/31/07	11
478351	\$ 18,949	314433	1/9/2008	08/31/07	121
478455	\$ 19,962	313025	12/04/07	08/31/07	85
478555	\$ 12,854	314006	9/19/2007	08/31/07	9
478560	\$ 12,734	314006	9/19/2007	08/31/07	9
478566	\$ 14,922	314006	9/19/2007	08/31/07	9
478569	\$ 10,616	314006	9/19/2007	08/31/07	9
478583	\$ 11,211	314006	9/19/2007	08/31/07	9
478588	\$ 12,592	314006	9/19/2007	08/31/07	9
478591	\$ 11,540	314006	9/19/2007	08/31/07	9
478594	\$ 13,673	314006	9/19/2007	08/31/07	9
447342	\$ 16,240	300563	11/27/06	10/24/06	24
617120	\$ 18,450	302607	01/18/07	12/20/06	19
460248	\$ 2,835	308424	05/11/07	02/22/07	68
616641	\$ 1,376	302373	01/08/07	12/08/06	21
462417	\$ 5,208	305904	03/14/07	02/22/07	10

Cause: The cause of the above condition is a 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 Cash Management Improvement Act Agreement.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$7,160 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 strict compliance with the clearance pattern as approved and specified in the CMIAA.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-33, 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 2002 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Antoinette Calvo, CNMI Treasurer and Eloy S. Inos, Secretary of Finance

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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

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 the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$522,490 for CFDA #93.778 (U.S. Department of Health and Human Services).

In the case of Medicaid, we disagree that we receive advance funds. Due to insufficient funding because of the cap on the Federal share, the Commonwealth Health Center (CHC) does not receive Medicaid reimbursements so that grant funds can be utilized to pay non governmental providers. When draw downs are requested, CHC has already spent many times more than the drawdown amount on Medicaid services. Rather than reimburse CHC, grant and matching funds are used to pay non CNMI Government vendors.

Proposed Completion Date: Ongoing

Auditor Response: The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Cash Management - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

CFDA #97.036, Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion

Finding No. 2007-34

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 thirteen days.

Condition: Of total disbursements of \$932,923 related to large projects, funds advanced were not disbursed within the allowable clearance pattern after receipt of drawdown for the following:

<u>Document Number</u>	<u>DR Reference</u>	<u>Cost Center</u>	<u>Cash Receipt Date</u>	<u>Check Clearance Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
613575	1447	M3544G	12/28/06	02/13/07	34
627008	1447	M3544J	04/02/07	08/09/07	116
629807	1447	M3544J	05/10/07	09/28/07	128
630412	1447	M3544J	05/10/07	09/28/07	128
635726	1447	M3544J	07/31/07	09/28/07	46
615797	1541	M4036E	12/28/06	04/30/07	110
622989	1541	M4036E	04/02/07	06/21/07	67
630785	1541	M4036E	05/10/07	09/13/07	113
628789	1541	M4036S	05/10/07	08/09/07	78
625507	1611	M6036F	04/02/07	06/25/07	71
590133	1611	M6036M	12/28/06	02/21/07	42

Cause: The cause of the above condition is lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner and that drawdown balances for projects are updated in a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$3,878 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Homeland Security 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 compliance with federal cash management rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-34, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Antoinette Calvo, CNMI Treasurer and Eloy S. Inos, Secretary of Finance

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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

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 the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$127,133 for CFDA #97.036 (U.S. Department of Homeland Security).

Proposed Completion Date: Ongoing

Auditor Response: The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Transportation
Davis-Bacon Act - Highway Planning and Construction
CFDA #20.205, Federal Award #s 0036(002) and 3000(003)
Federal Award Period Available Until Expended

Finding No. 2007-35

Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements – Davis-Bacon Act, when required by the Davis-Bacon Act, the Department of Labor’s (DOL) government-wide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL . Further, non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance

Also, the CNMI Department of Public Works (DPW) has implemented project monitoring procedures in that selected DPW personnel will perform random interviews of the contractor’s employees at job sites to ascertain contractor’s compliance with the Davis-Bacon Act.

Condition: For two construction contracts tested, reports or equivalent evidencing that DPW personnel performed interviews of contractor’s employees at jobsites (contract #s 434541-OC and 438454-OC) were not available.

Cause: The cause of the condition is the lack of adherence to established policies and procedures to ensure that contractors and subcontractors are complying with the Davis-Bacon Act.

Effect: The effect of the above condition is potential noncompliance with Davis-Bacon Act requirements and potential noncompliance with established project monitoring policies and procedures.

Recommendation: We recommend that the Department of Public Works ensure that the requirements of the Davis-Bacon Act are met. Further, we recommend that established policies and procedures to monitor compliance with Davis-Bacon act are followed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mark W. Flores, Project Coordinator

Corrective Action: All future project interviews will be conducted by Mr. Mark Flores or a designated representative of the Department of Public Works. Training with the Department of Labor on the policies and procedures of the Davis-Bacon Act will be coordinated and scheduled by the Department of Public Works. Interview reports and forms shall be properly filed and maintained for each project.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Health and Human Services
Eligibility - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-36

Criteria: Sufficient controls should be in place to ensure that a complete, updated and reliable eligibility database is maintained and that only eligible individuals receive benefits under the CNMI Medicaid Program.

Condition: The CNMI Medicaid Office relies on an electronic database for verifying eligibility of individuals charged to the CNMI Medicaid program by service providers. Updates to the database are made by eligibility workers. Independent reviews or verification of the information posted to the database is performed during the annual renewal or new application eligibility determination process. However, there is no evidence that changes in the database subsequent to issuance of Medicaid cards are reviewed and approved by the Program Director.

Cause: The cause of the above condition is a lack of adequately defined control procedures over the program's electronic system.

Effect: The effect of the above condition is a weakness in controls over the integrity of the eligible participant's database.

Recommendation: We recommend that all changes in the eligibility database are approved by the Program Director. We also recommend that the Medicaid Program consider conducting a spot check on a sample of posted information and trace such to original manual documents in addition to the verification performed during the annual eligibility determination or renewal process to deter possible unauthorized changes made subsequent to eligibility determination. These tests, if performed, should be documented. We further recommend that controls be implemented to restrict access to the database to authorized personnel.

Prior Year Status: The lack of adequately defined control procedures over the Program's electronic system was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding. All changes in the eligibility database will be reviewed and approved by the Program Director. We will create the policies and procedures.

Proposed Completion Date: September 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Equipment and Real Property Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-37

Criteria: 7 CFR Section 3016.32 (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.

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 Nutrition Assistance Program (NAP) and the Division of Procurement and Supply (P&S) compliance with the above requirements:

- Property records maintained by NAP did not indicate the acquisition date of the properties.
- Reconciliation of property records was not performed by P&S after the biennial physical inventory was taken.
- Unit cost information on certain fixed asset items is not consistent between the NAP records and the P&S records.

Further, physical inventory was not performed annually as required by the CNMI Property Management Policies and Procedures.

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

Recommendation: We recommend that the CNMI ensure compliance with applicable federal property rules and regulations and the CNMI Property Management Policies and Procedures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-37, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Herman S. Sablan, Director, Division of Procurement and Supply and Eleanor Cruz, Administrator, Nutrition Assistance Program, Department of Community & Cultural Affairs

Corrective Action:

- We have submitted our inventory of all the property items at NAP with the date of acquisition for every item.
- We will be working with the Procurement and Supply Office to ensure that the reconciliation of the NAP properties will be done for the latest inventory that we complete on June 30, 2008. A request has been sent to Procurement and Supply to conduct their reconciliation.
- As indicated on the latest inventory conducted by NAP in June 2008, all unit costs of NAP fixed asset items are consistent with the Procurement and Supply Office.
- The annual inventory for FY08 will be conducted by NAP no later than September 30, 2008 to comply with Section III page 10 of the CNMI Property Management Policies and Procedures.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Transportation
Equipment and Real Property Management - Highway Planning and Construction
CFDA #20.205, Federal Award # 3000(003)
Federal Award Period Available Until Expended

Finding No. 2007-38

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 Department of Public Works (DPW) and Division of Procurement and Supply (P&S) compliance with the above requirements:

- DPW does not maintain property records of equipment and property held within the department.
- P&S maintained records of equipment and property held by DPW. However, the property records did not include information as to the cost, use and condition of the property and who holds title to the property.
- A physical inventory was not performed during fiscal year 2007. The physical inventory was last performed during fiscal year 2002.
- Of eight items tested for physical existence, one item (ref. US-30776CM) cannot be located.

While there were no expenditures relating to equipment purchases during fiscal year 2007, equipment was purchased in prior years with Federal-aid Highway Program funds.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-38, Continued

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.

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.

Recommendation: We recommend that the CNMI perform the required inventory procedures of its fixed assets and ensure compliance with applicable federal and local rules and regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Herman S. Sablan, Director, Division of Procurement and Supply and Gerald P. Reyes, Fiscal Specialist, Department of Public Works

Corrective Action:

Division of Procurement and Supply: Recommendation accepted. Effectively immediately.

Department of Public Works: We will conduct a physical inventory of equipment and property maintained by the Department of Public Works, reconcile detailed listing of property records/data and establish control procedures for monitoring and maintenance of property files and equipment.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Environmental Protection Agency

Equipment and Real Property Management - Environmental Protection Consolidated Grants-
Program Support

CFDA #66.600, Federal Award # M-00915604

Federal Award Period 10/01/03 - 09/30/08

Finding No. 2007-39

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 their property records. The property records maintained by DEQ are lower by \$528,960 compared to the 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 the acquisition date and the location of the property.
- Property records maintained by P&S have incomplete information as to acquisition cost and did not include the location of the property.
- DEQ and P&S did not conduct a physical count during fiscal year 2007. The last physical inventory was conducted during fiscal year 2006.
- Of 20 items tested for physical existence, two (ref. CNMI-FA00100, US-32284CM) items were not tagged to indicate ownership of the property.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-39, Continued

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.

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.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Herman S. Sablan, Director, Division of Procurement and Supply and Frank M. Rabauliman, Director, Division of Environmental Quality

Corrective Action:

Division of Procurement and Supply: Recommendation accepted. Effectively immediately.

Division of Environmental Quality: The Division of Environmental Quality (DEQ) submitted an updated inventory listing to the Division of Procurement and Supply (P&S) on March 20, 2008. DEQ informed P&S that several items that were surveyed in the past still appear on their list. P&S conducted a physical inventory of all DEQ properties at DEQ in April 2008. P&S will reconcile the listings with DEQ once P&S finalizes their inventory listing.

DEQ will work with P&S in completing information as to acquisition cost, acquisition date, property number and location of property.

DEQ did conduct a physical count during fiscal year 2007.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Equipment and Real Property Management - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

CFDA #97.036, Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion

Finding No. 2007-40

Criteria: 44 CFR Section 13.32 (d) states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

- a. 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
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

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: Although a property listing is maintained at the Public Assistance Office (PAO), this listing has not been provided for examination. Additionally, reconciliation between property records maintained by the Division of Procurement and Supply (P&S) and PAO was not made available.

Cause: The cause of the above condition is the lack of reconciliation between the equipment master listing maintained by P&S and that of PAO.

Effect: The effect of the above condition is noncompliance with federal equipment and property management requirements.

Recommendation: We recommend that the CNMI ensure compliance with applicable federal property rules and regulations and the CNMI Property Management Policies and Procedures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-40, Continued

Prior Year Status: The lack of compliance with federal property rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor

Corrective Action: The Governor's Authorized Representative has implemented a procedure to maintain a property listing at the Public Assistance Office. Property records were obtained from the Division of Procurement and Supply to reconcile the list. The Public Assistance Office will continue to maintain a property inventory listing of items purchased under the Public Assistance program in compliance with 44 CFR 13.32(d). The listing will include the disaster report number (DR), the agency, the project worksheet (PW), description, vendor, model, serial number, tag number, date of purchase, purchase order number, purchase amount and the business unit charged. The Public Assistance property listing will be reconciled on a semi-annual basis every January 1 and July 1 with the property listing available with the Division of Procurement and Supply to ensure all property is accounted for. A notice will be issued by the Governor's Authorized Representative to the Director of the Division of Procurement and Supply if any of the property found in the Public Assistance listing is not listed in the Division's property inventory listing.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of the Interior
Matching - Economic, Social, and Political Development of the Territories
CFDA #15.875, Federal Award # Fiscal Years 1996 - 2007 Appropriations Act
Federal Award Period Available Until Expended

Finding No. 2007-41

Criteria: Grant Number CIP-CNMI-2005-2 requires that federal funds for FY 1994 projects are to be matched by local funds at the ratio of 73.30% federal share and 26.70% local share.

Condition: In analyzing the CNMI's accounting records and related Capital Improvement Projects (CIP) financial reports for one project (business unit #4980), we noted the following improper cost allocations:

Share	FY07 Expenditures Per CIP Reports	FY07 Matching Ratio Per CIP Reports	FY07 Expenditures Per General Ledger	FY07 Matching Ratio Per General Ledger	FY07 Cumulative Expenditures Per CIP Reports	FY07 Matching Ratio Per Cumulative CIP Reports
FEDERAL	\$ 607,862	77.60%	\$ 545,521	69.64%	\$ 2,705,903	74.23%
LOCAL	175,480	22.40%	237,821	30.36%	939,331	25.77%
	\$ 783,342		\$ 783,342		\$ 3,645,234	

Reconciliation and justification for the differences in matching ratio was not made available.

Cause: The cause of the above condition is the improper allocation of federal and local share when recording expenditures in the general ledger and when preparing CIP financial reports.

Effect: The effect of the above condition is lack of compliance with grant requirements relating to matching. This may also have cash management implications. However, no questioned costs result from the condition as the actual local share is higher than the required local match.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure that compliance with the matching criteria are met.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of the Governor

Corrective Action: I agree with the finding on the differences with the matching ratio on the expense side for the construction object code; however, the obligations were properly allocated at the correct cost share of 73/27 (Federal/local) percent share. Therefore, at the closeout of all obligations, the expense allocation would equal the obligated cost share. The CIP Administrator will ensure at project closeout that the matching ratio is properly allocated with ninety days of the fund expiration. The project funds will expire on June 30, 2008.

Proposed Completion Date: September 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Health and Human Services
Matching, Level of Effort or Earmarking - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-42

Criteria: The Compliance Supplement Part 4 requires a grantee to pay part of the costs of providing health care to the poor and of administering the program. Specifically, pursuant to grant terms and 42CFR Section 433.10, Federal Medical Assistance Percentage (FMAP) for the Northern Mariana Islands is set by statute at 50 percent.

Condition: Recorded federal expenditures did not equate to local expenditures recorded in the general ledger, with the federal expenditures being higher by \$261,667. We noted that \$73,389 of local match expenditures were recorded as federal expenditures. Since requests for reimbursements are based on expenditures recorded in the general ledger, these expenditures have been included in the request for reimbursements submitted to the grantor agency. We were informed that these expenditures will be adjusted in the next reimbursement request to be submitted. For the period ended September 30, 2007, this matter was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is management oversight and lack of procedures to ensure that matching requirements are complied with.

Effect: The effect of the above condition is noncompliance with matching requirements. No questioned costs result from this condition since this matter was corrected through a proposed audit adjustment at September 30, 2007.

Recommendation: We recommend that CNMI Medicaid implement adequate procedures to ensure that matching requirements are adhered to.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Helen Sablan, Medicaid Administrator and Bernadita C. Palacios, Acting Director, Finance & Accounting

Corrective Action: The misposted local match expenditures will be adjusted on the next reimbursement request submitted as noted. CNMI does not have to match the first \$200,000 of the grant which would account for the difference in federal versus local expenditures.

Proposed Completion Date: 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Matching, Level of Effort, Earmarking - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

CFDA #97.036, Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion

Finding No. 2007-43

Criteria: Per OMB Circular A-133, costs must be on a shared basis, as specified in the FEMA-State agreement. The matching split between the State and the subgrantee will vary. The accountability for meeting the matching requirement is determined at the time of project accounting as part of project closeout, (e.g., the State match does not have to be provided until the end of the project).

Condition: Although it is specified in the above criteria that the CNMI does not have to provide matching until a project close-out, the CNMI provides matching as related expenditures are incurred. The local match for each disaster is not assigned to one cost center established for the disaster, but is posted in several general fund accounts assigned to each applicant. As the CNMI's accounting system does not monitor funds on a project-by-project basis, we are unable to determine the cumulative amount that should be transferred in from the general fund.. Except for the State Management Administrative Cost (SMAC) related cost centers that had incorrect matching reported, our detailed tests of expenditures totaling \$1,287,627 did not note any instances of noncompliance with cost share for expenditures tested.

Cause: The cause of the above condition is the lack of procedures in place to ensure that the correct matching is transferred in from the general fund.

Effect: The effect of the above condition is the possibility of non-compliance with matching requirements.

Recommendation: We recommend that the Department of Finance implement procedures to ensure that the correct amount of matching is transferred in from the general fund and that consideration be given to setting up one cost center in the general fund for each disaster to facilitate better monitoring and reconciliation.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative,
Office of the Governor

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-43, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The Governor's Authorized Representative (GAR) agrees with this finding that the CNMI provides the matching as expenditures are incurred. The GAR will not authorize an obligation to be incurred without the proper match in place. For each disaster declared, the CNMI establishes a business unit for each of the applicant to properly account for expenditures that are incurred. The budget allocation for each of the applicants is only allocated at the Federal share. The matching share remains with the applicant and is charged directly to the applicant's account. Only the state management administrative cost is expensed at 100% requiring the match to be transferred to the SMAC account. The GAR will request OMB to transfer the match requirement to the SMAC account at the beginning of the new fiscal year upon approval of the Federal share for each of the disaster open. For the previous fiscal years, the GAR has requested OMB to transfer the match for the FY2006, FY2007 and FY2008 for part of DR-1541-MP and DR-1611-MP.

Proposed Completion Date: October 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2007-44

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. No questioned costs result from this finding due to our inability to assess the dollar amount of items less than the threshold that may not have been subject to competitive procurement requirements.

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 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2007-45

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.

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 2006.

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 include such provisions. 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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-45, 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: Ongoing

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. 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, 2007

U.S. Department of the Interior

Procurement and Suspension and Debarment - Economic, Social, and Political Development of the Territories

CFDA #15.875, Federal Award # Fiscal Years 1996 - 2007 Appropriations Act

Federal Award Period Available Until Expended

Finding No. 2007-46

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-three (23) contracts relating to expenditures of the Capital Improvement Projects, we noted the following:

- Sixteen (16) contracts (#s 201-OS, 227-OS, 282-OS, 311-OS, 325-OS, 358-OS, 372-OS, 374-OS, 375-OS, 381-OS, 394-OS, 401-OS, 405-OS, 411-OS, 415-OS and 419-OS) did not contain provisions of compliance under Section 306 of the Clean Air Act.
- Twenty-two (22) contracts (#s 201-OS, 227-OS, 282-OS, 311-OS, 325-OS, 334-OS, 358-OS, 372-OS, 374-OS, 375-OS, 381-OS, 394-OS, 395-OS, 401-OS, 405-OS, 411-OS, 415-OS, 419-OS, 424-OS, 425-OS, 428-OS and 429-OS) did not contain provisions of federal access to contractor's records.
- Nine (9) contracts (#s 227-OS, 372-OS, 394-OS, 395-OS, 401-OS, 411-OS, 415-OS, 419-OS and 425-OS) did not contain provisions for compliance with all Section 103 and 107 of Contract Hours and Safety Standards Act or its equivalent.
- Four (4) contracts (#s 227-OS, 372-OS, 394-OS and 419-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 contracts include the 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 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-46, Continued

Auditee Response and Correction Action Plan:

Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply, Joseph M. Inos, Jr., Director of TSD, Department of Public Works and Pedro Sasamoto, Water Task Force

Corrective Action: Recommendation accepted. We will ensure that all contracts we process which are funded in whole or in part by U.S. Capital Improvement Funds contain provisions of Section 305 of the Clean Air Act, provisions for federal access to the contractor's records, compliance with Sections 103 and 107 of the Contract Hours and Safety Standards Act and EEO/Executive Order 11246.

It is recommended that the Office of the Attorney General review the types of contract formats and provisions used in the government to ensure that the agencies use the proper contract forms when executing contracts. The CIP Program Office under the Office of the Governor is in the process of hiring a Contracting Officer to ensure performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the government of the Commonwealth of the Northern Mariana Islands in its contractual relationships.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Reporting - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-47

Criteria: Section 20 of the Memorandum of Understanding (MOU) with Food and Nutrition Service (FNS) requires CNMI's Food Stamp Program to submit reports and retailer compliance reviews within thirty days following the end of each quarter.

Condition: Reports and retailer compliance reviews were not submitted to FNS for the four quarters of the fiscal year 2007.

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

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

Recommendation: We recommend that the CNMI comply with the provisions of the MOU.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, Administrator, Nutrition Assistance Program, Department of Community & Cultural Affairs

Corrective Action: First and second quarter reports for 2007 were submitted on September 20, 2007 and third and fourth quarters were submitted on March 18, 2008. This is an area we need to work on and improve and we have put in place timelines for the responsible units to submit timely reports in order for us to be in compliance with our MOU. We are submitted the transmittal dates and copies of the reports for you information.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Environmental Protection Agency
Reporting - Environmental Protection Consolidated Grants-Program Support
CFDA #66.600, Federal Award # M-009156-04
Federal Award Period 10/01/03 - 09/30/08

Finding No. 2007-48

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:

- The SF-269 for the year ended September 30, 2007 reported total accumulated expenditures that were \$38,329 more than the total accumulated expenditures recorded in the general ledger as of September 30, 2007.
- Total expenditures reported per the SF-269 were overstated by \$30,321 versus the cash transaction report (SF-270) as follows:

Total cash outlays reported	\$ 7,049,913
Total cash received per reimbursement	(6,856,706)
IPA-AG FY 2004 offset against grant funds	<u>(162,886)</u>
Over reported amount	\$ <u>30,321</u>

Cause: The cause of the above condition is that the amounts reflected on the SF-269 for the fiscal year ended September 30, 2007 did not reflect total accumulated expenditures at that date. Additionally, the SF-269 was not updated to reflect fiscal year 2003 expenditures erroneously carried over in fiscal year 2007.

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

Recommendation: We recommend that the Department of Finance ensure that all grant reporting requirements are strictly adhered to.

Prior Year Status: The lack of compliance with the reporting requirements of the grant was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-48, Continued

Auditee Response and Corrective Action Plan:

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

Corrective Action: Corrections will be made to the SF-269 and SF-270 for the reporting period ending June 30, 2008.

Proposed Completion Date: 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Reporting - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

CFDA #97.036, Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion

Finding No. 2007-50

Criteria: Per 44 CFR 13.20 (b)(4), actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. Grantee should maintain a system that accounts for funds on a project-by-project basis.

Condition: The CNMI does not account for FEMA funds on a project-by-project basis within the general ledger as expenditures incurred for one department's or subrecipient's projects (may be more than one) are posted to one cost center. The Public Assistance Office manually accounts for expenditures on a project-by-project basis on the Project Status Reports prepared on a quarterly basis. Of three disasters tested, we noted the following:

- Variances between cumulative expenditures per the quarter ended 09/30/07 FEMA 20-10 (which reflects federal expenditures per the general ledger) and Project Status reports were noted for the following:

<u>Disaster</u>	<u>DR #</u>	<u>Variance</u>
Nabi	DR 1611	\$ (6,495)
Chaba	DR 1541	\$ 94,046
Tingting	DR 1532	\$ 65,999

- Variances between total cash drawn from grantor for the year ended 9/30/07 per the SF-272 and Project Status Reports were noted for the following:

<u>Disaster</u>	<u>DR #</u>	<u>Variance</u>
Nabi	DR 1611	\$ (25,001)
Chaba	DR 1541	\$ 37,951
Tingting	DR 1532	\$ 289,124

- Total cumulative Federal funding as of September 30, 2007 was reported differently per the FEMA 20-10, the Project Status Report, and the P.5 Grant Summary (updated by grantor periodically) provided as follows:

<u>Disaster</u>	<u>DR #</u>	<u>Per FEMA 20-10</u>	<u>Per Project Status Report</u>	<u>Per Grant Summary (P.5 Report)</u>
Nabi	DR 1611	\$ 1,181,190	\$ 1,130,290	\$ 1,181,087
Tingting	DR 1532	\$ 1,931,028	\$ 1,956,747	\$ 1,931,835

As expenditures reported on the FEMA 2010 and reimbursed per the SF-272 are based on actual amounts expended and paid per CNMI records, the variances are an issue of non-reconciliation and do not indicate that the grantor agency was overcharged.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-50, Continued

Cause: The cause of the above condition is lack of reconciliation performed between the Public Assistance Office (which is responsible for making payment requests and indicating which cost centers are to be charged) and the Department of Finance - Federal Grants Division (which is responsible for posting expenditures and preparing Federal financial reports).

Effect: The effect of the above condition is noncompliance with reporting requirements and inadequate monitoring of funds on a project-by-project basis.

Recommendation: We recommend that the Department of Finance implement procedures to ensure that reconciliations are performed to ensure proper financial management of federal funds.

Prior Year Status: The lack of reconciliation performed between the Public Assistance Office (which is responsible for making payment requests and indicating which cost centers are to be charged) and the Department of Finance - Federal Grants Division (which is responsible for posting expenditures and preparing Federal financial reports) was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor

Corrective Action: The Governor's Authorized Representative (GAR) and the Secretary of Finance have updated the Public Assistance Drawdown Procedures to ensure that the Public Assistance Office is provided copies of all drawdown requests transmitted to the Division of Treasury. These drawdown documents will relate to specific project expenditures and will be included in each project file. The Public Assistance Office will distribute to the Division of Finance and Accounting Federal Grants Section and the Division of Treasury, the updated Public Assistance Drawdown Procedure. The Division of Finance and Accounting will provide the Public Assistance Office with all drawdown requests submitted to the Division of Treasury. The Division of Treasury will execute drawdowns as mandated by Federal guidelines. These documents will be filed in the associated project files and provide reconciliation between project expenditures and drawdowns.

Proposed Completion Date: July 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/06- 09/30/07

Finding No. 2007-51

Criteria: 7 CFR, Section 272.10 states that, "All State agencies are required to sufficiently automate their food stamp program operations and computerize their systems for obtaining, maintaining, utilizing and transmitting information concerning the food stamp program. Sufficient automation levels are those which result in effective programs or in cost effective reductions in errors and improvements in management efficiency, such as decreases in program administrative costs. Thus, for those State agencies which operate exceptionally efficient and effective programs, a lesser degree of automation may be considered sufficient than in other State agencies. In order to determine a sufficient level of automation in each State, each State agency shall develop an ADP/CIS plan. Food and Nutrition Service (FNS) may withhold State agency funds under §276.4(a) for failure to submit an ADP/CIS plan in accordance with the deadlines for submission, for failure to make appropriate changes in their ADP/CIS plan within 60 days of their receipt of FNS comments, or for failure to implement the approved ADP/CIS plan in accordance with the dates specified therein, unless extensions of time or deviations from the plan or schedules have been approved by FNS."

Condition: The CNMI has not developed an ADP/CIS plan nor has it obtained waivers from the grantor agency to be exempted from the requirements of 7 CFR Section 272.10.

Cause: The cause of the above condition is lack of funding to initiate the ADP/CIS program and shortage of manpower to formulate an ADP/CIS plan.

Effect: The effect of the above condition is noncompliance with the provisions of 7 CFR, Section 272.10.

Recommendation: We recommend that the CNMI comply with the provisions of 7 CFR Section 272.10.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, Administrator, Nutrition Assistance Program, Department of Community and Cultural Affairs

Corrective Action: We have attempted within the last couple of years to hire an IT consultant to do a needs assessment for the automation system at NAP and we have several companies that have submitted their proposals and we are closer than ever before in complying with 7 CFR Section 272.10.

Proposed Completion Date: Upon availability of funds for fiscal year 2009 budget

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Health and Human Services
Special Tests and Provisions - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-52

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 backups of the ADP system; however, regular back ups are not performed. 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 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. We have a weekly and a quarterly backup. Weekly backups are stored in the flash drive and later burned on a CD. However, the quarterly backup is stored at the Department of Finance - EDP Office. An RFP has just recently closed. We will be reviewing the vendors that submitted their proposal for the implementation of the Medicaid Computer Data System. Once we have a system in place, a periodic risk analysis will be performed in the system.

Proposed Completion Date: January 2009

Auditor Response: Our finding was on the lack of periodic risk analyses performed on the EDP system. We noted weekly back ups were performed and stored in a flash drive; however, such weekly back ups were not completed for the entire fiscal year tested due to limited capacity. Further, CD files for weekly back ups were not available. The Medicaid office should consider other back up facilities to ensure that complete back ups of program records are stored and maintained for at least three years.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Subrecipient Monitoring - Disaster Grants - Public Assistance (Presidentially Declared Disasters)
CFDA #97.036, Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and
1611DRMPP00000001

Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05
through completion

Finding No. 2007-53

Criteria: As part of monitoring activities, a pass-through entity is required to:

- a. Ensure that subrecipients expending \$500,000 for fiscal years ending after December 31, 2003 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period;
- b. Issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report;
- c. Ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition: Of \$1,890,191 expenditures of the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, we noted total program expenditures of \$767,353 incurred by subrecipients reflected in the CNMI's records. However, we are unable to determine if the CNMI performed monitoring of subrecipients.

Cause: The cause of the above condition is lack of policies and procedures to ensure that subrecipients are in compliance with the criteria.

Effect: The effect of the above condition is noncompliance with subrecipient monitoring requirements. No questioned costs result from this finding as the above would not necessitate Single Audits or such may represent timing differences.

Recommendation: We recommend that the Public Assistance Office implement procedures to ensure that subrecipients meet the necessary audit and reconciliation requirements and that required monitoring of the above occur and be documented.

Prior Year Status: The lack of compliance with federal subrecipient monitoring rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative,
Office of the Governor

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-53, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The Public Assistance program is aware that the subrecipients are required to have Single Audits performed. The subrecipients are informed during the applicant's briefing and kickoff meetings that they must comply with the audit requirements. The Public Assistance Office incorporated the audit requirements in the Public Assistance guidelines to ensure the Public Assistance staff is aware of the requirements. The Public Assistance Office will send a letter to all subrecipients ninety days after the beginning of each fiscal year requesting information in meeting the necessary audit and reconciliation requirements. In addition, a letter is sent to subrecipients at close-out reminding them of the audit requirements.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2007

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, 2007:

Questioned costs as previously reported	\$ 5,035,505
Questioned costs of fiscal year 2007 Single Audit	<u>2,213,809</u>
Unresolved questioned costs at September 30, 2007	<u>\$ 7,249,314</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 40 through 133).



**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, 2006:

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

- Finding No. 2006-1 - Not corrected. See corrective action plan to Finding No. 2007-1.
- Finding No. 2006-2 - Not corrected. See corrective action plan to Finding No. 2007-2.
- Finding No. 2006-3 - Corrective action was taken.
- Finding No. 2006-4 - Not corrected. See corrective action plan to Finding No. 2007-3.
- Finding No. 2006-5 - Not corrected. See corrective action plan to Finding No. 2007-4.
- Finding No. 2006-6 - Not corrected. See corrective action plan to Finding No. 2007-5.
- Finding No. 2006-7 - Corrective action was taken.
- Finding No. 2006-8 - Corrective action was taken.
- Finding No. 2006-9 - Not corrected. See corrective action plan to Finding No. 2007-7.
- Finding No. 2006-10 - Corrective action was taken.
- Finding No. 2006-11 - Corrective action was taken.
- Finding No. 2006-12 - Not corrected. See corrective action plan to Finding No. 2007-8.
- Finding No. 2006-13 - Not corrected. See corrective action plan to Finding No. 2007-9.
- Finding No. 2006-14 - Corrective action was taken.
- Finding No. 2006-15 - Not corrected. See corrective action plan to Finding No. 2007-11.
- Finding No. 2006-16 - Corrective action was taken.

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

- Finding No. 2006-17 - Not corrected. See corrective action plan to Finding Nos. 2007-12 and 2007-15.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT, CONTINUED**

- Finding No. 2006-44 - Not corrected. See corrective action plan to Finding No. 2007-48.
- Finding No. 2006-45 - Not corrected. See corrective action plan to Finding No. 2007-49.
- Finding No. 2006-46 - Corrective action was taken.
- Finding No. 2006-47 - Not corrected. See corrective action plan to Finding No. 2007-50.
- Finding No. 2006-48 - Not corrected. See corrective action plan to Finding No. 2007-26.
- Finding No. 2006-49 - Corrective action was taken.
- Finding No. 2006-50 - Corrective action was taken.
- Finding No. 2006-51 - Not corrected. See corrective action plan to Finding No. 2007-52.
- Finding No. 2006-52 - Not corrected. See corrective action plan to Finding No. 2007-53.