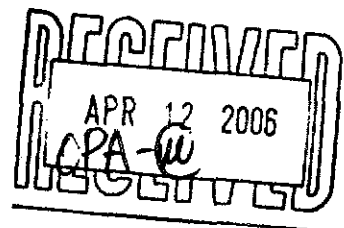


COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2004



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT 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, 2004, and have issued our report thereon dated March 1, 2006, which report was qualified due to: 1) our inability to determine the propriety of taxes receivables, advances, accounts payable, tax rebates payable, other liabilities and accruals, due to component units, and reserve for continuing appropriations and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information; and 2) our inability to determine the propriety of capital assets of the Northern Marianas College and inventory, federal agencies receivables, utility plant, accounts payable, and obligations under capital lease of the Commonwealth Utilities Corporation. Except as discussed in the preceding sentence, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CNMI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the CNMI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs (pages 40 through 103) as items 2004-1 through 2004-10, 2004-20, 2004-26 and 2004-27.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-4, 2004-5, 2004-7, 2004-9, 2004-10, 2004-20, 2004-26 and 2004-27 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CNMI's 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-11 through 2004-44.

We also noted certain additional matters that we reported to management of the CNMI in a separate letter dated March 1, 2006.

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

March 1, 2006

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM
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, 2004. The CNMI's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 40 through 103). 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.

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 2004-12 through 2004-44 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding allowable costs/cost principles, cash management, eligibility, equipment and real property management, procurement and suspension and debarment, reporting, subrecipient monitoring, and special tests and provisions that are applicable to its major federal programs. 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, 2004.

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 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the CNMI's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-12 through 2004-44.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-20 and 2004-27 to be material weaknesses.

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, 2004, and have issued our report thereon dated March 1, 2006, which report was qualified due to: 1) our inability to determine the propriety of taxes receivables, advances, accounts payable, tax rebates payable, other liabilities and accruals, due to component units, and reserve for continuing appropriations and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information; and 2) our inability to determine the propriety of capital assets of the Northern Marianas College and inventory, federal agencies receivables, utility plant, accounts payable, and obligations under capital lease of the Commonwealth Utilities Corporation.

Our audit was performed for the purpose of forming an 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 35) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the CNMI. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of taxes receivables, advances, accounts payable, other liabilities and accruals, due to component units, and reserve for continuing appropriations for each major fund and the aggregate remaining fund information been determinable, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Deloitte & Touche LLC

March 1, 2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2004

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	Capital Projects - U.S. Department of the Interior	\$ 10,220,100
		Capital Projects - American Memorial Park	1,202,292
		Fiscal Year 2004 Compact Impact	5,171,914
U.S. Department of Agriculture	10.551	Food Stamps	9,574,407
U.S. Environmental Protection Agency	66.600	Environmental Protection Consolidated Grants - Program Support	2,255,738
U.S. Department of Health and Human Services	93.778	Medical Assistance Program	1,972,829
U.S. Department of Homeland Security	97.004	State Domestic Preparedness Equipment Support Program	2,200,058
	97.036	Public Assistance Grant	1,969,755
	97.052	Emergency Operations Center	<u>3,946,127</u>
		Total program expenditures tested	\$ <u>38,513,220</u>
		Total program expenditures	\$ 62,332,200
		Unallocated expenditures	<u>(24,534)</u>
		Total federal program expenditures	\$ <u>62,307,666</u>
		% of total federal program expenditures tested	<u>62%</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2004

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. Department of Treasury	\$ (755,421)	\$ 5,000,000	\$ 4,572,035	\$ -	\$ (1,183,386)
U.S. Department of Agriculture	48,855	6,886,344	9,965,903	-	3,128,414
U.S. Department of Commerce	355,671	1,485,088	1,475,095	-	345,678
Institute of Museum and Library Services	1,869	-	137,572	-	139,441
U.S. Department of Education	755,852	972,232	1,139,142	-	922,762
U.S. Department of Energy	7,695	132,470	258,742	-	133,967
U.S. Department of Defense	9,230	31,286	98,029	-	75,973
U.S. Environmental Protection Agency	138,881	1,965,323	2,255,738	-	429,296
U.S. Department of Homeland Security	254,011	9,107,743	8,575,885	-	(277,847)
U.S. Federal Emergency Management Agency	(191,182)	9,520	41,080	-	(159,622)
U.S. Department of Health and Human Services	1,619,405	6,969,564	7,927,290	507,633	3,084,764
U.S. Department of Housing and Urban Development	(55,672)	-	-	-	(55,672)
U.S. Department of the Interior	1,259,632	2,589,152	8,066,921	-	6,737,401
U.S. Department of Justice	720,781	1,754,102	2,091,060	-	1,057,739
U.S. Department of Labor	586,740	1,534,813	1,828,134	-	880,061
U.S. National Endowment for the Arts	479,569	120,250	232,657	-	591,976
U.S. Department of Transportation	1,123,610	843,564	777,901	-	1,057,947
U.S. Department of Veterans Affairs	177,927	-	22,073	-	200,000
Unallocated cash receipts/expenditures	(709,919)	(69,779)	24,534	-	(615,606)
GRAND TOTAL	\$ 5,827,534	\$ 39,331,672	\$ 49,489,791	\$ 507,633	\$ 16,493,286

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

Reconciliation:

Receivable from grantor at September 30, 2004	\$ 16,493,286
Provision for uncollectible accounts	(3,843,020)
	<u>\$ 12,650,266</u>
Expenditures per above	\$ 49,489,791
Local match	1,632,651
	<u>\$ 51,122,442</u>
Expenditures per Statement of Revenues and Changes in Fund Balance	\$ 45,110,528
Transfers Out	6,011,914
	<u>\$ 51,122,442</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, 2004

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2003</u>	<u>Cash Receipts FY04</u>	<u>Expenditures FY04</u>	<u>Adjustments</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2004</u>
U.S. DEPARTMENT OF TREASURY						
21.Unknown	Tax Relief Recon Act 2003	\$ (755,421)	\$ 5,000,000	\$ 4,572,035	\$ -	\$ (1,183,386)

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF AGRICULTURE						
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 7,331	\$ 7,332	\$ 22,213	\$ -	\$ 22,212
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	74,948	30,411	11,324	-	55,861
10.551	Food Stamps	(142,115)	6,582,792	9,574,407	-	2,849,500
10.570	Nutrition Services Incentive	68,195	-	-	-	68,195
10.664	Cooperative Forestry Assistance	(140,233)	265,809	357,959	-	(48,083)
10.904	Watershed Protection and Flood Prevention	175,038	-	-	-	175,038
10.912	Environmental Quality Incentives Program	(557)	-	-	-	(557)
10.950	Agricultural Statistics Reports	6,248	-	-	-	6,248
	TOTAL	\$ 48,855	\$ 6,886,344	\$ 9,965,903	\$ -	\$ 3,128,414

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF COMMERCE						
11.Unknown	CENSUS 2000 PL105-277	\$ 5,099	\$ 10,000	\$ 4,536	\$ -	\$ (365)
11.419	Coastal Zone Management Administration	292,191	1,289,110	1,288,949	-	292,030
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	17,918	-	-	-	17,918
11.437	Pacific Fisheries Data Program	40,463	180,978	175,881	-	35,366
11.452	Unallied Industry Projects	-	5,000	5,729	-	729
	TOTAL	\$ 355,671	\$ 1,485,088	\$ 1,475,095	\$ -	\$ 345,678

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
INSTITUTE OF MUSEUM AND LIBRARY SERVICES						
45.310	State Library Program	\$ 1,869	\$ -	\$ 137,572	\$ -	\$ 139,441

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Federal Grants Fund
Year Ended September 30, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF EDUCATION						
84.034	Public Library Services	\$ 3,571	\$ -	\$ -	\$ -	\$ 3,571
84.035	Interlibrary Cooperation	(1,841)	-	-	-	(1,841)
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	560,441	859,848	982,815	-	683,408
84.154	Library Construction	8,833	-	-	-	8,833
84.169	Independent Living_State Grants	18,723	33,816	27,807	-	12,714
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	5,605	30,948	34,977	-	9,634
84.187	Supported Employment Services for Individuals with Severe Disabilities	37,964	18,293	26,970	-	46,641
84.224	Assistive Technology	86,598	-	62,473	-	149,071
84.265	Rehabilitation Training_State Vocational Rehabilitation In-Service Training	35,958	29,327	4,100	-	10,731
	TOTAL	\$ 755,852	\$ 972,232	\$ 1,139,142	\$ -	\$ 922,762

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF ENERGY						
81.041	State Energy Program	\$ 25,900	\$ 129,949	\$ 258,721	\$ -	\$ 154,672
81.052	Energy Conservation for Institutional Building	(60,726)	-	-	-	(60,726)
81.074	Consolidated Grant	40,021	-	-	-	40,021
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	2,500	2,521	21	-	-
	TOTAL	\$ 7,695	\$ 132,470	\$ 258,742	\$ -	\$ 133,967

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF DEFENSE						
12.113	State Memorandum of Agreement for the Reimbursement of Technical Services	\$ (9,155)	\$ -	\$ 11,240	\$ -	\$ 2,085
61.755	U.S. Dept. of Defense (Navy)	18,385	31,286	86,789	-	73,888
TOTAL		\$ 9,230	\$ 31,286	\$ 98,029	\$ -	\$ 75,973

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. ENVIRONMENTAL PROTECTION AGENCY						
66.600	Environmental Protection Consolidated Grants - Program Support	\$ 137,786	\$ 1,965,323	\$ 2,255,738	\$ -	\$ 428,201
66.951	Environmental Education Grants	1,095	-	-	-	1,095
	TOTAL	\$ 138,881	\$ 1,965,323	\$ 2,255,738	\$ -	\$ 429,296

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF HOMELAND SECURITY						
97.004	State Domestic Preparedness Equipment Support Program	\$ 68,852	\$ 1,989,458	\$ 2,200,058	\$ -	\$ 279,452
97.024	Emergency Food and Shelter National Board Program	(9,297)	(5,887)	7,272	-	3,862
97.029	Flood Mitigation Assistance	174	19,820	19,645	-	(1)
97.032	Crisis Counseling	-	-	10,284	-	10,284
97.034	Disaster Unemployment Assistance	6,436	7,011	476	-	(99)
97.036	Public Assistance Grants	146,091	2,745,105	1,969,755	-	(629,259)
97.039	Hazard Mitigation Grant	(17,876)	17,938	34,167	-	(1,647)
97.042	Emergency Management Performance Grants	34,920	321,540	346,181	-	59,561
97.047	Pre-Disaster Mitigation	3,213	36,080	32,867	-	-
97.051	State and Local All Hazards Emergency Operations Planning	533	4,147	3,614	-	-
97.052	Emergency Operations Center	20,512	3,966,639	3,946,127	-	-
97.054	Community Emergency Response Teams	453	5,892	5,439	-	-
	TOTAL	\$ 254,011	\$ 9,107,743	\$ 8,575,885	\$ -	\$ (277,847)

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY						
83.011	SARA Title III Training	\$ (114)	\$ -	\$ -	\$ -	\$ (114)
83.012	FEMA CERCLA Program	-	9,968	9,968	-	-
83.503	Civil Defense-Emergency Management Assistance	(7,544)	-	-	-	(7,544)
83.505	Disaster Preparedness Program	(1,333)	-	-	-	(1,333)
83.516	Disaster Assistance	(34,816)	-	-	-	(34,816)
83.519	HMGP State Management Costs	(126,624)	(448)	31,112	-	(95,064)
83.520	Hurricane	5,303	-	-	-	5,303
83.521	Earthquake	(2,924)	-	-	-	(2,924)
83.534	State and Local Asst.	(11,587)	-	-	-	(11,587)
83.535	Mitigation Assistance	(2,435)	-	-	-	(2,435)
83.543	Individual and Family Grants	(9,108)	-	-	-	(9,108)
	TOTAL	\$ (191,182)	\$ 9,520	\$ 41,080	\$ -	\$ (159,622)

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
93.003	Public Health and Social Services Emergency Fund	\$ -	\$ 139,734	\$ 150,991	\$ -	\$ 11,257
93.044	Special Programs for the Aging TitleIII, Part B Grants for Supportive Services and Senior Centers	241,523	254,323	275,575	-	262,775
93.045	Special Programs for the Aging TitleIII, Part C Nutrition Services	8,728	514,425	501,761	-	(3,936)
93.046	Aging - In Home Services	(8,862)	-	-	-	(8,862)
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	(6,071)	-	3,772	-	(2,299)
93.052	National Family Caregiver Support	12,535	92,283	93,242	-	13,494
93.053	Nutrition Services Incentive Program	35,511	33,695	59,444	-	61,260
93.110	Maternal and Child Health Federal Consolidated Programs	1,342	47,977	67,671	-	21,036
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	12,581	115,035	106,093	-	3,639
93.126	Rape Prevention & Education	-	4,471	5,941	-	1,470
93.127	Emergency Medical Services for Children	9,159	42,927	56,270	-	22,502
93.150	Projects for Assistance in Transition from Homelessness (PATH)	3,730	35,998	41,392	-	9,124
93.217	Family Planning Services	28,852	51,357	86,346	-	63,841
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	562	-	-	-	562
93.230	Consolidated Knowledge Development and Application (KD&A) Program	6,867	48,183	52,922	-	11,606
93.234	Traumatic Brain Injury State Demonstration Grant Program	-	7,074	7,807	-	733
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	-	-	470	-	470
93.251	Universal Newborn Hearing Screening	5,125	21,954	23,428	-	6,599
93.268	Immunization Grants	4,402	230,870	277,470	-	51,002
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	7,942	201,588	254,681	-	61,035
93.556	Promoting Safe and Stable Families	3,996	-	-	-	3,996
93.568	Low-Income Home Energy Assistance	21,987	51,926	184,156	-	154,217
93.610	Family Services	474,462	-	-	-	474,462
93.612	Native American Programs	(1)	18,296	75,416	-	57,119
93.623	Basic Center Grant	10,373	-	-	-	10,373
93.630	Developmental Disabilities Basic Support and Advocacy Grant	8,535	133,031	196,705	-	72,209
93.631	Developmental Disabilities Projects of National Significance	245	1,708	21,575	-	20,112
93.667	Social Services Block Grant	(449,768)	1,054,018	1,179,024	507,633	182,871
93.669	Child Abuse and Neglect State Grants	2,045	-	-	-	2,045
93.767	State Children's Insurance Program	618,669	618,669	565,837	-	565,837
93.778	Medical Assistance Program	559,265	1,952,372	1,972,829	-	579,722
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demon- strations and Evaluations	9,099	267,362	341,750	-	83,487

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED						
93.871	Community Youth Program	(5,000)	-	-	-	(5,000)
93.917	HIV Care Formula Grants	-	-	4,668	-	4,668
93.919	Cooperative Agreements for State- Based Comprehensive Breast and Cervical Cancer Early Detection Programs	9,118	17,578	8,456	-	(4)
93.940	HIV Prevention Activities Health Department Based	3,946	184,809	215,202	-	34,339
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	-	3,930	59,380	-	55,450
93.952	Trauma Care Systems Planning and Development	96	1,316	1,219	-	(1)
93.958	Block Grants for Community Mental Health Services	385	71,817	83,810	-	12,378
93.959	Block Grants for Prevention and Treatment of Substance Abuse	(5,165)	225,607	291,469	-	60,697
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	1,111	96,198	107,646	-	12,559
93.988	Cooperative Agreements for State- Based Diabetes Control Programs and Evaluation of Surveillance Systems	30,157	6,418	75,564	-	99,303
93.991	Preventive Health and Health Services Block Grant	(151)	31,667	34,976	-	3,158
93.994	Maternal and Child Health Services Block Grant to the States	(37,925)	390,948	442,332	-	13,459
	TOTAL	\$ 1,619,405	\$ 6,969,564	\$ 7,927,290	\$ 507,633	\$ 3,084,764

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT						
14.239	HOME Investment Partnerships Program	\$ (55,672)	\$ -	\$ -	\$ -	\$ (55,672)

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF THE INTERIOR						
15.605	Sport Fish Restoration	\$ 434,314	\$ 1,094,088	\$ 954,578	\$ -	\$ 294,804
15.611	Wildlife Restoration	8,313	216,190	232,996	-	25,119
15.615	Cooperative Endangered Species Conservation Fund	705	161,291	171,200	-	10,614
15.622	Sportfishing and Boating Safety Act	-	15,384	150,924	-	135,540
15.634	State Wildlife Grants	-	32,771	45,790	-	13,019
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States	496,629	848,477	6,217,376	-	5,865,528
15.876	Unknown	42,634	-	-	-	42,634
15.904	Historic Preservation Fund Grants- In-Aid	275,823	220,951	294,057	-	348,929
15.916	Outdoor Recreation Acquisition, Development and Planning	1,214	-	-	-	1,214
	TOTAL	\$ 1,259,632	\$ 2,589,152	\$ 8,066,921	\$ -	\$ 6,737,401

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF JUSTICE						
16.004	Law Enforcement Assistance Narcotics and Dangerous Drugs Training	\$ (2,764)	\$ -	\$ -	\$ -	\$ (2,764)
16.047	Drug Enforcement	(112,835)	474,514	444,603	-	(142,746)
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	33,919	92,041	99,563	-	41,441
16.541	Developing, Testing and Demonstrating Promising New Programs	20,850	86,631	108,702	-	42,921
16.548	Title V Delinquency Prevention Program	11,825	20,696	30,395	-	21,524
16.550	State Justice Statistics Program for Statistical Analysis Centers	13,405	-	14,967	-	28,372
16.575	Crime Victim Assistance	47,286	68,333	88,537	-	67,490
16.579	Byrne Formula Grant Program	481,559	758,929	565,671	-	288,301
16.583	Children's Justice Act Partnerships for Indian Communities	73,373	130,767	166,894	-	109,500
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	8,868	122,191	173,473	-	60,150
16.592	Local Law Enforcement Block Grants	(72,413)	-	-	-	(72,413)
16.710	Public Safety Partnership and Community Policing Grants	217,708	-	398,255	-	615,963
TOTAL		\$ 720,781	\$ 1,754,102	\$ 2,091,060	\$ -	\$ 1,057,739

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF LABOR						
17.235	Senior Community Service Employment Program	\$ 57,299	\$ 225,151	\$ 259,827	\$ -	\$ 91,975
17.250	Job Training Partnership Act	2,502	-	-	-	2,502
17.255	Workforce Investment Act (WIA)	305,279	684,533	815,544	-	436,290
17.259	WIA Youth Activities	197,075	449,029	570,976	-	319,022
17.504	Consultation Agreements	24,585	176,100	181,787	-	30,272
	TOTAL	\$ 586,740	\$ 1,534,813	\$ 1,828,134	\$ -	\$ 880,061

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. NATIONAL ENDOWMENT FOR THE ARTS						
45.007	Arts Promotion	\$ 343,503	\$ 120,250	\$ 232,657	\$ -	\$ 455,910
45.025	Promotion of the Arts_Partnership Agreements	136,066	-	-	-	136,066
	TOTAL	\$ 479,569	\$ 120,250	\$ 232,657	\$ -	\$ 591,976

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF TRANSPORTATION						
20.005	Boating Safety Asst.	\$ 609,111	\$ 313,267	\$ 187,111	\$ -	\$ 482,955
20.218	National Motor Carrier Safety	237,141	385,926	370,273	-	221,488
20.600	State and Community Highway Safety	258,497	130,614	213,393	-	341,276
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	18,861	13,757	7,124	-	12,228
	TOTAL	\$ 1,123,610	\$ 843,564	\$ 777,901	\$ -	\$ 1,057,947

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, 2004

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2003</u>	<u>Cash Receipts FY04</u>	<u>Expenditures FY04</u>	<u>Adjustments</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2004</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS						
64.203	State Cemetery Grants	\$ 177,927	\$ -	\$ 22,073	\$ -	\$ 200,000

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Adjustments/ Reclassifications	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF THE INTERIOR						
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States					
	Second Covenant FY93 and FY94 Appropriations Act Grants	\$ 809,174	\$ 1,124,277	\$ 1,504,060	\$ -	\$ 1,188,957
	FY95 Appropriations Act Grant	2,868,722	174,740	145,074	(1,923,894)	915,162
	FY96 - FY02 Appropriations Act Grant	12,737,599	621,067	760,317	(12,785,636)	91,213
	Public School System P.L. 11-89 CDA CIP Bond App. Act 2000 P.L. 11-119	(2,556,293)	21,582,032	22,877,565	6,565,138	5,304,378
	FY04 Appropriations Act Grant	228,580	348,622	321,063	-	201,021
		1,074	309,560	310,150	-	1,664
		-	400,000	468,773	-	68,773
		14,088,856	24,560,298	26,387,002	(8,144,392)	7,771,168
	Less local match	-	(16,166,902)	(16,166,902)	-	-
	TOTAL	\$ 14,088,856	\$ 8,393,396	\$ 10,220,100	\$ (8,144,392)	\$ 7,771,168
Reconciliation:						
Receivable from grantor at September 30, 2004						\$ 7,771,168
Provision for uncollectible accounts						(5,265,004)
						\$ 2,506,164
Federal awards expenditures, as stated above				\$ 26,387,002		
Debt service related:						
Principal				1,305,000		
Interest				3,886,634		
				\$ 31,578,636		

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States				
	CDA Project Series-I Revenue Bonds	\$ (129,293)	\$ -	\$ -	\$ (129,293)
	CDA/Governor's Grant No. 2	(522,117)	-	-	(522,117)
	1st Covenant	554,765	-	-	554,765
	Other	(50,670)	-	-	(50,670)
	TOTAL	\$ (147,315)	\$ -	\$ -	\$ (147,315)

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, 2004

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. Environmental Protection Agency	\$ (4,800)	\$ -	\$ -	\$ (4,800)
U.S. Department of Transportation	422,559	1,134,740	1,185,780	473,599
U.S. Federal Emergency Management Agency	263,686	115,000	178,900	327,586
U.S. Department of the Interior	68,170	30,392	55,286	93,064
U.S. Department of Commerce	1,220	-	-	1,220
Unallocated	<u>(1,122,410)</u>	<u>-</u>	<u>51</u>	<u>(1,122,359)</u>
GRAND TOTAL	<u>\$ (371,575)</u>	<u>\$ 1,280,132</u>	<u>\$ 1,420,017</u>	<u>\$ (231,690)</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards
 Public Works Grants Fund
 Year Ended September 30, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. ENVIRONMENTAL PROTECTION AGENCY					
66.418	Construction Grants for Wastewater Treatment Works	\$ (4,800)	\$ -	\$ -	\$ (4,800)

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF TRANSPORTATION					
20.205	Highway Planning and Construction	\$ 422,559	\$ 1,134,740	\$ 1,185,780	\$ 473,599

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. FEDERAL EMERGENCY MANAGEMENT AGENCY					
83.516	Disaster Assistance	\$ 263,686	\$ 115,000	\$ 178,900	\$ 327,586

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States	\$ 68,170	\$ 30,392	\$ 55,286	\$ 93,064

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, 2004

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2003</u>	<u>Cash Receipts FY04</u>	<u>Expenditures FY04</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2004</u>
	U.S. DEPARTMENT OF COMMERCE				
11.300	Grants for Public Works and Economic Development Facilities	\$ 1,220	\$ -	\$ -	\$ 1,220

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, 2004

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2003	Cash Receipts FY04	Expenditures FY04	Receivable From Grantor (Deferred Revenue) at September 30, 2004
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories and the Freely Associated States	\$ 19,629	\$ 1,202,292	\$ 1,202,292	\$ 19,629

Reconciliation of expenditures to the CNMI's financial statements for the year ended September 30, 2004:

Federal awards expenditures, as stated above	\$ 1,202,292
Local share	227,366
	<u>\$ 1,429,658</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards Year Ended September 30, 2004

(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 Treasury
- U.S. Department of Veteran Affairs
- U.S. Environmental Protection Agency
- U.S. Department of Homeland Security
- U.S. Federal Emergency Management Agency
- 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, 2004

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

Commonwealth Ports Authority
Commonwealth Development Authority
Commonwealth Utilities Corporation
Northern Marianas College
Public School System

Cumulative questioned costs reported for completed Single Audits of the above entities for the year ended September 30, 2004, are as follows:

Commonwealth Development Authority	\$ 13,406
Commonwealth Utilities Corporation	\$ 1,254,924
Northern Marianas College	\$ 150,513
Public School System	\$ 121,628

The amounts above do not include those questioned costs for which a value cannot be determined.

No questioned costs were reported for completed Single Audits for the year ended September 30, 2004 for the following entity:

Commonwealth Ports Authority

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.

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 and Commonwealth Utilities Corporation

The Commonwealth Ports Authority (CPA) and Commonwealth Utilities Corporation (CUC), discretely presented component units, receive funds in a subrecipient capacity through the CNMI. CPA and CUC's Single Audit reports include the following pass-through programs on their Schedule of Expenditures of Federal Awards for the year ended September 30, 2004:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees, Continued

Commonwealth Ports Authority and Commonwealth Utilities Corporation, Continued

<u>Program Title</u>	<u>Grantor Agency</u>	<u>CFDA Number</u>	<u>Funds Received</u>	<u>Funds Expended</u>
Commonwealth Ports Authority:				
Economic, Social, and Political Development of the Territories and the Freely Associated States: CIP Covenant Grant Funds Fiscal Years 1996 - 2003 Capital Development Projects	U.S. Department of the Interior	15.875	\$ -	\$ 22,048
State Domestic Preparedness Equipment Support Program	U.S. Department of Homeland Security	97.004	\$ 48,424	\$ 48,424
Public Assistance Grants	U.S. Department of Homeland Security	97.036	\$ 88,931	\$ 263,970
Commonwealth Utilities Corporation:				
Economic, Social, and Political Development of the Territories and the Freely Associated States: CIP Covenant Grant Funds Fiscal Years 1996 - 2003 Capital Development Projects	U.S. Department of the Interior	15.875	\$ 7,764,361	\$ 7,635,157
Public Assistance Grants	U.S. Department of Homeland Security	97.036	\$ 565,557	\$ 1,068,458

d. Indirect Cost Allocation

Due to the absence of a completed indirect cost rate for fiscal year 2004, the CNMI utilized the indirect cost rate approved by the U.S. Department of the Interior for fiscal year 2003 in fiscal year 2004. 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, 2004.

(3) Expenditures

The Schedule of Expenditures of Federal Awards (pages 7 through 35) include both federal and local match. In addition, the CNMI made numerous adjusting entries during the year which have been categorized as local match. A breakdown is as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2004

(3) Expenditures, Continued

	<u>Federal Share</u>	<u>Local Share and Adjustments</u>	<u>Total</u>
Federal Grants	\$ 49,489,791	\$ 1,632,651	\$ 51,122,442
Capital Projects - U.S. Department of the Interior	10,220,100	16,166,902	26,387,002
Capital Projects - Public Works	1,420,017	-	1,420,017
Capital Projects - American Memorial Park	<u>1,202,292</u>	<u>-</u>	<u>1,202,292</u>
	<u>\$ 62,332,200</u>	<u>\$ 17,799,553</u>	<u>\$ 80,131,753</u>

(4) Adjustments/Reclassifications

During the year ended September 30, 2004, the CNMI determined that the local matching funds for the U.S. Department of the Interior funded Capital Projects had not been properly allocated in prior years. Accordingly, an adjustment to decrease fund balance and accounts receivable from grantor agencies of \$8,311,021 was proposed to properly allocate the local match of Capital Improvement Projects at September 30, 2004. The CNMI also determined misclassification of amounts between business units and, accordingly, properly classified them at September 30, 2004. Further, deferred revenues amounting to \$166,629 were determined to be old and, accordingly, written-off at September 30, 2004.

In addition, the CNMI determined that deferred revenues in the Federal Grants Fund amounting to \$507,633 were significantly old and, accordingly, provided an allowance for the same amount at September 30, 2004.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2004

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to: 1) inadequacies in the accounting records regarding taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals, due to component units, and reserve for continuing appropriations and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information; and 2) inadequacies in the accountings records regarding capital assets of the Northern Marianas College and inventory, federal agencies receivables, utility plant, accounts payable, and obligations under capital lease of the Commonwealth Utilities Corporation.
2. Reportable conditions in internal control over financial reporting were identified, some of which are considered to be material weaknesses.
3. Instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Reportable conditions in internal control over compliance with requirements applicable to major federal award programs were identified, some of which are considered to be material weaknesses.
5. The Independent Auditors' Report on compliance with requirements applicable to major federal award programs expressed a qualified opinion.
6. The audit disclosed findings required to be reported by OMB Circular A-133.
7. The CNMI's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Food Stamps	10.551
Economic, Social, and Political Development of the Territories and the Freely Associated States	15.875
Fiscal Year 2004 Compact Impact	15.875
Environmental Protection Consolidated Grants-Program Support	66.600
Medical Assistance Program	93.778
State Domestic Preparedness Equipment Support Program	97.004
Public Assistance Grant	97.036
Emergency Operations Center	97.052

8. A threshold of \$1,869,966 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The CNMI did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2004-1	Cash Flows	42
2004-2	Cash and Cash Equivalents	43
2004-3	Receivables	44
2004-4	Due to Component Units	45
2004-5 - 6	Advances	46 - 47
2004-7	Other Liabilities and Accruals	48
2004-8	Retirement Contributions - General Fund	49
2004-9	Tax Rebates Payable	50 - 51
2004-10	Fund Balance	52
2004-11	CNMI Local Noncompliance	53 - 54
2004-20	Accounts Payable/Allowable Costs/Cost Principles	64 - 65
2004-26	Eligibility	76
2004-27	Equipment and Real Property Management	77 - 79

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2004-12 - 14	Allowable Costs/Cost Principles	\$ 2,652,494	55 - 57
2004-12	Procurement and Suspension and Debarment	\$ 45,000	55
2004-15 - 16	Eligibility	\$ 3,436	58 - 59
2004-17	Subrecipient Monitoring	\$ -	60 - 61
2004-18 - 19	Allowable Costs/Cost Principles	\$ -	62 - 63
2004-20	Accounts Payable/Allowable Costs/Cost Principles	\$ -	64 - 65
2004-21	Allowable Costs/Cost Principles	\$ -	66
2004-22 - 25	Cash Management	\$ -	67 - 75
2004-26	Eligibility	\$ -	76
2004-27	Equipment and Real Property Management	\$ -	77 - 79
2004-28 - 32	Procurement and Suspension and Debarment	\$ -	80 - 87
2004-33 - 38	Reporting	\$ -	88 - 96
2004-39 - 44	Special Tests and Provisions	\$ -	97 - 103

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section II - Financial Statement Findings

Cash Flows

Finding No. 2004-1

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:

	2004	2003	2002	2001	2000
Total assets	\$ 95,490,132	\$ 63,483,266	\$ 71,163,302	\$ 80,931,823	\$ 108,063,548
Total liabilities	\$ 201,378,383	\$ 157,467,782	\$ 152,084,743	\$ 143,376,469	\$ 141,151,626
Total fund deficit	\$ (105,888,251)	\$ (93,984,516)	\$ (80,921,441)	\$ (62,444,646)	\$ (33,088,078)
Total revenues	\$ 210,630,807	\$ 200,744,520	\$ 195,090,682	\$ 213,624,552	\$ 215,824,770
Total expenditures	\$ 246,858,759	\$ 211,223,864	\$ 209,775,245	\$ 229,480,514	\$ 215,756,730

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.

Auditee Response and Corrective Action Plan:

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

Corrective Action: This finding is related to Finding 2004-9. Since the liability to the retirement fund is \$111 million and the fund balance deficit is \$106 million, resolving the retirement fund issues will also be resolving this finding. Again, it will require cooperation between the Legislature, Executive Branch and Retirement Fund to resolve.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Cash and Cash Equivalents

Finding No. 2004-2

Criteria: Bank reconciliations should be performed in a timely manner. Further, all bank accounts should be established by the Treasurer.

Condition: During the fiscal year ended September 30, 2004, the bank reconciliations for the Payroll, NMTIT Rebate Trust Fund, General Fund, Treasury Savings and the NMTIT Rebate Savings Account (A/c #s 11420.1010, 11430.1010, 11610.1010 and 11640.1010) were not performed in a timely manner. In addition, during our confirmation of cash balances as of September 30, 2004 with a financial institution, two accounts (CNMI Superior Court and Office of Clerk of Court amounting to \$34,448 and \$1,044,235, respectively) were included that are not recorded in the CNMI's general ledger. It was subsequently determined that the accounts were established by the Courts and are held in a fiduciary capacity. At September 30, 2004, the CNMI, however, was not able to produce schedules supporting the amounts.

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

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

Recommendation: We recommend that the CNMI adhere to established policies and procedures to ensure the timely reconciliation of bank accounts. We also recommend that the CNMI ensure all bank accounts are established through the Division of Treasury.

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

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding for the General Fund (1010.11430), Treasury Savings (1010.11610) and NMTIT Rebate Savings (1010.11640) accounts. The General Fund checking account is reconciled monthly on a draft basis. Auditors are provided with a final summary reconciliation for full year. The summary reconciliation is used to book adjustments at year end. There is an assigned person to reconcile savings accounts at Treasury but due to shortage of cashiers, Treasury staff were acting as cashiers during this period and only a year end reconciliation was done. The Payroll and NMTIT Rebate checking accounts are now reconciled monthly. Reconciliations are available in the Finance and Accounting Division Recon Section. We are planning on moving the savings account reconciliation function from Treasury to the Acting Secretary of Finance office to improve internal control. In addition, coordination between the Recon section and the Treasury and Revenue and Tax Divisions will be improved to facilitate the General checking account reconciliation. We will also discuss faster access to bank statements with our bank. We will coordinate with the Superior Court to insure the fiduciary accounts administered by the Court are properly accounted for on CNMI's financial records and that detail schedules are available to support the account balances.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Receivables

Finding No. 2004-3

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

Condition: As of September 30, 2004, the receivable balance at CHC was \$99,354,075. Based on our review of the subsidiary ledger, this balance represents accounts outstanding in excess of 120 days. The large receivable balance, the many aged individual balances, and the backlog of billing files all reflect inadequate billing and collection procedures.

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

Effect: The effect of the above condition is the possibility of a misstatement of CHC receivable balances; however, this effect is mitigated by a corresponding allowance for uncollectible accounts of \$99,354,075.

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

Prior Year Status: Inadequate controls over receivables at CHC was reported as a finding in the Single Audits of the CNMI for fiscal years 1995 through 2003.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Lina Villagomez, Acting CHC Chief Financial Officer

Corrective Action: DPH agrees with the findings but has made major progress in the past years in correcting the problems. Implementing policies and procedures, as recommended by the auditors, will help but will not resolve the backlog in the processing of bills or decrease the huge outstanding receivable. The cause of the problem is a combination of inefficiency of the present computer billing system, inadequate FTE's in the Billing and Collection Office, non-payment of bills by the Government Health Insurance (GHI) program and inclusion of Medicaid expenditures beyond the annual cap as receivables. Medicaid expenditures above the annual cap represent over one third of the total receivable and GHI represents fifty percent of the remaining outstanding receivable. Improving the computer billing system and resolving the huge outstanding balance with GHI is included as a major task in the CNMI wide Financial Management Improvement Plan. A new faster, larger capacity computer system has been installed and data migration/conversion completed. CHC is now in the process of installing software upgrades for accounts receivable, third party billing, laboratory and pharmacy. CHC has formed a Revenue Enhancement Committee to review all aspects of the collection and billing process, fee schedules and other revenue enhancement matters. An RFP for consultant services for the technical and programmatic evaluation of the hospital financial management system has been issued.

Proposed Completion Date: No completion date can be projected at this time

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Due to Component Units

Finding No. 2004-4

Criteria: Amounts due to/from interfund accounts and component units should be reconciled.

Condition: The General Fund recorded due to component units - Public School System (PSS) of \$3,250,740 at September 30, 2004. Based on PSS's audited financial statements for the fiscal year ended September 30, 2004, due from primary government amounted to \$4,294,171. Of the variance, \$993,583 relates to prior year unreconciled differences and \$49,848 relates to maintenance fees, which the CNMI paid on the behalf of PSS.

Cause: The cause of the above condition is the lack of reconciliation of prior year differences.

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

Recommendation: We recommend the Department of Finance review all transactions with PSS to resolve any differences.

Prior Year Status: The lack of reconciliation of prior year differences between the entities was reported as a finding in the Single Audit of the CNMI for fiscal year 2003.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree that there is a difference between PSS and DOF records regarding amounts transferred. However, we disagree that lack of reconciliation is the criteria or cause. The amounts are reconciled but PSS is reluctant to make the corrections proposed as it reduces their receivables. \$668,540 is the FY95 carry forward balance difference between PSS and CNMI books and PSS cannot provide support for this amount. \$325,043 is due to PSS not reducing their FY96 appropriation by the 1% withheld for the Public Auditor. The \$49,848 represents computer system maintenance paid by CNMI on behalf of PSS and should not be recorded as a receivable on their books. PSS is in the process of getting Board approval to adjust their records.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Advances

Finding No. 2004-5

Criteria: Advances to vendors should be properly supported by a reconciled subsidiary ledger, invoices and/or receiving reports and should be liquidated in a timely manner.

Condition: As of September 30, 2004, subledgers were not available for advances to vendors totaling \$2,385,018 (A/c # 12430.1010 amounting to \$1,233,450 and # 12431.1010 amounting to \$1,151,568). In addition, advances identified in the accounts payable subledger of \$1,380,917 did not agree with the advances recorded in A/c #12430.1010 of \$1,233,450. An explanation of the variance was not made available.

Cause: The cause of the above condition is inadequate reconciliation of advances and inadequate file maintenance.

Effect: The effect of the above condition is the possibility of a misstatement of expenditures and related advances and a qualification of the opinion on the basic financial statements.

Recommendation: We recommend that a detailed subsidiary ledger properly support advances to vendors.

Prior Year Status: The lack of a reconciled subsidiary ledger and timely liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 2001 through 2003.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting and Herman Sablan, Director, Procurement and Supply

Corrective Action: This finding is related to Finding 2004-7. We are currently reconciling the advance to vendors and received not vouchered accounts and making adjustments. Even though the expense is posted during the receiving function, it appears that the debit advance amount is not being closed for prepaid items, leaving an offsetting credit open in the received not vouchered account. A new FMS procurement receiving procedure has been implemented for prepaid items beginning October 1, 2005. Reconciliation procedures will be developed to reconcile the advance to vendors and received not vouchered account balances.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Advances

Finding No. 2004-6

Criteria: Advances to employees for travel-related purposes should be liquidated in a timely manner through the submission of a travel authorization/voucher or the return of unexpended funds.

Condition: As of September 30, 2004, the General Fund recorded travel advances of \$2,274,863, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, \$862,759 remained unchanged when compared with the prior year. Of six balances (employee #s 100778, 100783, 101188, 101565, 102581 and 164892) tested, the related travel authorization and vouchers were not made available after numerous requests.

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, which results in a qualification of the opinion on the financial statements.

Recommendation: We recommend that all advances outstanding for more than one year be reviewed, their collectibility evaluated, and any amounts deemed uncollectible be written off. In addition, we recommend that the Department of Finance consider payroll deductions as a way of collecting long outstanding advances and that 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 2003.

Auditee Response and Corrective Action Plan:

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

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 is reserved against fund balance on the balance sheet either through the reserve for encumbrances or reserve for related assets.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Other Liabilities and Accruals

Finding No. 2004-7

Criteria: A proper system of internal control requires that the accounts payable subsidiary ledger be reconciled to the general ledger in a timely manner and that the detail accounts payable represent valid liabilities.

Condition: As of September 30, 2004, the General Fund recorded liabilities (A/c #s 20120.1010 and 20120.1012 amounting to a credit balance of \$233,708 and a debit balance of \$488,684, respectively). Detailed subsidiary ledgers were not made available. As a result, we are unable to determine the propriety of these account balances. Further, in prior years, these accounts also included prepaid items. Due to the lack of a subledger, it is uncertain whether this condition still exists.

Cause: The cause of the above condition is that liabilities are recorded at the time advances are made. In addition, the CNMI is currently analyzing the liability account and as of September 30, 2004, the account balance was still not reconciled.

Effect: The effect of the above condition is the possibility of a misstatement of expenditures and related liabilities and accruals, which results in a qualification of the opinion on the basic financial statements.

Recommendation: We recommend that policies and procedures be established to ensure adequate recording of liabilities for goods received.

Prior Year Status: The lack of established policies and procedures to ensure adequate recording of liabilities for goods received by the Division of Procurement and Supply was reported as a finding in the Single Audits of the CNMI for fiscal years 1999 through 2003.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting and Herman Sablan, Director, Procurement and Supply

Corrective Action: This is related to Finding 2004-5. It appears that the debit advance amount may not be closed for prepaid items leaving an offsetting credit open in the received not vouchered account. We are reviewing and adjusting balances where needed. A new FMS procurement receiving procedure has been implemented for prepaid items beginning October 1, 2005. Reconciliation procedures will be developed to reconcile received not vouchered balances on a monthly basis.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Retirement Contributions - General Fund

Finding No. 2004-8

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

Condition: At of September 30, 2004, the CNMI recorded a contribution liability of \$76,120,750. These outstanding contributions date back to fiscal year 2001. In addition, the Fund assessed a 2004 penalty of \$19,030,187, representing 25% of the outstanding contribution balance at September 30, 2004.

Cause: The 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.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding, however, any corrective action requires the cooperation of the Legislature, Executive Branch and Retirement Fund. Providing retirement benefits that are affordable for the CNMI Government is a major issue facing the Commonwealth.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Tax Rebates Payable

Finding No. 2004-9

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

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

Condition: At September 30, 2004, estimated tax rebates payable aggregated \$29,214,848. The estimate consists of the following:

Estimated 2004 liability based on fiscal year 2004 collections	\$ 9,016,408
2003 and prior rebates paid in fiscal year 2005 as of March 31, 2005	10,510,322
2003 and prior rebates not yet paid as of March 31, 2005	<u>9,688,118</u>
	<u>\$ 29,214,848</u>

Of total rebates/overpayments paid subsequent to September 30, 2004 of \$10,510,322, forty-eight items were tested and the related tax forms for six items were not made available. Further, nineteen of the items tested indicated overpayments for which no interest was calculated or paid.

The 2003 and prior rebates not yet paid as of March 31, 2005 consist of completed tax returns and the value of matched and unmatched tax returns. Of twenty-four completed tax returns tested, none of the supporting tax returns were made available. Further, a detailed listing of the matched and unmatched tax returns amounting to \$259,879 and \$4,132,133, respectively, were not made available.

Cause: The cause of the above condition is due to staff shortages, missing and/or misplaced documents and a lack of detailed reports supporting analyses performed. Further, there is a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments.

Effect: The effect of the above condition is that we are unable to determine the validity of the components utilized in the tax rebate estimate and an understatement of tax rebates payable exists due to the non-recording of interest on tax overpayments. This condition results in a qualified opinion on tax rebates payable.

Recommendation: We recommend that the Division of Revenue and Taxation ensure that all tax forms are properly filed and maintained. We also recommend that the Division of Revenue and Taxation ensure all tax analyses are properly supported.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-9, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Acting Director, Division of Revenue and Tax

Corrective Action: The new automated tax system was not able to produce "as of" detail reports required by auditors. We are working with our programmers to correct this problem and as an interim measure, ran the FY2005 detail reports at the close of business 9/30/2005 for the auditors review. Due to tax information disclosure issues, the external auditors rely on our Office of Public Auditor staff to review actual returns and other taxpayer information. There appears to have been communication problems between the three parties involved regarding returns to be provided. We are working on resolving this issue so that auditors can review return information directly with certain information redacted. We are researching the issue of payment of interest on tax overpayments. Revenue and Tax has determined that no interest is due on rebate amounts as they do not constitute a tax overpayment. They are now researching if any determination on interest on tax refunds has been made in the past.

Proposed Completion Date: FY2006 for reporting and return access; ongoing for applicability of interest on tax overpayments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Fund Balance

Finding No. 2004-10

Criteria: Balances appropriated without fiscal year limit should be reserved for as continuing appropriations, as they represent portions of fund balance legally segregated for a specific future use.

Condition: As of September 30, 2004, no detailed schedule of outstanding local construction projects was made available for reconciliation to the Local Capital Projects Fund (Fund 4042) reserve for continuing appropriations, which totaled \$1,844,404.

Cause: The cause of the above condition is the lack of appropriate documentation supporting the status of ongoing construction projects.

Effect: The effect of the above condition is the possibility of a misstatement of the reserve for continuing appropriations, which results in a qualification on the basic financial statements.

Recommendation: We recommend that all ongoing construction projects be monitored and their status documented by the Department of Finance, and that a quarterly report be prepared for the review of the Secretary of Finance.

Prior Year Status: The lack of appropriate documentation supporting the status of ongoing construction projects was reported as a finding in the Single Audits of the CNMI for fiscal years 1997 through 2003.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Catherine Villagomez, SOF Office Financial Manager

Corrective Action: The FY97 conversion of remaining appropriation balances for local CIP projects was incorrectly done. We have completed researching the correct remaining balances and expect to have FMS corrections made in FY2006.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

CNMI Local Noncompliance

Finding No. 2004-11

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

Condition: During the year ended September 30, 2004, the CNMI operated under a continuing resolution based on Public Law No. 13-24, the Appropriations and Budget Authority Act of 2003. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2004:

	<u>Budgeted Level of Expenditures</u>	<u>Actual Expenditures</u>	<u>Over- Expenditure</u>
Executive Branch:			
Public Health	\$ 41,838,529	\$ 42,656,619	\$ (818,090)
Public Safety	\$ 16,332,632	\$ 16,368,854	\$ (36,222)
Finance	\$ 8,425,616	\$ 8,461,948	\$ (36,332)
Labor and Immigration	\$ 2,167,565	\$ 2,183,312	\$ (15,747)
Community and Cultural Affairs	\$ 3,311,120	\$ 3,384,351	\$ (73,231)
Typhoon expenditures	\$ -	\$ 1,069,496	\$ (1,069,496)
FEMA-Match-Typhoon expenditures	\$ -	\$ 78,279	\$ (78,279)
First Senatorial District - Rota:			
Mayor	\$ 2,829,368	\$ 2,965,129	\$ (135,761)
Municipal Council	\$ 493,388	\$ 572,451	\$ (79,063)
Public Safety	\$ 2,137,704	\$ 2,143,508	\$ (5,804)
Community and Cultural Affairs	\$ 565,532	\$ 591,188	\$ (25,656)
Second Senatorial District - Tinian:			
Finance	\$ 625,878	\$ 626,496	\$ (618)
Independent programs:			
Claims and judgments	\$ 121,770	\$ 201,924	\$ (80,154)
Government utilities	\$ 5,000,000	\$ 11,127,992	\$ (6,127,992)
Legislative Branch	\$ 8,988,500	\$ 9,150,081	\$ (161,581)
Office of the Washington Representative	\$ 1,694,688	\$ 1,747,911	\$ (53,223)
Penalty on retirement contributions	\$ -	\$ 19,030,187	\$ (19,030,187)
Bad debts	\$ -	\$ 8,481,484	\$ (8,481,484)

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-11, Continued

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 2003.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos , Acting Secretary of Finance and Edward Tenorio, Special Assistant for Management and Budget

Corrective Action: Total expenditures and transfers were within total allotments. The individual categories noted were over the amounts budgeted for those activities but offset by under expenditures in other categories. Our records indicate both functions were within their budgets. Finance expenditures include \$57,213 in CIQ expense offset by unbudgeted revenue collections. Typhoon expenditures were unbudgeted and offset against the deficit reduction reserve. Utility expense was appropriated by the Legislature at \$5,000,000 in P.L. 13-24 even though actual utility billings were averaging \$11 million annually. The \$6,127,992 expenditure over the appropriation includes disputed water/sewer billings currently the subject of a court case. Monthly payments were made at the level established by a temporary restraining order and amount over appropriation offset by under expenditures in other programs. While specific areas in Rota and Tinian are shown as over budget, these are offset by under expenditures in other areas in each senatorial district. The respective mayors have reprogramming authority for these funds so OMB and DOF control at the senatorial district level. The retirement penalty and bad debt write off were the result of audit adjustments and unbudgeted.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment

Finding No. 2004-12

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Federal Award # Fiscal Year 1995 - 2004 Appropriations Act / Federal Award Period Available Until Expended	<p><u>Criteria:</u> Expenditures recorded in the general ledger should be properly supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p><u>Condition:</u> Supporting accounts payable vouchers and invoices for the following programs were not locatable:</p> <ul style="list-style-type: none"> Of fifty nonpayroll expenditures and thirteen accounts payable items of the DOI Capital Projects Fund tested (CFDA #15.875), the supporting accounts payable voucher and invoice for APV # 393374, amounting to \$16,831, was not locatable. 	\$ 16,831
	<p>In addition, the supporting receiving report for APV # 217746 (Fund 2020, CFDA #15.605, Sports Fish Restoration), amounting to \$184,236, was not locatable.</p>	184,326
	<p>In addition for CFDA #15.605, one APV (# 402637, Fund 2020, business unit # R4401G) amounting to \$45,000 was procured through sole source. Justification for the sole source procurement was not available.</p>	45,000
	<p><u>Cause:</u> The cause of the above condition is the lack of proper systematic filing of certified accounts payable vouchers, invoices and other relevant documents.</p>	
	<p><u>Effect:</u> The effect of the above condition is questioned costs of \$246,157.</p>	
	<p><u>Recommendation:</u> We recommend that the Department of Finance ensure all expenditures recorded in the general ledger are properly supported by certified accounts payable vouchers, invoices and other relevant documents.</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: Documents located and provided to auditors.</p>	
	<p>Proposed Completion Date: Already in compliance</p>	
	<p><u>Auditor Response:</u> The remaining unsupported expenditures and unjustified procurement have been questioned.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Allowable Costs/Cost Principles

Finding No. 2004-13

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>												
U.S. Department of Homeland Security / State Domestic Preparedness Equipment Support Program / CFDA # 97.004 / Federal Award #s 2003-TE-TX-0162, 2003-MU-T3-0012 and 2002-TE-CX-0091 / Federal Award Periods 04/01/03 - 03/31/06 / 05/01/03 - 10/31/05 and 08/01/02 - 01/31/05	<p><u>Criteria:</u> In accordance with the Office of Justice Financial Guide Chapter 10, all sole source procurements in excess of \$100,000 must receive prior approval of the awarding agency.</p> <p><u>Condition:</u> Of total expenditures of \$2,200,057 related to the State Homeland Security Grant program, the procurement of three contracts entered into by the CNMI was tested. All were procured under sole source and were properly approved by the Division of Procurement and Supply. However, the contracts were entered into prior to obtaining grantor approval, which to date has not been obtained.</p> <table style="margin-left: 40px;"> <thead> <tr> <th colspan="2" style="text-align: center;"><u>Fiscal Year 2004</u></th> </tr> <tr> <th style="text-align: left;"><u>Contract No.</u></th> <th style="text-align: left;"><u>Expenditures</u></th> </tr> </thead> <tbody> <tr> <td>404758</td> <td>\$ 335,102</td> </tr> <tr> <td>406428</td> <td>178,013</td> </tr> <tr> <td>413568</td> <td><u>200,000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 713,115</u></td> </tr> </tbody> </table> <p><u>Cause:</u> The cause of the above condition is the lack of awareness of program requirements.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$713,115.</p> <p><u>Recommendation:</u> We recommend that the CNMI review all program requirements and ensure compliance with such prior to entering into contracts/agreements.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Homeland Security Office, Office of the Governor</p> <p>Corrective Action: We disagree with the finding based on emails from the grantor agency. Emails indicate that if attempts were made to secure competitive bids from other vendors the requirements of the OJP Financial Guide were met and a second email indicates that no sole source justification approval is required if such attempts were made. Since there seems to be some confusion at the grantor agency regarding this grant condition, we will contact the agency for clarification.</p> <p>Proposed Completion Date: Already in compliance.</p> <p><u>Auditor Response:</u> Emails indicate only one vendor was subsequently approved and did not include the \$713,115 in question.</p>	<u>Fiscal Year 2004</u>		<u>Contract No.</u>	<u>Expenditures</u>	404758	\$ 335,102	406428	178,013	413568	<u>200,000</u>		<u>\$ 713,115</u>	713,115
<u>Fiscal Year 2004</u>														
<u>Contract No.</u>	<u>Expenditures</u>													
404758	\$ 335,102													
406428	178,013													
413568	<u>200,000</u>													
	<u>\$ 713,115</u>													

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Allowable Costs/Cost Principles - All Federal Programs

Finding No. 2004-14

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Criteria:</u> In accordance with OMB Circular A-87, <i>Cost Principles for State, Local and Indian Tribal Governments</i>, Attachment E, Section D 1(d), indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.</p> <p><u>Condition:</u> During the year ended September 30, 2004, the CNMI applied the 2003 indirect cost rate on eligible federal programs without obtaining the cognizant agency's approval.</p> <p><u>Cause:</u> The cause of the above condition is the cognizant agency's approval was not obtained.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$1,738,222.</p> <p><u>Recommendation:</u> We recommend that prior approval from the cognizant agency be obtained prior to applying the indirect cost rate on eligible federal programs.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Eloy S. Inos, Acting Secretary of Finance</p> <p>Corrective Action: Cognizant agency approval to utilize FY2003 rate to finalize single audit for FY2004 obtained.</p> <p>Proposed Completion Date: Letter dated 12/30/05</p> <p><u>Auditor Response:</u> The letter from the cognizant agency approved the use of the FY 2003 rate with the condition that the indirect cost agreements be brought to current. To date, the CNMI has not completed the agreements and/or rate calculations.</p>	1,738,222

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Eligibility

Finding No. 2004-15

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>U.S. Department of Agriculture / Food Stamps / CFDA #10.551 / Federal Award # 7NM4004NM / Federal Award Period 10/01/03 - 09/30/04</p>	<p><u>Criteria:</u> The Commonwealth of the Northern Mariana Islands (CNMI) Nutrition Assistance Program (NAP) Memorandum of Understanding (MOU) delineates eligibility criteria for processing applicants. Procedures established by the CNMI NAP to ensure eligibility include, among others, semi-annual re-determination of income for zero income households and quarterly certification of compliance with Work Registration Requirements.</p> <p><u>Condition:</u> Of \$8,387,772 in benefits expended, fifty-one case files amounting to \$15,282 were reviewed. Two participants (case # 0374 for ATP # 298734 and case # 4364 for ATP # 299967) did not complete the Zero Income Household Questionnaire six months after the prior questionnaire was filled out. In accordance with Section VI G 2 of the MOU, such questionnaire is required to be updated every six months.</p> <p><u>Cause:</u> The cause of the above condition is a lack of clear and timely communication of eligibility criteria, at the time of change, to eligibility workers.</p> <p><u>Effect:</u> The effect of the above condition is an extrapolated error that exceeds \$10,000 and thus questioned costs of \$572 result.</p> <p><u>Recommendation:</u> We recommend that management adhere to established procedures for timely communication of amended program requirements with pertinent divisions.</p> <p><u>Prior Year Status:</u> The lack of clear and timely communication of eligibility criteria, at the time of change, to eligibility workers was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 and 2003.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Walter Macaranas, NAP Administrator</p> <p>Corrective Action: We agree with the finding. Participants completed the Zero Income Household Questionnaire but after the six month requirement. NAP computer programs have been updated so that eligibility workers are shown the expiration dates of required documents during the face-to-face interviews with the applicants. This was implemented for Zero Income Household Questionnaires in 2005.</p> <p>Proposed Completion Date: FY2005</p>	<p>572</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Eligibility

Finding No. 2004-16

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Agriculture / Food Stamps / CFDA #10.551 / Federal Award # 7NM4004NM / Federal Award Period 10/01/03 - 09/30/04	<p>Criteria: The Commonwealth of the Northern Mariana Islands (CNMI) Nutrition Assistance Program (NAP) Memorandum of Understanding (MOU) delineates eligibility criteria for processing applicants related to victims of disasters. Exhibit D, Part II, Section D(7) of the NAP Manual of Operations requires verification of applicants' identity and residence at the time of the disaster (e.g., employment or school identification card, birth certificate or passport, rent receipts, utility bills, etc). In cases where such documents were lost, it may be necessary to check sources (e.g., telephone books, village homestead records or directories) and if there are no other means to verify the applicants' identity and residence, a collateral contact may used to verify identity and residency.</p> <p>Condition: Of \$1,648,287 in benefits expended for disaster operations, twelve case files amounting to \$2,864 were reviewed. None of the cases contained adequate documentation verifying the applicant's identity and residence.</p> <p>Cause: The cause of the above condition is inadequate documentation.</p> <p>Effect: The effect of the above condition is possible noncompliance with respect to eligibility requirements and questioned costs of \$2,864 since the extrapolated error exceeds \$10,000.</p> <p>Recommendation: We recommend that management establish procedures to ensure that files under the program contain adequate documentation to support eligibility requirements.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Joe T. Flores, Administrative Officer III</p> <p>Corrective Action: NAP agrees with the finding. None of the cases contained adequate documentation verifying the applicant's identity and residence. Exhibit D, Part II D(7) indicates that: examples of acceptable verification which the household may provide include, but not limited to a driver's license, employment or school identification card or passport, and United States Social Security number card. Such reference number of any type of verification listed should have been written or documented on the application at the time of interview or screening of applicant. The cause of this was the lack of proper training handed to workers and volunteers assisting in the disaster. According to NAP staff, verifications were performed during interview and screening but no instructions were given to document the verification in the application form.</p> <p>NAP has developed a draft Disaster Operations Procedures and included verification procedures indicated in Parts VIII and IX. Please refer to supporting documents in Exhibit B.</p> <p>Proposed Completion Date: A copy of the draft procedures has been provided to the Federal Grantor (USDA-FNS) in December 2005 for review. Any amendments received will be included. NAP anticipates to complete and finalize procedures before the end of FY 2006.</p>	2,864
Total Questioned Costs		\$ <u>2,700,930</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security
Subrecipient Monitoring - Public Assistance Grants
CFDA #97.036, Federal Award #s MP03PA1447, MP02PA1430, MR11924160 and MR11944160
Federal Award Periods 12/11/02 through completion, 08/06/02 through completion, 12/08/97
through completion and 12/24/97 through completion

Finding No. 2004-17

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

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

Condition: The Public Assistance Office is not aware of which subrecipients are required to have Single Audits performed, could not furnish copies of the audit reports, provided no documentation regarding the status of any on-going audits required, and no reconciliation was performed with subrecipient records.

Of twenty-eight expenditures tested, we noted five subrecipients for which records were not reconciled as follows:

- Variances were found between the CNMI and subrecipient records for the following:

<u>Account</u>	<u>Subrecipient</u>	<u>Amount Per CNMI</u>	<u>Amount Per Subrecipient</u>	<u>Variance</u>
M3544Z	CUC	\$ 492,770	\$ 1,092,737	\$ (599,967)
M3544T	CPA	\$ 44,936	\$ 263,970	\$ (219,034)

- We were unable to determine if the total program expenditures were included in the following subrecipients' schedule of expenditures of federal awards:

<u>Subrecipient</u>	<u>Amount Per CNMI</u>
PSS	\$ 244,809
MVA	46,159
NMHC	<u>28,457</u>
	\$ <u>319,425</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-17, Continued

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

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

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

Auditee Response and Corrective Plan:

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

Corrective Action: The disaster grant procedures developed in FY2005 require GAR review of subgrantee audits. Applicants are informed during their briefing of the program requirements including the audit. All of the entities listed are CNMI autonomous agencies and are required to have annual Single Audits. Audit monitoring is done through the Office of the Public Auditor (OPA) and copies of audits are available there. The OPA maintains an audit finding tracking system and follows up with the agencies regarding audit findings. The Public Assistance Office receives copies when there are questioned costs for FEMA related assistance.

In regard to the variances noted for CUC and CPA we noted that specific CNMI project records were being compared to these agency's audits. Other FEMA and Federal grant payments were disbursed to these agencies during the period in question. Since the same audit firm performed all three audits it appears they are not consistent in how their Schedule of Federal Awards is prepared. In addition, the reference to total program expenditures in the finding may explain the differences as only the FEMA approved payment is recorded on CNMI's records. The receiving agency is responsible for the local matching share and any excess costs.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security
Allowable Costs/Cost Principles - Public Assistance Grants
CFDA #97.036, Federal Award #s MP02PA1430 and MR11944160
Federal Award Periods 08/06/02 through completion and 12/24/97 through completion

Finding No. 2004-18

Criteria: 44 CFR Section 206.228 restricts eligible direct costs for applicant-owned equipment used to perform eligible work to reasonable rates that were established under State guidelines, or when the hourly rate exceeds \$75, rates may be determined on a case-by-case basis by FEMA. When local guidelines are used to establish equipment rates, reimbursement is based on those rates or rates in a Schedule of Equipment Rates published by FEMA, whichever is lower.

Condition: Of twenty-eight expenditures pertaining to seventeen different projects tested, the equipment rates used for two Department of Public Works projects (PW 49-Chata'an and DSR 6968-Paka) could not be verified as the description of equipment per Forced Equipment Record was different from the FEMA equipment rate schedule and no equipment code was indicated to ensure that the proper rate was used. The grantor subsequently approved the project costs and therefore, no questioned costs result.

Cause: The cause of the above condition is the lack of established local guidelines relating to equipment rates.

Effect: The effect of the above condition is the risk of unauthorized rates being used.

Recommendation: We recommend that a local equipment rate guideline be established and approved by the grantor.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree that CNMI does not have established guidelines on the use of applicant owned equipment rates. We will work with the Department of Public Works to establish these rates.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security
Allowable Costs/Cost Principles - Public Assistance Grants
CFDA #97.036, Federal Award # MP03PA1447
Federal Award Period 12/11/02 through completion

Finding No. 2004-19

Criteria: Expenditures recorded in the general ledger should be properly supported by certified requests for payments, encumbrance documents or accounts payable vouchers.

Condition: Of twenty-eight expenditures tested totaling \$1,316,808, we noted the certified payment request from the Governor's Authorized Representative (GAR) for two APVs (#s 439168 and 439169) were not locatable.

Cause: The cause of the above condition is the use of the request for obligation from the GAR as authorization and support for payment request.

Effect: The effect of the above condition is the lack of adherence to established procedures regarding payment of allowable expenditures. As costs were subsequently determined to be allowable, no questioned costs result.

Recommendation: We recommend that all expenditures recorded in the general ledger are properly supported.

Auditee Response and Corrective Action Plan:

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

Corrective Action: Payments should be made with GAR concurrence to ensure that work performed are authorized under the approved scope of work.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Health and Human Services
Accounts Payable/Allowable Costs/Cost Principles - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/03 - 09/30/04

Finding No. 2004-20

Criteria: Expenditures should be recorded when incurred.

Condition: Of total expenditures of \$3,527,201 at September 30, 2004, professional services of \$1,591,309 were tested. Of fifty-three items tested, thirty-one items, totaling \$602,202, included billings from service providers for services rendered in previous years.

In addition, in September 2004, the CNMI entered into a settlement agreement with certain health providers to resolve amounts that the Medicaid Office owes for health services provided and overcharges from the providers. The settlement resulted in a net payable of \$1,250,000 to the providers with \$750,000 due prior to September 30, 2004. At September 30, 2004, the CNMI had not recorded the remaining liability of \$500,000 related to the settlement.

Cause: The cause of the above condition is the lack of policies and procedures established by the Medicaid Office regarding the timely recognition of expenditures at the time services are rendered and lack of proper controls over the distribution of payments.

Effect: The effect of the above condition is that expenditures reported to the grantor agency are based on paid date and not service date. Further, actual expenditures incurred during the year are not properly accrued resulting in the understatement of current year expenditures and unrecorded liabilities. This results in an opinion qualification on accounts payable in the report on the basic financial statements. As Medical Assistance Program expenditures are limited to the amount of the grant award, this condition will only result in additional local matching expenditures and does not result in questioned costs.

Recommendation: We recommend that the Medicaid Office ensure all billings received are reviewed and forwarded to the Department of Finance in a timely manner to ensure expenditures are properly recorded. We also recommend that the Department of Finance establish control procedures related to the distribution of payment to vendors.

Prior Year Status: The lack of policies and procedures established by the Medicaid office regarding the timely recognition of expenditures at the time services are rendered was reported as a finding in the Single Audit of the CNMI for fiscal year 2003.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-20, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We disagree with the audit finding. Medicaid funding for the territories is capped at a minimal level. Billings received after Medicaid funding, including the required state match, is exhausted for the fiscal year are carried over for payment in the subsequent year. The CNMI Operational Plan includes a waiver under section 1902(j) of the Social Security Act from all Title XIX program requirements except the three specific provisions that cannot be waived. The waiver of timely payment of claims by the federal agency allows payment of prior year claims. Billings received but not paid in a given year are an unfunded liability which could be disclosed in a footnote. We will discuss options for including the amount to be paid in the subsequent year in the financial statements. Future Medicaid funding will be used to pay unpaid current billings. We are uncertain what the recommendation regarding establishing control procedures over vendor payments relates to. Treasury releases the checks to the Medicaid Office for distribution to the vendors so that account documentation can be included with the payment.

It should be noted that the settlement included in the finding resulted in a savings to the CNMI of \$9,750,000.

Proposed Completion Date: FY2006

Auditor Response: All services received by Medicaid recipients during the year should be properly accounted for and recorded in the general ledger for financial statement purposes.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Health and Human Services
Allowable Costs/Cost Principles - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/03 - 09/30/04

Finding No. 2004-21

Criteria: Part 3 of the revised Operational Plan, delineates types of services that are allowed under the Medicaid Program. Part 4 establishes the basis for determining propriety of rates charged by service providers.

Condition: One service provider submitted a spreadsheet for billing purposes instead of required invoices itemizing services and rates charged. Of fifty-three benefit payments totaling \$1,135,540 tested, thirteen items (APV # 305486, 307644, 307645, 307646, 316203, 316204, 322623, 322624, 329753, 329754, 334115, 334118 and 339659) totaling \$674,160, related to this service provider were not reviewed for eligibility of services or for propriety of rates charged. Further, we were unable to determine that the third party liability was properly recognized for participants who have such coverage. Based on the results of 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.

Cause: The cause of the above condition is the lack of clearly defined and communicated procedures for verification of billings prior to reimbursement.

Effect: The effect of the above condition is a control weakness over allowable activities and costs reimbursable under the Medicaid Program.

Recommendation: We recommend that control procedures be clearly defined and communicated over verification of services charged to the Medicaid Program. In June 2003, the Medicaid Office implemented procedures for verification of rates charged by service providers.

Prior Year Status: The lack of clearly defined and communicated procedures for verification of billings prior to reimbursement was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 and 2003.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the audit finding. Effective in January 2005, the one provider is now submitting the required invoices along with the spreadsheet. In FY04, the invoices had been submitted subsequent to the spreadsheet and reviewed at that time. As noted by the auditors, the eligibility of the services was in accordance with Part 3 of the revised Operational Plan.

Proposed Completion Date: FY2005

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Health and Human Services
Cash Management - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/03 - 09/30/04

Finding No. 2004-22

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) states "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used... When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements."

Condition: Of six drawdown requests tested, the related disbursements for five checks totaling \$1,381,188 were disbursed one hundred twenty-four, two hundred twenty, eleven, twenty-eight and seventy days, respectively, after cash was received from the grantor agency, as follows:

<u>Drawdown Receipt Date</u>	<u>Check #</u>	<u>Check Date</u>	<u>Check Clearance Date</u>	<u>Amount</u>
12/09/03	245944	04/12/04	05/14/04	\$ 185,438
01/20/04	253685	08/27/04	10/05/04	\$ 750,000
04/15/04	246857	04/26/04	05/10/04	\$ 22,468
07/02/04	252205	07/30/04	08/27/04	\$ 414,623
08/13/04	255681	10/22/04	11/16/04	\$ 8,659

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

Effect: The effect of the above condition is noncompliance with federal cash management requirements. Since the calculated interest due to the funding agency is less than \$10,000, no questioned cost arises from this condition.

Recommendation: We recommend that procedures be established to ensure cash advances are disbursed within a timely manner.

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 and 2003.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-22, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: CNMI policy is to disburse advance Federal funds as close to receipt of funds as possible. We will review our procedures with appropriate staff to minimize the timing differences. In the case of Medicaid, we disagree that we receive advance funds. Due to insufficient funding, the Commonwealth Health Center (CHC) does not receive Medicaid reimbursements so that grant funds can be utilized to pay nongovernmental providers. When drawdowns are requested, CHC has already spent many times more than the drawdown amount on Medicaid services. Rather than reimburse CHC, grant and matching funds are used to pay non CNMI Government vendors.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of the Interior

Cash Management - Economic, Social, and Political Development of the Territories and the Freely Associated States

CFDA #15.875, Federal Award # Fiscal Year 1993 - 1994 and 1996 - 2002 Appropriations Act

Federal Award Period Available Until Expended

Finding No. 2004-23

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. In addition, the terms stipulated in the Cash Management Improvement Act Agreement should be followed by the grantee for selected major programs.

Condition: Of fifty federally funded expenditures tested, we noted that payments related to forty-five of such expenditure items were paid to the contractor(s) after funds were received from the grantor agency.

<u>APV #</u>	<u>Check Date</u>	<u>Check Clearance Date</u>	<u>CR Date</u>	<u>APV #</u>	<u>Check Date</u>	<u>Check Clearance Date</u>	<u>CR Date</u>
390271	10/22/03	10/28/03	10/14/03	409536	05/12/04	05/17/04	03/22/04
390272	10/22/03	10/30/03	10/14/03	409920	03/28/04	03/29/04	03/22/04
393374	11/25/03	11/26/03	10/29/03	430633	04/26/04	08/10/04	05/17/04
393870	11/25/03	12/02/03	11/19/03	436933	06/08/04	06/16/04	05/17/04
393872	11/25/03	12/01/03	11/19/03	438358	06/07/04	06/11/04	05/26/04
394348	11/03/03	11/06/03	10/29/03	438717	06/06/04	06/15/04	06/07/04
394527	01/13/04	02/06/04	11/19/03	439088	07/26/04	08/05/04	07/14/04
397665	03/11/04	03/16/04	11/24/03	440304	07/15/04	07/19/04	07/06/04
398760	08/16/04	08/19/04	12/05/03	440306	07/12/04	07/16/04	06/17/04
398779	08/16/04	08/19/04	12/05/03	440310	07/12/04	07/16/04	06/17/04
398780	08/16/04	08/19/04	12/05/03	442200	08/20/04	08/20/04	07/26/04
399789	02/10/04	02/18/04	12/17/03	442203	08/05/04	08/13/04	07/26/04
401046	01/22/04	01/27/04	12/23/03	442337	08/05/04	08/12/04	07/29/04
401937	02/18/04	02/20/04	01/13/04	442933	08/16/04	08/20/04	08/12/04
402876	02/05/04	02/10/04	01/26/04	444588	09/13/04	09/14/04	08/13/04
403406	03/25/04	03/30/04	01/27/04	445063	09/28/04	09/29/04	08/23/04
404966	03/02/04	03/05/04	02/09/04	445629	09/27/04	09/27/04	08/25/04
405901	03/25/04	04/01/04	02/25/04	447116	10/16/04	10/19/04	09/10/04
405904	03/25/04	04/01/04	02/25/04	447117	10/16/04	10/22/04	09/10/04
407612	03/18/04	03/23/04	03/08/04	448069	10/16/04	10/25/04	10/08/04
407712	03/18/04	04/06/04	03/12/04	451259	11/22/04	12/02/04	10/21/04
409535	04/30/04	04/30/04	03/22/04	451260	11/02/04	11/03/04	10/21/04

The drawdown per the CIP Status Report for BU # 5607 included a drawdown request (DD No. 2004-163) amounting to \$334,364 for expenditures (PV # 455939) recorded and paid in fiscal year 2005. In addition, we noted that a drawdown (DD No. 2004-157) for BU # 5122 amounting to \$80,146 was made and received in fiscal year 2004; however, the revenue/receipt was recorded in fiscal year 2005.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-23, Continued

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 the lack of compliance with grantor requirements relating to cash management. Since the calculated interest due to the funding agency is less than \$10,000, no questioned cost arises from this condition.

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

Prior Year Status: The lack of compliance with grant requirements relating to cash management was reported as a finding in the Single Audit of the CNMI for fiscal year 2003.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2004) shows receivables from Federal agencies of \$12,650,266 for categorical grants and \$2,506,164 for capital improvement projects as of September 30, 2004. For DOI Technical Assistance grants, the audit report shows \$693,614 in receivables, net of the Compact Impact Grant receivable. DOI requires these grants to be drawn down on a reimbursement basis. The vouchers in this finding all relate to DOI Capital Improvement Project Grants which had an overall receivable balance of \$2,506,164 as of the audit date.

We feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus draw downs is not considered. The agency may not have made payments for other expenditures. Our review of program net balances showed a Federal receivable balance at the end of each month end period during FY2004 for the programs noted in the findings. Since the Federal agencies also have responsibilities to disburse requested funds in a timely manner, we think the audit testing should include the date the drawdown was requested as well as when it was received. The finding itself indicates "Federal Agencies shall deposit funds in a State account the next business day after receiving a request for funds." DOI does not deposit until three business days after receiving the drawdown in the best of circumstances. In our discussions with DOI regarding their expectations on timing of disbursements, they say disbursement should be made within a reasonable time period after receipt of funds. Their definition of reasonable is 3-5 days.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-23, Continued

Auditee Response and Corrective Action Plan, Continued:

We have been working with U.S. Treasury regarding implementation of the Cash Management Improvement Act (CMIA) for CNMI. Federal agencies would owe interest under the CMIA for drawdowns not remitted within the time frame shown in the Treasury-State agreement as well as CNMI owing interest if we do not disburse Federal Funds within the agreed period. There seem to be different expectations between U.S. Treasury and our grantor agencies this needs to be resolved. A particular problem for us relates to the dollar amounts being disbursed. The invoices selected all relate to large construction projects where substantial payments were due to the vendor. Many of the payments selected also include a local share that must be drawn down from our bond trustees. DOI has instructed us not to release the Federal portion of the payment until the local matching bond draw down is received. Advance payment in these cases would disrupt our cash flow for normal payments and payroll. We try to time our disbursement to receipt of the Federal and bond drawdown cash but do wait for the cash to be deposited in the CIP drawdown account before releasing the check.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security

Cash Management - State Domestic Preparedness Equipment Support Program

CFDA #97.004, Federal Award #s 2003-TE-TX-0162, 2003-MU-T3-0012, 2002-TE-CX-0091 and 2002-TE-CX-0076

Federal Award Periods 04/01/03 - 03/31/06, 05/01/03 - 10/31/05, 08/01/02 - 01/31/05 and 06/01/02 - 05/31/05

Finding No. 2004-24

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.

Condition: Of twenty-eight federally funded expenditures tested, we noted that payments related to twenty-one such expenditure items were paid to the contractor(s) after funds were received from the grantor agency.

<u>Sel. No.</u>	<u>APV No.</u>	<u>Check Date</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>
1	329021	05/18/04	05/18/04	05/14/04
2	405707	03/16/04	03/19/04	03/11/04
3	392638	12/02/03	12/05/03	10/27/03
4	410617	06/11/04	06/11/04	04/05/04
5	413937	05/13/04	05/20/04	05/07/04
6	412509	06/25/04	06/30/04	05/07/04
7	438384	06/07/04	06/11/04	06/02/04
8	402200	03/16/04	03/19/04	03/11/04
9	413924	05/13/04	05/19/04	05/07/04
10	403412	03/16/04	03/19/04	03/11/04
11	451960	11/08/04	11/08/04	10/25/04
12	441962	11/08/04	11/08/04	10/25/04
13	441963	11/08/04	11/08/04	10/25/04
14	451961	11/08/04	11/08/04	10/25/04
15	392894	12/02/03	12/05/03	10/27/03
16	4726	07/21/04	07/26/04	05/07/04
17	412958	05/13/04	05/18/04	05/07/04

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 requirements relating to cash management. Since the calculated interest due to the funding agency is less than \$10,000, no questioned cost arises from this condition.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-24, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Office of Homeland Security, Governor's Office and Antoinette Calvo, CNMI Treasurer

Corrective Action: CNMI policy is to disburse advance Federal funds as close to receipt of funds as possible. We will review our procedures with appropriate staff to minimize the timing differences. We feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus drawdowns is not considered. The agency may not have made payments for other expenditures in the program. The audit report shows CFDA #97-004 has a net receivable from the Federal agency as of the audit date.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security
Cash Management - Public Assistance Grants
CFDA #97.036, Federal Award # MP03PA1447
Federal Award Period 12/11/02 through completion

Finding No. 2004-25

Criteria: Per OMB Circular A-133, 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. When funds are advanced, recipients must follow procedures to minimize the time elapsing (three to four days) between the transfer of funds from the U.S. Treasury and disbursement.

Condition: Of total drawdowns of \$2,198,296, we noted the following:

- There was a duplicate drawdown for CUC PW 197-Pongsona for \$493,094. The amount was drawn at January 30, 2004 (included in \$503,728 received) and then again at February 3, 2004 (included in \$1,239,368 received).
- Funds advanced were not disbursed within three to four days after receipt of drawdown for the following:

<u>APV #</u>	<u>CR Date</u>	<u>Check Date</u>	<u>Days Elapsed</u>
437093	02/03/04	06/07/04	125
405654	02/03/04	02/13/04	10
405656	02/03/04	02/13/04	10
405659	02/03/04	02/13/04	10
405661	02/03/04	02/13/04	10
436797	02/03/04	05/19/04	106
438108	02/03/04	06/17/04	135

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

Effect: The effect of the above condition is noncompliance with federal cash management requirements. Since the calculated interest due to the funding agency is less than \$10,000, no questioned cost arises from this condition.

Recommendation: We recommend that the Department of Finance implement procedures to ensure that cash is drawn for immediate needs and that cash advances are disbursed in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative and Antoinette Calvo, CNMI Treasurer

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-25, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: CNMI policy is to disburse advance Federal funds as close to receipt of funds as possible. We will review our procedures with appropriate staff to minimize the timing differences.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Health and Human Services
Eligibility - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/03 - 09/30/04

Finding No. 2004-26

Criteria: Sufficient controls should be in place to ensure that only eligible individuals receive benefits.

Condition: The Program relies on an electronic database for verifying eligibility of individuals charged to the Medicaid Program by service providers. Access to this database is not currently controlled. Updates to the database are made by eligibility workers and an administrative clerk. Independent reviews or test checks are not being performed on the information posted to this database.

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

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

Recommendation: We recommend that procedures be established to provide for independent review of information posted to the eligible participant list. The individual performing the review should be independent of the data entry process. Specifically, it is recommended that a sample of posted information be periodically traced to the original manual documents. These tests should be documented. We further recommend that controls be implemented to restrict database access to authorized personnel.

Prior Year Status: The lack of adequately defined control procedures over the Program's electronic system was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 and 2003.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding. The Medicaid Office recently purchased new computers that provide a user security and password function. Data base updates are done by the eligibility workers and verified by the administrative clerk. Changes are documented in the recipients file and initialed by the person updating the record and the verifier. The accounting clerks are restricted to verifying eligibility and third party liability information only.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Agriculture
Equipment and Real Property Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/03- 09/30/04

U.S. Environmental Protection Agency
Equipment and Real Property Management - Environmental Protection Consolidated Grants-
Program Support
CFDA #66.600, Federal Award # M-009156-04
Federal Award Period 10/01/03 - 09/30/05

U.S. Department of Homeland Security
Equipment and Real Property Management - Public Assistance Grants
CFDA #97.036, Federal Award #s MP03PA1447, MR11924160 and MR11944160
Federal Award Periods 12/11/02 through completion, 12/08/97 through completion and 12/24/97
through completion

U.S. Department of Homeland Security
Equipment and Real Property Management - State Domestic Preparedness
Equipment Support Program
CFDA #97.004, Federal Award #s 2003-TE-TX-0162, 2003-MU-T3-0012, 2002-TE-CX-0091 and
2002-TE-CX-0076
Federal Award Periods 04/01/03 - 03/31/06, 05/01/03 - 10/31/05, 08/01/02 - 01/31/05 and 06/01/02
- 05/31/05

Finding No. 2004-27

Criteria: The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (the Common Rule) states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will meet the following requirements:

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-27, Continued

Condition: During the year ended September 30, 2004, the Food Stamps Program did not conduct its annual physical inventory of fixed assets. Accordingly, the fixed asset listing as of September 30, 2004 represents the results of the physical count conducted in fiscal year 2003. Additionally, the listing did not indicate the cost of the assets or the percentage of federal share in the asset.

During the year ended September 30, 2004, the Division of Environmental Quality (DEQ) maintained a fixed asset listing representing its physical count as of fiscal year 2001. Further, the Division of Procurement and Supply (P&S) also maintained a master listing of DEQ's fixed assets. Neither division conducted an inventory count of property and equipment during fiscal years 2002 through 2004. Reconciliation between the listings was not performed which resulted in differences. In addition, the DEQ listings did not indicate the asset costs or the percentage of federal share.

During the year ended September 30, 2004, the Emergency Management Office (EMO) provided a listing of equipment acquired with the Office of Domestic Preparedness grants. The listing did not include the serial number or other identification number of the equipment and the condition of the equipment. A physical inventory of the equipment was not conducted in the past two years by either EMO or P&S. In determining whether current year purchases were included in the listing, we noted a net understatement of the listing of \$175,122. This variance is due to purchases of \$369,122 not included in the listing and \$194,000 included in the listing that was recorded by the Department of Finance in fiscal year 2005.

During the year ended September 30, 2004, no inventory listing was maintained by the Public Assistance Office.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and the lack of reconciliation between the master listing maintained by P&S and that of the agencies.

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

Recommendation: We recommend that the CNMI perform an inventory of its fixed assets and ensure compliance with applicable federal property rules and regulations and the CNMI Property Management Policies and Procedures.

Prior Year Status: The lack of compliance with federal property rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2003.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-27, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree with finding but disagree with the statement in the criteria that “the CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply to conduct an annual inventory...” and the statement in the condition that “There are no procedures in place....”. The new CNMI Property and Procurement Procedures manual was issued in January 2003. The established inventory procedures are for Procurement and Supply to annually prepare and distribute inventory listings to each accountable activity; the activity to perform an inventory and submit any changes to Procurement and Supply; and Procurement and Supply to update the master inventory control record and provide an updated copy to the activity.

Procurement and Supply (P&S) will coordinate with the DEQ and NAP offices to insure annual inventories are performed and the results submitted to P&S.

The Homeland Security Office has added the purchases noted (\$369,122) as not included on their listing to the inventory list. We will attempt to minimize timing differences between recording of assets at the agency and DOF.

Proposed Completion Date: Ongoing

Auditor Response: The CNMI Property Management Policies and Procedures, Section III, page 10 states that “The Division of Procurement and Supply will conduct an annual inventory of property held by each Accountable Person as reflected in the master inventory control record. Further, the Division of Procurement and Supply shall perform random audits of property held by each Accountable Person to validate the integrity of the property control process.”

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment - All Federal Programs

Finding No. 2004-28

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 service, 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 procurement under \$2,500.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented and submitted to the Procurement and Supply Director for approval.
- Purchase orders may be utilized for small purchases subparagraphs (2) and (3).

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

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

Effect: The effect of the above condition is lack of full and open competition on federal funded purchases. No questioned costs result from this finding due to our inability to assess the dollar amount of items less than the threshold that may not have been subject to competitive procurement requirements.

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-28, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree that the CNMI Procurement Regulations do not adequately define small purchase procedures for procurements under \$2,500. The intent of the procurement regulations is to define competitive procedures for all purchases but competitive procedures for items under \$2,500 are not specifically defined. We will amend the CNMI procurement regulations to specifically define the competitive procedures to be used for procurements under \$2,500. The Federal Acquisition Regulations (FAR) procedures for micro purchases appear to be a good model to use in developing our regulations for these purchases.

We still question the statements within the finding about incorporating Federal regulations within our procurement regulations. Our understanding of the Common Rule is that in general local procurement regulations apply unless there is a conflict with Federal laws or regulations.

Proposed Completion Date: 2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Procurement and Suspension and Debarment - All Federal Programs

Finding No. 2004-29

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 travel expenses (i.e., airline tickets, accommodations, transportation, etc.). Currently, the CNMI's travel policies are based on directives and memorandums, which do not require competitive procurement.

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

Effect: The effect of the above condition is noncompliance with federal regulations on federally funded travel and related expenditures.

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

Auditee Response and Corrective Action Plan:

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

Corrective Action: Official CNMI Travel Regulations have been issued in FY2006.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of the Interior
Procurement and Suspension and Debarment - Economic, Social, and Political Development of the
Territories and the Freely Associated States
CFDA #15.875, Federal Award # Fiscal Year 1996 - 2002 Appropriations Act
Federal Award Period Available Until Expended

Finding No. 2004-30

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.

Criteria: During the year ended September 30, 2004, the CNMI executed three change orders related to one contract (contract # 201-OS, change orders # 2, 3 and 4, amounting to \$134,788, \$851,148 and \$992,105, respectively). Change order # 4 exceeded the 25 percent cumulative requirement. Although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement.

Cause: The cause of the above condition is the failure to justify sole source procurement.

Effect: The effect of the above condition is the lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation. The actual expenditures incurred to date, however, are still within the original contract amount; therefore, no questioned costs result at this time.

Recommendation: We recommend that the Division of Procurement and Supply review the contract change orders to ensure justifications are properly documented, filed and maintained.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding that sole source justification cannot be located for change order #4 to this contract. It is our standard practice to review construction and A&E change orders for compliance with 5-103(2). The justification for change order #5 is in the file and change order #4 would have substantially the same justification. This appears to be a case of a misplaced document.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of the Interior
Procurement and Suspension and Debarment - Economic, Social, and Political Development of the Territories and the Freely Associated States
CFDA #15.875, Federal Award # Fiscal Year 1993 and 1996 - 2002 Appropriations Act
Federal Award Period Available Until Expended

Finding No. 2004-31

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) requires that 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; and 5) compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act.

Condition: Of twenty-two contracts relating to expenditures of the Capital Improvement Projects, thirteen contracts (#s 201-OS, 214-OS, 228-OS, 239-OS, 240-OS, 255-OS, 266-OS, 267-OS, 272-OS, 273-OS, 274-OS, 287-OS and 288-OS) did not contain provisions of compliance under Section 306 of the Clean Air Act. In addition, one contract (# 266-OS) did not include compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act.

In addition, of sixty-two nonpayroll expenditures of the Capital Projects Fund tested, one contract (# 364475 OC) did not contain provisions of compliance under Section 306 of the Clean Air Act.

Cause: The cause of the above condition is possibly due to lack of awareness of the Common Rule requirements.

Effect: The effect of the above condition is noncompliance with the Common Rule relating to contract provisions.

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

Prior Year Status: The lack of compliance with the Common Rule relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2003.

Auditee Response and Correction Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-31, Continued

Auditee Response and Correction Action Plan, Continued:

Corrective Action: Contract General Terms and Conditions have been updated to include specific reference to the Clean Air Act. While the Clean Air Act is not specifically cited in older contracts, paragraph 27 of contract general terms requires contractor to be familiar with and comply with all Federal laws and regulations that affect the conduct of the work. Compliance with the Contract Work Hours and Safety Standards Act is included in contract General Terms and Conditions so we are unsure why only one contract was cited. Again, paragraph 27 of contract General Terms and Conditions requires contractor to be familiar with and comply with all Federal laws and regulations that affect conduct of the work.

Proposed Completion Date: Already in compliance

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security
Procurement and Suspension and Debarment - Public Assistance Grants
CFDA #97.036, Federal Award #s MP03PA1447 and MP02PA1430
Federal Award Periods 12/11/02 through completion and 08/06/02 through completion

Finding No. 2004-32

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.

Condition: Of twenty-eight expenditures tested, we noted the following:

- Services rendered for five contracts (including change orders) and one purchase order for a total of \$451,780 were initially procured through verbal agreement between the Department of Public Works - Rota and the contractors in December 2002. The contracts were not procured through competitive means and purchase orders were not procured from a selection of at least three vendors. The project (PW 143) was for Debris Removal on Rota. This procurement method was later ratified by the Mayor of Rota on August 15, 2003 indicating that this was an expedited purchase due to the urgent need to remove debris caused by the disaster. However, invoices reviewed indicate that work was performed over a period of at least four months (December 2002 through April 2003), which is ample time to make the required requests for proper procurement and contract processing from the Division of Procurement and Supply. The related contracts and purchase orders are as follows:

<u>Contract/Purchase Order</u>	<u>Amount</u>
412386 OC & c/o#1	\$ 40,100
412387 OC & c/o#1	44,050
412388 OC & c/o#1	59,860
412389 OC & c/o#1	81,445
412390 OC & c/o#1 & 2	217,825
407146 OP	<u>8,500</u>
Total	\$ <u>451,780</u>

The grantor had originally cited the CNMI for procurement violation related to the above contracts and change orders which resulted in costs reduced to estimated volume of debris removed. Since the amount reimbursed is approved and within scope of work, the underlying cost is not questioned.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-32, Continued

- Lease rental for contract # 412505 OC in the amount of \$25,200 was obtained through a lease agreement entered into between the Department of Public Safety - Rota and the lessor on January 2, 2003 for nine months (January 2003 through September 2003) of which no competitive procurement method was used. The project (PW 117) was for the temporary relocation of the government office on Rota. This method of procurement was later ratified by the Mayor of Rota in November 2003, indicating that sole source was utilized due to the urgent need. However, the required request for proper procurement and contract processing was not made to the Division of Procurement and Supply until fiscal year 2004. The lease agreement was approved by the grantor agency and therefore, the underlying cost is not questioned.

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

Effect: The effect of the above condition is noncompliance with procurement regulations and unauthorized commitments to vendors.

Recommendation: We recommend that the CNMI require that all departments establish policies and procedures consistent with procurement regulations to ensure that all commitments to vendors are obtained and processed through the Division of Procurement and Supply in a timely manner.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree that the contracts noted were originally procured through verbal agreements due to the emergency nature of the typhoon cleanup work to be done. The contracts were later ratified by the expenditure authority with guidance and assistance from Procurement and Supply so that payment could be authorized without contract documents being initially in place. FEMA originally denied reimbursement due to lack of compliance with procurement procedures. However, after FEMA visited Rota and saw the extent of the debris involved, funding for the removal was approved. Procurement procedures have been in place and all departments should be aware of them. Written procedures for procurement and administration of disaster grants were developed and implemented in FY2005.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Agriculture
Reporting - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/03- 09/30/04

Finding No. 2004-33

Criteria: The NAP MOU establishes that the CNMI shall prepare Financial Status Reports (SF-269) to reflect costs to the program as reflected in the CNMI accounting records.

Condition: The SF-269 for the quarter ended September 30, 2003 differed from the CNMI accounting records in the following categories:

	<u>Per SF-269</u>	<u>Per CNMI Records</u>	<u>Variance</u>
Category a - NAP Administration	\$ 1,058,078	\$ 795,432	\$ 262,646
Category b - Management Evaluation Unit	\$ 208,566	\$ 189,594	\$ 18,972
Category c - Retailer and Redemption Unit	\$ 215,323	\$ 168,405	\$ 46,918
Category d - Program Benefits	\$ 8,109,096	\$ 8,387,772	\$ (278,676)

Cause: The cause of the above condition is that the SF-269 was prepared prior to adjustment of expenditure balances in the general ledger for the year ended September 30, 2004.

Effect: The effect of the above condition is incorrect reporting of Federal program expenditures. The actual drawdowns, however, agreed to the amounts recorded in the general ledger; therefore, no questioned costs result.

Recommendation: We recommend that the CNMI ensure required Financial Status Reports are in agreement with the CNMI accounting records.

Auditee Response and Correction Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting and Walter Macaranas, NAP Administrator

Corrective Action: As noted in the finding, the SF-269 was prepared prior to certain adjustments being made to the G/L but drawdowns were made correctly based on the G/L amount. We will make every effort to insure required reports agree with the underlying accounting records.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of the Interior
Reporting - Economic, Social, and Political Development of the Territories and the Freely Associated States
CFDA #15.875, Federal Award #(s) Fiscal Year 1995 - 2003 Appropriations Act
Federal Award Period Available Until Expended

Finding No. 2004-34

Criteria: Total outlays reported to the grantor should correspond to amounts reported per the general ledger and amounts submitted to the grantor agency.

Condition: During our tests of required financial reports to the grantor, we noted the following:

- Of thirty-four nonpayroll expenditures of the Capital Projects Fund tested, seven did not reflect actual expenditures on the CIP Status Report submitted to the grantor agency. Additionally, the federal portion of expenditures requested for reimbursement could not be agreed, as no support was available to reconcile the variances.

Business Unit	Drawdown Per CIP Status Report	Expenditure Per CIP Status Reports (Federal portion only)	Drawdown Variance	Amount Per CIP Status Reports (Total Federal and Local)	Amount Per General Ledger (Total Federal and Local)	General Ledger Variance
5805	\$ 372,239	\$ 359,559	\$ 12,680	\$ 599,266	\$ 599,410	\$ (144)
5101	\$ 214,245	\$ 215,835	\$ (1,590)	\$ 434,952	\$ 431,759	\$ 3,193
5102	\$ 19,942	\$ 32,683	\$ (12,741)	\$ 65,367	\$ 65,367	\$ -
5125	\$ 59,494	\$ 65,229	\$ (5,735)	\$ 130,458	\$ 130,458	\$ -
5170	\$ 97,198	\$ 94,405	\$ 2,793	\$ 190,704	\$ 190,704	\$ -
5135	\$ 550,575	\$ 569,530	\$ (18,955)	\$ 1,139,060	\$ 1,139,060	\$ -
5606	\$ 102,288	\$ 82,527	\$ 19,761	\$ 82,527	\$ 68,773	\$ 13,754

In addition, the drawdown per the CIP Status Report for BU # 5819 did not include \$72,865 representing a drawdown made in July 2004. The related expenditure, however, was properly recorded in FY 2004.

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

Effect: The effect of the above condition is the over/understatement of expenditures/drawdowns reported to the grantor agency. The actual drawdowns, however, agreed to the amounts recorded in the general ledger.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-34, Continued

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 2003.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Coordinator

Corrective Action: Differences occurred due to entries made after report prepared but back dated in the FMS and misposting of drawdowns and Federal/Local share. Correcting entries will be made where needed. In most cases, the differences correct themselves on a cumulative basis.

Proposed Completion Date: FY2005

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Environmental Protection Agency
Reporting - Environmental Protection Consolidated Grants-Program Support
CFDA #66.600, Federal Award # M-009156-04
Federal Award Period 10/01/03 - 09/30/05

Finding No. 2004-35

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 and 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. Further, total outlays reported to the grantor should correspond to amounts recorded on the general ledger.

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

- The SF-269 for the quarter ended September 30, 2004 reported total expenditures that were \$5,312 more than the total expenditures recorded in the general ledger as of September 30, 2004.
- Total expenditures reported per the SF-269 were overstated by \$30,395 versus the cash transaction report (SF-270) as follows:

Total cash outlays reported	\$ 2,091,233
Total cash received per reimbursement	(1,561,279)
IA G & IPA - FY 2003 offset against grant	(261,234)
IPA - FY 2004 offset against grant funds	<u>(238,325)</u>
Over reported amount	\$ <u>30,395</u>

Cause: The cause of the above condition is that the amounts reflected on the SF-269 for the quarter ended September 30, 2004 did not reflect total expenditures as of September 30, 2004. Further, the SF-269 was not updated to reflect fiscal year 2003 expenditures erroneously included in fiscal year 2004.

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting and John Castro, Director, DEQ

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-35, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We will make every effort to insure required reports agree with the underlying accounting records. The differences noted on the reports relate to adjustments posted after the reports were prepared and failure to adjust FY03 expenditures recorded in FY04. DEQ is part of a pilot program in FY2006 to have the grantee agencies prepare the grant financial reports with final review by the Department of Finance.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Health and Human Services
Reporting - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/03 - 09/30/04

Finding No. 2004-36

Criteria: Section 4.4 of the CNMI's Medicaid Operational Plan requires that the Medicaid Agency submit all required reports within specified deadlines. In addition, these reports shall be prepared on an accrual basis, based on financial records maintained by the centralized accounting office (Finance Office) of the CNMI Government.

Condition: Based on our testing of total expenditures reported to the grantor during the year via the CMS 64 Certification, total federal expenditures reported amounted to \$2,122,022. The actual expenditures per the general ledger amounted to \$1,967,669 resulting in a variance of \$154,353. The funds drawn down, however, relate to expenditures recorded in the general ledger and 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 information reported to the grantor is based on the CNMI's financial records as of a specified period.

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 and 2003.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The difference noted between the CMS-64 report and G/L relate to adjustments posted subsequent to the report being prepared and inclusion of local expenditures in excess of the cap. As noted by the auditors, funds drawn down were based on the correct G/L amount. We will review procedures used in preparing the CMS-64 report and insure report agrees to the G/L.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security
Reporting - State Domestic Preparedness Equipment Support Program
CFDA #97.004, Federal Award #s 2003-TE-TX-0162 and 2003-MU-T3-0012
Federal Award Periods 04/01/03 - 03/31/06 and 05/01/03 - 10/31/05

Finding No. 2004-37

Criteria: Total expenditures reported to the grantor should correspond to amounts recorded in the general ledger.

Condition: During tests of outlays reported on the Financial Status Reports (FSRs) for grants 2003-TE-TX-0162 and 2003-MU-T3-0012 as of September 30, 2004, we noted the following variances:

<u>Grant Award</u>	<u>Per CNMI Accounting Records</u>	<u>Per FSRs</u>	<u>Variance</u>
2003-TE-TX-0162	\$1,059,153	\$1,081,767	\$22,614
2003-MU-T3-0012	\$ 833,657	\$ 832,691	\$ (966)

Cause: The cause of the above condition is that subsequent adjustments were made after submission of the FSRs to the grantor. The amounts drawdown represent actual expenditures recorded in the general ledger and therefore, no questioned costs result.

Effect: The effect of the above condition is the over/understatement of expenditures reported to the grantor agency.

Recommendation: We recommend that the CNMI Department of Finance ensure subsequent adjustments/changes in the general ledger are reported to the grantor agency.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director, Finance & Accounting and Homeland Security Office, Office of the Governor

Corrective Action: The differences noted between the Financial Status Reports (FSRs) and G/L relate to adjustments posted subsequent to the report being prepared. As noted by the auditors, funds drawn down were based on the correct G/L amount. We will review procedures used in preparing the FSRs and insure report agrees to the G/L

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security
Reporting - Public Assistance Grants
CFDA #97.036, Federal Award #s MP03PA1447 and MP02PA1430
Federal Award Periods 12/11/02 through completion and 08/06/02 through completion

Finding No. 2004-38

Criteria: Financial Status Reports (FEMA 20-10) and Federal Cash Transaction Reports (SF-272) should reflect actual expenditures.

Condition: Of twenty-eight expenditures tested, twelve were erroneously reported on the Financial Status Reports as follows:

- For Typhoon Pongsona FEMA 20-10 for quarter ended September 30, 2004, federal share is reported at 81% of total eligible costs rather than the established 90% cost share for the following:

<u>Business Unit</u>	<u>Total Eligible Costs</u>	<u>Federal Share @ 90%</u>	<u>Federal Share @ 81% (FSR)</u>	<u>Variance</u>
M35444.62480	\$ 422,230	\$ 380,007	\$ 342,006	\$ (38,001)
M3544G.65420	\$ 54,523	\$ 49,070	\$ 44,163	(4,907)
M3544G.64560	\$ 45,400	\$ 40,860	\$ 36,774	<u>(4,086)</u>

Total underreported federal share: \$ (46,994)

- For Typhoon Chata'an FEMA 20-10 for the quarter ended September 30, 2004, the federal share was reported as 100% of eligible costs instead of the established 90% for cost center M3544O. The total cumulative federal share should be reported at \$81,886. However, the federal share reported per FEMA 20-10 was \$90,984 resulting in an over reported federal share of \$9,098.

Cause: The cause of the above condition is miscommunication between the Public Assistance Office, which is responsible for indicating which general ledger accounts are to be charged, and the Federal Grants Division, which is responsible for preparation of the Federal reports.

Effect: Although the expenditures were misreported on the FEMA 20-10, tests of federal drawdown and expenditures indicated that the CNMI did not draw down funds in excess of what they were entitled to for the cost centers indicated above. Therefore, the effect of the above condition is noncompliance with reporting requirements but does not result in questioned costs.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative and Bernadita C. Palacios, Acting Director, Finance & Accounting

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-38, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree with the finding. The reporting errors occurred due to inconsistency in the accounts used to record the local matching share. However, as noted in the finding, drawdowns were done using the correct amounts.

We plan to consolidate both the Federal and local portion of FEMA expenditures in one account in the future to address confusion over what accounts to report for total expenditures. In addition, responsibility for preparation of the FEMA 20-10 report will be transferred to the Public Assistance Office.

Proposed Completion Date: FY2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/03- 09/30/04

Finding No. 2004-39

Criteria: Section 24 of the Memorandum of Understanding (MOU) and Title X, Section A & B of the NAP Manual of Operations provides certain requirements for food retail stores to become eligible as a NAP Authorized Retailer. The procedures/requirements include: the processing of the NAP Authorized Retailer application within thirty days from receipt, applicants must carry at least 10% local food products from its gross sales and quarterly compliance visits to "high redeemers" to investigate nature of such high redemption rates.

Condition: Of thirteen NAP authorized retailers tested, one retailer failed to submit a copy of its Quarterly Business Gross Revenue Tax. The retailer was not disqualified.

Compliance visits to "high redeemers" and on-site inspections were not performed during the fiscal year ended September 30, 2004.

Cause: The cause of the above condition is (a) noncompliance with requirements of the NAP Manual of Operations and (b) inadequate manpower at the Retailer & Redemption Unit, resulting in a compromise of monitoring activities.

Effect: The effect of the above condition is noncompliance with the specific requirements of MOU and Manual of Operations.

Recommendation: We recommend that the CNMI ensure that NAP Authorized Retailers are in compliance with all eligibility requirements. If certain requirements may not be met, the grantor agency should be consulted.

Prior Year Status: Noncompliance with the specific requirements of the MOU and Manual of Operations was reported as a finding in the Single Audits of the CNMI for fiscal years 2001 through 2003.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Walter Macaranas, NAP Administrator

Corrective Action: We agree with the finding. The retailer in question was not disqualified due to ongoing discussions regarding tax confidentiality and breakout of sales by each location. These issues were resolved and the retailer began submitting the quarterly tax returns in 2005.

Lack of compliance visits resulted from lack of manpower and the need to use the 2 FTE's from the Retailer and Redemption Unit to assist in the disaster coupon issuance operation. We expect the compliance inspections to resume in 2005.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Health and Human Services
Special Tests and Provisions - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/03 - 09/30/04

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/03- 09/30/04

Finding No. 2004-40

Criteria: Policies and procedures should be established for systems security and offsite storage of backup files for the Automated Data Processing (ADP) system.

Condition: Our review of the ADP system at the Medicaid Office indicated that daily back-ups of the system has recently been implemented. However, only a single back-up is performed, which is retained in an unsecured area at the Medicaid Office. A second back-up is not being performed on a periodic basis (e.g., monthly or quarterly). In addition, there are no passwords to provide security to electronic files (such as accounting records and the eligibility database) to control or monitor access.

During our review of the ADP system at the Food Stamps office, we noted that back-ups of the system are performed weekly and disks are stored in an office safe. A second back up however, is not being performed on a periodic basis (e.g., monthly or quarterly), which should be maintained at a secured external facility.

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

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.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen C. Sablan, Medicaid Administrator and Walter Macaranas, NAP Administrator

Corrective Action:

Medicaid: We agree with the finding. The Medicaid Office recently purchased new computers that provide a user security function. See Finding 2004-26 corrective action plan. User security was not available on the old system. In conjunction with the installation of the new computers, backup and security procedures were revised and a second monthly backup is stored at the EDP Office.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

Finding No. 2004-40, Continued

Auditee Response and Corrective Action Plan, Continued:

NAP: We agree with the finding. NAP will begin storing a monthly backup at the EDP Office.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/03- 09/30/04

Finding No. 2004-41

Criteria: The NAP Memorandum of Understanding (MOU), Section 22 requires that at the end of each month, the CNMI will perform a reconciliation of all transacted authorizations to participate (ATP) and shall be responsible for the security, accountability and destruction upon redemption of all NAP coupons.

Condition: Physical inventories of food stamp coupons for regular and disaster benefits were performed forty-seven days and one hundred fifty-nine days, respectively, after September 30, 2004. Further, destruction of unusable coupons upon verification of the Issuance and Accountability Unit was not performed. A physical inventory of food stamp coupons resulted in a variance of \$1,130,524 between NAP's records and the physical count.

Cause: The cause of the above condition is a delay in the submission of reports from the issuance agent related to coupons issued and a lack of manpower to perform the disaster operation coupon reconciliation and the physical inventory.

Effect: The effect of the above condition is noncompliance with Section 22 of the MOU.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Walter Macaranas, NAP Administrator

Corrective Action: We agree with the finding. The delays occurred due to lack of manpower to enter, inventory and reconcile disaster coupons. Disaster operations processed 11,000 households and 35,000 cases. Since these were issued on a manual basis, 5 months of data entry were required before the reporting, inventory and reconciliation process could occur. NAP staffing levels reflect normal operations and there was no increase in staff to handle disaster operations as well. While a number of compliance functions were delayed, they were completed.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/03- 09/30/04

Finding No. 2004-42

Criteria: The NAP Memorandum of Understanding (MOU) requires the establishment of procedures for operating Emergency Food Assistance for victims of disasters such as the use of the Emergency Food Assistance Procedures set out in the Manual of Operations, Exhibit D, submission of the Summary Report to the Food and Nutrition Service using Form Food and Nutrition Service-292, Report of Coupon Issuance and Commodity Distribution for Disaster Relief and conduct post review of disaster certification activities, among others.

Condition: NAP did not perform the Emergency Food Assistance procedures set forth in its Manual of Operations, Exhibit D. The submission of Form Food and Nutrition Service-292 and the Report of Coupon Issuance and Commodity Distribution for Disaster Relief was delayed for seventy-nine days. Additionally, a post review was not performed by the Management Evaluation Unit.

Cause: The cause of the above condition is (a) lack of understanding of the requirements set forth in the MOU and in the Manual of Operations, (b) internal delays in the preparation of reports and (c) inadequate manpower to perform additional tasks brought about by the disaster operations.

Effect: The effect of the above condition is noncompliance with the MOU and the Manual of Operations.

Recommendation: We recommend that the CNMI comply with the MOU and the Manual of Operations.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Walter Macaranas, NAP Administrator

Corrective Action: We agree with the finding. NAP staffing levels reflect normal operations and there was no increase in staff to handle disaster operations as well. While a number of compliance functions were delayed, they were completed.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Homeland Security
Special Tests and Provisions - State Domestic Preparedness Equipment Support Program
CFDA #97.004, Federal Award #s 2003-TE-TX-0162, 2003-MU-T3-0012
Federal Award Periods 04/01/03 - 03/31/06 and 05/01/03 - 10/31/05

Finding No. 2004-43

Criteria: Recipients of the Fiscal Year 2003 State Homeland Security Grant Program in accordance with the guidelines provided in the Fiscal Year 2003 Homeland Security Grant Program II application kit, are required to obligate funds awarded within forty-five days of the grant award date.

Condition: The CNMI received the Fiscal Year 2003 State Homeland Security Grant Program II Award on June 20, 2003. A letter to the grantor acknowledging compliance with the forty-five day obligation requirement was sent to the grantor on February 25, 2004.

Cause: The cause of the above condition is due to internal delays in obligating the funds.

Effect: The effect of the above condition is lack of adherence to the Fiscal Year 2003 Homeland Security Grant Program II conditions.

Recommendation: We recommend that the CNMI ensure all program requirements of the grantor are strictly adhered to.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Office of Homeland Security, Governor's Office

Corrective Action: We disagree with the finding. The 45-day obligation requirement only applies to the pass-through of funds from the state to the local level. This is not applicable to the CNMI as all homeland security functions are at the state level.

Proposed Completion Date: Already in compliance

Auditor Response: The supporting document to waive the 45-day requirement has not been provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2004

U.S. Department of Health and Human Services
Special Tests and Provisions - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/03 - 09/30/04

Finding No. 2004-44

Criteria: In accordance with Section 4.7 of the Medicaid Operational Plan, Medicaid must maintain agreements with all providers in the CNMI and Guam who furnish services reimbursable by Medicaid.

Condition: The Service Provider Agreement for the CNMI Public Health Clinic covered the period from January 1, 2004 to January 1, 2005. The agreement did not cover the entity's medical staff or the expiration of related medical licenses. The agreement covering the period October 2003 through December 2003 was not locatable. However, expenditures with this provider were incurred during this timeframe.

Cause: The cause of the above condition is the lack of proper file maintenance.

Effect: The effect of the above condition is that expenditures may be unallowable and may result in questioned costs.

Recommendation: We recommend that the Medicaid office ensure all service provider agreements are kept current, are filed and are properly maintained.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding. A provider agreement has been sent to the CNMI Public Health Clinic but has not been returned as yet. The only expenditures relate to provision of anti hemophiliac medications.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2004

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, 2004:

	<u>Questioned Costs</u>		
	<u>Primary Government</u>	<u>Subrecipient</u>	<u>Total</u>
Questioned costs as previously reported	\$ 293,088	\$ -	\$ 293,088
Less questioned costs resolved in fiscal year 2004:			
Questioned costs of fiscal year 2001 Single Audit (1)	<u>(145,572)</u>	<u>-</u>	<u>(145,572)</u>
	147,516	-	147,516
Questioned costs of fiscal year 2004 Single Audit	<u>2,700,930</u>	<u>-</u>	<u>2,700,930</u>
Unresolved questioned costs at September 30, 2004	\$ <u>2,848,446</u>	\$ <u>-</u>	\$ <u>2,848,446</u>

- (1) OMB Circular A-133, Section .315(b)(4) - questioned costs resolved as the CNMI considers these findings are no longer valid as they were reported to federal agencies in excess of the two year threshold as of September 30, 2004.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 40 through 103).



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, 2003:

Financial Statement Findings Section

- Finding No. 2003-1 - Corrective action was taken.
- Finding No. 2003-2 - Corrective action was taken.
- Finding No. 2003-3 - Not corrected. See corrective action plan to Finding No. 2004-3.
- Finding No. 2003-4 - Not corrected. See corrective action plan to Finding No. 2004-4.
- Finding No. 2003-5 - Corrective action was taken.
- Finding No. 2003-6 - Not corrected. See corrective action plan to Finding No. 2004-5.
- Finding No. 2003-7 - Not corrected. See corrective action plan to Finding No. 2004-6.
- Finding No. 2003-8 - Not corrected. See corrective action plan to Finding No. 2004-7.
- Finding No. 2003-9 - Not corrected. See corrective action plan to Finding No. 2004-10.
- Finding No. 2003-10 - Corrective action was taken.
- Finding No. 2003-11 - Not corrected. See corrective action plan to Finding No. 2004-11.
- Finding No. 2003-13 - Not corrected. See corrective action plan to Finding No. 2004-20.

Federal Award Findings and Questioned Costs Section

- Finding No. 2003-12 - Not corrected. See corrective action plan to Finding No. 2004-15.
- Finding No. 2003-13 - Not corrected. See corrective action plan to Finding No. 2004-20.
- Finding No. 2003-14 - Not corrected. See corrective action plan to Finding No. 2004-21.
- Finding No. 2003-15 - Not corrected. See corrective action plan to Finding No. 2004-22.
- Finding No. 2003-16 - Not corrected. See corrective action plan to Finding No. 2004-23.
- Finding No. 2003-17 - Not corrected. See corrective action plan to Finding No. 2004-26.

Federal Award Findings and Questioned Costs Section, Continued

- Finding No. 2003-18 - Not corrected. See corrective action plan to Finding No. 2004-27.
- Finding No. 2003-19 - Not corrected. See corrective action plan to Finding No. 2004-31.
- Finding No. 2003-20 - Corrective action was taken.
- Finding No. 2003-21 - Not corrected. See corrective action plan to Finding No. 2004-34.
- Finding No. 2003-22 - Not corrected. See corrective action plan to Finding No. 2004-35.
- Finding No. 2003-23 - Not corrected. See corrective action plan to Finding No. 2004-36.
- Finding No. 2003-24 - Not corrected. See corrective action plan to Finding No. 2004-39.
- Finding No. 2003-25 - Corrective action was taken.
- Finding No. 2003-26 - Corrective action was taken.
- Finding No. 2003-27 - Not corrected. See corrective action plan to Finding No. 2004-40.