

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2008

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

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

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

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Commonwealth Ports Authority, the Marianas Public Land Trust and the Northern Marianas College, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CNMI's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-16.

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

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

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

Deloitte & Touche LLC

June 15, 2009

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

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

Compliance

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

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

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

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

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

Internal Control Over Compliance

The management of the CNMI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the CNMI's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over compliance.

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

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

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

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

Schedule of Expenditures of Federal Awards

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

Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise the CNMI's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 34) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the CNMI. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Deloitte & Touche LLC

June 15, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

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

Reconciliation:

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2007	Cash Receipts FY08	Expenditures FY08	Receivable From Grantor (Deferred Revenue) at September 30, 2008
U.S. DEPARTMENT OF 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, 2008

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

(1) Scope of Review

The Commonwealth of the Northern Mariana Islands (CNMI) is a governmental entity governed by its own Constitution. All significant operations of the CNMI are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the CNMI's cognizant agency for the Single Audit.

Programs Subject to Single Audit

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

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

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the CNMI and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. For federal direct assistance grants, authorizations represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

b. Reporting Entity

The CNMI, for purposes of the financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Schedule of Expenditures of Federal Awards excludes the following component units that receive federal awards as these entities have separately satisfied the audit requirements of OMB Circular A-133:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

Commonwealth Ports Authority
Northern Marianas College

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

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

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

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

Commonwealth Development Authority
Commonwealth Utilities Corporation
Public School System

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

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the CNMI's reporting entity is defined in Note 1A to its September 30, 2008 basic financial statements; except that the Northern Mariana Islands Retirement Fund, the CNMI Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the CNMI, as defined above, for the year ended September 30, 2008.

c. Subgrantees

Certain program funds are passed through the CNMI to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees, outside of the CNMI's control, utilized the funds. The following is a summary of program funds that are passed through to subgrantee organizations:

Commonwealth Ports Authority

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees, Continued

Commonwealth Ports Authority, Continued

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

d. Indirect Cost Allocation

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

e. CFDA #15.875

CFDA #15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands, which is an agreement, and is not a federal program. Additionally, each funding component of the agreement is governed by varying rules and regulations, depending on the reason for the designated aid. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA #15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

(3) Expenditures

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

External Financial Reporting

Finding No. 2008-1

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Flows

Finding No. 2008-2

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Purchases/Disbursements

Finding No. 2008-3

Criteria: Expenditures should be recorded when incurred.

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

Proposed Completion Date: Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Disbursements - Land Compensation

Finding No. 2008-4

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

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

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

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-4, Continued

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash and Cash Equivalents

Finding No. 2008-5

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-5, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash and Cash Equivalents

Finding No. 2008-6

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-6, Continued

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action:

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

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2008-7

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-7, Continued

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

Auditee Response and Corrective Action Plan:

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

Corrective Action:

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2008-8

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

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

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Travel Advances

Finding No. 2008-9

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-9, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Advances

Finding No. 2008-10

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

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

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

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

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

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

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

The above conditions were corrected through a proposed audit adjustment.

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-10, Continued

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Retirement Contributions - General Fund

Finding No. 2008-11

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

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-11, Continued

Auditee Response and Corrective Action Plan, Continued:

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

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

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Tax Rebates Payable

Finding No. 2008-12

Criteria: The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid. The rebate liability is therefore estimated at the end of each fiscal year.

In addition, in accordance with Public Law 9-22, §1713, Interest on Overpayments, interest allowed by NMTIT §6611 on an overpayment shall be calculated only on the amount not already rebated.

Condition: At September 30, 2008, tax rebates payable aggregated \$24,792,295. The balance consists of the following:

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

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

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

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
17	2003	\$ 41,651	\$ 42,098	\$ (447)
113	2005	23,992	22,173	1,819
115	2006	<u>18,660</u>	<u>6,792</u>	<u>11,868</u>
		<u>\$ 84,303</u>	<u>\$ 71,063</u>	<u>\$ 13,240</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
141	2006	\$ 26,662	\$ 26,717	\$ (55)
142	2006	<u>20,630</u>	<u>16,376</u>	<u>4,254</u>
		\$ <u>47,292</u>	\$ <u>43,093</u>	\$ <u>4,199</u>

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

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
139	2005	\$ 13,187	\$ 12,447	\$ 740
140	2006	<u>31,523</u>	<u>23,793</u>	<u>7,730</u>
		\$ <u>44,710</u>	\$ <u>36,240</u>	\$ <u>8,470</u>

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

4. Of seventeen matched filings tested relating to corporate tax rebate payables of \$2,060,144, the following were noted:
- a. Four items totaling \$604,793 did not agree to the returns by \$156,180 and requires further review by Revenue and Taxation. Details are as follows

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

- b. For one \$98,869 item, (ref. C65 for tax year 2000), the rebate amount in the tax return was left blank. The taxpayer did not submit relevant documentation to recalculate the tax.
- c. For one \$44,576 item, (ref. C62 for tax year 2006), the tax return was not provided.

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

<u>Taxpayer #</u>	<u>09/30/08 Details</u>	<u>02/17/09 Details</u>	<u>Variance</u>
110	\$ 16,629	\$ -	\$ 16,629
141	26,662	-	26,662
142	<u>20,630</u>	<u>-</u>	<u>20,630</u>
	\$ <u>63,921</u>	\$ <u>-</u>	\$ <u>63,921</u>

Further, no interest is calculated or paid on overpayments.

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

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

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

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

Auditee Response and Corrective Action Plan:

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

Corrective Action:

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

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

Item 2.a. assigned # I26

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Item 2.b. assigned #s I41 and I42

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

Item 2.c. assigned # I39

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

Item 2.c. assigned # I40

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

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

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

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

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

#C61 - Under review.

Item 4.b. assigned # C65

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

Item 4.c. assigned # C62

The compliance section cannot locate the tax return.

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Other Liabilities and Accruals

Finding No. 2008-13

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

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

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

The above condition was corrected through a proposed audit adjustment.

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Due to Component Units

Finding No. 2008-14

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Compensated Absences

Finding No. 2008-15

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

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

The above condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of adequate procedures and controls to ensure that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records.

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

CNMI Local Noncompliance

Finding No. 2008-16

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-16, Continued

Condition, Continued:

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-16, Continued

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: Ongoing 2009

Auditor Response:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2008-17

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-17, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: None

Auditor Response: Federal regulations require that costs charged to federal awards should be consistent with policies, regulations and procedures that apply uniformly to both federal awards and other activities of the governmental unit. The difference in retirement contributions paid from federal grants and local funds represents inequality and thus, noncompliance with federal requirements exists.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-18

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-19

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-19, Continued

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

151,448

Cause: The cause of the above condition is the lack of analysis of vendor invoices.

Effect: The effect of the above condition is questioned costs of \$151,448. While certification was not noted for \$5,386,594 at condition 1 and \$580,500 at condition 2, no questioned costs result as the related expenditures are supported with invoices and other relevant documents.

Recommendation: We recommend that the CNMI Department of Finance ensure that all expenditures and disbursements are supported by invoices, checks, contracts and other relevant documents. Further, we recommend that payment requests be certified by the Contracting Officer or by the expenditure authority to indicate review and authorization.

Prior Year Status: Lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: #s 1 and 2 - Vicky Villagomez, CIP Administrator; and #3 - Bernadita C. Palacios, Acting Director, Finance & Accounting

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-19, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan, Continued:</u>		
Corrective Action:		
	<ol style="list-style-type: none"> 1. All but one of the payment requests (BU#5227) are from the Water Task Force. A memo was issued from the Contracting Officer/Expenditure Authority on January 30, 2007 delegating authority to the program manager "to execute all documents you deem necessary to carrying out WTF work. This would include but is not limited to...". This was interpreted to include requests for payment of invoices. We will research the BU#5227 item and take necessary corrective action. 2. BU#5605 is a Water Task Force request-See #1 above. We will research the other items and take necessary corrective action. 3. The remaining unresolved items are noted as APV# (JE) 6556. This transferred CUC utility charges to various general fund business units. No Federal funds were involved so no questioned costs should be noted. 	
Proposed Completion Date: 2009		
<p><u>Auditor Response:</u> Compact Impact funds are used in the reimbursement of a fixed amount of salaries and wages and other expenses (i.e., utility charges) as stipulated in the CNMI's approved Plan of Use. The CNMI is unable to provide a schedule identifying which of the utility charges were included in the reimbursement from the grantor agency. As a result, federal share percentage used in our projection for questioned costs is assessed based on total actual expenditures incurred for the year.</p>		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-20

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended	<p><u>Criteria:</u> Per grant terms and conditions, costs may not be incurred and work may not commence on the project until OIA has issued an Authorization to Proceed (ATP) and has approved the scope of work and project budget certified by an architect or engineer. Additionally, grantee shall present evidence to OIA that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land upon which new capital improvement projects are to be constructed.</p> <p><u>Condition:</u> Of twenty-nine CIP projects tested, we noted the following:</p> <p>1. The ATP and related architect or engineer certified scope of work and project budget were not provided for the following fourteen projects:</p>	

Fund	BU #	Total FY 2008 Expenditures
4052	5177	\$ 125,156
4052	5233	33,718
4058	5605	49,111
4052	5238	63,067
4052	5102	90,444
4052	5178	149,838
4052	5138	16,910
4052	5210	125,078
4052	5227	128,943
4052	5228	52,653
		<u>\$ 834,918</u>

Of the above, evidence that CNMI has clear title, a leasehold agreement, or other legal authority for use of the land for two projects (BU #s 5238 and 5227) was not provided.

2. The budget was certified on 08/01/06 but does not agree to the ATP amount of \$129,856 (which is the federal share of total \$259,712 funded) for one project (BU # 5236) that references a budget submitted 10/12/06. The budget provided is for \$138,535. Reconciliation of variances in budget with the approved amount was not provided. Total FY 2008 expenditures incurred on this project are \$40,956.
3. We noted three projects for which some contracts, including change orders, amount encumbered and charged are either not included in the budget or exceed the approved budget. There was no approval for change in scope of work provided. Details are as follows:

Fund	BU #	Contract	FY 2008 Expenditures not Budgeted or Included in Scope of Work
4052	5208	395 OS	\$ 11,280
4052	5218	372 OS	46,792
4052	5175	378 OS	64,287
			<u>\$ 122,359</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-20, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Cause:</u> The cause of the above condition is the lack of systematic filing of the Authorization to Proceed, certified project budget and scope of work, and evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$998,233. Of the above, \$117,835 is questioned at Finding No. 2008-34, \$127,150 is questioned at Finding No. 2008-35 and \$63,067 is questioned at Finding No. 2008-36. Remaining costs of \$690,181 are questioned here.</p> <p><u>Recommendation:</u> We recommend that the Department of Finance ensure that projects are supported by the Authorization to Proceed, certified project budget and scope of work, evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land, and other relevant documents.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Vicky Villagomez, CIP Administrator</p> <p>Corrective Action:</p> <ol style="list-style-type: none"> 1. Documents provided to auditors for review which appear to address all but three of the items (BU#5138, 5210 and 5227). Also documents related to the legal authority to use land. These projects are all within existing government facilities or within existing rights of way. 2. Documents provided to auditors showing budget matching ATP. 3. Change order documents provided to auditors <p>Proposed Completion Date: 2009</p> <p><u>Auditor Response:</u></p> <ol style="list-style-type: none"> 1. For the projects noted in condition 1, the documents provided for examination were incomplete. Either the ATP, related architect or engineer certified scope of work or project budget was not provided. 2. A reconciliation of the variance between the ATP and budget was not provided. The documents provided for examination did not address the finding raised. 3. While the change order documents were provided for examination, these did not address the finding raised in condition 3. 	690,181

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-21

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Fiscal Year 2008 Compact Impact / CFDA #15.875 / Federal Award # CNMI-CI-2008-1 / Federal Award Period 12/17/07 through 09/30/12</p>	<p><u>Criteria:</u> Payroll charges should be supported by authorized personnel action forms, timesheets, and leave approval where applicable.</p> <p><u>Condition:</u> Of forty payroll expenditures aggregating \$134,813 that was reimbursed by the DOI Compact Impact CNMI-COFA-2008-1 Fund, we noted that administrative leave authorization was not located for one employee (#253745; PPE 03/15/08; federal share of gross pay \$1,105) and that the pay rate was not supported by a personnel action form for one employee (#103374; PPE 09/27/08; federal share of gross pay \$400).</p> <p><u>Cause:</u> The cause of the above condition is the lack of systematic filing of personnel action forms, timesheets, and leave approval.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$1,505 since the projected questioned costs exceeded \$10,000.</p> <p><u>Recommendation:</u> We recommend that all recorded payroll expenditures and disbursements are supported by personnel action forms, timesheets, and leave approvals.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Vicky Villagomez, CIP Administrator</p> <p>Corrective Action: We will look for documents cited and provide to auditors. We do not feel questioned costs are warranted as Compact Impact reimbursement was not tied to particular employees or pay periods by local/federal share.</p> <p>Proposed Completion Date: 2009</p> <p><u>Auditor Response:</u> Compact Impact funds are used in the reimbursement of a fixed amount of salaries and wages as stipulated in the CNMI's approved Plan of Use. The CNMI is unable to provide a schedule identifying which employees and how much of the related salaries and wages is included in the reimbursement from the grantor agency. As a result, federal share percentage used in our projection for questioned costs is assessed based on total actual expenditures incurred for the year.</p>	<p>1,505</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-22

Program	Reason for Questioned Costs	Questioned Costs																																																				
U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 through 09/30/08	<p><u>Criteria:</u> Expenditures recorded in the general ledger should be authorized, approved and supported.</p> <p><u>Condition:</u> During tests of expenditures charged to the Environmental Protection Consolidated Grants - Program Support, we noted the following:</p> <p>1. Of seventeen non-payroll expenditures tested aggregating \$118,245, the following were noted:</p> <p>a. The supporting purchase order, invoice and cancelled check were not available for the following:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Document Type</u></th> <th style="text-align: center;"><u>Document No.</u></th> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>GL Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">JE</td> <td style="text-align: center;">6093</td> <td style="text-align: center;">03/05/08</td> <td style="text-align: right;">\$ 5,405</td> </tr> <tr> <td style="text-align: center;">JE</td> <td style="text-align: center;">6705</td> <td style="text-align: center;">09/30/08</td> <td style="text-align: right;"><u>8,239</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>13,644</u></td> </tr> </tbody> </table> <p>b. The supporting travel authorization, trip report, boarding passes, and travel vouchers were not provided for the following:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Document Type</u></th> <th style="text-align: center;"><u>Document No.</u></th> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>GL Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">670991</td> <td style="text-align: center;">01/16/08</td> <td style="text-align: right;">\$ 2,909</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">672375</td> <td style="text-align: center;">01/29/08</td> <td style="text-align: right;"><u>2,948</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>5,857</u></td> </tr> </tbody> </table> <p>c. The following were supported by open purchase orders (POs) but there was no evidence on file to determine whether actual expenditures exceeded the amount authorized.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Document Type</u></th> <th style="text-align: center;"><u>Document No.</u></th> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>GL Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">673483</td> <td style="text-align: center;">02/06/08</td> <td style="text-align: right;">\$ 1,820</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">721914</td> <td style="text-align: center;">07/28/08</td> <td style="text-align: right;">3,750</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">681060</td> <td style="text-align: center;">04/23/08</td> <td style="text-align: right;"><u>1,962</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>7,532</u></td> </tr> </tbody> </table> <p>No questioned costs result since the related expenditures are approved and are allowable under the grant terms and conditions.</p> <p><u>Cause:</u> The cause of the above conditions is the lack of systematic filing of journal vouchers, invoices, and other relevant documents.</p> <p><u>Effect:</u> The effect of the above conditions is the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of \$19,501.</p> <p><u>Recommendation:</u> We recommend that the Department of Finance ensure that all expenditures are supported by certified accounts payable vouchers, invoices, checks, journal vouchers and other relevant documents.</p>	<u>Document Type</u>	<u>Document No.</u>	<u>GL Date</u>	<u>GL Amount</u>	JE	6093	03/05/08	\$ 5,405	JE	6705	09/30/08	<u>8,239</u>				\$ <u>13,644</u>	<u>Document Type</u>	<u>Document No.</u>	<u>GL Date</u>	<u>GL Amount</u>	PV	670991	01/16/08	\$ 2,909	PV	672375	01/29/08	<u>2,948</u>				\$ <u>5,857</u>	<u>Document Type</u>	<u>Document No.</u>	<u>GL Date</u>	<u>GL Amount</u>	PV	673483	02/06/08	\$ 1,820	PV	721914	07/28/08	3,750	PV	681060	04/23/08	<u>1,962</u>				\$ <u>7,532</u>	<p>13,644</p> <p>5,857</p>
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-22, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Bernadita C. Palacios, Acting Director, Finance & Accounting and Antoinette Calvo, CNMI Treasurer</p> <p>Corrective Action: We will continue follow up on locating documents and provide to auditors.</p> <p>1.a. - JE 6093 distributed utility charges paid to CUC in a lump sum. We will locate DEQ's billing supporting this amount. JE 6705 recorded receipt of items paid in advance. We will provide receiving information.</p> <p>1.b. - We will locate specified travel documents.</p> <p>1.c. - Inquiry on the PO would show total payments vs. PO amount. Documentation provided to auditors.</p> <p>Proposed Completion Date: 2009</p> <p><u>Auditor Response:</u> The Department of Finance provided the supporting invoice and purchase order for condition 1.c., however, documents supporting that actual expenditures did not exceed amount authorized were not made available.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-23

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 through 09/30/08</p>	<p><u>Criteria:</u> Indirect costs charged to eligible federal awards should be in accordance with approved indirect allocations.</p> <p><u>Condition:</u> As of September 30, 2008, the CNMI is in the process of obtaining the cognizant agency's approval of indirect cost rate proposals for fiscal years 2004 through 2008. During the year ended September 30, 2008, the CNMI applied the 2003 indirect cost rate to eligible federal programs. A recalculation of indirect costs by applying the 14.57% 2003 indirect cost rate to program expenditures exclusive of capital items and pass through costs results in indirect costs of \$294,598 which is \$78,763 lower than actual indirect costs of \$373,361 charged to the Environmental Protection Consolidated Grants - Program Support for the fiscal year ended September 30, 2008.</p> <p><u>Cause:</u> The cause of the above condition is the lack of monitoring procedures to ensure that indirect costs charged eligible federal programs are in accordance with approved indirect cost allocations.</p> <p><u>Effect:</u> The effect of the above condition is the overstatement of indirect costs charged to the Program and questioned costs of \$78,763.</p> <p><u>Recommendation:</u> We recommend the CNMI ensure that indirect costs charged to federal program are based on approved indirect cost allocations.</p>	<p>78,763</p>
	<p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting</p> <p>Corrective Action: It appears indirect cost amount may not have been adjusted after corrections were entered. Amount will be adjusted to correct total.</p> <p>Proposed Completion Date: 2009</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-24

Program	Reason for Questioned Costs					Questioned Costs
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award #s 05-0805CQ5028, 05-0805CQ5048, 05-0805CQ1935 / Federal Award Period 10/01/07 through 09/30/08	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.					
	Condition: Of total program expenditures of \$4,307,225 for the year ended September 30, 2008, professional services of \$3,045,831 and other program expenses of \$145,021 were tested. Of eighty items tested, fifty-seven items totaling \$1,576,902 were not completely reviewed for propriety of rates charged and/or accuracy of billings prior to payment. Based on our tests, the eligibility of services was in accordance with Part 3 of the revised Operational Plan; therefore, no questioned costs result from this condition. Details follow:					
	General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Federal Share	
	11/09/07	62060	649044	\$ 95,000	\$ 47,500	
	12/04/07	62060	650546	\$ 60,471	\$ 30,235	
	12/04/07	62060	650547	\$ 35,495	\$ 17,747	
	02/25/08	62060	675485	\$ 56,247	\$ 28,124	
	02/25/08	62060	675491	\$ 44,411	\$ 22,206	
	02/25/08	62060	675493	\$ 47,963	\$ 23,982	
	04/11/08	62060	679824	\$ 54,372	\$ 27,186	
	04/28/08	62060	681448	\$ 55,076	\$ 27,538	
	05/12/08	62060	682848	\$ 62,345	\$ 31,173	
	08/06/08	62060	724231	\$ 59,234	\$ 29,617	
	08/26/08	62060	754143	\$ 39,171	\$ 19,585	
	12/04/07	62060	650519	\$ 6,522	\$ 3,261	
	12/04/07	62060	650525	\$ 4,305	\$ 2,153	
	01/08/08	62060	670090	\$ 5,803	\$ 2,902	
	02/08/08	62060	673700	\$ 4,822	\$ 2,411	
	11/09/07	62060	649034	\$ 21,989	\$ 10,994	
	11/09/07	62060	649039	\$ 1,310	\$ 655	
	11/09/07	62060	649041	\$ 14,949	\$ 7,474	
	11/09/07	62060	649043	\$ 18,401	\$ 9,201	
	11/09/07	62060	649051	\$ 4,079	\$ 2,039	
	11/09/07	62060	649065	\$ 3,954	\$ 1,977	
	11/15/07	62060	649425	\$ 31,295	\$ 15,647	
	11/15/07	62060	649430	\$ 17,779	\$ 8,889	
	11/15/07	62060	649431	\$ 22,333	\$ 11,166	
	12/04/07	62060	650527	\$ 10,315	\$ 5,157	
	12/04/07	62060	650530	\$ 22,038	\$ 11,019	
	12/04/07	62060	650534	\$ 22,711	\$ 11,355	
	12/04/07	62060	650542	\$ 3,467	\$ 1,734	
	12/04/07	62060	650545	\$ 19,354	\$ 9,677	
	01/08/08	62060	670106	\$ 24,854	\$ 12,427	
	01/08/08	62060	670110	\$ 8,183	\$ 4,091	
	01/08/08	62060	670132	\$ 19,476	\$ 9,738	
	01/23/08	62060	671697	\$ 5,224	\$ 2,612	
	02/25/08	62060	675484	\$ 23,421	\$ 11,711	
	02/25/08	62060	675487	\$ 21,636	\$ 10,818	
	02/25/08	62060	675500	\$ 12,867	\$ 6,433	
	02/25/08	62060	675503	\$ 16,811	\$ 8,406	
	03/19/08	62060	677971	\$ 25,725	\$ 12,863	
	03/19/08	62060	677974	\$ 22,033	\$ 11,016	
	03/19/08	62060	677979	\$ 1,939	\$ 969	
	03/25/08	62060	678271	\$ 8,597	\$ 4,299	
	03/25/08	62060	678277	\$ 14,442	\$ 7,221	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-24, Continued

Program	Reason for Questioned Costs				Questioned Costs
<u>Condition, Continued:</u>					
General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Federal Share	
08/11/08	62060	748788	\$ 2,861	\$ 1,431	
08/25/08	62060	754049	\$ 13,656	\$ 6,828	
08/25/08	62060	754065	\$ 30,771	\$ 15,385	
08/25/08	62060	754069	\$ 27,987	\$ 13,993	
08/25/08	62060	754074	\$ 5,556	\$ 2,778	
08/26/08	62060	754147	\$ 31,810	\$ 15,905	
08/26/08	62060	754148	\$ 18,013	\$ 9,006	
09/15/08	62060	757784	\$ 33,968	\$ 16,984	
09/22/08	62060	759225	\$ 27,821	\$ 13,911	
09/22/08	62060	759227	\$ 28,190	\$ 14,095	
11/28/07	62060	144077	\$ 92,565	\$ 46,283	
05/23/08	62060	150277	\$ 58,710	\$ 29,355	
09/29/08	62060	6550	\$ 375,431	\$ 187,716	
09/30/08	62060	6560	\$ 190,965	\$ 95,483	
09/30/08	62060	6560	\$ 223,707	\$ 111,854	

Additionally for some items, the lack of complete rate verification and review of billing accuracy resulted in either double charges or incorrect rates paid. Details are as follows:

- a. For two claims totaling \$7,686, Medicaid was charged twice for the same service, claim number, service date, amount and type of service.

General Ledger Date	General Ledger Account	Reference No.	Amount	Federal Share	
12/04/07	62060	650546	\$ 811	\$ 406	
09/30/08	62060	6560	\$ 6,875	\$ 3,438	
				\$ <u>3,844</u>	3,844

- b. One off-island treatment for the same service provider, patient, service type and service date was paid twice during the year. Further, the second check issued exceeded the amount due by \$2,000. Details are as follows:

General Ledger Date	General Ledger Account	Reference No.	Amount	Federal Share	
07/31/08	62060	723345	\$ 47,759	\$ 23,879	23,879

- c. For three prescription and pharmacy claims totaling \$34,322, the rate charged and paid by Medicaid exceeded the Estimated Acquisition Cost (EAC) per the service provider agreement. Details are as follow:

General Ledger Date	General Ledger Account	Reference No.	Amount	Excess	
11/09/07	62060	649039	\$ 1,310	\$ 33	
03/19/08	62060	677967	\$ 7,287	9	
03/19/08	62060	677971	\$ 25,725	57	
				\$ <u>99</u>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-24, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
d.	For three expenditures totaling \$39,933, the rate charged and paid by Medicaid was higher than the established Medicare rate for similar service. Details are as follows:					
	General Ledger Date	General Ledger Account	Reference No.	Amount	Excess	
	12/04/07	62060	650550	\$ 15,350	\$ 518	
	12/04/07	62060	650552	\$ 22,645	341	
	03/19/08	62060	677979	\$ 1,939	25	
					\$ 884	884
e.	For eleven expenditures totaling \$171,067, rates could not be verified as the optometrist services were specifically agreed in the service agreements and were not included in the established Medicare rates. We were informed that payment is based upon whatever rates are charged the program. Details are as follow:					
	General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Amount Tested	
	11/09/07	62060	649041	\$ 14,949	\$ 223	
	11/09/07	62060	649065	\$ 3,954	153	
	12/04/07	62060	650545	\$ 19,354	230	
	01/23/08	62060	671697	\$ 5,224	284	
	02/25/08	62060	675484	\$ 23,421	238	
	02/25/08	62060	675487	\$ 21,636	223	
	03/25/08	62060	678271	\$ 8,597	232	
	03/25/08	62060	678277	\$ 14,442	176	
	08/25/08	62060	754049	\$ 13,656	165	
	08/26/08	62060	754148	\$ 18,013	284	
	09/22/08	62060	759225	\$ 27,821	175	
					\$ 2,383	2,383
	<u>Cause:</u> The cause of the above condition is the lack of clearly defined and communicated procedures for verification of billings prior to reimbursement.					
	<u>Effect:</u> The effect of the above condition is a control weakness over allowable activities and costs reimbursable and possible misuse of federal expenditures and questioned costs of \$31,089.					
	<u>Recommendation:</u> We recommend that control procedures be clearly defined and communicated over verification of services charged the Program and review of accuracy of billings shall occur prior to payment.					
	<u>Prior Year Status:</u> The lack of clearly defined and communicated procedures for verification of billings prior to reimbursement was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2007.					
	<u>Auditee Response and Corrective Action Plan:</u>					
	Name of Contact Person: Helen C. Sablan, Medicaid Administrator					

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-24, Continued

Program	Reason for Questioned Costs	Questioned Costs
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Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

- a. We will check this finding and will request the provider for a refund.
- b. We have requested for a refund from the provider on January 16, 2009. The refund check of \$47,759 was deposited back to the CNMI Treasury on March 18, 2009.
- c. We disagree with the finding. The Estimated Acquisition Cost (EAC) as agreed in the service provider agreement usually changes every month and it will have some changes on the rate. PHI Pharmacy is basing their rate charged online.
- d. We disagree with the finding. We have a listing of the Medicare rates that the staff use when verifying the claims.
- e. We disagree with the finding. We have a listing of the Medicare rate that the staff use when verifying the claims.

Due to high volume of claims and limited resources, the staff randomly reviews the claims. I have instructed the staff to initial the claims once they have review rates and eligibility date. If the drugs were not included in the list of Average wholesale Price list that we maintained to compute EAC or any CPT codes for other services that are not available as per what our negotiated rate on our contract that we will only pay 50% of charges. This was the instruction of the Hawaii Medicaid Program, Dr. Lynette Hombo and our former legal counsel, Ms. Debra Knapp that in case there is no rate available either Hawaii Medicaid rate or Medicare rate that we should only pay 50% of charges. For the optometrist expenses, there are some CPT codes that we pay at the negotiated rate based on our contract agreement and not Medicare rate. For the duplicate payments, we will adjust on the current claims and we also request the provider for a refund of the duplicate/overpayment amount.

Proposed Completion Date: Ongoing

Auditor Response: The 50% federal share for the \$47,759 refund received in fiscal year 2009 was still recorded as a program expenditure and included in the amount requested for reimbursement as of September 30, 2008. The Medicaid Office was able to provide a list of pharmacy rates used to calculate EAC only upon requesting a copy from the service provider. Further, our EAC and Medicare rate calculations for pharmacy claims and optometrist services, respectively, based on the list of rates provided were lower than actual rates paid.

Evidence of review of billings accuracy and completeness was not evident in the claims tested and noted in the finding. The Medicaid Revised Operational Plan requires that Medicaid reimbursements are claimed based on established CHC rates or should not exceed combined payments the provider receives from beneficiaries and carriers or intermediaries for providing comparable services under comparable circumstances under Medicare. Complete rate verifications should be performed on claims to ensure that rates paid are in accordance with CHC or Medicare rates.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles/Activities Allowed or Unallowed

Finding No. 2008-25

Program	Reason for Questioned Costs	Questioned Costs															
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award #s 05-0805CQ5028, 05-0805CQ5048, 05-0805CQ1935 / Federal Award Period 10/01/07 through 09/30/08	<p>Criteria: Recorded expenditures should be authorized, supported by certified accounts payable vouchers, invoices and other relevant documents, and be approved prior to incurrence.</p> <p>Condition: Of total program expenditures of \$4,307,225 for the year ended September 30, 2008, professional services of \$3,045,831 and other program expenses of \$145,021 were tested. Our tests noted the following:</p> <p>a. Supporting billings and claims were not available for one \$92,565 journal entry (JE no. 144077).</p> <p>b. The supporting travel authorization was not provided for one \$2,327 travel expense (PV no. 507797).</p> <p>c. For one \$76,514 disbursement (check no. 317198), the check was payable to the CNMI Treasury instead of to the service provider. Relevant documents supporting a different payee were not provided. Details of the expenditure follow:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Account</th> <th style="text-align: center;">Reference No.</th> <th style="text-align: center;">General Ledger Amount</th> <th style="text-align: center;">Federal Share</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">11/09/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">649034</td> <td style="text-align: right;">\$ 21,989</td> <td style="text-align: right;">\$ 10,994</td> </tr> <tr> <td style="text-align: center;">11/09/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">649039</td> <td style="text-align: right;">\$ 1,310</td> <td style="text-align: right;">\$ 655</td> </tr> </tbody> </table> <p>Cause: The cause of the above condition is failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to submit all supporting documents for complete filing.</p> <p>Effect: The effect of the above condition is the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of \$106,541.</p> <p>Recommendation: We recommend that the Medicaid office and Department of Finance obtain all necessary approvals/authorizations prior to payment of expenditures and ensure that supporting documents are on file.</p> <p>Prior Year Status: Failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to have all supporting documents on file was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2007.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Persons: Bernadita C. Palacios, Acting Director, Finance & Accounting and Helen C. Sablan, Medicaid Administrator</p> <p>Corrective Action:</p> <p>Medicaid: We disagree with the auditor's finding. We do obtain appropriate approval and authorizations prior to incurrence/payment of expenditures and we do ensure that supporting documents are properly and completely filed. Department of Finance will not record any expenditure without the supporting documents.</p> <p>Department of Finance: We will continue follow-up on locating documents and provide to auditors.</p>	General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Federal Share	11/09/07	62060	649034	\$ 21,989	\$ 10,994	11/09/07	62060	649039	\$ 1,310	\$ 655	<p>92,565</p> <p>2,327</p> <p>11,649</p>
General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Federal Share													
11/09/07	62060	649034	\$ 21,989	\$ 10,994													
11/09/07	62060	649039	\$ 1,310	\$ 655													

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-25, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
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Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: 2009

Auditor Response: The requested supporting documents evidencing approval and validity of expenditures noted in the finding could not be provided by either the Medicaid Office or the CNMI Finance Office.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Management

Finding No. 2008-26

Program	Reason for Questioned Costs	Questioned Costs																																																																																																																																																																																																																																																																																										
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2008 Compact Impact / CFDA #15.875 / Federal Award #s Fiscal Years 1996 - 2008 Appropriations Act and CNMI-CI-2008-1 / Federal Award Periods Available Until Expended and 12/17/07 through 09/30/12	<p>Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee for selected major programs. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The approved clearance pattern is three days.</p> <p>Condition: Of eighty-four CIP samples tested, sixty one items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's Account. Details are as follows:</p>																																																																																																																																																																																																																																																																																											
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88,790	5618	01/18/08	01/24/08	3	671695	\$ 183,991	5618	02/12/08	02/27/08	12	671695	\$ 160,016	5617	02/12/08	02/27/08	12	672665	\$ 127,073	5433	02/21/08	04/07/08	43	674671	\$ 360,446	5222	02/26/08	03/12/08	12	674709	\$ 47,531	5154	02/26/08	04/04/08	35	675015	\$ 76,414	5222	02/26/08	03/10/08	10	675606	\$ 56,988	5615	11/27/07	03/14/08	105	678042	\$ 168,912	5222	03/26/08	04/14/08	16	679772	\$ 302,491	5222	04/17/08	05/01/08	11	680335	\$ 6,460	5138	04/25/08	06/13/08	46	681390	\$ 64,153	5178	05/05/08	05/20/08	12	682602	\$ 59,337	5222	05/22/08	05/30/08	5	682607	\$ 69,637	5154	05/15/08	09/30/08	135	683471	\$ 59,057	5222	06/06/08	06/16/08	7	683475	\$ 206,430	5222	06/06/08	06/26/08	17	684417	\$ 19,925	5222	06/06/08	06/17/08	8	695922	\$ 42,350	5615	02/26/08	06/13/08	105	695926	\$ 162,987	5615	11/30/07	06/13/08	193	695927	\$ 49,605	5615	11/30/07	06/13/08	193	696148	\$ 102,522	5615	06/10/08	07/14/08	31	696148	\$ 57,152	5615	06/10/08	07/14/08	31	698654	\$ 36,374	5222	06/12/08	06/26/08	11	700217	\$ 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695927	\$ 49,605	5615	11/30/07	06/13/08	193																																																																																																																																																																																																																																																																																							
696148	\$ 102,522	5615	06/10/08	07/14/08	31																																																																																																																																																																																																																																																																																							
696148	\$ 57,152	5615	06/10/08	07/14/08	31																																																																																																																																																																																																																																																																																							
698654	\$ 36,374	5222	06/12/08	06/26/08	11																																																																																																																																																																																																																																																																																							
700217	\$ 91,640	5618	06/23/08	8/6/2008	41																																																																																																																																																																																																																																																																																							
700217	\$ 55,642	5222	06/23/08	8/6/2008	41																																																																																																																																																																																																																																																																																							

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-26, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
APV #	Amount	Business Unit	CR Date	Date Check Cleared	Elapsed	
700567	\$ 105,000	5228	06/23/08	7/8/2008	12	
700608	\$ 23,174	4980	06/23/08	07/28/08	32	
702418	\$ 79,390	5222	07/01/08	07/17/08	13	
702547	\$ 34,213	5208	07/01/08	07/15/08	11	
711481	\$ 77,867	5618	07/17/08	09/10/08	52	
713249	\$ 29,159	5615	06/10/08	08/28/08	76	
722617	\$ 63,775	5615	08/28/08	09/15/08	15	
722620	\$ 7,500	5617	08/14/08	08/26/08	9	
724238	\$ 9,422	5617	08/14/08	08/22/08	5	
753060	\$ 40,471	5222	08/28/08	09/08/08	8	
754039	\$ 324,198	5618	09/02/08	09/24/08	19	
491852	\$ 80,488	5615	01/23/08	09/30/08	248	
680651	\$ 10,850	5236	03/14/08	06/23/08	98	
646163	\$ 3,825	5428	01/08/08	09/30/08	263	
649686	\$ 43,785	5615	11/27/07	02/04/08	66	10,145

Additionally, Of the \$5,117,437 drawn related to the 2008 Compact Impact grant, payments made to PSS (cost center I08CIG) were not provided. The related interest liability has been calculated based on the allowance clearance pattern from the date federal funds were credited to the CNMI's account. Details are as follows:

DD #	Amount	Cost Center	CR Date	Date Check Cleared	Elapsed	
2008-061	\$ 500,000	I08CIG	01/18/08	09/30/08	253	
2008-091	\$ 500,000	I08CIG	02/11/08	09/30/08	229	
2008-123	\$ 500,000	I08CIG	04/10/08	09/30/08	170	
2008-148	\$ 500,000	I08CIG	06/10/08	09/30/08	109	
2008-061	\$ 76,859	I08CIH	01/18/08	07/25/08	186	
2008-091	\$ 29,872	I08CIH	02/11/08	07/25/08	162	
2008-091	\$ 46,987	I08CIH	02/11/08	08/20/08	188	
2008-123	\$ 59,744	I08CIH	04/10/08	08/20/08	129	
2008-123	\$ 17,115	I08CIH	04/10/08	08/20/08	129	
2008-148	\$ 76,860	I08CIH	06/10/08	08/20/08	68	11,693

Interest for APVs not paid or with checks outstanding was calculated to September 30, 2008. The number of days elapsed is in excess of the clearance pattern of 3 days stipulated in CNMI Treasury State Agreement.

The CNMI has not recognized a potential interest liability of approximately \$21,264 related to the time elapsed between the date federal funds were received and the date these funds were debited from the CNMI's account.

The results of cash management tests indicated that the terms stipulated in the Cash Management Improvement Act are not being followed.

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

Effect: The effect of the above condition is lack of compliance with grant cash management requirements, a potential interest liability and questioned costs of \$21,838.

Recommendation: We recommend that the Department of Finance ensure compliance with the clearance pattern specified in the CMIAA.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-26, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Prior Year Status:</u> The lack of compliance with grant requirements relating to cash management was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Antoinette Calvo, CNMI Treasurer</p> <p>Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. The vouchers in this finding relate to DOI Capital Improvement Project Grants which had a net overall receivable balance of \$9,203,876 as of the audit date.</p> <p>We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program</p> <p>For this finding, the invoices selected all relate to large construction projects where substantial payments are due to the vendor. Many of the payments selected also include a local share that must be drawn down from our bond trustees. DOI has instructed us not to release the Federal portion of the payment until the local matching bond draw down is received. Advance payment in these cases would disrupt our cash flow for normal payments and payroll. We try to time our disbursement to receipt of the Federal and bond drawdown cash but do wait for the cash to be deposited in the CIP drawdown account before releasing the check</p> <p>The section on Compact Impact grant funding should be deleted as transfers were made to PSS and NMC during fiscal year 2008.</p> <p>Proposed Completion Date: Ongoing</p> <p><u>Auditor Response:</u> The relevant documents supporting Compact Impact grant payments made to PSS were not provided. The interest liability relating to NMC transfers was calculated based on the number of days elapsed in excess of the clearance pattern of three days stipulated in the CMIAA.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2008-27

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Agriculture / Special Supplemental Nutrition Program for Women, Infants, and Children / CFDA #10.557 / Federal Award # 7NM700NM7 / Federal Award Period 10/01/07 through 09/30/08</p>	<p><u>Criteria:</u> In accordance with federal regulations, each State agency may choose which allowable nutritional risk criteria will be used to determine eligibility. At a minimum, the certifying agency must perform and/or document measurements of each applicant's height or length and weight. In addition, a hematological test for anemia must be performed or documented at certification if the applicant has no nutritional risk factor prescribed by the State agency other than anemia. Certified applicants with qualifying nutritional risk factors other than anemia must also be tested for anemia within 90 days of the date of certification. Program regulations set several exceptions to these general rules. The determination of nutritional risk may be based on current referral data provided by a competent professional authority that is not on the WIC staff.</p> <p>The Program's Procedures Manual also requires that the food package code assigned in the certification report agrees to the Food Package Chart code and to the related food package issued to participants.</p> <p><u>Condition:</u> Our tests of fifty-six eligibility files noted the following:</p> <ul style="list-style-type: none"> • Forty-one case files (WIC ID Nos. 1560.2, 3485.1, 1370.3, 1330.1, 1432.2, 2417.1, 3219.1, 2711.2, 3205.1, 1310.1, 2983.1, 3530.1, 3025.1, 3297.2, 1689.1, 2614.2, 2932.1, 2422.1, 1543.1, 2733.1, 1466.2, 2612.1, 2155.2, 1305.2, 2868.1, 3271.1, 2321.1, 2340.1, 2616.1, 2648.2, 1606.2, 2313.2, 2941.1, 2335.1, 1408.2, 2262.2, 3179.1, 2718.1, 2829.3, 1564.1 and 1273.1) have either incomplete nutrition assessments or a nutrition assessment was not performed by a competent professional authority who is not on the WIC staff. • Eleven case files (WIC ID Nos. 3485.1, 1432.2, 2417.1, 2983.1, 3025.1, 1689.1, 2932.1, 1543.1, 1466.2, 2340.1 and 2313.2) were issued food packages that differed from the assigned food package documented in the case file. 	<p>3,667</p>
	<p><u>Cause:</u> The cause of the above condition is the lack of adequate procedures to ensure that only eligible recipients receive program assistance.</p>	
	<p><u>Effect:</u> The effect of the above condition is noncompliance with eligibility requirements and the possible use of federal funds for ineligible individuals and questioned costs of \$3,667 since the projected costs exceeded \$10,000.</p>	
	<p><u>Recommendation:</u> We recommend that the Program strengthen record keeping controls to ensure that case files supporting eligibility determination are completely maintained and nutrition assessments are performed by a competent professional authority that is not on the WIC staff.</p>	
	<p><u>Auditee Response and Corrective Action Plan:</u></p>	
	<p>Name of Contact Persons: Erin Camacho, Nutrition Services Coordinator and Dianne Esplin, Clinic Manager</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-27, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	Corrective Action, Continued:	
	<ul style="list-style-type: none"> • Training conducted for CPA's in completing nutrition assessment questionnaire, including making relevant inquiries to identify nutrition risks and information (anthropometric, biochemical, clinical, dietary, environmental, and family data that affects nutritional status) to be consistent with policy and the Value Enhanced Nutrition Assessment (VENA) Guidance which states that a complete WIC nutrition assessment is necessary in order to tailor this WIC benefits (nutrition education, food package, and referrals) to the participant's needs and interests. • Training for staff in proper documentation of all relevant information identifying nutrition risks to establish eligibility for the purpose of tailoring food packages, nutrition education and referrals. To include in VENA Plan. • Participants' records must include: <ul style="list-style-type: none"> ➤ the food package prescription; and ➤ any documentation related to issuing a non- contract or exempt infant formula or medical foods; and ➤ the rationale for any food package tailoring, if applicable as per 7 CFR 246.10. 	
	<p>Since adapting the computer system Arizona in Motion (AIM) in October 2009 we have trained the CPA's to do nutrition assessments via that form of documentation. If a CPA does not complete a Nutrition Assessment, Anthropometric (height and weight) and Hematologic measurements in AIM, it makes it difficult to move on to the next screen and also does not allow for printing of food instruments (FI) beyond one month. AIM only allow the appropriate food package (FP) per category and will not allow a CPA to assign an incorrect FP.</p>	
	<p>We have also adapted Arizona's auditing tools that correspond with doing a chart review and site evaluations using the AIM system. The chart reviews and site evaluations will be scheduled biannually.</p>	
	<p>Proposed Completion Date: March 17, 2008 and ongoing per the VENA Plan.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2008-28

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award #s 05-0805CQ5028, 05-0805CQ5048, 05-0805CQ1935 / Federal Award Period 10/01/07 through 09/30/08</p>	<p><u>Criteria:</u> In accordance with Part 2 of the Medicaid Revised Operational Plan, applicants must be eligible based on the criteria set forth in the Revised Operational Plan prior to receiving Medicaid assistance.</p> <p><u>Condition:</u> Tests of forty eligibility files noted one recipient (case file #14-20677) whose countable income exceeded the maximum Social Security Income Federal Benefit Rate but who was considered eligible.</p> <p><u>Cause:</u> The cause of the above condition is the lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and the possible use of federal funds for ineligible individuals and questioned costs of \$61,307.</p> <p><u>Recommendation:</u> We recommend that the CNMI Medicaid Office establish strict procedures to ensure that only eligible individuals receive Medicaid assistance and benefits.</p> <p><u>Prior Year Status:</u> The lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Helen C. Sablan, Medicaid Administrator</p> <p>Corrective Action: We disagree with the audit findings. Case file no. 14-20677 – The recipient applied for Social Security Disability benefit and usually it takes time for SSA to make their determination for eligibility. Therefore, case file no. 14-20677 were still eligible for Medicaid until such time that SSA approves his application to receive Social Security disability benefits. I have revised the computation sheet dated December 20, 2006 to include his Social Security benefits and he is still eligible for period December 1, 2006 through December 1, 2007. Please see attached revised computation sheet. Case file no. 14-20677 renewed December 3, 2007 and was found ineligible since one of the dependent is out because overage. Therefore, case file no. 14-20677 is eligible for Medicaid up to December 1, 2007 and was denied thereafter. Attached please find a copy of his denial letter.</p> <p>Proposed Completion Date:</p> <p><u>Auditor Response:</u> The recipient's files examined showed that the applicant has been receiving benefits since June 2006 which was prior to the application in December 2006. Further, the revised calculation provided excluded \$279 in uncounted for income which was not deducted in the original income eligibility determination.</p>	61,307

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Matching, Level of Effort, Earmarking

Finding No. 2008-29

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended	<p>Criteria: Grant Number CIP-CNMI-2005-2 requires that federal funds for FY 1994 projects be matched by local funds at the ratio of 73.30% federal and 26.70% local.</p> <p>Condition: In analyzing the CNMI's accounting records and related Capital Improvement Projects (CIP) financial reports for one project (business unit #4980), we noted improper cost allocations. The 2008 Federal share of expenditures is \$128,065 representing 87% of total expenditures of \$148,048. Per recalculation, 73.3% of the total charged for this project is \$108,519 resulting in an excess of the federal share allowed of \$19,544. Reconciliation and justification of the differences in the matching ratio were not available.</p> <p>Cause: The cause of the above condition is improper allocation of federal and local shares.</p> <p>Effect: The effect of the above condition is a lack of compliance with grant matching requirements. This condition may also have cash management implications. As the federal share is higher than allowed, the excess of \$19,544 is questioned.</p> <p>Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure compliance with matching criteria.</p> <p>Prior Year Status: Improper allocation of federal and local shares when preparing CIP financial reports was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Persons: Diego Songsong, Secretary of Public Works, Bernadita C. Palacios, Acting Director of Finance & Accounting and Virginia Villagomez, CIP Administrator</p> <p>Corrective Action: We agree with the finding on the differences with the matching ratio on the expense side for the various object codes. The Expenditure Authority and the Department of Finance should verify cost share allocations during processing of obligations, vouchers including payment against a valid contract to ensure that cost share allocations are distributed accordingly.</p> <p>Because the project funds expired on June 30, 2008, the CIP Administrator will process the necessary adjustments to correct the final cost share allocation and request the Department of Finance, Office of the Secretary to process a request for any excess cash on hand resulting from the adjustment be return to the Grantor Agency.</p> <p>Proposed Completion Date: September 30, 2009</p>	19,544

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Period of Availability

Finding No. 2008-30

Program	Reason for Questioned Costs	Questioned Costs																																																
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended	<p><u>Criteria:</u> Projects should be completed within allowable time frames.</p> <p><u>Condition:</u> Of five (5) grant awards tested, projects were completed after the grant expiration date and approved grantor extensions were not provided for the following:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Cost Center</th> <th style="text-align: center;">Grant Award</th> <th style="text-align: center;">Expiration Date</th> <th style="text-align: center;">Deadline to Liquidate (90 Days After Expiration)</th> <th style="text-align: center;">Project Status as of 09/30/08</th> <th style="text-align: right;">Unliquidated Balance at Expiration Date</th> <th style="text-align: right;">Unliquidated Balance at 09/30/08</th> <th style="text-align: right;">Amount Liquidated After Allowable Time Frame</th> </tr> </thead> <tbody> <tr> <td>4980</td> <td>CIP-CNMI-2005-2 (1994)</td> <td>01/01/08</td> <td>03/31/08</td> <td>Ongoing</td> <td style="text-align: right;">\$ 137,309</td> <td style="text-align: right;">\$ 13,847</td> <td style="text-align: right;">\$ 128,064</td> </tr> <tr> <td>5834</td> <td>CIP-CNMI-2006-2</td> <td>06/30/07</td> <td>09/30/07</td> <td>Completed</td> <td style="text-align: right;">\$ 60,461</td> <td style="text-align: right;">\$ 55,925</td> <td style="text-align: right;">4,991</td> </tr> <tr> <td>5101/</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>5110</td> <td>CIP-CNMI-2007-3</td> <td>01/01/08</td> <td>03/31/08</td> <td>Completed</td> <td style="text-align: right;">\$ 11,960</td> <td style="text-align: right;">\$ 11,960</td> <td style="text-align: right;">482</td> </tr> <tr> <td colspan="7"></td> <td style="text-align: right;"><u>\$ 133,537</u></td> </tr> </tbody> </table>	Cost Center	Grant Award	Expiration Date	Deadline to Liquidate (90 Days After Expiration)	Project Status as of 09/30/08	Unliquidated Balance at Expiration Date	Unliquidated Balance at 09/30/08	Amount Liquidated After Allowable Time Frame	4980	CIP-CNMI-2005-2 (1994)	01/01/08	03/31/08	Ongoing	\$ 137,309	\$ 13,847	\$ 128,064	5834	CIP-CNMI-2006-2	06/30/07	09/30/07	Completed	\$ 60,461	\$ 55,925	4,991	5101/								5110	CIP-CNMI-2007-3	01/01/08	03/31/08	Completed	\$ 11,960	\$ 11,960	482								<u>\$ 133,537</u>	
Cost Center	Grant Award	Expiration Date	Deadline to Liquidate (90 Days After Expiration)	Project Status as of 09/30/08	Unliquidated Balance at Expiration Date	Unliquidated Balance at 09/30/08	Amount Liquidated After Allowable Time Frame																																											
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5110	CIP-CNMI-2007-3	01/01/08	03/31/08	Completed	\$ 11,960	\$ 11,960	482																																											
							<u>\$ 133,537</u>																																											

Cause: The cause of the above condition is failure to provide grantor approval for project extensions.

Effect: The effect of the above condition is the lack of compliance with period of availability requirements and questioned costs of \$133,537.

133,537

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

Prior Year Status: The failure to provide grantor approval for project extensions was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator

Corrective Action: A request for an extension was granted by the Grantor Agency for the projects that are questioned. The new extension dates are specified below and a copy of the Grantor Agency's schedule of expiration dates is provided for reference. The liquidated amounts specified after the expiration dates were within the 90 day drawdown period allowed for expenditures that were incurred prior to grant expiration date otherwise drawdowns will not be approved. Any unliquidated balance after the grace period will be deobligated.

Grant Title	GR Number	Agency	Project Title	Grant Award	Balance	Expires
CNMI Water-Add-On-2004-1	GR470115	WTF	Well Drilling	\$ 1,000,000	\$ 35,058	06/30/08
CNMI-CIP-2005-2	GR570113	CUC	Beach Rd Sewer Transmission Line	\$ 3,039,279	\$ 330,519	06/30/08
CNMI-CIP-2006-2	GR670133	DPW	CK Susupe Rds & Drainage (Prec. II)	\$ 116,400	\$.	10/30/07

The CIP Program Office will notify the Agencies within 90 days of the expiration of any project funding. The notice will also request the Agencies to submit a request for extension if the project will not be completed by the initial expiration date. The notice and request for extension is currently being utilized.

Proposed Completion Date: May 1, 2009

Auditor Response: Grantor's approval of the extension was not evident in the schedule of expiration dates provided for reference.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-31

Program	Reason for Questioned Costs	Questioned Costs																								
U.S. Department of Agriculture / Special Supplemental Nutrition Program for Women, Infants, and Children / CFDA #10.557 / Federal Award # 7NM700NM7 / Federal Award Period 10/01/07 through 09/30/08	<p>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 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 seventeen non-payroll Nutrition Services and Administration costs tested aggregating \$153,171, there is no indication that price or rate quotations were obtained from an adequate number of qualified sources for four items which qualify under small purchase procedures. Details are as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">APV Document No.</th> <th style="text-align: center;">Obligating Document</th> <th style="text-align: center;">Check No.</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">651605</td> <td style="text-align: center;">TA #271974</td> <td style="text-align: center;">318531</td> <td style="text-align: right;">\$ 2,810</td> </tr> <tr> <td style="text-align: center;">684037</td> <td style="text-align: center;">TA #273928</td> <td style="text-align: center;">326224</td> <td style="text-align: right;">2,904</td> </tr> <tr> <td style="text-align: center;">709749</td> <td style="text-align: center;">TA #274755</td> <td style="text-align: center;">328013</td> <td style="text-align: right;">2,361</td> </tr> <tr> <td style="text-align: center;">752564</td> <td style="text-align: center;">TA #275308</td> <td style="text-align: center;">330722</td> <td style="text-align: right;"><u>3,067</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ 11,142</td> </tr> </tbody> </table>	APV Document No.	Obligating Document	Check No.	General Ledger Amount	651605	TA #271974	318531	\$ 2,810	684037	TA #273928	326224	2,904	709749	TA #274755	328013	2,361	752564	TA #275308	330722	<u>3,067</u>				\$ 11,142	11,142
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			\$ 11,142																							

Cause: The cause of the above condition is the lack of policies and procedures in place within the requesting departments to ensure compliance with local and federal procurement regulations.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$11,142.

Recommendation: We recommend that the Program comply with federal procurement regulations related to small purchase procedures.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Derek Sasamoto, Finance Manager and Barbara Pangelinan, Administrative Specialist

Corrective Action: The authorized travel agent for the CNMI government operates based on acquiring the lowest airfare rate between the only two airlines that the CNMI government travels with. It has been an established arrangement that the travel agents are aware of and what the Program continued to operate on. The only exceptions are if travel could not be obtained at the cheaper airline because the traveler was not guaranteed a seat and was waitlisted. This happens on occasion due to the Governments lengthy process in authorizing of Travel Requests and last minute confirmations on when a TA is authorized.

As the program operated based on this, it did not request for a hard copy of both quotations from the travel agent. The program has however, began requesting all quotations from the travel agent in order to document that competitive pricing is being sought and secured.

The Program has also since revised its Policies and Procedures to ensure ongoing monitoring is completed that includes the aforementioned process.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-31, Continued

<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:

In October of 2008 the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government.

Proposed Completion Date: May 2009 ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-32

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Agriculture / Special Supplemental Nutrition Program for Women, Infants, and Children / CFDA #10.557 / Federal Award # 7NM700NM7 / Federal Award Period 10/01/07 through 09/30/08</p>	<p>Criteria: In accordance with Section 3-108 of the CNMI Procurement Regulations, when special circumstances require expedited procurement of goods or services, the official with expenditure authority may request that the Procurement & Supply (P&S) Director approve expedited procurement without solicitation of bids or proposals. The factor to be considered by the P&S Director in approving or disapproving this request shall be:</p> <ul style="list-style-type: none"> (a) The urgency of the government's need for the good or service; (b) The comparative costs of procuring the goods or service from a sole source or through the competitive process; (c) The availability of the goods or service in the Commonwealth and the timeliness in acquiring it; and (d) Any other factors establishing that the expedited procurement is in the best interest of the Commonwealth Government. <p>Condition: Of seventeen non-payroll Nutrition Services and Administration costs tested aggregating \$153,171, one contract (contract no. 481635-OC) was procured using expedited procurement. Although justification was provided for the procurement method utilized, the justification did not appear to satisfy the urgency of the Program's need for the good or service and documentation to support comparative costs of procuring the goods or service from a sole source or through a competitive process were not available for examination. The total related fiscal year 2008 expenditures amounted to \$24,960.</p> <p>Cause: The cause of the above condition is the lack of compliance with Section 3-108 of the CNMI Procurement Regulations.</p> <p>Effect: The effect of the above condition is noncompliance with Section 3-108 of the CNMI Procurement Regulations and questioned costs of \$24,960.</p> <p>Recommendation: We recommend that the Program adhere to established Procurement Regulations.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Persons: Derek Sasamoto, Finance Manager and Josephine Tudela, Program Administrator</p> <p>Corrective Action:</p> <p>The urgency of the program acquiring a United States-certified Registered Dietician was great as the program was to begin fiscal year 2008 without one as the volunteer agreement for its previous RD had expired in September of 2007. Moreover, federal regulations require the WIC programs to have an RD in order to operate. Furthermore, there was no other US-certified RD available locally.</p> <p>Thus, the urgency for this mandatory service was quite great. This condition is substantiated by the fact the Procurement and Supply approved the expedited procurement request for this service.</p>	<p>24,960</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-32, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	Corrective Action, Continued:	
	In regards to comparative costs, the former Deputy Secretary for Public Health, reportedly performed research on comparable salaries for RDs across the US in order to determine compensation. The Program has since been able to hire two RD's under FTE's, one of which is a local individual, while the other hails from another WIC Program in California who has temporarily relocated to Saipan due to her spouses job.	
	The program is committed to following Procurement Regulations.	
	The Program has also since revised its Policies and Procedures to ensure ongoing monitoring is completed that includes the aforementioned process.	
	In October of 2008 the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government.	
	Proposed Completion Date:	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-33

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p>Criteria: Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.</p> <p>Condition: Of twenty-five contracts tested, we noted the following:</p> <ul style="list-style-type: none"> Relevant procurement documents provided for examination supporting procurement were not complete for Contract 468-OS. While the bid invitation and evidence of public notice were provided, the bid summary, bids received and other relevant procurement documents were not locatable. The related fiscal year 2008 costs of \$81,424 (BU 5602) are questioned. <p>Cause: The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.</p> <p>Effect: The effect of the above condition is incomplete procurement files and questioned costs of \$81,424.</p> <p>Recommendation: We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman Sablan, Director of Procurement and Supply</p> <p>Corrective Action: We agree with the finding that the CNMI Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.</p> <p>Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. Procurement should have all pertinent documents in file.</p> <p>A memorandum will be issued by the Director of Procurement and Supply with concurrence of the Acting Secretary of Finance informing all Procurement and Supply Specialists to utilize the checklist developed to ensure that the documents for the procurement of projects are verified and filed properly by solicitation numbers within five business days of receipt of documents.</p> <p>Proposed Completion Date: 2009</p>	81,424

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-34

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><u>Criteria:</u> In accordance with Section 3-106 (2) of the CNMI Procurement Regulations, a written justification for sole source procurement shall be prepared by the official with expenditure authority. The written sole source justification shall contain the following: a) the specific unique capabilities of the contractor selected; b) the specific reasons why such unique capabilities are required for the particular procurement; c) what specific efforts were made to obtain competition and d) what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. Moreover, generalized statements are not adequate and documents to support the statements justifying the sole source procurement are mandatory.</p>	
	<p><u>Condition:</u> Of twenty-five contracts tested, we noted the following:</p>	
	<ul style="list-style-type: none"> Contract 381-OS was procured using sole source procurement. Although justification was provided for the procurement method utilized, the justification did not contain the specific efforts made to obtain competition and what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. The related fiscal year 2008 costs of \$33,500 (BU 5602) are questioned. 	33,500
	<ul style="list-style-type: none"> Contract 440-OS was procured using sole source procurement. It was noted that this was originally supposed to be a change order for 415 OS but since it exceeded the 25% limit for change orders, a new contract had to be issued. As a condition for approval of the emergency procurement, the Department of Health was supposed to use the "detailed scope of work" in their 04/09/07 memo to solicit quotes from three other vendors who originally competed for the work on 415 OS. We were not provided the 04/09/07 memo for scope of work and the quotes from the three other vendors. The related fiscal year 2008 costs of \$117,835 (BU 5210) are questioned. 	117,835
	<ul style="list-style-type: none"> Contract 448-OS was procured using sole source procurement. The contract was issued similarly to a change order for Contract 417-OS as an extension for one more year. The original contract 417-OS did not stipulate an option to renew for another year nor did the related RFP06-GOV-121. The related fiscal year 2008 costs of \$75,000 (BU 5222 - \$13,250; BU 5617 - \$61,750). 	75,000
	<p><u>Cause:</u> The cause of the above condition is failure to comply with Sec. 3-106 of the CNMI Procurement Regulations.</p>	
	<p><u>Effect:</u> The effect of the above condition is the lack of compliance with Section 3-106 of the CNMI Procurement Regulation and questioned costs of \$226,335.</p>	
	<p><u>Recommendation:</u> We recommend that the CNMI adhere to established Procurement Regulations.</p>	
	<p><u>Prior Year Status:</u> Failure to comply with Sec. 3-106 of the CNMI Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2006 and 2007.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-34, 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 Persons: Diego Songsong, Secretary of Public Works, Pedro Sasamoto, WTF Program Manager and Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: We will verify documents related to 381 OS and 440 OS to confirm the type of procurement method used and also make it available to the auditors for review.</p> <p>For Contract 448 OS, we noted that finding contains an incorrect reference to the CNMI Procurement Regulations which was amended in 2004. The standard was changed and finding must be revised.</p> <p>The justification submitted contained the necessary elements to warrant a sole source contract under the revised regulation. The letter of justification explains Mr. Sasamoto's unique qualifications as a P.E. with utility and management experience, knowledge of the Saipan water system and explains the benefit continuity of management would have for the program. It explains the past efforts to fill the position, the lack of Professional Engineer applicants during the last solicitation.</p> <p>The responsible agencies are required to comply with Part 300 of the CNMI Procurement Regulations. A memorandum issued by the CIP Administrator on May 12, 1999 reminding all expenditure authorities to adhere to the CNMI Procurement Regulations concerning changes in project scope, timetable, quantities, or dollar values. It is recommended that the CNMI Director of Procurement and Supply issue a reminder to all responsible agencies that they must adhere to the CNMI Procurement Regulations pursuant to Part 300 (Procurement of Construction and Architect-Engineer Services, Professional Services and Vehicles).</p> <p>Proposed Completion Date: Immediately</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-35

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><u>Criteria:</u> The <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i> (43 CFR Section 12.76(d)(3)(iv)(v)) stipulates "that awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; andThe method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort". In accordance with Section 3-103(5) of the CNMI Procurement Regulations, the request for proposals shall state the relative importance of price and other evaluation factors. Price or cost to the government shall be included as an evaluation factor in every solicitation of proposals. The P&S Director must ensure that the following requirements are complied with in any evaluation of proposals.</p> <p><u>Condition:</u> Of twenty-five contracts tested, three contracts did not include cost as an evaluating factor in evaluating proposals submitted. Evaluating factors for the related contracts are as follows:</p> <ul style="list-style-type: none"> • Contract 372-OS: 1. Qualifications of key personnel/staff - 30%; 2. Project Approach - 30%; 3. Past experience on similar Construction Management - 30%; 4. Current workload of firm and ability to commit staff to the project - 10%. The related fiscal year 2008 costs of \$46,792 (BU 5218) are questioned. • Contract 436-OS: 1. Evaluation of the critical items referenced in Items A. through D, Section 2 - 40 pts; 2. Prior experience in leak detection and repairs as described in Items A and B, Section 2 - 20 pts; 3. Availability of on-island equipment services necessary to correct system deficiencies - 10 pts; 4. Qualifications of the Proposer's team members - 15 pts; 5. The team's present work load and availability, including performance with similar projects - 10 pts; 6. The proposed timetable for performing the system wide deficiency corrections - 5 pts. Additionally, we were not provided an evaluation report supporting the proposals were evaluated and merit allocated. The related fiscal year 2008 costs of \$3,476,621 (BU 5222 - \$1,490,528; BU 5617 - \$961,526; BU 5618 - \$1,024,567) are questioned. 	<p>46,792</p> <p>3,476,621</p>
	<p><u>Cause:</u> The cause of the above condition is failure to include cost as an evaluating factor.</p>	
	<p><u>Effect:</u> The effect of the above condition is the lack of compliance with Section 3-103(5) of the CNMI Procurement Regulation and questioned costs of \$3,523,413.</p>	
	<p><u>Recommendation:</u> We recommend that the CNMI review evaluating factors to ensure inclusion of cost.</p>	
	<p><u>Prior Year Status:</u> The failure to include cost as an evaluating factor was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.</p>	
	<p><u>Auditee Response and Corrective Action Plan:</u></p>	
	<p><u>Name of Contact Persons:</u> Diego Songsong, Secretary of Public Works, Pedro Sasamoto, Water Task Force Program Manager and Herman S. Sablan, Director of Procurement and Supply</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-35, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Auditee Response and Corrective Action Plan, Continued:</u></p> <p>Corrective Action: We will verify documents related to 372 OS if costs were to be considered as part of the evaluation factor. The documents will be made available to the auditors for review.</p> <p>The WTF utilized A&E procurement method for 436 OS since the nature of the work requires engineering expertise. The WTF will not use the A&E procurement method in the future where the work is not exclusively A&E.</p> <p>The Director of Procurement and Supply will verify with the expenditure/contracting authority of the type of procurement method used for the proposed solicitation to ensure that the required evaluation factors are considered prior to publication of solicitations.</p> <p>Proposed Completion Date: July 1, 2009</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-36

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p>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-five contracts tested, we noted change orders (CO) related to one contract (contract # 311-OS, CO #2 for \$525,000) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement. The fiscal year 2008 expenditures tested relating to these change orders are \$63,067 (BU 5238).</p> <p>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 \$63,067.</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 2007.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Persons: Diego Songsong, Secretary of Public Works and Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: We will verify documents related to 311 OS, Change Order No. 2, if the additional work was sole sourced. The original bid will also be verified as it included an additive alternate during solicitation. When the original contract was executed, only the base bid was considered due to funding being insufficient to include the additive portion of the bid until such time that full funding becomes available. Documents will be made available for review by the auditors.</p> <p>The responsible agencies are required to comply with Part 300 of the CNMI Procurement Regulations. A memorandum issued by the CIP Administrator on May 12, 2009 reminded all expenditure authorities to adhere to the CNMI Procurement Regulations concerning changes in project scope, timetable, quantities, or dollar values. It is recommended that the CNMI Director of Procurement and Supply issue a reminder to all responsible agencies that they must adhere to the CNMI Procurement Regulations pursuant to Part 300 (Procurement of Construction and Architect-Engineer Services, Professional Services and Vehicles).</p> <p>Proposed Completion Date: May 12, 2009</p>	<p>63,067</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-37

Program	Reason for Questioned Costs	Questioned Costs																																																
U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66,600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 - 09/30/08	<p>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 seventeen non-payroll expenditures tested aggregating \$118,245, the following were noted:</p> <ol style="list-style-type: none"> There was no evidence that price quotations were obtained from an adequate number of qualified sources which qualifies under small purchase procedures for the following: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Document Type</th> <th style="text-align: center;">Document No.</th> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">670991</td> <td style="text-align: center;">01/16/08</td> <td style="text-align: right;">\$ 2,909</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">673483</td> <td style="text-align: center;">02/06/08</td> <td style="text-align: right;">1,820</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">672375</td> <td style="text-align: center;">01/29/08</td> <td style="text-align: right;">2,948</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">721914</td> <td style="text-align: center;">07/28/08</td> <td style="text-align: right;">3,750</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">681060</td> <td style="text-align: center;">04/23/08</td> <td style="text-align: right;"><u>1,962</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>13,389</u></td> </tr> </tbody> </table> <ol style="list-style-type: none"> There was no written sole source justification memo on file for the following. Further, there was no documentation evidencing that efforts were exerted to contact other possible vendors that may be supplying the same items purchased. <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Document Type</th> <th style="text-align: center;">Document No.</th> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">OP</td> <td style="text-align: center;">480868</td> <td style="text-align: center;">01/07/08</td> <td style="text-align: right;">\$ 26,200</td> </tr> <tr> <td style="text-align: center;">OV</td> <td style="text-align: center;">223596</td> <td style="text-align: center;">11/06/07</td> <td style="text-align: right;">9,500</td> </tr> <tr> <td style="text-align: center;">OV</td> <td style="text-align: center;">224609</td> <td style="text-align: center;">07/10/08</td> <td style="text-align: right;"><u>7,880</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>43,580</u></td> </tr> </tbody> </table> <ol style="list-style-type: none"> For one \$4,200 item (voucher no. 675437), the purchase order date precedes the invoice and service date, thus, the expenditure was incurred prior to approval. No questioned costs result since the related expenditure was approved and is allowable under the program. <p>Cause: The cause of the above condition is the lack of policies and procedures in place within the requesting departments to ensure compliance with federal procurement regulations for small purchases.</p> <p>Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$56,969.</p> <p>Recommendation: We recommend that the Program comply with federal procurement regulations related to small purchase procedures.</p>	Document Type	Document No.	General Ledger Date	General Ledger Amount	PV	670991	01/16/08	\$ 2,909	PV	673483	02/06/08	1,820	PV	672375	01/29/08	2,948	PV	721914	07/28/08	3,750	PV	681060	04/23/08	<u>1,962</u>				\$ <u>13,389</u>	Document Type	Document No.	General Ledger Date	General Ledger Amount	OP	480868	01/07/08	\$ 26,200	OV	223596	11/06/07	9,500	OV	224609	07/10/08	<u>7,880</u>				\$ <u>43,580</u>	<p>13,389</p> <p>43,580</p>
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-37, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p>Prior Year Status: The lack of policies and procedures in place within the requesting departments to ensure compliance with local and federal procurement regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Frank M. Rabauliman, Director, Division of Environmental Quality</p> <p>Corrective Action: The Division of Environmental Quality (DEQ) has established procedures consistent with the CNMI Procurement Regulations and will utilize competitive procurement to indicate that price or rate quotations are obtained from an adequate number of qualified sources.</p> <p>Condition 1:</p> <p>Document Nos. 673483 and 681060 - Small purchases were done in accordance to Section 3-105 of the CNMI Procurement Regulations.</p> <p>Document Nos. 670991 and 672375 - Air service was made available at the time the travel was requested and grantor approved funds to be used for the travel requested. The CNMI has very limited access to international travel.</p> <p>Document No. 721914 - Contract was awarded through bidding process and open account was established with the vendor for continuous services. The obligating document is the cumulative expenditure drawn from an open account.</p> <p>Condition 2:</p> <p>Document No. 480868 - DEQ followed the sole source procurement method and demonstrated the appropriate use of sole source by meeting the requirements of the CNMI-PR Section 3-106(2) of the CNMI Procurement Regulations.</p> <p>Document No. 223596 - The only provider that will meet DEQ's terms and requirements through open accounts. The obligating document is the cumulative expenditure drawn from an open account.</p> <p>Document No. 224609 - All purchases are done in accordance with the CNMI Procurement Regulations. However, obligating document was an exception, as it is the only sole provider for telephone communications in the CNMI.</p> <p>Condition 3: Voucher no. 675437</p> <ul style="list-style-type: none"> • Purchase requisition was received by Procurement & Supply before the invoice and service date. • The only venue that can accommodate the number of participants and can meet the workshop space requirement. • EPA grant work plan activity that funding was certified for and activity was approved by EPA. <p>Proposed Completion Date: Ongoing</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - Nonmajor Programs

Finding No. 2008-38

Program	Reason for Questioned Costs					Questioned Costs																				
	<p>Criteria: Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.</p> <p>Condition: Of forty-six nonmajor program nonpayroll expenditures tested aggregating \$2,489,586, the following were noted:</p> <p>1. The relevant procurement documents (i.e., bid invitations, bid summary, bids received, evidence of public notice) supporting the procurement for the following contracts procured through competitive sealed bids were not provided:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">CFDA No.</th> <th style="text-align: center;">Business Unit No.</th> <th style="text-align: center;">Contract No.</th> <th style="text-align: center;">Document Ref. No.</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">97.036</td> <td style="text-align: center;">M6036F</td> <td style="text-align: center;">443630 OC</td> <td style="text-align: center;">670144 PV</td> <td style="text-align: right;">\$ 31,388</td> </tr> <tr> <td style="text-align: center;">97.044</td> <td style="text-align: center;">J7044F</td> <td style="text-align: center;">470164 OC</td> <td style="text-align: center;">673536 PV</td> <td style="text-align: right;"><u>51,121</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">\$ 82,509</td> </tr> </tbody> </table>					CFDA No.	Business Unit No.	Contract No.	Document Ref. No.	General Ledger Amount	97.036	M6036F	443630 OC	670144 PV	\$ 31,388	97.044	J7044F	470164 OC	673536 PV	<u>51,121</u>					\$ 82,509	82,509
CFDA No.	Business Unit No.	Contract No.	Document Ref. No.	General Ledger Amount																						
97.036	M6036F	443630 OC	670144 PV	\$ 31,388																						
97.044	J7044F	470164 OC	673536 PV	<u>51,121</u>																						
				\$ 82,509																						
	<p>2. The relevant quotations from other vendors were not available for the following contracts procured through expedited procedures:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">CFDA No.</th> <th style="text-align: center;">Business Unit No.</th> <th style="text-align: center;">Contract No.</th> <th style="text-align: center;">Document Ref. No.</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">97.067</td> <td style="text-align: center;">J5067S</td> <td style="text-align: center;">470023 OC</td> <td style="text-align: center;">673718 PV</td> <td style="text-align: right;">\$ 43,059</td> </tr> </tbody> </table>					CFDA No.	Business Unit No.	Contract No.	Document Ref. No.	General Ledger Amount	97.067	J5067S	470023 OC	673718 PV	\$ 43,059	43,059										
CFDA No.	Business Unit No.	Contract No.	Document Ref. No.	General Ledger Amount																						
97.067	J5067S	470023 OC	673718 PV	\$ 43,059																						
	<p>Cause: The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.</p> <p>Effect: The effect of the above condition is incomplete procurement files and questioned costs of \$125,568.</p> <p>Recommendation: We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: Consolidated filing of contract and relevant procurement documents has been a continuing problem due to the multiple locations contract and procurement information is filed. Procurement should have all pertinent documents in file. We are in the process of developing a checklist to be reviewed on contract completion to insure all related documents are included. Further, we will continue follow up on locating documents and provide to auditors.</p> <p>Proposed Completion Date: Ongoing</p>																									

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Program Income

Finding No. 2008-39

Program	Reason for Questioned Costs	Questioned Costs
U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 - 09/30/08	<p><u>Criteria:</u> In accordance with Section N of the Administrative Conditions of the grant award, all program income generated must be retained by, or otherwise be made available to support activities associated with the consolidated environmental program. The Division of Environmental Quality (DEQ) agrees to maintain records that account for program income and to specify how program income has been used. DEQ is required to submit by June 30, 2008, an accounting of all program income earned for the period October 1, 2007, through May 31, 2008, and a description of how those funds have been used or will be used to support the overall environmental program.</p> <p><u>Condition:</u> Our tests of DEQ's reports accounting for program income received for the period October 1, 2007 through September 30, 2008, reflected program income that was \$11,685 less than program income recorded in the general ledger.</p> <p><u>Cause:</u> The cause of the above condition is the lack of reconciliation and monitoring of program income collected by the Treasury office and other collection points and the DEQ office.</p> <p><u>Effect:</u> The effect of the above condition is the lack of compliance with Section N of the grant Administrative Conditions and questioned costs of \$11,685.</p> <p><u>Recommendation:</u> We recommend that program income be properly accounted for and that reported program income is reconciled to underlying accounting records.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Frank M. Rabauliman, Director, Division of Environmental Quality</p> <p>Corrective Action: DEQ has been monitoring all program income collected by the Treasury Office and other collection points. DEQ will ensure that program income are properly accounted for and reported program income are reconciled with accounting records.</p> <p>Proposed Completion Date: Ongoing</p>	11,685
Total Questioned Costs		\$ <u>7,165,481</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Cash Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-40

Criteria: The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is seven days.

Condition: For seven of sixteen non-payroll samples tested, the following were paid out between four to two hundred and one days after the allowable clearance pattern:

<u>Document No.</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
646937	\$ 10,600	316235	11/28/07	11/08/07	7
646937	\$ 10,600	318172	12/17/07	11/08/07	20
670045	\$ 10,600	321158	02/13/08	01/24/08	7
682359	\$ 10,600	326866	06/11/08	05/12/08	15
748455	\$ 10,600	331673	09/10/08	08/11/08	15
6027	\$ 2,108	none	09/30/08	03/06/08	141
757859	\$ 3,523	332160	09/30/08	09/18/08	1

The CNMI received \$7,358,112 in program benefits related to food costs. Of the total, \$6,922,941 was tested. The following were paid after the allowable clearance pattern:

<u>Document No.</u>	<u>Amount</u>	<u>Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
674668	\$ 501,385	02/07/08	01/24/08	3
702401	\$ 510,955	06/06/08	05/12/08	16
712967	\$ 463,746	07/07/08	06/09/08	13
753627	\$ 113,271	07/07/08	06/09/08	13
753632	\$ 488,416	08/07/08	07/21/08	6
758848	\$ 474,396	09/05/08	08/11/08	12
758842	\$ 65,859	08/07/08	07/21/08	4
764596	\$ 531,494	10/07/08	09/18/08	6

In addition, during fiscal year 2008, the CNMI remitted \$2,529,092 for the employer shares of retirement contributions. Of the amount, the Food Stamps program's retirement contribution totaling \$65,074 was tested. The following were paid after the allowable clearance pattern:

<u>PPE No.</u>	<u>Amount</u>	<u>Check Number</u>	<u>Average Clearance Date</u>	<u>Average Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
10/13/07	\$ 8.084	317762	12/04/07	11/08/07	7
10/27/07	\$ 7.381	317763	12/04/07	11/08/07	6
11/24/07	\$ 7.999	319425	01/15/08	12/06/07	14
01/05/08	\$ 7.705	323757	04/16/08	01/24/08	26
01/19/08	\$ 7.661	323757	04/16/08	02/07/08	19
02/02/08	\$ 7.705	323757	04/16/08	02/11/08	20
02/16/08	\$ 8.801	330787	08/22/08	03/06/08	38

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-40, Continued

Condition, Continued:

PPE No.	Amount	Check Number	Average Clearance Date	Average Cash Receipt Date	Days Elapsed After the Allowable Clearance Pattern
03/01/08	\$ 7,705	330788	08/22/08	03/06/08	33
03/15/08	\$ 7,705	330789	08/25/08	03/06/08	34
03/29/08	\$ 7,706	330790	08/25/08	04/07/08	28
04/12/08	\$ 7,964	330791	08/25/08	04/28/08	25
04/26/08	\$ 7,888	330792	08/25/08	05/07/08	26
05/10/08	\$ 7,776	330793	08/25/08	05/12/08	26
05/24/08	\$ 7,776	330794	08/25/08	06/09/08	19
06/07/08	\$ 7,685	330795	08/25/08	07/18/08	6
06/21/08	\$ 7,713	330796	08/25/08	07/18/08	6
06/30/08	\$ (107,764)	adjustment	05/18/08	03/04/08	76
07/05/08	\$ 2,326	333866	09/30/08	07/21/08	4
07/19/08	\$ 2,309	333868	09/30/08	08/11/08	4
08/02/08	\$ 2,315	333870	09/30/08	08/11/08	4

Cause: The cause of the above condition is a lack of procedures to ensure cash advanced from the grantor agency is disbursed within a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$2,706 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Agriculture is less than \$10,000.

Recommendation: We recommend that the Department of Finance ensure strict compliance with the clearance pattern as approved and specified in the CMIAA.

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. We note there has been considerable improvement from 2007 in both the number of exceptions and the elapsed days after the clearance pattern. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-40, Continued

Auditee Response and Corrective Action Plan:

Corrective Action, Continued:

Document 6027 is a journal entry which does not appear to be related to a cash transaction. Auditors need to adjust days outstanding noted in condition.

Proposed Completion Date: Ongoing

Auditor Response: Document 6027 is a journal entry and the related disbursement has not occurred as of September 30, 2008. However, federal funds were already drawdown to reimburse the expenditure. As such, days elapsed and corresponding interest liability were determined.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture

Cash Management - Special Supplemental Nutrition Program for Women, Infants, and Children

CFDA #10.557, Federal Award # 7NM700NM7

Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-41

Criteria: The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is three days.

Condition: For five of twenty-three non-payroll Nutrition Services and Administration cost samples tested, the following were paid out between four to seventy-eight days after the allowable clearance pattern:

Document No.	Amount	Check No.	Check Clearance Date	Cash Receipt Date	Days Elapsed After the Allowable Clearance Pattern
224249	\$ 14,765	327210	07/30/08	05/20/08	48
710291	\$ 105,102	328403	07/22/08	07/11/08	4
722955	\$ 1,982	329984	12/11/08	08/20/08	78
757177	\$ 4,999	332410	10/02/08	09/19/08	6
759866	\$ 7,566	333144	10/27/08	10/02/08	14

In addition, during fiscal year 2008, the CNMI remitted the employer shares of retirement contributions of \$2,529,092. Of the total amount, the Program's retirement contribution totaling \$93,621 was tested. The following were paid after the allowable clearance pattern:

PPE No.	Amount	Check Number	Check Clearance Date	Cash Receipt Date	Days Elapsed After the Allowable Clearance Pattern
02/16/08	\$ 3,724	330787	08/22/08	05/20/08	65
03/01/08	\$ 3,464	330788	08/22/08	05/20/08	65
03/15/08	\$ 3,464	330789	08/25/08	05/20/08	66
03/29/08	\$ 3,464	330790	08/22/08	05/20/08	65
04/12/08	\$ 3,464	330791	08/25/08	06/23/08	42
04/26/08	\$ 3,464	330792	08/25/08	06/23/08	42
05/10/08	\$ 3,464	330793	08/25/08	06/23/08	42
05/24/08	\$ 3,464	330794	08/25/08	06/23/08	42
06/07/08	\$ 3,464	330795	08/25/08	07/11/08	30
06/21/08	\$ 3,464	330796	08/25/08	07/11/08	30
07/05/08	\$ 3,464	333866	10/16/08	07/11/08	66
07/19/08	\$ 3,464	333868	10/16/08	08/20/08	38
08/02/08	\$ 3,464	333870	10/16/08	08/20/08	38
08/16/08	\$ 3,386	333872	10/16/08	08/20/08	38
08/30/08	\$ 3,205	333874	10/16/08	09/19/08	16

Cause: The cause of the above condition is the lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner in accordance with the requirement of the CMIAA.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$91 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Agriculture is less than \$10,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-41, Continued

Recommendation: We recommend that the Department of Finance ensure strict compliance with the clearance pattern as approved and specified in the CMIAA.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. CFDA #10.557 shows a receivable of \$292,645 as of the audit date. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Environmental Protection Agency
Cash Management - Environmental Protection Consolidated Grants-Program Support
CFDA #66.600, Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B
Federal Award Period 10/01/03 - 09/30/08

Finding No. 2008-42

Criteria: The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is ten days.

Condition: For one of seventeen non-payroll samples tested, the following were paid out after the allowable clearance pattern:

<u>Document #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipts Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
PV647489	\$20,290	318874	01/16/08	11/29/07	24

The following retirement contributions were paid after the allowable clearance pattern:

<u>PPE No.</u>	<u>Amount Per BU # P2600S</u>	<u>Amount Per BU # P4600D</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
02/16/08	\$ 266	\$ 16,447	330787	08/22/08	04/28/08	74
03/01/08	\$ 266	\$ 15,753	330788	08/22/08	04/28/08	74
03/15/08	\$ 665	\$ 15,144	330789	08/25/08	04/28/08	75
03/29/08	\$ 266	\$ 15,614	330790	08/22/08	04/28/08	74
04/12/08	\$ 266	\$ 15,265	330791	08/25/08	07/23/08	14
04/26/08	\$ 266	\$ 15,299	330792	08/25/08	07/23/08	14
05/10/08	\$ 266	\$ 15,246	330793	08/25/08	07/23/08	14
05/24/08	\$ 266	\$ 14,663	330794	08/25/08	07/23/08	14
06/07/08	\$ 266	\$ 14,727	330795	08/25/08	07/23/08	14
06/21/08	\$ 266	\$ 14,667	330796	08/25/08	07/23/08	14
07/05/08	\$ 266	\$ 14,581	333866	10/16/08	09/19/08	11
07/19/08	\$ 266	\$ 14,575	333868	10/16/08	09/19/08	11
08/02/08	\$ 300	\$ 15,606	333870	10/16/08	09/19/08	11
08/16/08	\$ 287	\$ 13,580	333872	10/16/08	09/19/08	11
08/30/08	\$ 50	\$ 12,383	333874	10/16/08	09/19/08	11

Cause: The cause of the above condition is the lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$377 exists. However, no questioned costs result from the condition as the projected interest liability due to the U.S. Environmental Protection Agency is less than \$10,000.

Recommendation: We recommend that the Department of Finance ensure compliance with the clearance pattern specified in the CMIAA.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-42, Continued

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. CFDA #66.600 shows a receivable of \$36,224 as of the audit date. We note there has been considerable improvement from 2007 in both the number of exceptions and the elapsed days after the clearance pattern. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Health and Human Services
Cash Management - Medical Assistance Program
CFDA #93.778, Federal Award #s 05-0805CO5028, 05-0805CO5048 and 05-0805CO1935
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-43

Criteria: The Cash Management Improvement Act Agreement (CMIAA) requires that the CNMI request funds such that they are deposited by the U.S Treasury on the dollar-weighted average day of clearance for the disbursements of 10 days for the Medicaid Program. Otherwise, CNMI shall be liable for interest on the Federal funds from the date the Federal funds are credited to the State's account until the date those funds are paid out for program purposes.

Condition: For forty-one of eighty samples tested, disbursement checks were released and cleared from one to eighty-eight days after the allowable clearance pattern:

<u>APV #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
649044	\$ 47,500	318184	12/28/07	11/21/07	17
650546	\$ 30,235	321166	02/08/08	12/06/07	36
650547	\$ 17,747	321166	02/08/08	12/06/07	36
675182	\$ 46,458	324152	04/29/08	03/04/08	30
675485	\$ 28,124	324167	04/18/08	03/04/08	23
675491	\$ 22,206	324167	04/18/08	03/04/08	23
675493	\$ 23,982	324167	04/18/08	03/04/08	23
677035	\$ 61,307	325005	05/12/08	04/25/08	1
679824	\$ 27,186	327516	06/26/08	04/25/08	34
681448	\$ 27,538	327516	06/26/08	05/12/08	23
681723	\$ 94,239	328548	08/01/08	05/12/08	49
681867	\$ 22,879	328031	09/23/08	05/12/08	88
682848	\$ 31,173	327516	06/26/08	06/03/08	7
695653	\$ 19,057	328657	07/29/08	06/03/08	32
723345	\$ 23,879	332154	11/04/08	08/20/08	44
724231	\$ 29,617	331689	09/12/08	08/20/08	7
754143	\$ 19,585	333384	10/15/08	09/17/08	10
650519	\$ 3,261	318861	01/04/08	12/06/07	11
650525	\$ 2,153	318861	01/04/08	12/06/07	11
649041	\$ 7,474	318184	12/28/07	11/21/07	19
649043	\$ 9,201	318184	12/28/07	11/21/07	19
649425	\$ 15,647	317648	12/11/07	11/21/07	4
649430	\$ 8,889	317648	12/11/07	11/21/07	4
649431	\$ 11,166	317678	12/11/07	11/21/07	4
649622	\$ 1,545	319230	01/30/08	11/21/07	40
650527	\$ 5,157	318861	01/04/08	12/06/07	9
650530	\$ 11,019	318861	01/04/08	12/06/07	9
650534	\$ 11,355	318861	01/04/08	12/06/07	9
650542	\$ 1,734	318554	12/24/07	12/06/07	2
650545	\$ 9,677	321166	02/08/08	12/06/07	36
650550	\$ 7,675	319185	02/01/08	12/06/07	31
650552	\$ 11,322	321162	02/29/08	12/06/07	51
671697	\$ 2,612	323062	03/25/08	02/04/08	26
675470	\$ 11,606	323477	04/10/08	03/04/08	17

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-43, Continued

Condition, Continued:

<u>APV #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
675474	\$ 12,555	323747	04/23/08	03/04/08	26
675484	\$ 11,711	324167	04/18/08	03/04/08	23
675487	\$ 10,818	324167	04/18/08	03/04/08	23
748788	\$ 1,431	332531	10/03/08	09/17/08	2
754147	\$ 15,905	333384	10/15/08	09/17/08	10
754148	\$ 9,006	333384	10/15/08	09/17/08	10
649405	\$ 39,592	319501	01/22/08	11/21/07	34

Cause: The cause of the above condition is the lack of procedures to ensure cash advanced from the grantor agency is disbursed within a timely manner in accordance with the requirement of the CMIAA.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$2,112 exists. However, no question costs result as the projected interest liability to the U.S. Department of Health and Human Services is below \$10,000.

Recommendation: We recommend that the Department of Finance ensure compliance with the clearance pattern as approved and specified in the CMIAA.

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2008) shows receivables from Federal agencies of \$11,165,383 for categorical grants and \$9,203,876 for capital improvement projects as of September 30, 2008. CFDA #93.778 shows a receivable of \$1,407,928 as of the audit date. We note there has been considerable improvement from 2007 in both the number of exceptions and the elapsed days after the clearance pattern. Federal program employer retirement contributions are now being disbursed as each payroll is issued.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Equipment and Real Property Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-44

Criteria: Title 7 Section 3016.32 of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that a physical inventory of the property must be taken and the results reconciled with the property records at least every two years.

In addition, the CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply (P&S) to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction. Further, P&S shall perform random audits of property held by each accountable person to validate the integrity of the property control process.

Condition: The following were noted during our examination of the Division of Nutrition Assistance Program (NAP) and the Division of Procurement and Supply compliance with the above requirements:

- Reconciliation of property records was not performed by P&S after the biennial physical inventory was taken. Further, of five items tested for physical verification, all five items are not included in the P&S property listing.
- Random audits of property held by NAP to validate the integrity of the property control process were not performed.
- Unit cost information on certain fixed asset items is not consistent between the NAP records and P&S records.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventories of property and equipment and an absence of a reconciliation between the property records maintained by P&S and NAP.

Effect: The effect of the above condition is that the CNMI is not in compliance with federal property standards and the CNMI Property Management Policies and Procedures. The difference in cost between the physical count (\$255,853) and property records (\$84,450) is excess property of \$171,403. No questioned cost is presented at this finding as the physical count indicates the property exists and is in use for the program.

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

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and lack of reconciliation between the property records maintained by P&S and NAP was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-44, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Eleanor S. Cruz, NAP Administrator and Herman S. Sablan, Director of Procurement and Supply

Corrective Action: Agree to the findings that the Procurement and Supply did not perform reconciliation immediately after the biennial physical inventory was taken. But this has been rectified. Procurement and Supply did thorough inventory of all items at NAP which started on June 3 and ended on June 6, 2009. We are very confident that our records will be synchronized from here forward.

This was resolved on June 06, 2009.

Proposed Completion Date: Completed

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Equipment and Real Property Management - Special Supplemental Nutrition Program for Women,
Infants, and Children
CFDA #10.557, Federal Award # 7NM700NM7
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-45

Criteria: 49 CFR 18.32 (d) provides that procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.

In addition, the CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction.

Condition: The following were noted during our examination of the Program and Division of Procurement and Supply (P&S) compliance with the above requirements:

- P&S maintained records of equipment and property held by the Program, which includes equipment and property purchased by the Program since 2006 with a total cost of \$214,056. However, the property records did not include information as to the source of the property and percentage of federal participation. Further, of one hundred ninety-two items of property and equipment listed as of September 30, 2008, forty-six items did not have cost information.
- A physical inventory of equipment and property has not been performed since the Program started.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-45, Continued

Effect: The effect of the above condition is that the Program is not in compliance with federal property standards and the CNMI Property Management Policies and Procedures.

Recommendation: We recommend that the Program perform the required inventory procedures of its property and equipment and ensure compliance with applicable federal and local rules and regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: James Montenegro, WIC Systems Administrator and Barbara Pangelinan, Administrative Specialist

Corrective Action: Our inventory records are being adjusted to include the cost per item (current listing shows cost per PO). This was last completed 10/31/08 and is scheduled for September of 2009 and every September thereafter.

Security cameras are in place around the properties to deter theft. Section B of Chapter 17 (p6 and 7) outline our controls for inventory, lost or stolen resources and maintenance.

Our records prior to 2008 fiscal year were being handled by the Finance Office at the Division of Public Health. We have requested a copy of all records for all purchases and deliveries to the CNMI WIC program. Those records are being compared to our on hand inventory. Inventory keeping was not transferred over to the program until after the loss of the Division Systems Administrator.

There was an inventory completed on 10/31/08 which was submitted to the Division Finance Manager and Systems Administrator for review. No comment was returned on said inventory. Future inventories are scheduled for September of 2009 and every September thereafter.

Proposed Completion Date:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Environmental Protection Agency

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

CFDA #66.600, Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B

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

Finding No. 2008-46

Criteria: 40 CFR Section 31.32 (d) states that procedures for managing equipment, whether acquired in whole or in part with grant funds will meet the following requirements among others:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

In addition, the CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction.

Condition: The following were noted during our examination of the Division of Environmental Quality (DEQ) and Division of Procurement and Supply (P&S) compliance with the above requirements:

- DEQ and P&S did not reconcile property records. The property records maintained by DEQ are \$709,999 less than property records maintained by P&S.
- Property records maintained by DEQ have incomplete information as to acquisition cost and property number. Further, DEQ's listing did not include acquisition date and location of the property.
- Property records maintained by P&S contain incomplete information as to acquisition cost and did not include the location of the property.
- Of seventeen items tested for physical existence, three (ref. CNMI 13891, US-26740CM and US32284CM) items were not tagged to indicate ownership of the property.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding physical inventory of property and equipment and the lack of reconciliation of property records between DEQ and P&S.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-46, Continued

Effect: The effect of the above condition is that the CNMI is not in compliance with federal equipment and real property management requirements and with the CNMI Property Management Policies and Procedures.

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

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory of property and equipment and the lack of reconciliation of property records between DEQ and P&S was reported as a finding in the Single Audit of the CNMI for fiscal year 2007.

Auditee Response and Corrective Action Plan:

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

Corrective Action: DEQ is currently conducting another inventory of DEQ property to update the inventory listing for Procurement and Supply (P&S). DEQ will continue to reconcile with the property records of P&S.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2008-47

Criteria: Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Condition: The CNMI Procurement Regulations Section 3-105 states the following:

- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Bidding is not required for procurements under \$2,500.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented and submitted to the Procurement and Supply Director for approval.
- Purchase orders may be utilized for small purchases subparagraphs (2) and (3).

It appears that the absence of competitive procurement for items less than \$2,500 does not conform to the federal requirement. Additionally, it does not appear that funding agencies approved such a threshold. As a result, the above requirement does not appear to conform to federal requirements.

Cause: The cause of the above condition is the lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations.

Effect: The effect of the above condition is lack of full and open competition on federal funded purchases. Expenditures tested that are less than \$2,500 and lack competitive procurement are questioned at Finding No. 2008-37.

Recommendation: We recommend that the CNMI review its current procurement regulations to ensure conformity with applicable federal laws.

Prior Year Status: The lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-47, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply

Corrective Action: We do not agree with the auditor's finding that CNMI provide for competitive procurements in procurements under \$2,500 in order to comply with Federal regulations. The Common Rule Section .36 "Procurement", Subsection (a) "States" says "When procuring property and services under a grant, States will follow the same policies and procedure it uses for procurement from its non-Federal funds." The Common Rule Section .3 "Definitions" defines "State" as "any of the several states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States....." Clearly the CNMI is a "State" under the Common Rule and should follow its standard procurement policies for procurements under Federal grants.

Even in Federal procurement it is practice to avoid obtaining quotes on procurements under \$2,500 (\$2,000 where the Davis-Bacon Act applies). Such procurements are defined as "Micro-Purchases in the Federal Acquisition Regulations (FAR) Subpart 2.1 "Definitions". A micro-purchase is one that does not exceed these dollar limitations. The purchase guidelines for such purchases at FAR Subpart 13.2 state at Subpart 13.202(a)(2) that "Micro-purchases may be awarded without soliciting competitive quotations if the contracting officer appointed in accordance with 1.603-3(b) considers the price to be reasonable", or (a)(3) "The administrative cost of verifying the reasonableness of the price for purchases may more than offset potential savings from detecting instances of overpricing. Therefore action to verify price reasonableness need only be taken if:

- (i) The Contracting Officer or individual appointed in accordance with 1.603-3(b) suspects that the price may not be reasonable (e.g. comparison with the previous price paid or personal knowledge of the supply or service); or
- (ii) Purchasing a supply or service for which no comparable pricing information is readily available.

The CNMI procurement regulations conform to the FAR in regard to the treatment of procurements of \$2,500 or less.

It is also worth noting that the National Association of State Purchasing Officials (NASPO) in its 4th Edition of "State and Local Government Purchasing Handbook" reported that "The current survey indicates that in 42 of the states, only small purchases over a specified amount require obtaining competitive quotation." Also, at a recent meeting of finance officials from the U.S. flag territories and U.S. affiliated islands, it was noted that the CNMI is the only entity with this finding even though small purchases are treated similarly in the other areas.

Proposed Completion Date: Not applicable

Auditor Response: Grantees and subgrantees may use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal laws and regulations. We have not been able to locate a State that utilizes a \$2,500 threshold for determining when competition should be present in a procurement and believe that the CNMI should change its procurement rules to conform to the federal requirement.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2008-48

Criteria: In accordance with OMB Circular A-87, Attachment B, Section 43, costs incurred by employees and officers for travel, including costs of lodging, other subsistence and incidental expenses shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the governmental unit in its regular operations as the result of the governmental unit's written travel policy. In the absence of an acceptable, written governmental unit policy regarding travel costs, the rates and amounts established under Subchapter 1 of Chapter 57, Title 5, United States Code or by the Administrator of General Services or by the President (or his or her designee) pursuant to any provisions of such subchapter shall apply to travel under Federal awards (48 CFR 31.205-46(a)).

Condition: The CNMI procurement regulations do not include procurement procedures relating to airfare. Currently, the CNMI's travel policies are based on directives and memorandums, which do not require competitive procurement when acquiring transportation services.

Cause: The cause of the above condition is the lack of a written procurement policy concerning travel and related expenditures.

Effect: The effect of the above condition is noncompliance with federal regulations on federally funded travel and related expenditures. Expenditures tested relating to airfare which lack competitive procurement are questioned at Finding Nos. 2008-31 and 2008-39.

Recommendation: We recommend that the CNMI adhere to federal travel regulations in the absence of a local procurement policy and/or incorporate procedures relating to the procurement of travel and related expenditures in local procurement regulations.

Prior Year Status: The lack of a written procurement policy on travel and related expenditures was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply

Corrective Action: We disagree with the auditors that separate travel procurement procedures should be included in the CNMI Procurement Regulations or that the CNMI follow Federal travel regulations. We are unaware of any set of procurement regulations which include provisions expressly dealing with expenditures for airline tickets or lodging. For example, the Federal Acquisition Regulations and Model Procurement Code (used in 23 states) do not. The purchase of airline tickets is a procurement which follows the general rules for methods/types of procurement and is therefore not specifically treated in the CNMI Procurement Regulations. Travel policy and per diem rates are typically addressed under separate policies, rules and regulations such as the Federal Travel Regulations (administered by the General Services Administration) or a State Travel Manual. As noted by the auditors, CNMI does have travel policies in place. It should also be noted that in regard to travel funded by Federal grants, most programs require approval of travel the Federal agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-48, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The auditors cite the travel policies in place for not requiring competitive procurement. CNMI travel policies are similar to other travel policies we are aware of. CNMI travel policies provide for limits on per diem rates that use Federal per diem rates for the most part and place limits on other types of travel expense (e.g. car rental, ground transportation, etc.). Airfare is limited to economy class tickets and travelers are required to select the lowest airfare that meets their travel requirements. Competition between airlines for ticket prices is very limited for the CNMI as only two U.S. based airlines (Continental and Northwest) provide air service. The CNMI government has negotiated a 15% discount with Northwest Airlines for government travel. U.S. cabotage laws prohibit non U.S. airlines from carrying passengers between two U.S. points. A large percentage of travel procurements are under \$2,500 and would fall under the small purchase requirements as discussed in the previous finding.

Proposed Completion Date: Not applicable

Auditor Response: Federal regulations require that procurement transactions be conducted in a manner providing full and open competition. This does not exclude transactions relating to airfares. Since multiple airlines service the CNMI and since multiple travel agents do business within the CNMI, it is incumbent on the CNMI to ensure that travel is undertaken at the lowest reasonable fare. Even though 2 airlines service the CNMI, multiple airlines provide service after reaching Hawaii or other destinations. Procurement procedures relating to travel expenses should be addressed by the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Procurement and Suspension and Debarment - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-49

Criteria: Title 7 Section 3016.60(e) of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that a State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts.

Condition: Of sixteen non-payroll samples tested, two items (ref. PV #s 649390 and 702406) awarded through a contract included a local geographical preference clause.

Cause: The cause of the above condition is the lack of procedures in place to ensure that all federally funded procurement of goods and services exclude the local bidder preference clause.

Effect: The effect of the above condition is noncompliance with federal procurement regulations. No questioned costs result from this finding as competition was not limited despite inclusion of a local geographical preference clause.

Recommendation: We recommend that the CNMI ensure that contracts funded by federal awards meet compliance with all applicable laws.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Eleanor S. Cruz, NAP Administrator and Herman S. Sablan, Director of Procurement and Supply

Corrective Action: The CNMI Nutrition Assistance Program and the Division of Procurement and Supply agree to the findings. Local preference instructions will not be included in all specifications for future federally funded procurement of goods and services. In addition, Procurement and Supply Division will not issue any local preference applications and exclude the local geographical preference clause from the Invitation to Bid forms.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

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

CFDA #15.875, Federal Award # Fiscal Years 1996 - 2008 Appropriations Act

Federal Award Period Available Until Expended

Finding No. 2008-50

Criteria: Grantee and subgrantee contracts must include, among others, provisions for: 1) termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement; 2) compliance with Equal Employment Opportunity; 3) compliance with the Copeland "Anti-Kickback" Act; 4) compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act; 5) compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act; and 6) federal access to contractor's records.

Condition: Of twenty-five contracts relating to expenditures of Capital Improvement Projects, we noted the following:

- Thirteen (13) contracts (#s 168-OS, 311-OS, 372-OS, 374-OS, 375-OS, 381-OS, 407-OS, 430-OS, 432-OS, 433-OS, 436-OS, 460-OS and 461-OS) did not contain provisions of compliance under Section 306 of the Clean Air Act.
- Twenty-three (23) contracts (#s 168-OS, 311-OS, 372-OS, 374-OS, 375-OS, 378-OS, 381-OS, 407-OS, 416-OS, 417-OS, 420-OS, 421-OS, 429-OS, 430-OS, 432-OS, 433-OS, 434-OS, 436-OS, 440-OS, 447-OS, 448-OS, 460-OS and 461-OS) did not contain provisions of federal access to contractor's records.
- Nine (9) contracts (#s 372-OS, 407-OS, 416-OS, 430-OS, 433-OS, 436-OS, 447-OS, 460-OS and 461-OS) did not contain provisions for compliance with Section 103 and 107 of Contract Hours and Safety Standards Act or its equivalent.
- One (1) contract (# 372-OS) did not contain provisions indicating compliance requirement on the Equal Opportunity (Executive Order 11246).

Cause: The cause of the above condition is the lack of procedures in place to ensure that contracts include required clauses.

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

Recommendation: We recommend that the CNMI ensure that contracts funded by federal awards specify compliance with all applicable federal laws.

Prior Year Status: The lack of compliance with the federal regulations relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-50, Continued

Auditee Response and Correction Action Plan:

Name of Contact Person: Herman Sablan, Director of Procurement and Supply

Corrective Action: Recommendation accepted. We will insure that all contracts we process funded under Federal grants contain all required provisions. It is recommended that the Office of the Attorney General review contract formats and standardize the forms to contain reference to the required federal provisions and ensure that all agencies use the proper contract forms. The CIP Program Office is in the process of hiring a contracting officer to insure contracts are properly prepared and processed.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture
Reporting - Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #10.557, Federal Award # 7NM700NM7
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-51

Criteria: In accordance with 7 CFR section 246.25(b), a State Agency is required to submit monthly financial and program performance (participation) data. Further, State Agencies prepare the FNS-798A annually to report: (1) Nutrition Services and Administration (NSA) expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. Further, total outlays reported to the grantor should correspond to amounts recorded per the general ledger.

Condition: Based on examination of the Program's FNS-798A, the following differences were noted:

	<u>Per FNS-798A</u>	<u>Per General Ledger</u>	<u>Difference</u>
Food costs	\$ 1,899,274	\$ 1,748,369	\$ 150,905
NSA costs	<u>1,091,098</u>	<u>950,521</u>	<u>140,577</u>
Total	\$ <u>2,990,372</u>	\$ <u>2,698,890</u>	\$ <u>291,482</u>

Cause: The cause of the above condition is that the amounts reflected on the FNS-798A for the fiscal year ended September 30, 2008 did not reflect actual expenditures.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No questioned costs result from the condition as funds drawn down correspond with recorded expenditures.

Recommendation: We recommend that steps be taken to ensure that information reported to the grantor is based on actual CNMI financial data.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Derek Sasamoto, Finance Manager and Josephine Tudela, Program Administrator

Corrective Action: The reason for the discrepancy is that the general ledger data used contains FY 2008 transactions up through September 30, 2008. However, the program continued to liquidate obligations through December 2008. Thus, the general ledger data utilized is incomplete and not representative of all FY 2008 transactions.

Upon, utilization of complete general ledger data, it should be noted that a difference of \$24,601.03 exists. This was due to an error in rebate data entry on the 798 report, as well as due to data entry errors in food outlays. This situation has been addressed by WIC Grantor, USDA-FNS in a joint March through April 2009 State Technical Assistance Review/Financial Management Review. CNMI WIC, currently, is continuing to actively work with USDA FNS to resolve the reporting errors.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior
Reporting - Economic, Social, and Political Development of the Territories - Capital Improvement
Projects and Fiscal Year 2008 Compact Impact
CFDA #15.875, Federal Award #s Fiscal Years 1996 - 2008 Appropriations Act and CNMI-CI-
2008-1
Federal Award Period Available Until Expended and 12/17/07 through 09/30/12

Finding No. 2008-52

Criteria: Total outlays reported to the grantor should correspond to amounts reported in the underlying books and records.

Condition: Of twenty-nine business units for the Capital Projects Fund tested, two business units (5426 and 5428) with FY 08 expenditures incurred were not reported to the grantor agency as projects related to grant INIT-2005-2 were closed in prior years. Combined expenditures for the above two business units are \$64,353.

Cause: The cause of the above condition is the lack of communication between the CIP office and the Department of Finance to ensure that closed projects are no longer charged.

Effect: The effect of the above condition is lack of compliance with reporting requirements. The \$64,353 is not questioned as no drawdown was made.

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

Prior Year Status: The lack of updating the federal financial reports submitted to the grantor was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Gregory Baka, Acting Attorney General (for BU 5426) and Gil M. San Nicolas, Secretary of Labor (for BU 5428)

Corrective Action: Combined expenditures incurred amounting \$64,653 related to Business Units 5426 (OAG-Personnel) and 5428 (DOL-Hearing Officers) were not reported to the Grantor Agency because transactions occurred after the grant was closed. The responsible agency should absorb all costs incurred and a journal entry should be process transferring expenses to the local account.

The Department of Finance will require the inclusion of expiration dates of funding when establishing the Business Units. A memorandum will be issued informing the Accountants at Finance and Accounting about the new requirement.

Proposed Completion Date: July 15, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Environmental Protection Agency
Reporting - Environmental Protection Consolidated Grants-Program Support
CFDA #66.600, Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B
Federal Award Period 10/01/03 - 09/30/08

Finding No. 2008-53

Criteria: 40 CFR Section 31.4 requires grantees to submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports. Annual reports shall be due ninety days after the grant year, quarterly or semi-annual reports shall be due thirty days after the reporting period. In addition, a financial status report (SF-269) is required within ninety days of the end of the budget period and a semi-annual Federal Cash Transaction Report (SF-272) is required fifteen days after the end of the period. Further, total outlays reported to the grantor should correspond to amounts recorded per the general ledger.

Condition: Based on our examination of program reporting requirements, we noted the following:

1. The SF-269 for the year ended September 30, 2008 reported total accumulated expenditures that were \$281,383 more than the total accumulated expenditures recorded in the general ledger.
2. Total expenditures reported per the cash transaction report (SF-270) were \$48,311 less than the total accumulated expenditures recorded in the general ledger as of September 30, 2008.

Cause: The cause of the above condition is that the amounts reflected on the SF-269 and SF-270 for the fiscal year ended September 30, 2008 did not reflect actual accumulated expenditures.

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

Recommendation: We recommend that the Department of Finance adhere to grant reporting requirements.

Prior Year Status: The lack of compliance with reporting requirements was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2007.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We will review differences and take appropriate actions. This probably relates to adjustments made after the September 30, 2008 reports were submitted and included in subsequent reports.

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Health and Human Services
Reporting - Medical Assistance Program
CFDA #93.778, Federal Award #s 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-54

Criteria: Section 4.4 of the CNMI's Revised Medicaid Operational Plan requires the Medicaid Agency to submit required reports on an accrual basis, based on financial records maintained by the centralized accounting office (Department of Finance).

Condition: Based on total expenditures reported to the grantor for the period ended September 30, 2008 using the CMS 64 Certification, total federal expenditures reported amounted to \$4,859,071. The actual expenditures per the general ledger amounted to \$4,308,185 resulting in a variance of \$550,886. The funds drawn down, however, correspond with expenditures recorded in the general ledger. Therefore, no questioned costs result from this condition.

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

Effect: The effect of the above condition is noncompliance with Section 4.4 of the Medicaid Operational Plan.

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

Prior Year Status: Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2007.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit findings. The report that we use to prepare the CMS-64 report is based on the general ledger that we received from the Department of Finance and reconciled with our hard copy file. Department of Finance usually do a journal voucher transfer from the Federal account to the local account. We are in the process of reconciling with Department of Finance with our record and their record. Therefore, we will be updating you with our finding when we are done.

Proposed Completion Date:

Auditor Response: Expenditures recorded in the general ledger provided by the CNMI Finance Office did not agree with expenditures reported in the CMS-64 submitted by the Medicaid Office to the federal agency. The CNMI Finance Office and the Medicaid Office should coordinate on a regular and timely basis to ensure the accuracy of expenditures recorded in the general ledger and reported to the federal agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture

Special Tests and Provisions - Special Supplemental Nutrition Program for Women, Infants, and Children

CFDA #10.557, Federal Award # 7NM700NM7

Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-55

Criteria: A State agency operating a retail food delivery system must conduct compliance investigations, which consist of inventory audits and/or compliance buys, on a minimum of 5 percent of the vendors authorized as of October 1 of each year. A State agency must conduct compliance investigations on its high-risk vendors up to the 5 percent minimum. High-risk vendors are identified at least once annually using criteria developed by FNS, and/or other statistically based criteria developed by the State agency and approved by FNS. If the number of high-risk vendors exceeds 5 percent of the total, then the State agency must prioritize vendors for investigative purposes based on their potential for noncompliance and/or loss. If the number of high-risk vendors falls short of 5 percent of the total, the State agency must randomly select enough additional vendors to meet the 5 percent requirement. When a compliance investigation discloses vendor violations, the State agency must take appropriate action against the vendor. Such action includes delaying payment or establishing a claim if a violation affects payment to the vendor; imposing sanctions mandated by program regulations for certain stated violations; and imposing other, less severe sanctions prescribed by the State agency's sanction schedule for lesser violations.

Condition: The Program conducted compliance investigations on three of its four vendors in fiscal year 2008. Noncompliance was noted on the three vendors visited and such noncompliance was communicated to the vendors through formal letters and e-mails. Noncompliance cited for one vendor was resolved. However, the Program did not follow up on noncompliance raised for the other two vendors.

Cause: The cause of the above condition is lack of follow up on vendor noncompliance.

Effect: The effect of the above condition is potential ineligibility of a vendor to participate in the Program's activities.

Recommendation: We recommend that the Program follow up on vendor noncompliance noted in its investigations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Josephine Tudela, Program Administrator

Corrective Action: In March 2008, two USDA FNS auditors conducted an audit of the CNMI WIC program. One particular auditor was present at the compliance investigations in question and was aware of the situation (our vendors did not have the required stock of WIC cheese on hand). The program had informed the vendors of the situation and that corrective action would need to be taken.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-55, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Approximately two days after this notification, our vendors had received their supply of cheese. Two vendors, which operate under the same corporation (Joeten stores), had emailed the program informing us that their supply had arrived (Joeten is the only supplier of this type of WIC cheese in the CNMI). Moreover, the program's other vendor had delivered a copy of its purchase invoice for the required WIC cheese.

As such, a follow up was not necessary as the vendors had taken the initiative to inform, and prove, to the program that they had taken the necessary steps to resolve their state of non-compliance. This was the form of communication used to resolve the situation.

Proposed Completion Date:

Auditor Response: The matter was unresolved as of the date of our testing which was subsequent to September 30, 2008. While the vendor noncompliance was resolved subsequent to our audit fieldwork date, we recommend that documentation to support such be included in the respective vendor compliance file and be provided for examination.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Agriculture

Special Tests and Provisions - Special Supplemental Nutrition Program for Women, Infants, and Children

CFDA #10.557, Federal Award # 7NM700NM7

Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-56

Criteria: Per CFR 246.19, the State agency shall establish an on-going management evaluation system which includes at least monitoring of local agency operations, review of local agency financial and participation reports, development of corrective action plans to resolve Program deficiencies, monitoring of the implementation of corrective action plans, and on-site visits. The results of such actions shall be documented.

Condition: The Program has not established a management evaluation system during fiscal year 2008.

Cause: The cause of the above condition is the lack of adherence to the Program's State Plan.

Effect: The effect of the above condition is noncompliance with CFR 246.19.

Recommendation: We recommend that the Program establish its management evaluation system in accordance with the requirements of CFR 246.19.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Quality Assurance Coordinator and Program Managers

Corrective Action: Currently, the Program does not contract out any of its services to local agencies. All services related to WIC, such as Nutrition Services and Vendor Services are managed by the State Agency.

In October of 2008, the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Health and Human Services
Special Tests and Provisions - Medical Assistance Program
CFDA #93.778, Federal Award #s 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935
Federal Award Period 10/01/07 through 09/30/08

Finding No. 2008-57

Criteria: The Medicaid Program must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems.

Condition: The Medicaid Office performs weekly and quarterly backups of the ADP system; however, regular backups were not performed for the quarters ended June 30, 2008 and September 30, 2008. The backups were not stored in an off-site location. Further, back up files are stored on flash drives, which have limited capacity. Thus, some back up files were deleted when flash drive memory was no longer sufficient, resulting in incomplete back up files for the fiscal year. Additionally, periodic risk analyses are not performed.

Cause: The cause of the above condition is the lack of required policies and procedures.

Effect: The effect of the above condition is the potential loss of data.

Recommendation: We recommend that policies and procedures be established for system security, which would address and reduce risks involved with the ADP system. We further recommend that periodic risk analyses are performed in the system.

Prior Year Status: Lack of required policies and procedures regarding ADP was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2007.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the audit finding. We do perform weekly and quarterly backups of the ADP system. It's just that we have not stored in an off-site location.

Proposed Completion Date:

Auditor Response: Documentation evidencing that periodic risk analyses are performed on the EDP system is not evident. Further, the weekly and quarterly backups performed in a flash drive were not completely made through the fiscal year and were not stored in an off-site location. The Medicaid Office should consider other backup facilities to ensure that complete backups of program records are stored and maintained for at least three years.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2008

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2008:

Questioned costs as previously reported	\$ 7,249,314
Questioned costs of fiscal year 2008 Single Audit	<u>7,165,481</u>
Unresolved questioned costs at September 30, 2008	\$ <u>14,414,795</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 38 through 140).



**Office of the Secretary
Department of Finance**

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2007:

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

- Finding No. 2007-1 - Not corrected. See corrective action plan to Finding No. 2008-1.
- Finding No. 2007-2 - Not corrected. See corrective action plan to Finding No. 2008-2.
- Finding No. 2007-3 - Not corrected. See corrective action plan to Finding No. 2008-3.
- Finding No. 2007-4 - Not corrected. See corrective action plan to Finding No. 2008-5.
- Finding No. 2007-5 - Not corrected. See corrective action plan to Finding No. 2008-7.
- Finding No. 2007-6 - Corrective action was taken.
- Finding No. 2007-7 - Not corrected. See corrective action plan to Finding No. 2008-9.
- Finding No. 2007-8 - Not corrected. See corrective action plan to Finding No. 2008-11.
- Finding No. 2007-9 - Not corrected. See corrective action plan to Finding No. 2008-12.
- Finding No. 2007-10 - Not corrected. See corrective action plan to Finding No. 2008-14.
- Finding No. 2007-11 - Not corrected. See corrective action plan to Finding No. 2008-16.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

- Finding No. 2007-12 - Not corrected. See corrective action plan to Finding No. 2008-19.
- Finding No. 2007-13 - Not corrected. See corrective action plan to Finding No. 2008-24.
- Finding No. 2007-14 - Not corrected. See corrective action plan to Finding No. 2008-25.
- Finding No. 2007-15 - Corrective action was taken.
- Finding No. 2007-16 - Not corrected. See corrective action plan to Finding No. 2008-26.
- Finding No. 2007-17 - Not corrected. See corrective action plan to Finding No. 2008-28.

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

- Finding No. 2007-18 - Not corrected. See corrective action plan to Finding No. 2008-30.
- Finding No. 2007-19 - Not corrected. See corrective action plan to Finding No. 2008-34.
- Finding No. 2007-20 - Not corrected. See corrective action plan to Finding No. 2008-35.
- Finding No. 2007-21 - Corrective action was taken.
- Finding No. 2007-22 - Not corrected. See corrective action plan to Finding No. 2008-36.
- Finding No. 2007-23 - Not corrected. See corrective action plan to Finding No. 2008-37.
- Finding No. 2007-24 - Corrective action was taken.
- Finding No. 2007-25 - Not corrected. See corrective action plan to Finding No. 2008-52.
- Finding No. 2007-26 - Corrective action was taken.
- Finding No. 2007-27 - Corrective action was taken.
- Finding No. 2007-28 - Corrective action was taken.
- Finding No. 2007-29 - Corrective action was taken.
- Finding No. 2007-30 - Not corrected. See corrective action plan to Finding No. 2008-40.
- Finding No. 2007-31 - Corrective action was taken.
- Finding No. 2007-32 - Not corrected. See corrective action plan to Finding No. 2008-42.
- Finding No. 2007-33 - Not corrected. See corrective action plan to Finding No. 2008-43.
- Finding No. 2007-34 - Corrective action was taken.
- Finding No. 2007-35 - Corrective action was taken.
- Finding No. 2007-36 - Corrective action was taken.
- Finding No. 2007-37 - Not corrected. See corrective action plan to Finding No. 2008-44.
- Finding No. 2007-38 - Corrective action was taken.
- Finding No. 2007-39 - Not corrected. See corrective action plan to Finding No. 2008-46.
- Finding No. 2007-40 - Corrective action was taken.
- Finding No. 2007-41 - Not corrected. See corrective action plan to Finding No. 2008-29.
- Finding No. 2007-42 - Corrective action was taken.
- Finding No. 2007-43 - Corrective action was taken.

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

- Finding No. 2007-44 - Not corrected. See corrective action plan to Finding No. 2008-47.
- Finding No. 2007-45 - Not corrected. See corrective action plan to Finding No. 2008-48.
- Finding No. 2007-46 - Not corrected. See corrective action plan to Finding No. 2008-50.
- Finding No. 2007-47 - Corrective action was taken.
- Finding No. 2007-48 - Not corrected. See corrective action plan to Finding No. 2008-53.
- Finding No. 2007-49 - Not corrected. See corrective action plan to Finding No. 2008-54.
- Finding No. 2007-50 - Corrective action was taken.
- Finding No. 2007-51 - Corrective action was taken.
- Finding No. 2007-52 - Not corrected. See corrective action plan to Finding No. 2008-57.
- Finding No. 2007-53 - Corrective action was taken.