

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2005

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, 2005, and have issued our report thereon dated June 16, 2006, which report was qualified due to: 1) our inability to determine the propriety of taxes receivable, advances, accounts payable, tax rebates payable, and other liabilities and accrual balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information, and the reserve for continuing appropriation balances for the General Fund and the aggregate remaining fund information; 2) our inability to determine the propriety of capital assets and related depreciation expense of the Northern Marianas College; and 3) had the financial statements of the Commonwealth Utilities Corporation been audited. 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 39 through 115) as items 2005-1 through 2005-10, 2005-21, 2005-28 and 2005-29.

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 2005-1, 2005-5, 2005-6, 2005-7, 2005-9, 2005-10, 2005-21, 2005-28 and 2005-29 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 2005-11, 2005-21, 2005-28 and 2005-29.

We also noted certain additional matters that we reported to management of the CNMI in a separate letter dated June 16, 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

June 16, 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, 2005. 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 39 through 115). 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 2005-12 through 2005-48 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; matching, level of effort, earmarking; procurement and suspension and debarment; reporting; subrecipient monitoring; and special tests and provisions that are applicable to its major federal programs described in the Federal Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs (page 40). 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, 2005.

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 2005-12 through 2005-48.

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 2005-21 and 2005-29 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, 2005, and have issued our report thereon dated June 16, 2006, which report was qualified due to: 1) our inability to determine the propriety of taxes receivable, advances, accounts payable, tax rebates payable, and other liabilities and accrual balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information, and the reserve for continuing appropriation balances for the General Fund and the aggregate remaining fund information; 2) our inability to determine the propriety of capital assets and related depreciation expense of the Northern Marianas College; and 3) had the financial statements of the Commonwealth Utilities Corporation been audited.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the CNMI's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 34) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the CNMI. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of accounts payable and other liabilities and accrual balances for the Federal Grants Fund, the DOI Capital Projects Fund and the aggregate remaining fund information been determinable, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Deloitte & Touche LLC

June 16, 2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Programs Selected for Audit
in Accordance with OMB Circular A-133
Year Ended September 30, 2005

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

<u>Grantor</u>	<u>CFDA #</u>	<u>Description</u>	<u>Amount of Expenditures</u>
U.S. Department of the Interior	15.875	Economic, Social and Political Development of the Territories: Capital Improvement Projects Fiscal Year 2005 Compact Impact	\$ 16,544,191 5,171,914
U.S. Department of Agriculture	10.551	Food Stamps	8,763,500
U.S. Department of Labor	17.258 17.259 17.260	WIA Adult Program WIA Youth Activities WIA Dislocated Workers	253,672 172,103 2,541,189
U.S. Environmental Protection Agency	66.600	Environmental Protection Consolidated Grants - Program Support	2,390,712
U.S. Department of Health and Human Services	93.778	Medical Assistance Program	2,211,441
U.S. Department of Homeland Security	97.036	Public Assistance Grant	<u>4,607,641</u>
		Total program expenditures tested	\$ <u>42,656,363</u>
		Total program expenditures	\$ 65,444,519
		Unallocated expenditures	<u>130,493</u>
		Total federal program expenditures	\$ <u>65,575,012</u>
		% of total federal program expenditures tested	<u>65%</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary Schedule of Expenditures of Federal Awards by Grantor
Federal Grants Fund
Year Ended September 30, 2005

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. Department of the Treasury	\$ (1,183,386)	\$ -	\$ 718,483	\$ (464,903)
U.S. Department of Agriculture	3,128,414	11,395,905	9,299,646	1,032,155
U.S. Department of Commerce	345,678	536,539	1,628,260	1,437,399
Institute of Museum and Library Services	139,441	132,262	137,873	145,052
U.S. Department of Education	922,762	140,575	1,429,112	2,211,299
U.S. Department of Energy	133,967	543,935	465,479	55,511
U.S. Department of Defense	75,973	94,534	87,532	68,971
U.S. Environmental Protection Agency	429,296	2,384,010	2,390,712	435,998
U.S. Department of Homeland Security	45,486	6,016,274	6,844,539	873,751
U.S. Department of Health and Human Services	3,084,764	6,516,061	8,514,362	5,083,065
U.S. Department of Housing and Urban Development	(55,672)	-	-	(55,672)
U.S. Department of the Interior	6,737,401	13,103,302	8,509,494	2,143,593
U.S. Department of Justice	1,057,739	2,430,213	2,373,344	1,000,870
U.S. Department of Labor	880,061	3,090,935	3,439,748	1,228,874
U.S. National Endowment for the Arts	591,976	272,801	191,612	510,787
U.S. Department of Transportation	574,992	822,114	900,502	653,380
U.S. Department of Veterans Affairs	200,000	-	-	200,000
Unallocated cash receipts/expenditures	(615,606)	444,236	130,493	(929,349)
GRAND TOTAL	<u>\$ 16,493,286</u>	<u>\$ 47,923,696</u>	<u>\$ 47,061,191</u>	<u>\$ 15,630,781</u>

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

Reconciliation:

Receivable from grantor at September 30, 2005	\$ 15,630,781
Provision for uncollectible accounts	(3,843,022)
	<u>\$ 11,787,759</u>
Expenditures per above	\$ 47,061,191
Local match	2,212,016
	<u>\$ 49,273,207</u>
Expenditures per Statement of Revenues and Changes in Fund Balance	\$ 43,945,119
Transfers Out	5,328,088
	<u>\$ 49,273,207</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, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
U.S. DEPARTMENT OF THE TREASURY					
21.Unknown	Tax Relief Recon Act 2003	\$ (1,183,386)	\$ -	\$ 718,483	\$ (464,903)

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF AGRICULTURE					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 22,212	\$ -	\$ 6,924	\$ 29,136
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	55,861	72,468	43,784	27,177
10.551	Food Stamps	2,849,500	11,087,115	8,763,500	525,885
10.570	Nutrition Services Incentive	68,195	-	-	68,195
10.664	Cooperative Forestry Assistance	(48,083)	236,322	485,438	201,033
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	\$ 3,128,414	\$ 11,395,905	\$ 9,299,646	\$ 1,032,155

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF COMMERCE					
11.Unknown	CENSUS 2000 PL105-277	\$ (365)	\$ -	\$ -	\$ (365)
11.407	Interjurisdictional Fisheries Act of 1986	6,954	-	7,402	14,356
11.419	Coastal Zone Management Administration	292,030	337,313	1,353,052	1,307,769
11.426	Financial Assistance for National Centers for Coastal Ocean Science	24,539	64,488	78,853	38,904
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	17,918	-	-	17,918
11.432	Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	-	34,738	29,138	(5,600)
11.437	Pacific Fisheries Data Program	3,873	100,000	113,370	17,243
11.452	Unallied Industry Projects	729	-	46,445	47,174
	TOTAL	\$ 345,678	\$ 536,539	\$ 1,628,260	\$ 1,437,399

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, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES					
45.310	State Library Program	\$ 139,441	\$ 132,262	\$ 137,873	\$ 145,052

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF 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	683,408	170,303	970,417	1,483,522
84.154	Library Construction	8,833	-	-	8,833
84.169	Independent Living_State Grants	12,714	9,356	14,268	17,626
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	9,634	5,900	30,551	34,285
84.187	Supported Employment Services for Individuals with Severe Disabilities	46,641	(47,641)	(43,523)	50,759
84.224	Assistive Technology	149,071	-	420,765	569,836
84.265	Rehabilitation Training_State Vocational Rehabilitation In-Service Training	10,731	2,657	36,634	44,708
	TOTAL	\$ 922,762	\$ 140,575	\$ 1,429,112	\$ 2,211,299

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF ENERGY					
81.041	State Energy Program	\$ 154,672	\$ 540,436	\$ 459,418	\$ 73,654
81.052	Energy Conservation for Institutional Building	(21,249)	-	-	(21,249)
81.074	Consolidated Grant	544	-	-	544
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	-	3,499	6,061	2,562
	TOTAL	\$ 133,967	\$ 543,935	\$ 465,479	\$ 55,511

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, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
U.S. DEPARTMENT OF DEFENSE					
12.113	State Memorandum of Agreement for the Reimbursement of Technical Services	\$ 2,085	\$ 14,332	\$ 859	\$ (11,388)
61.755	U.S. Dept. of Defense (Navy)	<u>73,888</u>	<u>80,202</u>	<u>86,673</u>	<u>80,359</u>
	TOTAL	<u>\$ 75,973</u>	<u>\$ 94,534</u>	<u>\$ 87,532</u>	<u>\$ 68,971</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund
 Year Ended September 30, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY					
66.600	Environmental Protection Consolidated Grants - Program Support	\$ 428,201	\$ 2,384,010	\$ 2,390,712	\$ 434,903
66.951	Environmental Education Grants	1,095	-	-	1,095
	TOTAL	\$ 429,296	\$ 2,384,010	\$ 2,390,712	\$ 435,998

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF HOMELAND SECURITY					
97.004	State Domestic Preparedness Equipment Support Program	\$ 279,452	\$ 937,098	\$ 1,148,208	\$ 490,562
97.012	Boating Safety Financial Assistance	482,955	-	207,397	690,352
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	-	-	216	216
97.024	Emergency Food and Shelter National Board Program	3,862	-	12,356	16,218
97.029	Flood Mitigation Assistance	(1)	-	-	(1)
97.032	Crisis Counseling	10,284	90,516	80,232	-
97.034	Disaster Unemployment Assistance	(99)	54,604	55,593	890
97.036	Public Assistance Grants	(629,259)	4,676,969	4,607,641	(698,587)
97.039	Hazard Mitigation Grant	(1,647)	77,811	127,703	48,245
97.042	Emergency Management Performance Grants	59,561	193,198	402,370	268,733
97.053	Citizen Corps	-	-	9,518	9,518
97.067	Homeland Security Grant Program	-	-	153,495	153,495
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	-	-	38,976	38,976
83.011	SARA Title III Training	(114)	-	-	(114)
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	(95,064)	(13,922)	834	(80,308)
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	\$ 45,486	\$ 6,016,274	\$ 6,844,539	\$ 873,751

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
93.003	Public Health and Social Services Emergency Fund	\$ 11,257	\$ 526,132	\$ 636,760	\$ 121,885
93.044	Special Programs for the Aging TitleIII, Part B Grants for Supportive Services and Senior Centers	262,775	-	220,041	482,816
93.045	Special Programs for the Aging TitleIII, Part C Nutrition Services	(3,936)	-	362,966	359,030
93.046	Aging - In Home Services	(8,862)	-	-	(8,862)
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	(2,299)	59,137	67,751	6,315
93.052	National Family Caregiver Support	13,494	-	90,910	104,404
93.053	Nutrition Services Incentive Program	61,260	-	(17)	61,243
93.110	Maternal and Child Health Federal Consolidated Programs	21,036	84,182	76,397	13,251
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	3,639	90,351	120,250	33,538
93.127	Emergency Medical Services for Children	22,502	-	77,138	99,640
93.150	Projects for Assistance in Transition from Homelessness (PATH)	9,124	53,844	46,474	1,754
93.217	Family Planning Services	63,841	105,080	82,156	40,917
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	11,606	14,918	3,311	(1)
93.234	Traumatic Brain Injury State Demonstration Grant Program	733	56,632	67,171	11,272
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	470	37,734	57,821	20,557
93.251	Universal Newborn Hearing Screening	6,599	88,119	88,860	7,340
93.268	Immunization Grants	51,002	323,039	293,314	21,277
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	61,035	304,219	474,879	231,695
93.556	Promoting Safe and Stable Families	3,996	-	-	3,996
93.557	Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	1,470	10,167	11,148	2,451
93.568	Low-Income Home Energy Assistance	154,217	230,060	184,069	108,226
93.610	Family Services	474,462	-	-	474,462
93.612	Native American Programs	57,119	182,835	125,715	(1)
93.623	Basic Center Grant	10,373	-	-	10,373
93.630	Developmental Disabilities Basic Support and Advocacy Grant	72,209	-	159,616	231,825

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED					
93.631	Developmental Disabilities Projects of National Significance	20,112	-	166,153	186,265
93.667	Social Services Block Grant	182,871	538,746	1,215,351	859,476
93.669	Child Abuse and Neglect State Grants	2,045	-	-	2,045
93.767	State Children's Insurance Program	565,837	565,837	-	-
93.778	Medical Assistance Program	579,722	2,457,954	2,211,441	333,209
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demon- strations and Evaluations	83,487	310,262	284,367	57,592
93.782	Medicare Transitional Drug Assistance Program for Territories	-	73,463	73,463	-
93.824	Basic/Core Area Health Education Centers	-	4,811	93,306	88,495
93.871	Community Youth Program	(5,000)	-	-	(5,000)
93.917	HIV Care Formula Grants	4,668	16,125	11,457	-
93.919	Cooperative Agreements for State- Based Comprehensive Breast and Cervical Cancer Early Detection Programs	(4)	-	-	(4)
93.940	HIV Prevention Activities_Health Department Based	34,339	34,343	-	(4)
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	55,450	158,958	119,735	16,227
93.944	Human Immunodeficiency Virus (HIV) /Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	-	220	220	-
93.952	Trauma Care Systems Planning and Development	(1)	9,599	21,498	11,898
93.958	Block Grants for Community Mental Health Services	12,378	20,000	88,430	80,808
93.959	Block Grants for Prevention and Treatment of Substance Abuse	60,697	-	325,617	386,314
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants	12,559	107,791	135,563	40,331
93.988	Cooperative Agreements for State- Based Diabetes Control Programs and Evaluation of Surveillance Systems	99,303	1,203	88,386	186,486
93.991	Preventive Health and Health Services Block Grant	3,158	50,300	57,771	10,629
93.994	Maternal and Child Health Services Block Grant to the States	13,459	-	374,874	388,333
	TOTAL	<u>\$ 3,084,764</u>	<u>\$ 6,516,061</u>	<u>\$ 8,514,362</u>	<u>\$ 5,083,065</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund
 Year Ended September 30, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF 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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF THE INTERIOR					
15.605	Sport Fish Restoration	\$ 294,804	\$ 862,894	\$ 712,678	\$ 144,588
15.611	Wildlife Restoration	25,119	215,295	227,638	37,462
15.614	Coastal Wetlands Planning, Protection and Restoration Act	-	-	2,000	2,000
15.615	Cooperative Endangered Species Conservation Fund	10,614	100,074	89,684	224
15.622	Sportfishing and Boating Safety Act	135,540	184,359	65,123	16,304
15.634	State Wildlife Grants	13,019	132,323	125,456	6,152
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands	695,462	1,264,529	1,774,034	1,204,967
	Compact Impact	5,171,914	10,343,828	5,171,914	-
15.876	Unknown	40,786	-	-	40,786
15.904	Historic Preservation Fund Grants- In-Aid	348,929	-	340,731	689,660
15.916	Outdoor Recreation Acquisition, Development and Planning	1,214	-	236	1,450
	TOTAL	<u>\$ 6,737,401</u>	<u>\$ 13,103,302</u>	<u>\$ 8,509,494</u>	<u>\$ 2,143,593</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund
 Year Ended September 30, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF JUSTICE					
16.004	Law Enforcement Assistance Narcotics and Dangerous Drugs Training	\$ (2,764)	\$ -	\$ -	\$ (2,764)
16.047	Drug Enforcement	20,000	-	-	20,000
16.523	Juvenile Accountability Incentive Block Grants	14,334	33,690	45,329	25,973
16.540	Juvenile Justice and Delinquency Prevention Allocation to States	41,441	85,799	105,146	60,788
16.541	Developing, Testing and Demonstrating Promising New Programs	42,921	41,715	66,677	67,883
16.542	Part D - Research, Evaluation, Technical Assistance and Training	-	133	2,393	2,260
16.548	Title V Delinquency Prevention Program	21,524	5,363	25,025	41,186
16.550	State Justice Statistics Program for Statistical Analysis Centers	28,372	45,584	30,597	13,385
16.554	National Criminal History Improvement Program	38,756	332,399	321,714	28,071
16.575	Crime Victim Assistance	81,984	256,093	260,718	86,609
16.579	Byrne Formula Grant Program	142,316	449,325	453,104	146,095
16.583	Children's Justice Act Partnerships for Indian Communities	109,500	135,577	166,314	140,237
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	67,013	6,199	209,130	269,944
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	2,553	183,428	275,213	94,338
16.592	Local Law Enforcement Block Grants	(166,174)	-	55,491	(110,683)
16.609	Community Prosecution and Project Safe Neighborhoods	-	-	19,618	19,618
16.710	Public Safety Partnership and Community Policing Grants	615,963	854,908	336,875	97,930
	TOTAL	<u>\$ 1,057,739</u>	<u>\$ 2,430,213</u>	<u>\$ 2,373,344</u>	<u>\$ 1,000,870</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
 Federal Grants Fund
 Year Ended September 30, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF LABOR					
17.235	Senior Community Service Employment Program	\$ 91,975	\$ 168,034	\$ 276,763	\$ 200,704
17.250	Job Training Partnership Act	2,502	-	-	2,502
17.258	WIA Adult Program	298,337	372,443	253,672	179,566
17.259	WIA Youth Activities	225,131	304,058	172,103	93,176
17.260	WIA Dislocated Workers	231,844	2,159,909	2,541,189	613,124
17.504	Consultation Agreements	30,272	86,491	196,021	139,802
	TOTAL	\$ 880,061	\$ 3,090,935	\$ 3,439,748	\$ 1,228,874

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, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
U.S. NATIONAL ENDOWMENT FOR THE ARTS					
45.025	Promotion of the Arts Partnership Agreements	\$ 591,976	\$ 272,801	\$ 191,612	\$ 510,787

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF TRANSPORTATION					
20.218	National Motor Carrier Safety	\$ 221,488	\$ 321,602	\$ 393,392	\$ 293,278
20.600	State and Community Highway Safety	341,276	496,570	476,236	320,942
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	12,228	3,942	30,874	39,160
	TOTAL	\$ 574,992	\$ 822,114	\$ 900,502	\$ 653,380

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, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS					
64.203	State Cemetery Grants	\$ 200,000	\$ -	\$ -	\$ 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, 2005.

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories				
	Second Covenant FY93 and FY94 Appropriations Act Grants	\$ 1,188,957	\$ 2,863,783	\$ 2,784,223	\$ 1,109,397
	FY95 Appropriations Act Grant	915,162	1,897,269	1,877,846	895,739
	FY96 - FY02 Appropriations Act Grant	91,213	60,575	27,905	58,543
	Public School System P.L. 11-89	5,304,378	14,377,993	14,108,661	5,035,046
	CDA CIP Bond App. Act 2000	201,021	1,168,450	611,571	(355,858)
	P.L. 11-119	1,664	221,278	220,225	611
	FY04 Appropriations Act Grant	68,773	4,526,534	4,484,339	26,578
		7,771,168	25,115,882	24,114,770	6,770,056
	Less local match	-	(7,570,579)	(7,570,579)	-
	TOTAL	\$ 7,771,168	\$ 17,545,303	\$ 16,544,191	\$ 6,770,056
Reconciliation:					
	Receivable from grantor at September 30, 2005				\$ 6,770,056
	Provision for uncollectible accounts				(5,656,059)
					\$ 1,113,997
	Federal awards expenditures, as stated above			\$ 24,114,770	
	Debt service related:				
	Principal			1,365,000	
	Interest			3,809,263	
	Transfers out			1,293,950	
	Reprogramming adjustment, local match			(2,900,000)	
				\$ 27,682,983	

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories				
	CDA Project Series-I Revenue Bonds	\$ (129,293)	\$ -	\$ -	\$ (129,293)
	CDA/Governor's Grant No. 2	(522,117)	-	-	(522,117)
	1st Covenant	554,765	250,159	266,801	571,407
	Other	(50,670)	-	-	(50,670)
	TOTAL	\$ (147,315)	\$ 250,159	\$ 266,801	\$ (130,673)

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, 2005

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. Environmental Protection Agency	\$ (4,800)	\$ -	\$ -	\$ (4,800)
U.S. Department of Transportation	473,599	1,006,625	1,660,820	1,127,794
U.S. Department of Homeland Security	327,586	85,134	35,280	277,732
U.S. Department of the Interior	93,064	46,436	6,729	53,357
U.S. Department of Commerce	1,220	-	-	1,220
Unallocated	(1,122,359)	33,393	-	(1,155,752)
GRAND TOTAL	<u>\$ (231,690)</u>	<u>\$ 1,171,588</u>	<u>\$ 1,702,829</u>	<u>\$ 299,551</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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. 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, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
	U.S. DEPARTMENT OF TRANSPORTATION				
20.205	Highway Planning and Construction	\$ 473,599	\$ 1,006,625	\$ 1,660,820	\$ 1,127,794

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, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
	U.S. DEPARTMENT OF HOMELAND SECURITY				
83.516	Disaster Assistance	\$ 327,586	\$ 85,134	\$ 35,280	\$ 277,732

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, 2005

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2004</u>	<u>Cash Receipts FY05</u>	<u>Expenditures FY05</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2005</u>
	U.S. DEPARTMENT OF THE INTERIOR				
15.875	Economic, Social, and Political Development of the Territories	\$ 93,064	\$ 46,436	\$ 6,729	\$ 53,357

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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
	U.S. DEPARTMENT OF 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, 2005

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2004	Cash Receipts FY05	Expenditures FY05	Receivable From Grantor (Deferred Revenue) at September 30, 2005
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories	\$ 19,629	\$ -	\$ -	\$ 19,629

Reconciliation of expenditures to the CNMI's financial statements for the year ended September 30, 2005:

Federal awards expenditures, as stated above	\$ -
Local share	86,583
	<u>\$ 86,583</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, 2005

(1) Scope of Review

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

Programs Subject to Single Audit

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

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

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

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

b. Reporting Entity

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

Commonwealth Ports Authority
Commonwealth Development Authority
Northern Marianas College

Cumulative questioned costs reported for completed Single Audits of the above entities for the year ended September 30, 2005, are as follows:

Northern Marianas College \$ 137,405

The amount above does 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, 2005 for the following entities:

Commonwealth Ports Authority
Commonwealth Development Authority

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

Commonwealth Utilities Corporation
Public School System

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

c. Subgrantees

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

Commonwealth Ports Authority

The Commonwealth Ports Authority (CPA), a discretely presented component unit, receives funds in a subrecipient capacity through the CNMI. CPA's Single Audit report includes the following pass-through programs on their Schedule of Expenditures of Federal Awards for the year ended September 30, 2005:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees, Continued

Commonwealth Ports Authority, Continued

<u>Program Title</u>	<u>Grantor Agency</u>	<u>CFDA Number</u>	<u>Funds Received</u>	<u>Funds Expended</u>
Commonwealth Ports Authority:				
Economic, Social, and Political Development of the Territories: CIP Covenant Grant Funds Fiscal Years 1996 - 2003 Capital Development Projects	U.S. Department of the Interior	15.875	\$ 1,600,617	\$ 1,600,617
Public Assistance Grants	U.S. Department of Homeland Security	97.036	\$ 118,130	\$ 191,412

d. Indirect Cost Allocation

Due to the absence of a completed indirect cost rate for fiscal year 2005, the CNMI utilized the indirect cost rate approved by the U.S. Department of the Interior for fiscal year 2003 in fiscal year 2005. 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, 2005.

(3) Expenditures

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

	<u>Federal Share</u>	<u>Local Share and Adjustments</u>	<u>Total</u>
Federal Grants	\$ 47,061,191	\$ 2,212,016	\$ 49,273,207
Capital Projects - U.S. Department of the Interior	16,544,191	7,570,579	24,114,770
Capital Projects - Public Works	1,702,829	-	1,702,829
Capital Projects - Commonwealth Development Authority	<u>266,801</u>	<u>-</u>	<u>266,801</u>
	<u>\$ 65,575,012</u>	<u>\$ 9,782,595</u>	<u>\$ 75,357,607</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

(4) Other

During the year ended September 30, 2005, the U.S. Department of Homeland Security (Homeland) disbursed \$4,236,526 directly to eligible recipients for the Group Flood Insurance Program (GFIP) and the Individuals and Households Program (IHP). As part of the agreement with the grantor, individual recipients received 100% relief payments directly from Homeland, and it was the CNMI's responsibility to reimburse the grantor for the local share of 25% or \$1,059,131. The grantor was reimbursed on February 18, 2005 and the expenditure was appropriately recorded in the General Fund. As the CNMI did not administer the funds, these expenditures are not reflected in the Schedule of Expenditures of Federal Awards.

During the year ended September 30, 2005, the CNMI reprogrammed local funds of \$2,900,000 between two projects. The \$2,900,000 was originally paid to the vendor and included as expenditures in the Schedule of Expenditures of Federal Awards as local share in fiscal year 2004. The contractor subsequently retained the amount paid of \$2,900,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Section I - Summary of Auditor's Results

1. The Independent Auditors' Report on the financial statements expressed a qualified opinion due to: 1) our inability to determine the propriety of taxes receivable, advances, accounts payable, tax rebates payable and other liabilities and accrual balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information, and the reserve for continuing appropriation balances for the General fund and the aggregate remaining fund information; 2) our inability to determine the propriety of capital assets and related depreciation expense of the Northern Marianas College; and 3) had the financial statements of the Commonwealth Utilities Corporation been audited.
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:	15.875
Capital Improvement Projects	
Fiscal Year 2005 Compact Impact	
WIA Cluster:	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260
Environmental Protection Consolidated Grants-Program Support	66.600
Medical Assistance Program	93.778
Public Assistance Grant	97.036

8. A threshold of \$1,967,250 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, 2005

Section II - Financial Statement Findings

Reference Number	Findings	Refer Page #
2005-1	External Financial Reporting	41
2005-2	Cash Flows	42
2005-3	Cash and Cash Equivalents	43
2005-4	Receivables	44
2005-5 - 6	Advances	45 - 46
2005-7	Other Liabilities and Accruals	47 - 48
2005-8	Retirement Contributions - General Fund	49
2005-9	Tax Rebates Payable	50 - 51
2005-10	Fund Balance	52
2005-11	CNMI Local Noncompliance	53 - 54
2005-21	Accounts Payable/Allowable Costs/Cost Principles	74 - 75
2005-28	Eligibility	87
2005-29	Equipment and Real Property Management	88 - 89

Section III - Federal Award Findings and Questioned Costs

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2005-12	15.875 and 15.605	Allowable Costs/Cost Principles	\$ 162,914	55
2005-13	17.258, 17.259 and 17.260	Allowable Costs/Cost Principles	\$ 6,553	56 - 58
2005-14	15.875	Cash Management	\$ 11,860	59 - 61
2005-15	97.036	Cash Management	\$ 15,966	62 - 64
2005-16	17.258, 17.259 and 17.260	Eligibility	\$ 471,973	65 - 67
2005-17	17.258, 17.259 and 17.260	Procurement and Suspension and Debarment	\$ 42,000	68 - 69
2005-18	17.258, 17.259 and 17.260	Special Tests and Provisions	\$ 7,520	70 - 71
2005-19	97.036	Allowable Costs/Cost Principles	\$ -	72
2005-20	97.036	Allowable Costs/Cost Principles	\$ -	73
2005-21	93.778	Accounts Payable/Allowable Costs/Cost Principles	\$ -	74 - 75
2005-22	93.778	Allowable Costs/Cost Principles	\$ -	76 - 77
2005-23	93.778	Allowable Costs/Cost Principles	\$ -	78 - 79
2005-24	93.778	Allowable Costs/Cost Principles	\$ -	80
2005-25	93.778	Allowable Costs/Cost Principles	\$ -	81 - 82
2005-26	All major programs	Allowable Costs/Cost Principles	\$ -	83
2005-27	93.778	Cash Management	\$ -	84 - 86
2005-28	93.778	Eligibility	\$ -	87
2005-29	10.551, 66.600 and 97.036	Equipment and Real Property Management	\$ -	88 - 89
2005-30	97.036	Matching, Level of Effort, Earmarking	\$ -	90
2005-31	All major programs	Procurement and Suspension and Debarment	\$ -	91 - 92
2005-32	All major programs	Procurement and Suspension and Debarment	\$ -	93
2005-33	15.875	Procurement and Suspension and Debarment	\$ -	94
2005-34	15.875 and 20.205	Procurement and Suspension and Debarment	\$ -	95 - 96
2005-35	15.875	Procurement and Suspension and Debarment	\$ -	97
2005-36	15.875	Procurement and Suspension and Debarment	\$ -	98
2005-37	97.036	Procurement and Suspension and Debarment	\$ -	99 - 100
2005-38	10.551	Reporting	\$ -	101
2005-39	15.875	Reporting	\$ -	102
2005-40	17.258, 17.259 and 17.260	Reporting	\$ -	103 - 104
2005-41	66.600	Reporting	\$ -	105
2005-42	93.778	Reporting	\$ -	106
2005-43	97.036	Reporting	\$ -	107 - 108
2005-44	10.551	Special Tests and Provisions	\$ -	109
2005-45	93.778 and 10.551	Special Tests and Provisions	\$ -	110 - 111
2005-46	10.551	Special Tests and Provisions	\$ -	112
2005-47	97.036	Subrecipient Monitoring	\$ -	113 - 114
2005-48	93.778	Special Tests and Provisions	\$ -	115

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Section II - Financial Statement Findings

External Financial Reporting

Finding No. 2005-1

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

Condition: As of September 30, 2005, the Commonwealth Utilities Corporation, a discretely presented component unit, was unaudited at September 30, 2005.

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos, Secretary of Finance and Michael S. Sablan, Public Auditor

Corrective Action: CNMI component units are required to have audits performed on an annual basis. The Office of the Public Auditor has been working with the CNMI's autonomous agencies to bring their annual audits current. CUC's FY05 audit should be completed in early 2007. CUC's draft financial statements have been included in the component unit amounts in CNMI's Single Audit. It should be noted that four agencies were included in this finding in 2001 while only one is included in 2005.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Cash Flows

Finding No. 2005-2

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

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Total assets	\$ 74,676,988	\$ 95,490,132	\$ 63,483,266	\$ 71,163,302	\$ 80,931,823
Total liabilities	\$ 210,539,483	\$ 201,378,383	\$ 157,467,782	\$ 152,084,743	\$ 143,376,469
Total fund deficit	\$ (135,862,495)	\$ (105,888,251)	\$ (93,984,516)	\$ (80,921,441)	\$ (62,444,646)
Total revenues	\$ 214,891,036	\$ 210,630,807	\$ 200,744,520	\$ 195,090,682	\$ 213,624,552
Total expenditures	\$ 244,881,423	\$ 246,858,759	\$ 211,223,864	\$ 209,775,245	\$ 229,480,514

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

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

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

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

Auditee Response and Corrective Action Plan:

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

Corrective Action: This finding is related to Finding 2005-7. Since the liability to the retirement fund is \$120.5 million and the fund balance deficit is \$135.9 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. See Note 17 to the financial statements for subsequent events impacting the Retirement Fund liability.

We also note that the above amounts do not include transfers in and out or other financing sources. This creates a mismatch for 2004 and 2005 as bond proceeds received in 2004 are excluded but the disbursement of the major portion of those proceeds are included as expenditures. \$18.9 million in proceeds were disbursed in 2005 and \$2.9 million in 2004.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Cash and Cash Equivalents

Finding No. 2005-3

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, 2005, 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.

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.

Prior Year Status: The lack of adequate policies and procedures related to the timely preparation of bank reconciliations was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 and 2004.

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, 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.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Receivables

Finding No. 2005-4

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, 2005, the receivable balance at CHC was \$98,459,493. 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 \$98,459,493.

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 2004.

Auditee Response and Corrective Action Plan:

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

Corrective Action: DPH agrees with the findings but has made major progress in the past years in correcting the problems. Implementing policies and procedures, as recommended by the auditors, will help but will not resolve the backlog in the processing of bills or decrease the huge outstanding receivable. The 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, 2005

Advances

Finding No. 2005-5

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, 2005, subledgers were not available for advances to vendors totaling \$3,353,965 (A/c # 12430.1010 amounting to \$1,233,450 and # 12431.1010 amounting to \$2,120,515). In addition, advances identified in the accounts payable subledger of \$3,623,352 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 2004.

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 2005-6. 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, 2005

Advances

Finding No. 2005-6

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

Condition: As of September 30, 2005, the General Fund recorded travel advances of \$2,588,739, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, \$940,994 remained unchanged when compared with the prior year. Of six balances (employee #s 100783, 100399, 101188, 163334, 339420 and 339666) 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 2004.

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 as of 5/31/06 has been reduced to \$1.5 million. 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, 2005

Other Liabilities and Accruals

Finding No. 2005-7

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, 2005, the General Fund recorded liabilities (A/c #s 20120.1010 and 20120.1012) including a credit balance of \$592,956 and a debit balance of \$176,974 for which no detailed subsidiary ledgers were made available. We are unable to determine the propriety of these account balances. Further, in prior years, these accounts also included prepaid items/debit balances. A summary of debit balances included in accounts payable is as follows:

<u>Fund</u>	<u>Amount</u>
1010	\$ 4,445,883
1012	19,851
1013	6,399
1015	17,998
2020	151,464
2030	2,042
2035	722
2039	196
2043	6,489
2070	1,156
4044	2,619
4045	68,935
4052	872
6077	1,144
	<u>\$ 4,725,770</u>

Cause: The cause of the above condition is that liabilities are recorded at the time advances are made and the lack of proper reconciliation procedures upon application of advances. In addition, the CNMI is currently analyzing the liability account and as of September 30, 2005, the account balance was still unreconciled.

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 2004.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-7, Continued

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 2005-4. Proper balance sheet accounting for vendor advance payments has been a continuing problem. Under the method in use from 1999 to 2005 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.

The debit payable balances noted above are recorded in the regular automated accounts payable account and subsidiary ledger and result from advances issued in 1997 through 1999 when a debit payable voucher was created for each advance issued. It appears an offsetting entry will need to be made in the automated payables account pending reversal of the individual records.

Proposed Completion Date: FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Retirement Contributions - General Fund

Finding No. 2005-8

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, 2005, the CNMI recorded a contribution liability of \$82,441,874. These outstanding contributions date back to fiscal year 2001. In addition, the Fund assessed an additional penalty of \$4,966,209 for the year ended September 30, 2005. The CNMI has determined that only the increase in outstanding contribution from fiscal year 2004 to fiscal year 2005 is subject to the 25% resulting in a maximum penalty of \$1,603,563 for the year ended September 30, 2005. The NMIRF assessed a total penalty of \$23,996,397 on outstanding contributions of which \$20,633,750 is recorded by the CNMI.

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.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos, 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. See Note 17 to the financial statements for subsequent events that impact the retirement liability.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Tax Rebates Payable

Finding No. 2005-9

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, 2005, estimated tax rebates payable aggregated \$24,436,334. The estimate consists of the following:

Estimated 2005 liability based on fiscal year 2005 collections	\$ 8,381,491
2004 and prior rebates not yet paid as of September 30, 2005	<u>16,054,843</u>
	\$ <u>24,436,334</u>

The 2004 and prior rebates not yet paid as of September 30, 2005 consist of completed tax returns and the value of matched and unmatched tax returns. Detailed listings of the matched and unmatched tax returns amounting to \$16,054,843 were not made available. Further, no interest is calculated or paid on overpayments.

Cause: The cause of the above condition is the failure of the Division of Revenue & Taxation to print a detailed listing at September 30, 2005 to support tax assessment. 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.

Prior Year Status: Staff shortages, inadequate filing and maintenance of documents, a lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Esther Ada, Director, Division of Revenue and Tax

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-9, Continued

Auditee Response and Corrective Action Plan, Continued:

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. 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, 2005

Fund Balance

Finding No. 2005-10

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, 2005, 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 2004.

Auditee Response and Corrective Action Plan:

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

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, 2005CNMI Local NoncomplianceFinding No. 2005-11

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, 2005, 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, 2005:

	<u>Budgeted Level of Expenditures</u>	<u>Actual Expenditures</u>	<u>Over- Expenditure</u>
Judicial Branch:			
Law Revision Commission	\$ 308,407	\$ 331,697	\$ (23,290)
Legislative Branch:			
Legislative Bureau	\$ 2,900,000	\$ 3,084,582	\$ (184,582)
Executive Branch:			
Public Health	\$ 41,263,460	\$ 43,170,617	\$ (1,907,157)
Public Safety	\$ 15,084,984	\$ 16,447,926	\$ (1,362,942)
Finance	\$ 8,701,664	\$ 9,822,134	\$ (1,120,470)
Labor and Immigration	\$ 1,983,652	\$ 2,022,083	\$ (38,431)
Lands and Natural Resources	\$ 3,963,739	\$ 4,014,202	\$ (50,463)
First Senatorial District - Rota:			
Lands and Natural Resources	\$ 1,594,617	\$ 1,606,478	\$ (11,861)
Public Safety	\$ 2,130,774	\$ 2,159,619	\$ (28,845)
Finance	\$ 917,609	\$ 938,185	\$ (20,576)
Municipal Council	\$ 379,680	\$ 382,136	\$ (2,456)
Labor and Immigration	\$ 781,735	\$ 782,807	\$ (1,072)
Community and Cultural Affairs	\$ 608,131	\$ 611,743	\$ (3,612)
Second Senatorial District - Tinian:			
Public Health	\$ 2,113,469	\$ 2,149,729	\$ (36,260)
Public Safety	\$ 1,738,941	\$ 1,823,161	\$ (84,220)
Lands and Natural Resources	\$ 1,133,472	\$ 1,139,299	\$ (5,827)
Public Works	\$ 637,008	\$ 639,440	\$ (2,432)
Community and Cultural Affairs	\$ 287,827	\$ 291,471	\$ (3,644)
Commerce	\$ 294,057	\$ 297,050	\$ (2,993)
Independent Programs	\$ 37,500	\$ 38,344	\$ (844)
Boards and Commissions:			
Board of Election	\$ 409,792	\$ 411,036	\$ (1,244)
Independent programs:			
Disability Development	\$ 38,491	\$ 40,419	\$ (1,928)
Flame Tree Festival	\$ 29,138	\$ 30,050	\$ (912)
Little League - Saipan	\$ -	\$ 773	\$ (773)
Office of the Public Auditor	\$ 2,228,824	\$ 2,316,381	\$ (87,557)
Government utilities	\$ 10,881,813	\$ 12,926,624	\$ (2,044,811)
Penalty on retirement contributions	\$ -	\$ 1,603,563	\$ (1,603,563)
Bad debt	\$ -	\$ 4,862,962	\$ (4,862,962)
Typhoon expenditures	\$ -	\$ 1,653,072	\$ (1,653,072)

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-11, Continued

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

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

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

Prior Year Status: Over-expenditures in excess of budget allotments was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos, Secretary of Finance and Antonio Muna, Special Assistant for Management and Budget

Corrective Action: Total expenditures were within total allotments excluding the year end audit adjustments (bad debt, retirement penalty, disputed CUC billings, etc.) and audit report categorizations (compact impact reimbursement, credit card charges and deficit reduction reserve). In cases where the individual activities noted were over the amounts budgeted for those activities they were offset by under expenditures in other categories. Compact impact reimbursement (\$5.2 million) was recorded as an expense reduction but categorized as a transfer in on the audit report. This resulted in Public Health and Public Safety being shown as over budget when the excess expenditures were charged against the Compact Impact grant. Finance expenditures shown include \$1,340,625 in credit card charges offset against revenue collections on the trial balance but categorized as Finance expenditures in the audit report. 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. Emergency reprogramming was done from other sources to increase budget level. The \$2,044,811 expenditure over the budget 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. 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, 2005

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles

Finding No. 2005-12

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
U.S. Department of the Interior / Federal Award # Fiscal Year 1995 - 2004 Appropriations Act / Federal Award Period Available Until Expended U.S. Department of the Interior / Sports Fish Restoration / CFDA #15.605	<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 eighty-four nonpayroll expenditures of the DOI Capital Projects Fund tested (CFDA #15.875), the supporting accounts payable voucher and invoice for one item (APV # 497838), was not locatable. • Further, of fifty-three nonpayroll expenditures for nonmajor programs tested aggregating \$3,213,435, the supporting lease agreement for APV # 497796 (Fund 2020, CFDA #15.605, Sports Fish Restoration), amounting to \$28,800, was not locatable. <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 \$162,914.</p> <p><u>Recommendation:</u> We recommend that the Department of Finance ensure that all expenditures recorded in the general ledger are properly supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p><u>Prior Year Status:</u> Lack of proper systematic filing of certified accounts payable vouchers, invoices and other relevant documents was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.</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: Missing documents located and provided to auditors.</p> <p>Proposed Completion Date: Already in compliance</p>	<p>\$ 134,114</p> <p>28,800</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Allowable Costs/Cost Principles

Finding No. 2005-13

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Labor / WIA Cluster / Federal Award # EM-14471-05-60 / Federal Award Period 10/01/04 - 11/30/05	<p><u>Criteria:</u> Payroll expenditures should be properly supported with approved personnel action forms, timecard/timesheets and approved leave and/or overtime charge forms.</p> <p>In accordance with the grant award letter, program participants may work overtime, provided that this is part of the design of the project and regular employees of the employer in question are also working overtime, subject to the limit on level of compensation for workers under the project.</p> <p><u>Condition:</u> Of \$1,676,896 in payroll expenditures, forty-four payroll items totaling \$45,067 were tested under the National Emergency Grant Program. The following were noted:</p> <ul style="list-style-type: none"> Overtime charges were incurred by employees who performed administrative tasks. Details are as follows: 	

Condition: Of \$1,676,896 in payroll expenditures, forty-four payroll items totaling \$45,067 were tested under the National Emergency Grant Program. The following were noted:

- Overtime charges were incurred by employees who performed administrative tasks. Details are as follows:

<u>Employee #</u>	<u>Pay Period Ended</u>	<u>Overtime Hours</u>	<u>Amount</u>
101132	11/13/2004	12.50	\$ 375
448396	11/13/2004	11.00	165
448396	06/11/2005	8.00	120
101062	06/25/2005	20.00	300
448395	06/25/2005	24.00	360
101568	07/09/2005	22.00	495
101568	09/17/2005	13.00	293
			<u>\$ 2,108</u>

Total gross salaries for the above individuals amounted to \$143,969.

- Salaries and wages for fourteen employees performing administrative work were charged against grant operations and not as administrative costs. Details are as follows:

<u>Employee #</u>	<u>Pay Period</u>	<u>Gross Pay</u>
100643	03/05/05	\$ 864
100821	04/30/05	1,455
101062	06/25/05	1,100
101514	09/03/05	800
102064	03/19/05	720
159700	05/14/05	640
169629	06/11/05	760
372707	04/30/05	800
448396	11/13/04	865
448396	06/11/05	920
448401	11/27/04	936
448402	10/30/04	1,995
448407	12/11/04	640
448468	02/19/05	800
450136	08/06/05	1,500
		<u>\$ 14,795</u>

Total gross salaries for the above individuals amounted to \$206,311.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-13, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<u>Condition, Continued:</u>	
	<ul style="list-style-type: none"> • One employee (# 100821) for the pay period ended 04/30/05 was paid an additional 112 hours for a total gross pay of \$1,536. The supporting approved timesheet was not made available. • One employee (# 101568) for the pay period ended 11/13/04 had two payroll checks. The payment appears to cover two pay periods (10/30/04 and 11/13/04). One check represented payment for eighty hours regular and fifty-seven hours overtime. The other check represented eighty hours regular and twenty-nine hours overtime. The supporting approved timesheets and overtime authorization forms were not made available. Total gross salary for the above individual amounted to \$33,529. • One employee (# 101514) for the pay period ended 04/30/05 had a gross pay of \$2,064. The amount represented payment for one hundred fifty-two hours of regular pay and a payroll adjustment of \$544. The approved timesheets and overtime authorization forms were not made available. Total gross salary for the above individual amounted to \$17,960. • The approved timesheets for three employees (#s 448402 for PPE 10/30/04, 101132 for PPE 11/13/04 and 448396 for PPE 11/13/04) were not made available. Total gross salaries for the above individuals amounted to \$90,904. • Additionally, the total hours per the payroll register for one employee (# 101486, pay period ended 04/02/05) is higher by eight (8) hours than the approved timesheet. Total gross salary for the above individual amounted to \$6,616. • The approved timesheet for the pay period ended 09/17/05 was made available; however, one employee (# 101793) was not included in the approved timesheet. Total gross salary for the above individual amounted to \$12,213. 	6,553
	<u>Cause:</u> The cause of the above condition is failure to comply with program requirements.	
	<u>Effect:</u> The effect of the above condition is noncompliance with allowable costs requirements and questioned costs of \$6,553. The remaining amount of \$511,502 is included in Finding Nos. 2005-16 and 2005-19.	
	<u>Recommendation:</u> We recommend strict compliance with the criteria.	
	<u>Auditee Response and Corrective Action Plan:</u>	
	Name of Contact Person: Edith Deleon Guerrero, Director, Workforce Investment Agency 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, 2005

Finding No. 2005-13, Continued

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

Corrective Action: This grant was selected for detail testing after the final draft audit report had been approved by CNMI. The records for this grant had been boxed up and put in storage, which has led to documentation not being readily available for the auditors. In addition, staff turnover at the Workforce Investment Agency has resulted in the current staff being unfamiliar with this grant. Locating the missing documentation will be a time consuming task involving several agencies. Due to the high priority given to issuing this audit report on a timely basis we agree to include the finding in the audit and will continue efforts to locate missing documents.

Proposed Completion Date: FY2007

Auditor Response: All payroll registers, approved timesheets and approved overtime authorization forms are filed at the Department of Finance, Payroll Division. The Payroll Division assisted us in locating all the payroll timesheets for the pay periods tested, however, the approved timesheets and/or overtime authorization forms for the individuals questioned were not included. The entity's inability to locate the timesheets and such data does not explain the noncompliance with overtime charges as well as cost allocations stipulated in the finding.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Cash Management

Finding No. 2005-14

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>Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee for selected major programs. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are out for program purposes.</p> <p>Condition: Of seventy-eight samples tested, seventy-seven items were paid out between two to one hundred fifty-two days from the date federal funds were credited to the CNMI's account. Details are as follows:</p>	

APV #	Drawdown Amount	Cash Receipts Date	Check Clearance Date	Days Elapsed
453963	\$ 194,563	10/31/04	11/19/04	19
454066	\$ 72,188	10/21/04	11/19/04	29
455189	\$ 196,066	10/21/04	12/21/04	61
455939	\$ 334,364	10/08/04	10/21/04	13
457436	\$ 156,097	11/12/04	11/29/04	17
457909	\$ 271,096	11/19/04	12/02/04	13
457930	\$ 60,445	04/29/05	05/04/05	5
457999	\$ 83,901	11/19/04	12/20/04	31
459416	\$ 65,637	12/01/04	12/03/04	2
459507	\$ 95,848	03/18/05	03/29/05	11
460681	\$ 55,018	07/14/04	12/13/04	152
460894	\$ 170,155	12/15/04	01/05/05	21
461253	\$ 205,669	12/21/04	01/12/05	22
461253	\$ 128,462	12/21/04	01/12/05	22
461255	\$ 83,466	12/30/04	01/28/05	29
489555	\$ 125,995	01/27/05	02/04/05	8
490358	\$ 89,459	01/27/05	02/08/05	12
490368	\$ 98,792	03/04/05	03/07/05	3
492848	\$ 115,137	03/04/05	03/07/05	3
493516	\$ 104,963	03/04/05	03/03/05	0
494168	\$ 87,551	03/14/05	03/18/05	4
494231	\$ 425,720	02/28/05	03/11/05	11
494685	\$ 80,878	03/24/05	06/23/05	91
494878	\$ 80,989	03/21/05	04/01/05	11
495201	\$ 107,163	03/15/05	03/24/05	9
495201	\$ 100,000	03/15/05	03/24/05	9
495928	\$ 75,798	03/24/05	04/06/05	13
496060	\$ 77,708	03/18/05	04/01/05	14
496502	\$ 316,988	03/18/05	03/28/05	10
496812	\$ 112,588	03/24/05	04/04/05	11
497265	\$ 59,380	03/31/05	04/06/05	6
497395	\$ 76,476	04/06/05	04/11/05	5
497838	\$ 74,108	04/14/05	05/18/05	34
497894	\$ 95,848	03/18/05	04/07/05	20
498995	\$ 135,462	05/06/05	05/11/05	5
499353	\$ 125,758	05/06/05	05/13/05	7
500584	\$ 157,000	05/06/05	05/17/05	11
501600	\$ 139,000	05/13/05	05/17/05	4
501600	\$ 150,697	05/11/05	05/17/05	6
501601	\$ 285,519	05/13/05	05/17/05	4
501786	\$ 116,315	05/25/05	06/06/05	12
501860	\$ 130,002	07/05/05	07/13/05	8
502255	\$ 183,886	07/05/05	07/13/05	8
502257	\$ 169,683	05/18/05	05/27/05	9
502764	\$ 169,889	05/25/05	06/01/05	7
503893	\$ 70,988	06/06/05	09/14/05	100
503896	\$ 240,334	06/06/05	06/17/05	11

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-14, Continued

Program	Reason for Questioned Costs				Questioned Costs
<u>Condition, Continued:</u>					
APV #	Drawdown Amount	Cash Receipts Date	Check Clearance Date	Days Elapsed	
504386	\$ 155,310	06/06/05	06/13/05	7	
505418	\$ 67,839	06/23/05	07/01/05	8	
505800	\$ 81,326	06/23/05	07/05/05	12	
507102	\$ 155,310	06/23/05	07/01/05	8	
507149	\$ 57,092	06/23/05	06/30/05	7	
507255	\$ 70,784	07/08/05	07/19/05	11	
508025	\$ 113,654	07/20/05	08/01/05	12	
508185	\$ 76,121	07/20/05	07/27/05	7	
508514	\$ 74,892	07/22/05	07/29/05	7	
508517	\$ 260,621	07/22/05	07/28/05	6	
508518	\$ 234,054	07/22/05	07/28/05	6	
508519	\$ 158,340	07/22/05	07/26/05	4	
508727	\$ 95,601	07/20/05	08/12/05	23	
509747	\$ 77,832	08/15/05	08/23/05	8	
509747	\$ 77,535	08/15/05	08/23/05	8	
511801	\$ 62,590	06/27/05	08/17/05	51	
511804	\$ 89,900	08/15/05	08/23/05	8	
511979	\$ 90,000	07/20/05	08/18/05	29	
513123	\$ 300,563	08/29/05	09/08/05	10	
513124	\$ 170,076	08/29/05	09/08/05	10	
514392	\$ 186,000	08/29/05	10/11/05	43	
514852	\$ 100,959	08/29/05	09/19/05	21	
514884	\$ 43,661	08/29/05	09/07/05	9	
514886	\$ 76,480	09/29/05	10/11/05	12	
515282	\$ 456,638	09/30/05	10/05/05	5	
515286	\$ 102,282	08/29/05	09/06/05	8	
539605	\$ 83,729	09/13/05	09/21/05	8	
541660	\$ 143,342	09/23/05	09/29/05	6	
544089	\$ 202,057	09/21/05	09/27/05	6	
544591	\$ 126,486	09/29/05	10/11/05	12	
545400	\$ 128,248	09/21/05	09/26/05	5	

11,860

The CNMI has not recognized the potential interest liability of \$11,860 related to the time elapsed between the date federal funds were received and the date these funds were deducted from the CNMI's account for the above samples.

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

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

Effect: The effect the above condition is lack of compliance with grant requirements relating to cash management and possible interest liability and questioned costs of \$ 11,860.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure compliance 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 Audits of the CNMI for fiscal years 2003 and 2004.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-14, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Auditee Response and Corrective Action Plan:</u></p>	
	<p>Name of Contact Person: Antoinette Calvo, CNMI Treasurer and Eloy S. Inos, Secretary of Finance</p>	
	<p>Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2005) shows receivables from Federal agencies of \$11,787,759 for categorical grants and \$1,113,997 for capital improvement projects as of September 30, 2005. For DOI Technical Assistance grants, the audit report shows \$1,246,691 in receivables. 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 \$1,113,997 as of the audit date.</p>	
	<p>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. We reviewed each project with checks clearing more than 30 days after the drawdown was received noted in the findings. In each case the project still had a net receivable balance after the drawdown was received. Since the Federal agencies also have responsibilities to disburse requested funds in a timely manner, 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.</p>	
	<p>We have been working with U.S. Treasury regarding implementation of the Cash Management Improvement Act (CMIA) for CNMI. Federal agencies would owe interest under the CMIA for drawdowns not remitted within the time frame shown in the Treasury-State agreement as well as CNMI owing interest if we do not disburse Federal Funds within the agreed period. There seem to be different expectations between U.S. Treasury and our grantor agencies that needs to be resolved. A particular problem for us relates to the dollar amounts being disbursed. The invoices selected all relate to large construction projects where substantial payments were due to the vendor. Many of the payments selected also include a local share that must be drawn down from our bond trustees. DOI has instructed us not to release the Federal portion of the payment until the local matching bond draw down is received. Advance payment in these cases would disrupt our cash flow for normal payments and payroll. We try to time our disbursement to receipt of the Federal and bond drawdown cash but do wait for the cash to be deposited in the CIP drawdown account before releasing the check</p>	
	<p>Proposed Completion Date: Ongoing</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Cash Management

Finding No. 2005-15

Program	Reason for Questioned Costs	Questioned Costs																																																																																				
U.S. Department of Homeland Security / Public Assistance Grants / CFDA #97.036 / Federal Award #s 1532DRMPP00000001 and 1541DRMPP00000001 / Federal Award Periods 07/29/04 through completion and 08/26/04 through completion	<p><u>Criteria:</u> 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 between the transfer of funds from the U.S. Treasury and disbursement.</p> <p><u>Condition:</u> Of total drawdowns of \$4,634,289, we noted the following:</p> <ul style="list-style-type: none"> • There was a duplicate drawdown for DPW PW 166 - Chaba (DR1541) for \$33,601. The amount was drawn twice at 3/3/05 (included in \$1,469,217 received). • There was a duplicate drawdown for CUC PW 310 - Chaba (DR1541) for \$429,833. The amount was drawn on 7/29/05 (included in \$1,270,035 received) and then again on 8/9/05 (included in \$2,213,292 received). • Per DSR 48014 for Typhoon Paka (DR 1194), which is to close out the Rota Early Warning Project, the federal share is a negative \$159,142. The negative balance results from insurance and de-obligation adjustments made by grantor. Total expenditures incurred on the project for FY05 is \$649,125 with a federal share of \$486,844 of which \$115,489 was drawn from the grantor at 08/09/05. The liability per the DSR of \$159,142 and an additional amount drawn of \$115,489 has been included in the following interest liability calculation. • Funds advanced were not disbursed after receipt of drawdown for the following: <table border="1" style="margin-left: 40px; width: 100%;"> <thead> <tr> <th style="text-align: center;">APV #</th> <th style="text-align: center;">DR</th> <th style="text-align: center;">Project PW #</th> <th style="text-align: center;">Check CR Date</th> <th style="text-align: center;">Date Cleared</th> <th style="text-align: center;">Elapsed</th> </tr> </thead> <tbody> <tr><td>507548</td><td>1541</td><td>CPA-142</td><td>03/03/05</td><td>07/11/05</td><td>130</td></tr> <tr><td>371969</td><td>1541</td><td>DPW-427</td><td>03/03/05</td><td>03/29/05</td><td>26</td></tr> <tr><td>507254</td><td>1541</td><td>EMO-353</td><td>03/03/05</td><td>07/15/05</td><td>134</td></tr> <tr><td>517565</td><td>1541</td><td>CPA-142</td><td>07/29/05</td><td>12/13/05</td><td>137</td></tr> <tr><td>512707</td><td>1541</td><td>CUC-422</td><td>07/29/05</td><td>10/25/05</td><td>88</td></tr> <tr><td>508221</td><td>1541</td><td>CUC-421</td><td>08/09/05</td><td>08/22/05</td><td>13</td></tr> <tr><td>504692</td><td>1532</td><td>NIMO-46</td><td>07/29/05</td><td>09/19/05</td><td>52</td></tr> <tr><td>503731</td><td>1532</td><td>NIMO-46</td><td>07/29/05</td><td>09/19/05</td><td>52</td></tr> <tr><td>503732</td><td>1532</td><td>NIMO-46</td><td>07/29/05</td><td>09/19/05</td><td>52</td></tr> <tr><td>501378</td><td>1532</td><td>NIMO-46</td><td>07/29/05</td><td>08/17/05</td><td>19</td></tr> <tr><td>501383</td><td>1532</td><td>NIMO-46</td><td>07/29/05</td><td>08/17/05</td><td>19</td></tr> <tr><td>501381</td><td>1532</td><td>NIMO-46</td><td>07/29/05</td><td>08/17/05</td><td>19</td></tr> <tr><td>501366</td><td>1532</td><td>NIMO-46</td><td>07/29/05</td><td>08/17/05</td><td>19</td></tr> </tbody> </table> • Funds were drawn on several large projects for which balances have neither been charged to the program nor disbursed. Interest liability has been calculated for the remaining balances of the following: 	APV #	DR	Project PW #	Check CR Date	Date Cleared	Elapsed	507548	1541	CPA-142	03/03/05	07/11/05	130	371969	1541	DPW-427	03/03/05	03/29/05	26	507254	1541	EMO-353	03/03/05	07/15/05	134	517565	1541	CPA-142	07/29/05	12/13/05	137	512707	1541	CUC-422	07/29/05	10/25/05	88	508221	1541	CUC-421	08/09/05	08/22/05	13	504692	1532	NIMO-46	07/29/05	09/19/05	52	503731	1532	NIMO-46	07/29/05	09/19/05	52	503732	1532	NIMO-46	07/29/05	09/19/05	52	501378	1532	NIMO-46	07/29/05	08/17/05	19	501383	1532	NIMO-46	07/29/05	08/17/05	19	501381	1532	NIMO-46	07/29/05	08/17/05	19	501366	1532	NIMO-46	07/29/05	08/17/05	19	
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503731	1532	NIMO-46	07/29/05	09/19/05	52																																																																																	
503732	1532	NIMO-46	07/29/05	09/19/05	52																																																																																	
501378	1532	NIMO-46	07/29/05	08/17/05	19																																																																																	
501383	1532	NIMO-46	07/29/05	08/17/05	19																																																																																	
501381	1532	NIMO-46	07/29/05	08/17/05	19																																																																																	
501366	1532	NIMO-46	07/29/05	08/17/05	19																																																																																	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-15, Continued

Program	Reason for Questioned Costs			Questioned Costs
<u>Condition, Continued:</u>				
	<u>DR</u>	<u>Project PW #</u>	<u>CR Date</u>	<u>Remaining Balance</u>
	1541	CPA-110	03/03/05	\$ 50,848
	1541	DPS-63	03/03/05	\$ 30,337
	1541	EMO-353	03/03/05	\$ 20,383
	1532	EMO-93	07/29/05	\$ 60,135
	1541	CPA-110	07/29/05	\$ 10,170
	1541	DPS-63	07/29/05	\$ 16,459
	1541	EMO-353	07/29/05	\$ 29,703
	1541	CUC-422	07/29/05	\$ 61,047
	1532	EMO-93	07/29/05	\$ 12,027
	1532	CUC-55	07/29/05	\$ 53,068
	1532	PAO-8	07/29/05	\$ 36,739
	1532	NIMO-46	07/29/05	\$ 42,311

- The interest liability and the amount questioned as a result of the above is \$15,966.

15,966

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 and questioned costs of \$15,966 for interest due to the grantor.

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.

Prior Year Status: The lack of compliance with federal cash management rules and regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding but do not feel the costs should be questioned. Duplicate drawdown DPW PW 166-Amount of duplicate drawdown redistributed to reimburse expenditures on other projects.

Duplicate drawdown CUC PW 310- Amount of duplicate drawdown redistributed to reimburse expenditures on other projects.

DSR 48014 negative balance- Amount of excess drawdown redistributed to reimburse expenditures on other projects.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-15, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	Corrective Action, Continued:	
	<p>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 draw downs is not considered. The agency may not have made payments for other expenditures in the program. Project M4036E, which included two of the vouchers shown with more than 100 days elapsed, had a \$18,877 net receivable at 9/30/05. The other project shown with more than 100 days elapsed, M4036J, was reimbursed for payments issued in January the March drawdown.</p>	
	<p>Undisbursed drawdowns - Amount of excess drawdowns redistributed to reimburse expenditures on other projects.</p>	
	<p>Managing large disasters with hundreds of projects sometimes results in duplicate or excess drawdowns. When this occurs, the excess funds drawn are applied to other projects within the disaster that have reimbursable costs not drawn down. Since costs have already been incurred in another project we do not feel interest should be calculated.</p>	
	Proposed Completion Date: FY2006	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Eligibility

Finding No. 2005-16

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Labor / WIA Cluster / Federal Award # EM-14471-05-60 / Federal Award Period 10/01/04 - 11/30/05	<p><u>Criteria:</u> In accordance with the grant award, priority to participate in the grant shall be given to those workers who were: (a) dislocated as a result of Super Typhoon Chaba, (b) dislocated workers/individuals who were terminated or laid-off due to reduction in force, closure of business, economic conditions or natural disaster, and (c) individuals who were unemployed for a minimum of four months or more on the beginning dates of the application process. Under the grant, the CNMI shall provide for regular eligibility verification, and shall take prompt action where an ineligible participant is identified.</p> <p>The CNMI's established policies and procedures manual of the National Emergency Grant provides for the following: (a) for dislocated workers due to Typhoon Chaba, a certification of dislocation is required and must be obtained from the CNMI Department of Labor, Employment Services Division and/or termination letter or notice from immediate former employer stating separation from said company due to Super Typhoon Chaba; (b) for workers terminated or laid-off due to reduction in force, closure of business, economic conditions or natural disaster, a termination letter of layoff notice is required from the employer; and (c) for long-term unemployed workers, a certification of long term unemployed status must be obtained from the CNMI Department Labor.</p> <p><u>Condition:</u> Of \$1,676,896 in payroll expenditures, forty-four payroll items totaling \$45,067 were tested under the National Emergency Grant Program. The following were noted:</p> <ul style="list-style-type: none"> • The termination letter or layoff notice due to reduction of force, closure of business, economic conditions or natural disaster from the employer were not made available for seven employees (#s 163364, 372780, 372879, 372942, 442581, 450472 and 476832) who were categorized as "dislocated workers - nonrelated". The total gross salaries amounted to \$60,054. • The statement of long-term unemployed status lacks certification by the CNMI Department of Labor, CNMI Employment Services Division for twenty-two employees (#s 100643, 101055, 101062, 101514, 102064, 120016, 159700, 169629, 372707, 372942, 442581, 442627, 448395, 448396, 448402, 448407, 448468, 450469, 476833, 477005, 477157 and 478106) who were categorized under "Long-Term Unemployed". Additionally, for thirteen individuals (employee #s 100643, 101062, 102064, 120016, 372707, 372942, 442581, 448395, 448407, 450469, 476833, 477157, 478106) certification was made by a program staff instead of the CNMI Department of Labor, CNMI Employment Services Division. The total gross salaries amounted to \$241,191. The remaining amount of \$20,420 is included in the questioned costs of \$60,054. 	<p style="text-align: right;">60,054</p> <p style="text-align: right;">220,771</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-16, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<u>Condition, Continued:</u>	
	<ul style="list-style-type: none"> • Five employees (#s 101055, 274893, 442627, 445786 and 448395) categorized under "Long-Term Unemployed" appear to have been unemployed for less than four months at date of the employment application process. Additionally, we did not note any employment certification from the previous employer for two individuals (employee #s 448396 and 448402). These individuals were, however, hired to work under the program. The total gross salaries amounted to \$87,537. Of the total gross salaries, questioned costs amount to \$54,209 and the remaining amount of \$33,328 is included in the questioned costs of \$220,771. 	54,209
	<ul style="list-style-type: none"> • The personnel file and relevant documentation supporting eligibility were not made available for review for four individuals (employee #s 101132, 101793, 101486 and 445870). Additionally, the personnel files were provided for two individuals (employee #s 448398 and 450136) but relevant documents supporting eligibility verification were not locatable in the personnel files. Further, the documentation of job description for two employees (#s 448398 and 477005) was not locatable in the personnel files. The total gross salaries amounted to \$109,854, of which \$98,742 is questioned costs. The remaining amount of \$11,112 is included in the questioned costs of \$220,771. 	98,742
	<ul style="list-style-type: none"> • The employment eligibility verification form for two employees (#s 445786 and 448396) lacks evidence of employer review and verification. Total gross salaries amounted to \$33,923, which are included in the questioned costs of \$220,771 and \$54,209. 	
	<ul style="list-style-type: none"> • Seven employees (#s 101055, 101062, 101132, 101568, 101793, 448401 and 448402) were retired CNMI government employees that were allowed to work under the program. The total gross salaries amounted to \$174,480 of which, \$38,197 is questioned costs. The remaining amount of \$136,283 is included in the questioned costs of \$220,771, \$54,209 and \$98,742. 	38,197
	<p><u>Cause:</u> The cause of the above condition is lack of strict compliance with established policies and procedures on eligibility verification.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with program eligibility requirements and questioned costs of \$471,973.</p> <p><u>Recommendation:</u> We recommend that documentation in support of the criteria be on file.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Edith Deleon Guerrero, Director, Workforce Investment Agency, Bernadita C. Palacios, Acting Director Finance & Accounting and Mathilda A. Rosario, Director, Office of Personnel Management</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-16, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Auditee Response and Corrective Action Plan, Continued:</u></p> <p>Corrective Action: This grant was selected for detail testing after the final draft audit report had been approved by CNMI. The records for this grant had been boxed up and put in storage, which has led to documentation not being readily available for the auditors. In addition, staff turnover at the Workforce Investment Agency has resulted in the current staff being unfamiliar with this grant. Locating the missing documentation will be a time consuming task involving several agencies. Due to the high priority given to issuing this audit report on a timely basis we agree to include the finding in the audit and will continue efforts to locate missing documents.</p> <p>Proposed Completion Date: FY2007</p> <p><u>Auditor Response:</u> With the exception of the four personnel files that were not made available, the related certifications and termination letters are included in the respective employee's personnel file located at the Office of Personnel Management. The issue of noncompliance with the grant requirements has not been addressed.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Procurement and Suspension and Debarment

Finding No. 2005-17

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Labor / WIA Cluster / Federal Award # EM-14471-05-60 / Federal Award Period 10/01/04 - 11/30/05</p>	<p><u>Criteria:</u> Expenditures should be properly supported by invoices and approved contracts. In accordance with Section 3-101 of the CNMI Procurement Regulations, officials with expenditure authority shall provide for full and open competition through the use of competitive procedure that is best suited to the circumstances of the contract action.</p> <p>In addition, pursuant to Section 3-108, Expedited Purchasing in Special Circumstances, Sections (5) and (6) expedited procurement shall be as competitive as possible under the circumstances and the total amount of goods or service that may be approved under this section shall not exceed \$25,000.</p> <p><u>Condition:</u> The CNMI recorded total rent - office space amounting to \$103,000 at September 30, 2005. During tests of rent expense, the following items were noted:</p> <ul style="list-style-type: none"> • Expenditures amounting to \$8,000 (PV #s 489518 and 489520 totaling \$6,000 and \$2,000, respectively) covering the rental period from September 24, 2004 to January 24, 2005 were incurred prior to the approval of the respective purchase order and purchase requisition (PO # 431484 OP and PR # WIA-NEG-TB-022 approved on January 6, 2005 and December 27, 2004, respectively). Further, there is no indication of the type of procurement method used for such expenditures. • Expenditures amounting to \$10,000 (PV #s 502260 and 502261 totaling \$4,000 and \$6,000, respectively) covering the rental period February 2005 to June 2005 were incurred prior to the execution of the contract. The certification of contract completion for contract # 436877-OC was finalized on May 11, 2005. The award and commencement date of the contract was February 28, 2005 and February 1, 2005, respectively. Therefore, the cost of February rental is questioned since such was incurred prior to the award. • Expenditures amounting to \$32,000 covering the rental period October 2004 through January 2005 were procured through expedited procurement. The related purchase order and purchase requisition (PO # 429853 OP and PR # WIA NEG 5B 003) were approved on December 1, 2004 and November 12, 2004, respectively. No other quotations were located in file to determine that competitive procurement procedures occurred. • The bidding period for contract # 433289 OC was less than thirty days. The initial public notice was issued on December 21, 2004 and bids were subsequently opened on January 12, 2005. A determination from the Director of Procurement & Supply authorizing the bid openings prior to the thirty days was not made available. No questioned costs result from this finding as the contract was awarded prior to expenditures being incurred. 	<p>8,000</p> <p>2,000</p> <p>32,000</p>

Cause: The cause of the above condition is the lack of adherence to the CNMI Procurement Regulations.

Effect: The effect of the above condition is questioned costs of \$42,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-17, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p data-bbox="527 426 1325 478"><u>Recommendation:</u> We recommend all procurement regulations be strictly adhered to.</p> <p data-bbox="527 506 1032 531"><u>Auditee Response and Corrective Action Plan:</u></p> <p data-bbox="527 558 1344 611">Name of Contact Person: Edith Deleon Guerrero, Director, Workforce Investment Agency and Herman Sablan, Director, Procurement & Supply</p> <p data-bbox="527 638 1344 873">Corrective Action: This grant was selected for detail testing after the final draft audit report had been approved by CNMI. The records for this grant had been boxed up and put in storage, which has led to documentation not being readily available for the auditors. In addition, staff turnover at the Workforce Investment Agency has resulted in the current staff being unfamiliar with this grant. Locating the missing documentation will be a time consuming task involving several agencies. Due to the high priority given to issuing this audit report on a timely basis we agree to include the finding in the audit and will continue efforts to locate missing documents.</p> <p data-bbox="527 900 948 926">Proposed Completion Date: FY2007</p> <p data-bbox="527 953 1344 1033"><u>Auditor Response:</u> The procurement documents for the related contracts can be reviewed at the Division of Procurement & Supply. The entity has not addressed the lack of compliance with procurement regulations.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Special Tests and Provisions

Finding No. 2005-18

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																																						
U.S. Department of Labor / WIA Cluster / Federal Award # EM-14471-05-60 / Federal Award Period 10/01/04 - 11/30/05	<p><u>Criteria:</u> Under the grant terms and conditions, eligible dislocated workers temporarily dislocated due to the disaster and long-term unemployed individuals may not be employed in temporary jobs under the grant for more than six months, or 1,040 hours related to recover from a single natural disaster. Additionally, the grant also provides that the maximum wage paid to any one participant is \$12,000 (excluding fringe).</p> <p><u>Condition:</u> Of \$1,676,896 payroll expenditures, forty-four payroll items totaling \$45,067 were tested under the National Emergency Grant Program. The following were noted:</p> <ul style="list-style-type: none"> • Twenty-six individuals (employee #s 100643, 101055, 101062, 101514, 101568, 102064, 159700, 169629, 372707, 372780, 372879, 372942, 442581, 442627, 448396, 448402, 448407, 448468, 450469, 450472, 445786, 448395, 448396, 476832, 476833 and 477005) were employed for more than six months. Additionally, while four employees (#s 101132, 448398, 445870 and 450136) were employed for less than six months, their actual hours exceeded the 1,040 hours allowed under the grant. • Wages paid to seventeen individuals exceeded the \$12,000 threshold by \$147,905. Details follow: <table style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Employee No.</u></th> <th style="text-align: center;"><u>Excess of \$12,000</u></th> </tr> </thead> <tbody> <tr><td>100643</td><td style="text-align: right;">\$ 390</td></tr> <tr><td>101055</td><td style="text-align: right;">28,855</td></tr> <tr><td>101062</td><td style="text-align: right;">4,268</td></tr> <tr><td>101132</td><td style="text-align: right;">34,545</td></tr> <tr><td>101568</td><td style="text-align: right;">21,529</td></tr> <tr><td>101514</td><td style="text-align: right;">5,960</td></tr> <tr><td>101793</td><td style="text-align: right;">212</td></tr> <tr><td>102064</td><td style="text-align: right;">2,772</td></tr> <tr><td>159700</td><td style="text-align: right;">1,195</td></tr> <tr><td>169629</td><td style="text-align: right;">245</td></tr> <tr><td>372707</td><td style="text-align: right;">755</td></tr> <tr><td>448395</td><td style="text-align: right;">11,672</td></tr> <tr><td>448396</td><td style="text-align: right;">11,955</td></tr> <tr><td>448402</td><td style="text-align: right;">8,404</td></tr> <tr><td>448407</td><td style="text-align: right;">9,338</td></tr> <tr><td>448468</td><td style="text-align: right;">365</td></tr> <tr><td>450136</td><td style="text-align: right;">5,445</td></tr> <tr><td></td><td style="text-align: right;"><u>\$ 147,905</u></td></tr> </tbody> </table>	<u>Employee No.</u>	<u>Excess of \$12,000</u>	100643	\$ 390	101055	28,855	101062	4,268	101132	34,545	101568	21,529	101514	5,960	101793	212	102064	2,772	159700	1,195	169629	245	372707	755	448395	11,672	448396	11,955	448402	8,404	448407	9,338	448468	365	450136	5,445		<u>\$ 147,905</u>	7,520
<u>Employee No.</u>	<u>Excess of \$12,000</u>																																							
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450136	5,445																																							
	<u>\$ 147,905</u>																																							

Cause: The cause of the above condition is the lack of policies and procedures to monitor time charges as required by the grant.

Effect: The effect of the above condition is failure to comply with established program requirements and questioned costs of \$7,520. The remaining amount of \$140,385 is included in the questioned costs in Finding No. 2005-16.

Recommendation: We recommend strict compliance with program requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-18, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan:</u>		
Name of Contact Person: Edith Deleon Guerrero, Director, Workforce Investment Agency		
Corrective Action: This grant was selected for detail testing after the final draft audit report had been approved by CNMI. The records for this grant had been boxed up and put in storage which has led to documentation not being readily available for the auditors. In addition, staff turnover at the Workforce Investment Agency has resulted in the current staff being unfamiliar with this grant. Locating the missing documentation will be a time consuming task. Due to the high priority given to issuing this audit report on a timely basis we agree to include the finding in the audit and will continue efforts to locate missing documents.		
Proposed Completion Date: FY2007		
<u>Auditor Response:</u> The total gross pay and hours information were obtained during our review of the payroll registers for the fiscal year readily available in the CNMI's system. The entity's inability to locate related documents, however, does not address the noncompliance with the hours and dollar limitations imposed by the grant.		
Total Questioned Costs		\$ <u>718,786</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Homeland Security
Allowable Costs/Cost Principles - Public Assistance Grants
CFDA #97.036, Federal Award #s 1541DRMPP00000001 and 1532DRMPP00000001
Federal Award Periods 08/26/04 through completion and 07/29/04 through completion

Finding No. 2005-19

Criteria: Allowable expenditures should be charged to the program in the proper period.

Condition: Of total drawdowns of \$4,634,289, costs reimbursed for four projects were charged to the program in the subsequent period as follows:

<u>DR</u>	<u>Project PW #</u>	<u>Journal Entry</u>	<u>Date</u>	<u>Amount</u>
1541	DPW-380	119159	02/03/06	\$ 111,560
1541	DPS-63	120932	03/23/06	\$ 51,956
1541	DPW-427	119890	02/24/06	\$ 46,682
1532	NIMO-46	120091	03/01/06	\$ 9,152

The above has been corrected through proposed audit adjustments.

Cause: The cause of the above condition is the delayed transfer of expenditures from the general fund into the appropriate program cost centers.

Effect: The effect of the above condition is understated expenditures in the Financial Status Reports, FEMA 20-10.

Recommendation: We recommend that allowable costs be charged to the program in the proper period.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree expenditures were posted in the subsequent fiscal year. Even though costs have been incurred by the agencies, delays in completing the proper documentation to book costs sometimes occur. We will review proposed adjusting entry and record as recommended by the auditors.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Homeland Security
Allowable Costs/Cost Principles - Public Assistance Grants
CFDA #97.036, Federal Award #s MP02PA1430 and 1541DRMPP00000001
Federal Award Periods 08/06/02 through completion and 08/26/04 through completion

Finding No. 2005-20

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 \$1,425,190 expenditures tested, we noted the following:

- The equipment rates used for two Typhoon Chaba (DR1541) projects (PW 437 and PW 442) could not be verified as the description of the equipment, per the Forced Equipment Record, is different from the FEMA equipment rate schedule and no equipment code was indicated to ensure that the proper rate was used. The entity was non-compliant during the audit period.
- The equipment rates used for one Typhoon Chata'an (DR 1430) project (PW 50) were higher than the FEMA rates used in estimation stipulated in scope of work. Local rates were used instead.

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

Effect: The effect of the above condition is the risk of unauthorized rates being used. No questioned costs result from the condition above as grantor approval was subsequently obtained.

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

Prior Year Status: The lack of established local guidelines relating to equipment rates was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

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, 2005

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 10/01/04 - 09/30/05

Finding No. 2005-21

Criteria: Expenditures should be recorded when incurred.

Condition: Of total program expenditures of \$2,211,441 at September 30, 2005, professional services of \$1,661,534 and nonpayroll expenses of \$182,319 were tested. Of eighty-six items tested, thirty-two items, totaling \$509,945 included billings from service providers for services rendered in prior years. These expenditures represent those approved by the local Medicaid Office, which were subsequently forwarded to the Department of Finance (DOF) for recording and payment. We also noted that after processing of service provider billings by DOF, payments are then released to the local Medicaid office, which forwards such to the service provider.

Cause: The cause of the above condition is the lack of policies and procedures established by the Medicaid office regarding timely recognition of expenditures at the time services are rendered and 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 condition results in a qualification of accounts payable on the 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 that all billings received are reviewed and forwarded to the Department of Finance in a timely manner to ensure that expenditures are properly recorded. We also recommend that the Department of Finance establish control procedures related to the distribution of vendor payments.

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 Audits of the CNMI for fiscal years 2003 and 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen Sablan, Medicaid Administrator

Corrective Action: While we agree that prior year services are paid with current year funds and that unprocessed claims are not included in the financial statements, we do not feel this should result in an audit finding.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-21, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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.

Since there is no funding or appropriation for these claims they cannot be processed for payment by the Department of Finance and do not constitute additional local match for a given fiscal year. 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 proper account documentation can be included with the payment.

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, 2005

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 10/01/04 - 09/30/05

Finding No. 2005-22

Criteria: Pursuant to the provisions of the CNMI Medicaid Operational Plan, charges to the CNMI Medicaid Program shall be no more than those established for similar services at the Commonwealth Health Center (CHC). If CHC does not have a rate for the particular claimed service, then the rate shall be the Medicare rate, using the Medicare principles of cost reimbursement. For off-island charges, the CNMI Medicaid adheres to the rates applicable to the respective States.

Condition: The CNMI Medicaid does not maintain a list of service rates for services not included on the CHC list of service fees. Since the CHC list of rates does not include prescriptions and optometrist services, verification of the accuracy of rates was not performed for the following:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
10/29/04	62060	PV353977	\$ 81,295
10/29/04	62060	PV353979	59,428
11/02/04	62060	PV354315	62,276
11/24/04	62060	PV356586	13,455
11/29/04	62060	PV356756	15,848
12/03/04	62060	PV357723	75,217
01/17/05	62060	PV361895	13,479
01/17/05	62060	PV361922	53,783
01/17/05	62060	PV361936	13,654
02/28/05	62060	PV368919	16,267
02/28/05	62060	PV368920	15,454
03/14/05	62060	PV371160	47,135
03/18/05	62060	PV371784	48,336
03/18/05	62060	PV371786	55,387
05/10/05	62060	PV377993	28,865
05/10/05	62060	PV377994	17,456
05/10/05	62060	PV377996	15,762
05/10/05	62060	PV377997	80,570
05/13/05	62060	PV378496	20,602
05/13/05	62060	PV378497	13,264
01/17/05	62060	PV361930	5,487
05/10/05	62060	PV377998	2,612
			<u>\$ 755,632</u>

In addition, for one off-island service provider, the Medicaid office could not perform rate verification since it does not maintain a list of service rates.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-22, Continued

Condition, Continued:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
06/27/05	62060	PV384502	\$ 3,268
06/28/05	62060	PV384698	6,575
06/28/05	62060	PV384719	<u>6,615</u>
			\$ <u>16,458</u>

Based on the results of our tests, the services provided were eligible and in accordance with the Operational Plan; therefore, no questioned costs result.

Cause: The cause of the above condition is the lack of clearly defined and communicated procedures for verification of rates charged by the service providers.

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 service rates charged to the Medicaid program.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen Sablan, Medicaid Administrator

Corrective Action: The Commonwealth Health Center (CHC) does not provide prescriptions or optometrist services so they do not have a rate schedule for services they do not provide. As noted in the criteria, the service is then paid at the Medicare rate and that is the rate against which verification should be made. In the case of PHI (prescription services), there is a contract that sets reimbursement at the average wholesale price less 10.5% plus a dispensing fee of \$4.67.

In the case of the one off island provider for which the finding states a list of service rates is not maintained (San Diego Childrens' Hospital), a contract is in place which specifies a discounted rate of 39% of the total bill after 6/30/04.

As noted in the finding, all services provided were eligible and in accordance with the operational plan.

Proposed Completion Date: FY2006

Auditor Response:

We are not able to determine that such rates used agree to Medicare rates as the CNMI Medicaid does not maintain such a listing. In addition, there is no evidence of rate verification.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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 10/01/04 - 09/30/05

Finding No. 2005-23

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

Condition: Actual billings and/or invoices from two service providers were not provided to support payment vouchers. Of eighty-six items tested totaling \$1,843,853, twelve items totaling \$595,066 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 our tests, the eligibility of services was in accordance with Part 3 of the revised Operational Plan; therefore, no questioned costs result from this condition. Details as follows:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
10/29/04	62060	PV353977	\$ 81,295
10/29/04	62060	PV353979	\$ 59,428
01/17/05	62060	PV361922	\$ 53,783
03/14/05	62060	PV371160	\$ 47,135
03/18/05	62060	PV371784	\$ 48,336
03/18/05	62060	PV371786	\$ 55,388
05/10/05	62060	PV377996	\$ 15,762
05/10/05	62060	PV377997	\$ 80,570
05/13/05	62060	PV378497	\$ 13,264
05/10/05	62060	PV377998	\$ 2,612
11/02/04	62060	PV354315	\$ 62,276
12/03/04	62060	PV357723	\$ 75,217

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 through 2004.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-23, Continued

Auditee Response and Corrective Action Plan:

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

Corrective Action: Effective in January 2005, the one provider is now submitting the required invoices along with the spreadsheet. Prior to that date, the invoices had been submitted subsequent to the spreadsheet and reviewed at that time. The spreadsheet is still submitted as the supporting documentation for payment to the Department of Finance due to the bulkiness of the detail invoices. We feel the spreadsheet contains sufficient detail, including case # and RX #, for this purpose. We will review the one PV cited that is not related to prescriptions to determine its status. As noted by the auditors, the eligibility of the services was in accordance with Part 3 of the revised Operational Plan.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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 10/01/04 - 09/30/05

Finding No. 2005-24

Criteria: Hours charged to overtime and paid time-off (PTO) should be properly authorized and approved prior to payment. In addition, all deductions and auto deposits should be supported by written authorizations.

Condition: Of the total program payroll expenditures of \$86,469, two employees with total gross pay of \$2,663 were tested. Of the two employees tested, one employee included overtime and PTO charges of \$242 but no approved overtime authorization and annual leave forms for such employee were not provided for review as follows:

<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>No. of PTO Hours</u>	<u>No. of Overtime Hours</u>
103083	07/09/05	4	13.5

Cause: The cause of the above condition is failure to verify overtime and PTO hours to supporting authorizations prior to payment and failure to obtain and file written authorizations supporting allotments and auto deposits.

Effect: The effect of the above condition is the potential for use of federal funds for unauthorized purposes. However, no questioned costs result from the condition as the estimated error is less than \$10,000.

Recommendation: We recommend that Medicaid personnel strictly implement policies on overtime and PTO hours to ensure that only authorized hours are charged to the program. Further, we recommend that the entity strictly require written authorizations to support all allotments and auto deposits.

Auditee Response and Corrective Action Plan:

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

Corrective Action: Timekeeping has been centralized at the Department of Public Health. A copy of the annual leave form has been requested but not received yet. The Attorney General's Office has the overtime documents as part of an investigation.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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 10/01/04 - 09/30/05

Finding No. 2005-25

Criteria: Expenditures should be properly authorized, supported by documents, and approved prior to incurrence.

Condition: We noted the following:

- For nine off-island expenditures, the supporting medical referrals or travel authorizations were not on file:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
04/21/05	62060	PV375469	\$ 11,502
04/21/05	62060	PV375470	26,051
04/21/05	62060	PV375482	42,556
06/28/05	62060	PV384706	22,428
06/28/05	62060	PV384739	14,873
06/27/05	62060	PV384606	2,276
06/28/05	62060	PV384719	6,615
06/28/05	62060	PV384741	6,482
09/19/05	62060	PV398919	1,135
03/22/05	62060	PV382088	12,160
04/21/05	62060	PV375482	27,538
12/28/04	62060	PV359725	<u>3,692</u>
			\$ <u>177,308</u>

- For five off-island expenditures, the medical referral/travel authorization approval date was later than the service date:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
03/22/05	62060	PV372085	\$ 11,103
03/22/05	62060	PV372089	120,796
06/13/05	62060	PV382374	120,796
01/25/05	62060	PV363569	3,811
04/21/05	62060	PV375466	<u>5,254</u>
			\$ <u>261,760</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-25, Continued

Condition, Continued:

- For eight off-island expenditures, the medical referral/travel authorization approval date is not stated.

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
06/28/05	62060	PV384681	\$ 62,466
01/24/05	62060	PV363493	2,260
06/01/05	62060	PV381110	2,043
06/01/05	62060	PV381122	1,125
06/02/05	62060	PV381227	1,708
06/24/05	62060	PV384230	1,901
06/27/05	62060	PV384502	3,269
06/27/05	62060	PV384570	<u>1,160</u>
			\$ <u>75,932</u>

Cause: The cause of the above condition is failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to submit all supporting documents for filing.

Effect: The effect of the above conditions is the lack of support for the authorization of expenditures prior to incurrence. Further, there is a lack of explanation for medical/travel authorization occurring subsequent to the service date. The costs, however, will not be questioned as services were eligible and in accordance with the Operation Plan.

Recommendation: We recommend that the Medicaid office obtain all necessary approvals/authorizations prior to incurrence/payment of expenditures and ensure that supporting documents are properly and completely filed.

Auditee Response and Corrective Action Plan:

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

Corrective Action: Medical referral authorizations are maintained by the Medical Referral Office. Medicaid has requested these documents. In past years we have been able to document this type of missing document finding but given the emphasis on timely completion of the final audit, this portion of the finding will probably remain in the final audit. We do not feel the cause is lack of approvals and/ or authorizations but rather documents filed in several offices.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2005-26

Criteria: In accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, 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.

Condition: During the year ended September 30, 2005, the CNMI applied the 2003 indirect cost rate on eligible federal programs without obtaining the cognizant agency's approval.

Cause: The cause of the above condition is the cognizant agency's approval was not obtained.

Effect: The effect of the above condition is the possible misstatement of expenditures.

Recommendation: We recommend that prior approval from the cognizant agency be obtained prior to applying the indirect cost rate on eligible federal programs. We also recommend internal calculations be made to determine potential offsets and/or Carr forwards.

Prior Year Status: The lack of prior approval from the cognizant agency prior to applying the indirect cost rate on eligible federal programs was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

Auditee Response and Corrective Action Plan:

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

Corrective Action: According to email from our cognizant agency dated June 22, 2006, all indirect costs should not be questioned for lack of updated rate. Rather finding should question procedure with recommendation that rates be approved and amounts recalculated as necessary with offsets or carry forwards depending on the final corrected amount. They will provide additional feedback in the near future.

Proposed Completion Date: FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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

Finding No. 2005-27

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: For sixty-one of eighty-six samples tested, disbursement checks were released and cleared from four to fifty-eight days after cash was received from the grantor agency, as follows:

<u>Document #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Clearing Date</u>	<u>Reimbursement Date</u>	<u>Days Lapsed</u>
PV353977	\$ 81,295	260116	01/06/05	11/19/04	48
PV353979	\$ 59,428	260117	01/07/05	11/19/04	49
PV354315	\$ 62,276	260108	01/06/05	12/16/04	21
PV356586	\$ 13,455	260105	12/31/04	12/16/04	15
PV356756	\$ 15,848	260107	01/10/05	12/16/04	25
PV357723	\$ 75,217	260067	12/29/04	12/16/04	13
PV361895	\$ 13,479	264590	03/03/05	02/07/05	24
PV361922	\$ 53,783	265379	04/06/05	02/07/05	58
PV361936	\$ 13,654	265380	04/05/05	02/07/05	57
PV368919	\$ 16,267	266658	04/11/05	03/23/05	19
PV368920	\$ 15,454	266132	04/11/05	03/23/05	19
PV371160	\$ 47,135	267140	04/19/05	03/23/05	27
PV371784	\$ 48,336	267141	04/19/05	03/23/05	27
PV371786	\$ 55,387	267142	04/19/05	03/23/05	27
PV372085	\$ 11,103	268052	05/10/05	04/04/05	36
PV382088	\$ 12,160	268203	05/10/05	04/04/05	36
PV372089	\$ 120,796	268163	05/09/05	04/04/05	35
PV375469	\$ 11,502	270612	07/05/05	05/24/05	42
PV375470	\$ 26,051	270612	07/05/05	05/24/05	42
PV375482	\$ 42,556	270612	07/05/05	05/24/05	42
PV375482	\$ 27,538	270612	07/05/05	05/24/05	42
PV377993	\$ 28,865	271576	07/13/05	05/24/05	50
PV377994	\$ 17,456	271576	07/13/05	05/24/05	50
PV377996	\$ 15,762	270685	06/21/05	05/24/05	28
PV377997	\$ 80,570	270685	06/21/05	05/24/05	28
PV378494	\$ 17,412	271162	06/28/05	05/24/05	35
PV378496	\$ 20,602	271512	06/23/05	05/24/05	30
PV378497	\$ 13,264	270581	06/10/05	05/24/05	17
PV384739	\$ 14,873	273994	10/04/05	09/23/05	11
PV455640	\$ 125,000	257488	12/07/04	11/19/04	18
PV363843	\$ 125,000	261819	02/23/05	02/07/05	16
PV359725	\$ 3,692	263987	03/25/05	02/07/05	46
PV361930	\$ 5,487	265380	04/05/05	02/07/05	57
PV362439	\$ 8,903	264669	03/04/05	02/07/05	25
PV363343	\$ 3,230	264022	03/21/05	02/07/05	42

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005Finding No. 2005-27, ContinuedCondition, Continued:

<u>Document #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Clearing Date</u>	<u>Reimbursement Date</u>	<u>Days Lapsed</u>
PV363220	\$ 7,351	263987	03/25/05	02/07/05	46
PV363493	\$ 2,260	264017	03/21/05	02/07/05	42
PV363569	\$ 3,811	263893	03/16/05	02/07/05	37
PV369017	\$ 2,691	266763	04/26/05	03/23/05	34
PV369145	\$ 3,383	266718	04/29/05	03/23/05	37
PV372079	\$ 1,431	268203	05/10/05	04/04/05	36
PV372087	\$ 4,472	268644	05/31/05	04/04/05	57
PV375466	\$ 5,254	270612	07/05/05	05/24/05	42
PV377998	\$ 2,612	270685	06/21/05	05/24/05	28
PV378621	\$ 4,232	271381	07/12/05	05/24/05	49
PV378668	\$ 3,105	271831	06/20/05	05/24/05	27
PV378699	\$ 2,060	270652	07/13/05	05/24/05	50
PV381110	\$ 2,043	274133	10/03/05	09/23/05	10
PV384226	\$ 1,088	274679	10/04/05	09/23/05	11
PV384230	\$ 1,901	274339	10/03/05	09/23/05	10
PV384502	\$ 3,268	273909	10/11/05	09/23/05	18
PV384570	\$ 1,160	274326	10/06/05	09/23/05	13
PV384606	\$ 2,276	274007	10/12/05	09/23/05	19
PV384732	\$ 3,366	274763	10/04/05	09/23/05	11
PV384741	\$ 6,482	273994	10/04/05	09/23/05	11
PV356585	\$ 13,586	260065	12/27/04	12/16/04	11
PV362438	\$ 13,246	261752	02/11/05	02/07/05	4
PV370687	\$ 13,613	265216	03/29/05	03/23/05	6
PV356757	\$ 21,999	260105	12/31/04	12/16/04	15
PV361894	\$ 14,195	264590	03/03/05	02/07/05	24
PV361935	\$ 5,730	265380	04/05/05	02/07/05	57

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

Effect: The effect of the above condition is noncompliance with federal cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the U.S. Department of Health and Human Services is less than \$10,000.

Recommendation: We recommend that procedures be established to ensure that 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 through 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer and Helen C. Sablan, Medicaid Administrator

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-27, Continued

Auditee Response and Corrective Action Plan:

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 non governmental 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, 2005

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

Finding No. 2005-28

Criteria: Sufficient controls should be in place to ensure that only eligible individuals receive benefits under the CNMI Medicaid Program.

Condition: The CNMI Medicaid Office relies on an electronic database for verifying eligibility of individuals charged to the CNMI Medicaid program by service providers. Access to this database is currently not controlled. Updates to the database are made by eligibility workers. Independent reviews or verification of the information posted to the database is not occurring.

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

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

Recommendation: We recommend that the independent review of information posted to the eligible participants list regularly occur and be properly evidenced. Further, the individual performing the review should be independent of the data entry process. Specifically, it is recommended that a sample of posted information be traced to original manual documents on a periodic basis. These tests, if performed, should be documented. We further recommend that controls be implemented to restrict access to the database to authorized personnel.

Prior Year Status: The lack of adequately defined control procedures over the Program's electronic system was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2004.

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, 2005

U.S. Department of Agriculture
Equipment and Real Property Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/04- 09/30/05

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 - 09/30/08

U.S. Department of Homeland Security
Equipment and Real Property Management - Public Assistance Grants
CFDA #97.036, Federal Award #s MP03PA1447, MP02PA1430, MR11924160, MR11944160,
1532DRMPP00000001 and 1541DRMPP00000001
Federal Award Periods 12/11/02 through completion, 08/06/02 through completion, 12/08/97
through completion, 12/24/97 through completion, 07/29/04 through completion and 08/26/04
through completion

Finding No. 2005-29

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.

Condition: The Food Stamps Program (Food Stamps) conducted its annual physical inventory in March 2005 but finalized the listing in September 2005. There was no reconciliation of differences with records maintained at the Division of Procurement and Supply.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-29, Continued

Condition, Continued:

During the year ended September 30, 2005, the Division of Environmental Quality (DEQ) maintained a fixed asset listing representing its physical count as of fiscal year 2001 and all fixed assets acquisition from fiscal year 2002 through 2005. Further, the Division of Procurement and Supply (P&S) also maintained a master listing of DEQ's fixed asset. Both divisions, however, did not conduct an inventory counts during fiscal years ended 2002 through 2005. Reconciliation between the listings was not performed which resulted in differences. In addition, DEQ listings did not indicate the total of the assets or the percentage of federal share in the asset. In addition, of ten items selected for physical observation, two items (US31496CM and US2861CM) were not made available.

Although an inventory listing is maintained at the Public Assistance Office, it does not include all requirements of the Common Rule and has not been reconciled with P&S.

Cause: The cause of the above condition is a lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and the lack of a reconciliation between the master listing maintained by Procurement and Supply 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 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Herman Sablan, Director, Procurement and Supply, Virginia Villagomez, Governor's Authorized Representative, Eleanor Cruz, NAP Administrator and Frank M. Rabauliman, Director, DEQ

Corrective Action: We agree with finding. The established inventory procedures are for Procurement & Supply to annually prepare and distribute inventory listings to each accountable activity; the activity to perform an inventory and submit any changes to Procurement & Supply; and Procurement & 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, NAP and Public Assistance offices to insure annual inventories are performed and the results submitted to P&S. NAP conducted an inventory on March 15, 2005 and submitted to P&S in September 2005. Changes will be updated in the master inventory control record. DEQ received a copy of their inventory listing from P&S in March 2006 and is in the process of reconciling their inventory to that listing. DEQ has a control system in place with adequate safeguards to prevent loss, damage or theft of property. The Public Assistance Office does maintain an inventory listing but it does not include all required data and has not been reconciled with Procurement & Supply records.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Homeland Security
Matching, Level of Effort, Earmarking - Public Assistance Grants
CFDA #97.036, Federal Award # MR11944160
Federal Award Periods 12/24/97 through completion

Finding No. 2005-30

Criteria: Costs must be on a shared basis, as specified in the FEMA-State agreement.

Condition: Of total expenditures of \$1,425,190 tested, the local share for one Typhoon Paka (DR 1194) project DSR 54738/48014 was recorded in the federal account for which no matching share was duly recorded in the general fund. The total fiscal year 2005 expenditures for this project were \$649,125 for which \$162,281 is the local share. As the federal share is properly reported on the Financial Status Report (FEMA 20-10), no questioned costs result.

The above condition was corrected through proposed audit adjustments.

Cause: The cause of the above condition is a lack of procedures in place to ensure proper matching in the underlying accounting records.

Effect: The effect of the above condition is noncompliance with federal matching requirements.

Recommendation: We recommend that the Department of Finance implement procedures to ensure that matching is accounted for at the correct cost share percentages.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The PAO/CNMI agrees to the proposed plan of action to resolve the finding indicated. This project, Rota Early Warning System, was funded from a variety of sources. We will review proposed adjusting entry and record as recommended by the auditors.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2005-31

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.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-31, Continued

Auditee Response and Corrective Action Plan:

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

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 own 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: FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2005-32

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 the lack of a written procurement policy concerning travel and related expenditures.

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eloy S. Inos, 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, 2005

U.S. Department of the Interior

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

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

Federal Award Period Available Until Expended

Finding No. 2005-33

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.

Condition: During the year ended September 30, 2005, the CNMI executed change orders (CO) related to two contracts (contract #s 301-OS - CO #1 for \$49,888 and 324-OS - CO #2 for \$169,683) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement.

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.

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

Prior Year Status: The lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We will review with appropriate personnel the requirements for sole source justification on change orders as well as original contracts. It is our standard practice to review construction and A&E change orders for compliance with 5-103(2). This may be a case of misplaced documents.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of the Interior

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

CFDA #15.875, Federal Award # Fiscal Year 1993 and 1996 - 2002 Appropriations Act
Federal Award Period Available Until Expended

U.S. Department of Transportation

Procurement and Suspension and Debarment - Highway Planning and Construction
CFDA #20.205

Finding No. 2005-34

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; 5) compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act; and 6) federal access to contractor's records.

Condition: Of twenty-six contracts relating to expenditures of the Capital Improvement Projects:

- Seventeen (17) contracts (#s 123-OS, 201-OS, 239-OS, 268-OS, 270-OS, 272-OS, 273-OS, 282-OS, 306-OS, 309-OS, 311-OS, 319-OS, 325-OS, 336-OS, 337-OS, 358-OS and 415848-OC) did not contain provisions of compliance under Section 306 of the Clean Air Act. In addition, two contracts (#s 425333-OC and 437342) relating to a nonmajor program (Highway Planning and Construction) did not contain provisions of compliance under Section 306 of the Clean Air Act.
- Twenty-six (26) contracts (#s 123, 201, 239, 268, 270, 272, 273, 282, 284, 300, 301, 304, 305, 306, 309, 311, 319, 324, 325, 329, 341, 356, 358, 361, 415848 and 419095) did not contain provisions of federal access to contractor's records.

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

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

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

Prior Year Status: The lack of compliance with the Common Rule relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2004.

Auditee Response and Correction Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-34, Continued

Auditee Response and Correction Action Plan, Continued:

Corrective Action: 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. We are uncertain where in the Common Rule requirement is specified for ALL applicable federal laws to be individually listed.

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.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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

Finding No. 2005-35

Criteria: In accordance with Section 3-108 "Expedited Purchasing in Special Circumstances" of the CNMI Procurement Regulations, when special circumstances require the expedited procurement of goods or services, the official with expenditure authority may request that the Property and Supply Director approve expedited procurement without the solicitation of bids or proposals. Additionally, paragraph 6 of Sec. 3-108 provides that the total amount of goods or service that may be approved under this section shall not exceed \$25,000.

Condition: During the year ended September 30, 2005, the CNMI entered into a contract (contract # 356-OS) using an expedited procurement method. We did not note any written determination documenting the use of expedited procurement.

Cause: The cause of the above condition is failure to comply with Section 3-108 of the CNMI Procurement Regulations.

Effect: The effect of the above condition is the lack of compliance with Section 3-108 of the CNMI Procurement Regulation.

Recommendation: We recommend that the CNMI ensure strict adherence to established Procurement Regulations.

Auditee Response and Correction Action Plan:

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

Corrective Action: Contract 356-OS was expedited procurement under emergency regulations previously provided that allowed the Water Task Force and Homeland Security Office to do expedited procurements in any amount.

Proposed Completion Date: Already in compliance

Auditor Response: No questioned costs from the condition above result since based on the nature of the related services specified in the contract and approved by the P&S Director, the use of expedited procurement is in compliance with amended Section 3-108 of the CNMI procurement regulations. However, written justification to support the expedited procurement for the above specific contract was not made available.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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

Finding No. 2005-36

Criteria: In accordance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulations, advance payments shall only be authorized in certain circumstances as provided below:

- The official with expenditure authority demonstrates in writing that the common business practice of a particular industry requires buyers to pay on an advance payment basis. Such advance payment shall be limited to not more than 50 percent of the contract price. Pertinent documents supporting such business practice shall be attached to the written justification.

Condition: During the year ended September 30, 2005, the CNMI executed three contracts (contract #s 300-OS, 301-OS and 419095-OC), which provided for advance payment of more than 25% of the contract amount. Additionally, we did not note the presence of written justification that common business practice of the related industry requires buyers to pay on an advance payment basis.

Cause: The cause of the above condition is the failure to justify advance payments exceeding 25% of the contract amount.

Effect: The effect of the above condition is the lack of compliance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulation and this condition results in an interest liability (refer to Finding No. 2005-6).

Recommendation: We recommend that the Division of Procurement and Supply ensure that advance payments in excess of twenty-five percent of the contract amount are properly justified and documented in writing.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree that written justifications for advance payments were not available for the contracts cited. We will review with appropriate personnel the requirements for advance payments contracts. It is our standard practice to review contracts for compliance with 5-101(2)(a)(ii). This may be a case of misplaced documents.

Proposed Completion Date: FY2006

Auditor Response: Section 5-101(2)(a)(ii) provides for the following:

The official with expenditure authority demonstrates in writing that the common business practice of a particular industry requires buyers to pay on an advance basis. Such advance payment shall be limited to not more than 50 percent of the contract price. Pertinent documents supporting such business practice shall be attached to the written justification.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Homeland Security

Procurement and Suspension and Debarment - Public Assistance Grants

CFDA #97.036, Federal Award #s 1532DRMPP00000001 and MP03PA1447

Federal Award Periods 07/29/04 through completion and 12/11/02 through completion

Finding No. 2005-37

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Condition: Of \$1,425,190 in expenditures tested, we noted the following:

- Services for contract 434293 OC were initially acquired through a verbal agreement between the Rota DPW Resident Director and the vendor due to the immediate need of services. Per review of contractor invoices, services were provided in May 2003 for which the contract was prepared and encumbered in February 2005. The total charged to the project (DR 1447 - PW#38 - Rota Municipality) is \$18,600. During the period, CNMI was non-compliant with local procurement regulations. However, costs were subsequently approved by the grantor, and as such, no questioned costs result.
- Quotations were not obtained for 217954 OV for \$2,099. Disbursement is for DR 1532 - PW#8.

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

Effect: The effect of the above condition is noncompliance with established procurement regulations, unauthorized commitment to vendors. No question costs result from the condition above as grantor approval was subsequently obtained.

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

Prior Year Status: The lack of compliance with federal procurement rules and regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-37, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree that the contract noted was originally procured through verbal agreement due to the emergency nature of the typhoon cleanup work to be done. The contract was 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.

Procurement was in accordance with Section 3-105 of the local procurement regulations which do not require quotations for purchases under \$2,500.

The Governor exercised his authority pursuant to Section 3-107 of the CNMI procurement regulations and Directive 240 to approve this contract. The project is complete and FEMA has done the final inspection on this project.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Agriculture
Reporting - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/03- 09/30/05

Finding No. 2005-38

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

Condition: Expenditures reported in the final SF-269 for the quarter ended September 30, 2005 differed from the CNMI accounting records in the following categories:

	<u>Per SF-269</u>	<u>Per General Ledger</u>	<u>Variance</u>
Category a- NAP Administration	\$ 941,374	\$ 907,119	\$ 34,255
Category b- Management Evaluation Unit	\$ 204,570	\$ 202,933	\$ 1,637
Category c- Retailer and Redemption Unit	\$ 195,456	\$ 172,912	\$ 22,544

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

Effect: The effect of the above condition is incorrect reporting of Federal program expenditures. However, the actual drawdowns agreed to the amounts reported as cash received in the general ledger.

Recommendation: We recommend that the CNMI ensure that required Financial Status Reports reflect actual transactions recorded in the general ledger and that all transactions are properly supported.

Prior Year Status: Subsequent transactions/adjustments made to the general ledger after submission of the reports to the grantor and the lack of adherence to established procedures ensuring that supporting documentation is properly maintained was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

Auditee Response and Correction Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director Finance & Accounting and Eleanor Cruz, 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, 2005

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

Finding No. 2005-39

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

Condition: Of thirty-seven nonpayroll expenditures of the Capital Projects Fund tested, eight business units did not reflect actual expenditures on the CIP Status Report submitted to the grantor agency.

<u>Business Unit</u>	<u>Drawdown Per CIP Status Report</u>	<u>Expenditure Per CIP Status Reports (Federal portion only)</u>	<u>Drawdown Variance</u>	<u>Amount Per CIP Status Reports (Total Federal and Local)</u>	<u>Amount Per General Ledger (Total Federal and Local)</u>	<u>General Ledger Variance</u>
4898	\$ 143,043	\$ 145,499	\$ (2,456)	\$ 145,499	\$ 167,376	\$ (21,877)
5181	\$ 742,485	\$ 472,163	\$ 270,322	\$ 954,186	\$ 967,465	\$ (13,279)

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

Effect: The effect of the above condition is the over/understatement of reported expenditures/drawdowns.

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

Prior Year Status: The lack of updating the federal financial reports submitted to the grantor was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2004.

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: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Labor
Reporting - WIA Cluster
Federal Award # EM-14471-05-60
Federal Award Period 10/01/04 - 11/30/05

Finding No. 2005-40

Criteria: Pursuant to the reporting requirements section of the National Emergency Grant (NEG) award, the following reports shall be submitted by the program:

- A. Monthly reports of grant activities to be submitted to the U.S. Department of Labor. This report should be submitted to the Grant Officer in writing every 5th working day after the end of each reporting period. This report should include the following data:
- Total participants enrolled to date;
 - Total participants currently in temporary jobs;
 - Significant changes in impact, as determined by the CNMI, not previously reported;
 - Type of services being provided by participants in temporary jobs;
 - Types of activities being performed;
 - Any significant event that occurred during the reporting period; and
 - Total expenditures to date and the number of monitoring visits.
- B. Close-out project report (final report) which shall be submitted within 45 days after the end of the project. A brief narrative outlining the highlights, problems encountered, and recommendations regarding the effectiveness of this type of approach and any changes to be considered should be included with the final report.

Condition: The required reports were not available for our review.

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

Effect: The effect of the above condition is possible noncompliance with the criteria.

Recommendation: We recommend all NEG files be properly filed and maintained.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Edith Deleon Guerrero, Director, Workforce Investment Agency

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-40, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: This grant was selected for detail testing after the final draft audit report had been approved by CNMI. The records for this grant had been boxed up and put in storage, which has led to documentation not being readily available for the auditors. In addition, staff turnover at the Workforce Investment Agency has resulted in the current staff being unfamiliar with this grant. Locating the missing documentation will be a time consuming task. Due to the high priority given to issuing this audit report on a timely basis we agree to include the finding in the audit and will continue efforts to locate missing documents.

Proposed Completion Date: FY2007

Auditor Response: The Workforce Investment Agency allowed us to review the documents of the NEG program stored at the Division of Procurement & Supply. We went through the boxes of documents and were not successful in locating the reports. The entity's inability to locate related documents, however, does not explain the noncompliance with the program requirements.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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

Finding No. 2005-41

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

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

- The SF-269 for the quarter ended September 30, 2005 reported total expenditures that were \$40, 669 more than the total expenditures recorded in the general ledger.

Cause: The cause of the above condition is that the amounts reflected on the SF-269 for the fiscal year ended September 30, 2005 did not reflect total expenditures at that date. Further, the SF-269 was not updated to exclude fiscal year 2004 expenditures erroneously included in fiscal year 2005.

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

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

Prior Year Status: The lack of compliance with the reporting requirements of the grant was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 and 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bernadita C. Palacios, Acting Director Finance & Accounting and Frank M. Rabauliman, Director, DEQ

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, 2005

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

Finding No. 2005-42

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

Condition: Based on total expenditures reported to the grantor during the year using the CMS 64 Certification, total federal expenditures amounted to \$2,437,965. The actual expenditures per the general ledger amounted to \$2,212,016 resulting in a variance of \$225,948. The funds drawn down, however, correspond with expenditures recorded in the general ledger. Therefore, no questioned costs result from this condition.

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

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

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

Prior Year Status: Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2004.

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, 2005

U.S. Department of Homeland Security
Reporting - Public Assistance Grants

CFDA #97.036, Federal Award #s 1541DRMPP00000001, 1532DRMPP00000001, MP03PA1447 and MP02PA1430

Federal Award Periods 08/26/04 through completion, 07/29/04 through completion, 12/11/02 through completion and 08/06/02 through completion

Finding No. 2005-43

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

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

- Variances between cumulative expenditures per the quarter ended 09/30/05 FEMA 20-10 (which reflects federal expenditures per the general ledger) and Project Status reports were noted for the following:

<u>Disaster</u>	<u>DR #</u>	<u>Variance</u>
Chaba	DR 1541	\$ (18,806)
Tingting	DR 1532	\$ (13,204)
Pongsona	DR 1447	\$ 39,554
Chata'an	DR 1430	\$ (26,311)

- Variances between total cash drawn from grantor for the year ended 9/30/05 and Project Status Reports were noted for the following:

<u>Disaster</u>	<u>DR #</u>	<u>Variance</u>
Chaba	DR 1541	\$ 731,739
Tingting	DR 1532	\$ 588,797
Pongsona	DR 1447	\$ (54,800)
Chata'an	DR 1430	\$ 305,697

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-43, Continued

Effect: The effect of the above condition is the possibility of unallowable costs. As cash draw downs are not accounted for on a project-by-project basis, the effect is also the possibility of noncompliance with cash management requirements.

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

Auditee Response and Corrective Action Plan:

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

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: FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/04- 09/30/05

Finding No. 2005-44

Criteria: Title X, Section J (3) of the NAP Manual of Operations specifies that on a quarterly basis, a Retail and Redemption Unit Personnel shall conduct visits to "high redeemers" to investigate the nature of such high redemption rates.

Condition: Compliance visits were not performed during the last two quarters of the fiscal year ended September 30, 2005.

Cause: The cause of the above condition is represented to stem from inadequate manpower at the Retailer & Redemption Unit.

Effect: The effect of the above condition is noncompliance with the specific requirements of the MOU and the 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 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, NAP Administrator

Corrective Action: We agree that the "high redeemers" on site visits were not performed for two quarters in FY2005. The R&R unit has had only two FTE's assigned to it since 1982 despite the significant changes and increase in participation over the years. The R&R unit also assisted in the disaster coupon issuance and reconciliation operation in addition to their regular duties. An additional FTE for the unit has been requested in the proposed budget for FY2007.

Proposed Completion Date: FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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 10/01/04 - 09/30/05

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/04- 09/30/05

Finding No. 2005-45

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 backups have recently been implemented. However, only a single backup is performed, which is retained in an unsecured area at the Medicaid Office. A second backup 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 Nutrition Assistance Program, we noted that backups of the system are performed weekly and disks are stored in an office safe. A second backup, 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 Audits of the CNMI for fiscal years 2003 and 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Helen C. Sablan, Medicaid Administrator and Eleanor Cruz, NAP Administrator

Corrective Action:

Medicaid: We agree with the finding. The Medicaid Office recently purchased new computers that provide a user security function. See compliance finding 2005-15 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, 2005

Finding No. 2005-45, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

NAP: We agree with the finding although NAP is performing a monthly backup. NAP is working with the Department of Finance to begin storing a monthly backup at the EDP Office. We expect this procedure to be in place by August 2006.

Proposed Completion Date: FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/04- 09/30/05

Finding No. 2005-46

Criteria: The NAP Memorandum of Understanding Section 22 specifies that the CNMI shall be responsible for the security, accountability, control and destruction, upon redemption of all NAP coupons.

Condition: Destruction of unusable disaster coupons, amounting to \$1,074,953, was not performed. Further, destruction of redeemed coupons was last performed in March 2005.

Cause: The cause of the above condition is lack of resources to perform such requirement.

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

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

Prior Year Status: Noncompliance with the Section 22 of the MOU was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, NAP Administrator

Corrective Action: We agree with the finding. We are currently processing destruction of redeemed coupons and expect to be caught up by the end of FY2006. Disaster coupons were still valid until December 31, 2005 so they were not destroyed during the audit period.

Proposed Completion Date: FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

U.S. Department of Homeland Security

Subrecipient Monitoring - Public Assistance Grants

CFDA #97.036, Federal Award #s MP03PA1447, MP02PA1430, MR11924160, MR11944160, 1532DRMPP00000001 and 1541DRMPP00000001, Federal Award Periods 12/11/02 through completion, 08/06/02 through completion, 12/08/97 through completion, 12/24/97 through completion, 07/29/04 through completion and 08/26/04 through completion

Finding No. 2005-47

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

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

Condition: 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 with subrecipient records was performed.

Of \$1,823,812 in subrecipient expenditures incurred during the year, we noted the following:

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

<u>Subrecipient</u>	<u>Per CNMI</u>	<u>Amount per Subrecipient</u>	<u>Variance</u>
CPA	\$ 244,210	\$ 191,411	\$ (52,799)

- We were unable to determine if the total program expenditures were included in the following subrecipient schedules of expenditures of federal awards:

<u>Subrecipient</u>	<u>Amount per CNMI</u>
MVA	\$ 77,905
NMC	44,237
PSS	548,900
CUC	726,630
NMHC	<u>30,545</u>
Total	\$ <u>1,428,217</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

Finding No. 2005-47, 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.

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

Auditee Response and Corrective Action 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 variance noted for CPA we noted that specific CNMI project records were being compared to this agency's audits. Other FEMA and Federal grant payments were disbursed to CPA during the period in question. Since the same audit firm performed both 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

Auditor Response:

The Public Assistance Office (PAO), on behalf of the CNMI Government, is the grant recipient and is therefore the party responsible for monitoring the activities of subgrantees. Should the Office of the Public Auditor perform a follow-up of findings, it would be with PAO for not complying with the subrecipient monitoring activities. The lack of explanation for the variance with CPA is an indication that there is no communication between PAO and CPA. We are aware that the CNMI records only FEMA approved expenditures. Therefore, a simple explanation of the variance such a pending FEMA approval/review or timing difference would have sufficed. No such explanation, however, was available from PAO. Further, it is not CPA's responsibility as a subrecipient to reconcile with the CNMI's records.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2005

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 10/01/04 - 09/30/05

Finding No. 2005-48

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

Condition: The Service Provider Agreement for the CNMI Public Health Clinic covered the period from January 1, 2004 to January 1, 2005. Also, the agreement did not include the entity's medical staff or the expiration of related medical licenses. In addition, the Service Provider Agreement for Health Care Specialties covered the period April 1, 2004 to April 1, 2005. Medicaid was not able to provide the approved agreements after the covered periods.

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

Effect: The effect of the above condition is that expenditures may be unallowable. However, no questioned costs resulted from this condition since the total expenditures not covered by the service agreement is less than \$10,000.

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

Prior Year Status: The lack of proper file maintenance was reported as a finding in the Single Audit of the CNMI for fiscal year 2004.

Auditee Response and Corrective Action Plan:

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

Corrective Action: A provider agreement has been sent to the CNMI Public Health Clinic but has not been returned as yet. Since no Medicaid reimbursements are made to the Public Health Clinic, this does not affect expenditures. Expenditures related to provision of anti hemophiliac medications are made under a provider agreement with the Commonwealth Health Center which was in place for the audit period. The provider agreement for Health Care Specialties was signed by the provider and Medicaid but has not been returned from the attorney General's Office.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2005

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, 2005:

Questioned costs as previously reported	\$ 2,848,446
Questioned costs of fiscal year 2005 Single Audit	<u>718,786</u>
Unresolved questioned costs at September 30, 2005	\$ <u>3,567,232</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 39 through 115).



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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, 2004:

Financial Statement Findings Section

- Finding No. 2004-1 - Not corrected. See corrective action plan to Finding No. 2005-2.
- Finding No. 2004-2 - Not corrected. See corrective action plan to Finding No. 2005-3.
- Finding No. 2004-3 - Not corrected. See corrective action plan to Finding No. 2005-4.
- Finding No. 2004-4 - Corrective action was taken.
- Finding No. 2004-5 - Not corrected. See corrective action plan to Finding No. 2005-5.
- Finding No. 2004-6 - Not corrected. See corrective action plan to Finding No. 2005-6.
- Finding No. 2004-7 - Not corrected. See corrective action plan to Finding No. 2005-7.
- Finding No. 2004-8 - Not corrected. See corrective action plan to Finding No. 2005-8.
- Finding No. 2004-9 - Not corrected. See corrective action plan to Finding No. 2005-9.
- Finding No. 2004-10 - Not corrected. See corrective action plan to Finding No. 2005-10.
- Finding No. 2004-11 - Not corrected. See corrective action plan to Finding No. 2005-11.

Federal Award Findings and Questioned Costs Section

- Finding No. 2004-12 - Not corrected. See corrective action plan to Finding No. 2005-12.
- Finding No. 2004-13 - Corrective action was taken.
- Finding No. 2004-14 - Not corrected. See corrective action plan to Finding No. 2005-26.
- Finding No. 2004-15 - Corrective action was taken.
- Finding No. 2004-16 - Corrective action was taken.
- Finding No. 2004-17 - Not corrected. See corrective action plan to Finding No. 2005-47.

Federal Award Findings and Questioned Costs Section, Continued

- Finding No. 2004-18 - Not corrected. See corrective action plan to Finding No. 2005-20.
- Finding No. 2004-19 - Corrective action was taken.
- Finding No. 2004-20 - Not corrected. See corrective action plan to Finding No. 2005-21.
- Finding No. 2004-21 - Not corrected. See corrective action plan to Finding No. 2005-23.
- Finding No. 2004-22 - Not corrected. See corrective action plan to Finding No. 2005-27.
- Finding No. 2004-23 - Not corrected. See corrective action plan to Finding No. 2005-14.
- Finding No. 2004-24 - Corrective action was taken.
- Finding No. 2004-25 - Not corrected. See corrective action plan to Finding No. 2005-15.
- Finding No. 2004-26 - Not corrected. See corrective action plan to Finding No. 2005-28.
- Finding No. 2004-27 - Not corrected. See corrective action plan to Finding No. 2005-29.
- Finding No. 2004-28 - Not corrected. See corrective action plan to Finding No. 2005-31.
- Finding No. 2004-29 - Not corrected. See corrective action plan to Finding No. 2005-32.
- Finding No. 2004-30 - Not corrected. See corrective action plan to Finding No. 2005-33.
- Finding No. 2004-31 - Not corrected. See corrective action plan to Finding No. 2005-34.
- Finding No. 2004-32 - Not corrected. See corrective action plan to Finding No. 2005-37.
- Finding No. 2004-33 - Not corrected. See corrective action plan to Finding No. 2005-38.
- Finding No. 2004-34 - Not corrected. See corrective action plan to Finding No. 2005-39.
- Finding No. 2004-35 - Not corrected. See corrective action plan to Finding No. 2005-41.
- Finding No. 2004-36 - Not corrected. See corrective action plan to Finding No. 2005-42.
- Finding No. 2004-37 - Corrective action was taken.
- Finding No. 2004-38 - Corrective action was taken.
- Finding No. 2004-39 - Not corrected. See corrective action plan to Finding No. 2005-44.
- Finding No. 2004-40 - Not corrected. See corrective action plan to Finding No. 2005-45.
- Finding No. 2004-41 - Not corrected. See corrective action plan to Finding No. 2005-46.
- Finding No. 2004-42 - Corrective action was taken.
- Finding No. 2004-43 - Corrective action was taken.
- Finding No. 2004-44 - Not corrected. See corrective action plan to Finding No. 2005-48.