

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2006

**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, 2006, and have issued our report thereon dated June 18, 2007, which report was modified to include a reference to other auditors; and was qualified due to: 1) our inability to determine the propriety of taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals and due to component units balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information; 2) our inability to determine the propriety of capital assets of the Northern Marianas College; 3) had the financial statements of the Public School System been audited; and 4) had the financial statements of the Commonwealth Utilities Corporation been included. 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 125) as items 2006-1 through 2006-16, 2006-35 and 2006-36.

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 2006-1, 2006-4, 2006-8, 2006-9, 2006-11, 2006-13, 2006-14, 2006-35 and 2006-36 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 2006-4, 2006-15, 2006-35 and 2006-36.

We also noted certain additional matters that we reported to management of the CNMI in a separate letter dated June 18, 2007.

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.

*Deville & Touche LLC*

June 18, 2007

**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, 2006. 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 125). 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 2006-17 through 2006-52 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding allowable costs/cost principles; cash management; eligibility; equipment and real property management; procurement and suspension and debarment; reporting; subrecipient monitoring; and special tests and provisions that are applicable to its major federal programs 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, 2006.

#### 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 2006-17 through 2006-52.

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 item 2006-36 to be a material weakness.

#### 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, 2006, and have issued our report thereon dated June 18, 2007, which report was modified to include a reference to other auditors; and was qualified due to: 1) our inability to determine the propriety of taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals and due to component units balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information; 2) our inability to determine the propriety of capital assets of the Northern Marianas College; 3) had the financial statements of the Public School System been audited; and 4) had the financial statements of the Commonwealth Utilities Corporation been included.

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 35) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the CNMI. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the propriety of taxes receivable, advances, accounts payable, tax rebates payable, other liabilities and accruals and due to component units balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information been determinable, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Deloitte & Touche LLC*

June 18, 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2006

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	\$ 23,107,398
U.S. Department of Agriculture	10.551	Food Stamps	9,126,094
U.S. Department of Veterans Affairs	64.203	State Cemetery Grants	1,100,758
U.S. Environmental Protection Agency	66.600	Environmental Protection Consolidated Grants - Program Support	3,006,350
U.S. Department of Health and Human Services	93.778	Medical Assistance Program	3,332,738
U.S. Department of Homeland Security	97.004	Homeland Security Grant Program	2,084,308
	97.036	Public Assistance Grants	3,580,867
	97.067	Homeland Security Grant Program	<u>2,194,391</u>
		Total program expenditures tested	\$ <u>47,532,904</u>
		Total program expenditures	\$ 77,028,758
		Unallocated expenditures	<u>76,672</u>
		Total federal program expenditures	\$ <u>77,105,430</u>
		% of total federal program expenditures tested	<u>62%</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary Schedule of Expenditures of Federal Awards by Grantor  
Federal Grants Fund  
Year Ended September 30, 2006

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. Department of the Treasury	\$ (464,903)	\$ -	\$ 355,560	\$ (109,343)
U.S. Department of Agriculture	1,032,155	9,812,400	9,497,559	717,314
U.S. Department of Commerce	1,437,399	3,041,817	1,744,907	140,489
Institute of Museum and Library Services	145,052	164,422	124,641	105,271
U.S. Department of Education	2,211,299	3,054,997	1,245,106	401,408
U.S. Department of Energy	55,511	236,087	184,649	4,073
U.S. Department of Defense	68,971	119,568	36,872	(13,725)
U.S. Environmental Protection Agency	435,998	3,318,159	3,006,350	124,189
U.S. Department of Homeland Security	870,819	8,771,978	9,700,214	1,799,055
U.S. Department of Health and Human Services	5,083,065	13,767,004	10,262,682	1,578,743
U.S. Department of Housing and Urban Development	(55,672)	49,819	-	(105,491)
U.S. Department of the Interior	2,143,593	10,212,802	8,724,385	655,176
U.S. Department of Justice	1,000,870	1,898,179	2,022,227	1,124,918
U.S. Department of Labor	1,228,874	2,219,090	1,497,646	507,430
U.S. National Endowment for the Arts	510,787	133,486	197,280	574,581
U.S. Department of Transportation	653,380	1,166,203	949,060	436,237
U.S. Department of Veterans Affairs	200,000	1,060,341	1,100,758	240,417
Unallocated cash receipts/expenditures	(929,349)	(1,881,393)	76,672	1,028,716
<b>GRAND TOTAL</b>	<b>\$ 15,627,849</b>	<b>\$ 57,144,959</b>	<b>\$ 50,726,568</b>	<b>\$ 9,209,458</b>

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

Reconciliation:

Receivable from grantor at September 30, 2006	\$ 9,209,458
Provision for uncollectible accounts	(3,843,022)
	<u>\$ 5,366,436</u>
Expenditures per above	\$ 50,726,568
Local match	3,283,880
	<u>\$ 54,010,448</u>
Expenditures per Statement of Revenues and Changes in Fund Balance	\$ 50,838,534
Transfers Out	3,171,914
	<u>\$ 54,010,448</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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
<b>U.S. DEPARTMENT OF THE TREASURY</b>					
21.Unknown	Tax Relief Recon Act 2003	\$ (464,903)	\$ -	\$ 355,560	\$ (109,343)

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF AGRICULTURE					
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 29,136	\$ 29,136	\$ 514	\$ 514
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	27,177	80,193	19,664	(33,352)
10.551	Food Stamps	525,885	9,238,079	9,126,094	413,900
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	-	54,412	54,412	-
10.570	Nutrition Services Incentive	68,195	-	-	68,195
10.664	Cooperative Forestry Assistance	201,033	394,686	279,387	85,734
10.677	Forest Land Enhancement Program	-	14,751	17,488	2,737
10.904	Watershed Protection and Flood Prevention	175,038	-	-	175,038
10.912	Environmental Quality Incentives Program	(557)	1,143	-	(1,700)
10.950	Agricultural Statistics Reports	6,248	-	-	6,248
	TOTAL	\$ 1,032,155	\$ 9,812,400	\$ 9,497,559	\$ 717,314

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
<b>U.S. DEPARTMENT OF COMMERCE</b>					
11.Unknown	CENSUS 2000 PL105-277	\$ (365)	\$ (364)	\$ -	\$ (1)
11.300	Grants for Public Works and Economic Development Facilities	-	455,923	174,255	(281,668)
11.407	Interjurisdictional Fisheries Act of 1986	14,356	11,453	4,051	6,954
11.419	Coastal Zone Management Administration Awards	1,307,769	2,082,164	1,144,712	370,317
11.426	Financial Assistance for National Centers for Coastal Ocean Science	38,904	128,109	128,758	39,553
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	17,918	18,026	-	(108)
11.432	Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	(5,600)	23,603	24,532	(4,671)
11.437	Pacific Fisheries Data Program	17,243	225,243	204,779	(3,221)
11.452	Unallied Industry Projects	47,174	86,502	42,898	3,570
11.454	Unallied Management Projects	-	11,158	20,922	9,764
	<b>TOTAL</b>	<b>\$ 1,437,399</b>	<b>\$ 3,041,817</b>	<b>\$ 1,744,907</b>	<b>\$ 140,489</b>

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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES					
45.310	State Library Program	\$ 145,052	\$ 164,422	\$ 124,641	\$ 105,271

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF EDUCATION					
84.034	Public Library Services	\$ 3,571	\$ 3,040	\$ -	\$ 531
84.035	Interlibrary Cooperation and Resource Sharing	(1,841)	(760)	-	(1,081)
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	1,483,522	2,330,898	1,095,702	248,326
84.154	Public Library Construction and Technology Enhancement	8,833	(1)	-	8,834
84.169	Independent Living_State Grants	17,626	29,422	15,523	3,727
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	34,285	48,811	31,700	17,174
84.187	Supported Employment Services for Individuals with Severe Disabilities	50,759	794	7,382	57,347
84.224	Assistive Technology	569,836	643,741	75,999	2,094
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	44,708	(948)	18,800	64,456
TOTAL		\$ 2,211,299	\$ 3,054,997	\$ 1,245,106	\$ 401,408

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF ENERGY					
81.041	State Energy Program	\$ 73,654	\$ 242,826	\$ 182,212	\$ 13,040
81.052	Energy Conservation for Institutional Buildings	(21,249)	(11,737)	-	(9,512)
81.074	Alcohol Fuels Loan Guarantees	544	(1)	-	545
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	2,562	4,999	2,437	-
TOTAL		\$ 55,511	\$ 236,087	\$ 184,649	\$ 4,073

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Federal Grants Fund  
 Year Ended September 30, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
U.S. DEPARTMENT OF DEFENSE					
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	\$ (11,388)	\$ 3,965	\$ 1,249	\$ (14,104)
61.755	U.S. Dept. of Defense (Navy)	<u>80,359</u>	<u>115,603</u>	<u>35,623</u>	<u>379</u>
	TOTAL	<u>\$ 68,971</u>	<u>\$ 119,568</u>	<u>\$ 36,872</u>	<u>\$ (13,725)</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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY					
66.600	Environmental Protection Consolidated Grants - Program Support	\$ 434,903	\$ 3,317,064	\$ 3,006,350	\$ 124,189
66.951	Environmental Education Grants	<u>1,095</u>	<u>1,095</u>	<u>-</u>	<u>-</u>
	TOTAL	<u>\$ 435,998</u>	<u>\$ 3,318,159</u>	<u>\$ 3,006,350</u>	<u>\$ 124,189</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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF HOMELAND SECURITY					
97.004	Homeland Security Grant Program	\$ 490,562	\$ 2,541,296	\$ 2,084,308	\$ 33,574
97.012	Boating Safety Financial Assistance	690,352	524,003	189,066	355,415
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	216	119,432	119,216	-
97.024	Emergency Food and Shelter National Board Program	16,218	22,596	10,663	4,285
97.029	Flood Mitigation Assistance	(1)	(1)	-	-
97.034	Disaster Unemployment Assistance	890	18,721	6,895	(10,936)
97.036	Public Assistance Grants	(701,519)	1,519,881	3,580,867	1,359,467
97.039	Hazard Mitigation Grant	48,245	239,068	235,029	44,206
97.042	Emergency Management Performance Grants	268,733	627,599	390,915	32,049
97.044	Assistance to Firefighters Grant	-	226,756	224,699	(2,057)
97.053	Citizen Corps	9,518	37,658	29,286	1,146
97.067	Homeland Security Grant Program	153,495	2,303,432	2,194,391	44,454
97.074	Law Enforcement Terrorism Prevention Program (LETPP)	38,976	591,576	634,879	82,279
83.011	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	(114)	(2)	-	(112)
83.503	Civil Defense-State and Local Emergency Management Assistance	(7,544)	-	-	(7,544)
83.505	State Disaster Preparedness Grants	(1,333)	(4)	-	(1,329)
83.516	Disaster Assistance	(34,816)	-	-	(34,816)
83.519	Hazard Mitigation Assistance	(80,308)	-	-	(80,308)
83.520	Hurricane Program	5,303	1	-	5,302
83.521	Earthquake Hazards Reduction Grants	(2,924)	(1)	-	(2,923)
83.534	Emergency Management-State and Local Assistance	(11,587)	(32)	-	(11,555)
83.535	Mitigation Assistance	(2,435)	(1)	-	(2,434)
83.543	Individual and Family Grants	(9,108)	-	-	(9,108)
	TOTAL	\$ 870,819	\$ 8,771,978	\$ 9,700,214	\$ 1,799,055

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
93.003	Public Health and Social Services Emergency Fund	\$ 121,885	\$ 413,616	\$ 292,723	\$ 992
93.044	Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	482,816	736,621	208,842	(44,963)
93.045	Special Programs for the Aging Title III, Part C Nutrition Services	359,030	636,110	418,374	141,294
93.046	Special Programs for the Aging Title III, Part D-In-Home Services for Frail Older Individuals	(8,862)	(2)	-	(8,860)
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects	6,315	17,089	10,774	-
93.052	National Family Caregiver Support	104,404	209,944	106,643	1,103
93.053	Nutrition Services Incentive Program	61,243	73,731	12,488	-
93.110	Maternal and Child Health Federal Consolidated Programs	13,251	130,158	127,972	11,065
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	33,538	226,038	249,541	57,041
93.127	Emergency Medical Services for Children	99,640	207,354	111,975	4,261
93.150	Projects for Assistance in Transition from Homelessness (PATH)	1,754	38,408	35,942	(712)
93.217	Family Planning Services	40,917	293,250	329,134	76,801
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	(1)	(2,349)	-	2,348
93.234	Traumatic Brain Injury State Demonstration Grant Program	11,272	66,475	56,311	1,108
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance	20,557	61,182	41,998	1,373
93.251	Universal Newborn Hearing Screening	7,340	113,037	119,569	13,872
93.268	Immunization Grants	21,277	405,588	408,083	23,772
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	231,695	874,306	729,857	87,246
93.556	Promoting Safe and Stable Families	3,996	290	-	3,706
93.557	Education and Prevention to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	2,451	7,791	5,667	327
93.568	Low-Income Home Energy Assistance	108,226	226,614	176,226	57,838
93.610	Family Services	474,462	126,939	-	347,523
93.612	Native American Programs	(1)	(1)	-	-
93.623	Runaway and Homeless Youth	10,373	3,151	-	7,222
93.630	Developmental Disabilities Basic Support and Advocacy Grant	231,825	434,717	217,205	14,313
93.631	Developmental Disabilities Projects of National Significance	186,265	440,143	268,874	14,996
93.667	Social Services Block Grant	859,476	2,035,063	1,063,708	(111,879)

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED					
93.669	Child Abuse and Neglect State Grants	2,045	2,046	-	(1)
93.767	State Children's Insurance Program	-	-	81,300	81,300
93.778	Medical Assistance Program	333,209	3,145,121	3,332,738	520,826
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	57,592	323,457	284,552	18,687
93.782	Medicare Transitional Drug Assistance Program for Territories	-	4,206	42,760	38,554
93.824	Basic/Core Area Health Education Centers	88,495	165,265	144,886	68,116
93.871	Strabismus, Amblyopia and Visual Processing	(5,000)	(5,000)	-	-
93.889	National Bioterrorism Hospital Preparedness Program	-	125,565	142,077	16,512
93.917	HIV Care Formula Grants	-	17,767	18,160	393
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	(4)	(7)	-	3
93.940	HIV Prevention Activities Health Department Based	(4)	(7,925)	-	7,921
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	16,227	154,462	170,434	32,199
93.944	Human Immunodeficiency Virus (HIV)/ Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	-	2,982	2,982	-
93.952	Trauma Care Systems Planning and Development	11,898	11,899	-	(1)
93.958	Block Grants for Community Mental Health Services	80,808	187,030	101,344	(4,878)
93.959	Block Grants for Prevention and Treatment of Substance Abuse	386,314	733,876	409,118	61,556
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	40,331	125,548	115,220	30,003
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	186,486	234,257	52,474	4,703
93.991	Preventive Health and Health Services Block Grant	10,629	61,628	41,306	(9,693)
93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	-	(2,344)	-	2,344
93.994	Maternal and Child Health Services Block Grant to the States	388,333	711,346	331,425	8,412
	TOTAL	\$ 5,083,065	\$ 13,767,004	\$ 10,262,682	\$ 1,578,743

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
14.219	Community Development Block Grants/ Small Cities Program	\$ -	\$ (36,126)	\$ -	\$ 36,126
14.231	Emergency Shelter Grants Program	-	(5,323)	-	5,323
14.239	HOME Investment Partnerships Program	(55,672)	91,268	-	(146,940)
	TOTAL	\$ (55,672)	\$ 49,819	\$ -	\$ (105,491)

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
Federal Grants Fund  
Year Ended September 30, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF THE INTERIOR					
15.605	Sport Fish Restoration	\$ 144,588	\$ 1,039,807	\$ 977,460	\$ 82,241
15.608	Fish and Wildlife Management Assistance	-	510	510	-
15.611	Wildlife Restoration	37,462	424,615	446,619	59,466
15.614	Coastal Wetlands Planning, Protection and Restoration Act	2,000	5,000	422	(2,578)
15.615	Cooperative Endangered Species Conservation Fund	224	204,740	204,515	(1)
15.622	Sportfishing and Boating Safety Act	16,304	136,664	125,548	5,188
15.634	State Wildlife Grants	6,152	122,303	120,374	4,223
15.875	Economic, Social, and Political Development of the Territories	1,204,967	2,017,558	1,197,481	384,890
15.875	Economic, Social, and Political Development of the Territories	-	5,171,914	5,171,914	-
15.876	Unknown	40,786	337	-	40,449
15.904	Historic Preservation Fund Grants- In-Aid	689,660	973,032	363,456	80,084
15.916	Outdoor Recreation Acquisition, Development and Planning	1,450	116,322	116,086	1,214
	TOTAL	\$ 2,143,593	\$ 10,212,802	\$ 8,724,385	\$ 655,176

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF JUSTICE					
16.004	Law Enforcement Assistance_Narcotics and Dangerous Drugs Training	\$ (2,764)	\$ (6,511)	\$ -	\$ 3,747
16.047	Drug Enforcement	20,000	19,990	-	10
16.523	Juvenile Accountability Incentive Block Grants	25,973	51,276	25,303	-
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	60,788	105,698	64,101	19,191
16.541	Developing, Testing and Demon- strating Promising New Programs	67,883	110,237	60,669	18,315
16.542	Part D - Research, Evaluation, Technical Assistance and Training	2,260	2,765	506	1
16.548	Title V_Delinquency Prevention Program	41,186	43,821	17,347	14,712
16.550	State Justice Statistics Program for Statistical Analysis Centers	13,385	10,182	1,672	4,875
16.554	National Criminal History Improvement Program (NCHIP)	28,071	54,646	137,307	110,732
16.575	Crime Victim Assistance	86,609	271,701	274,014	88,922
16.579	Byrne Formula Grant Program	146,095	471,800	512,965	187,260
16.583	Children's Justice Act Partnerships for Indian Communities	140,237	237,044	280,293	183,486
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	269,944	18,748	259,211	510,407
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	94,338	165,335	134,008	63,011
16.592	Local Law Enforcement Block Grants Program	(110,683)	9,546	38,321	(81,908)
16.609	Community Prosecution and Project Safe Neighborhoods	19,618	53,180	36,635	3,073
16.710	Public Safety Partnership and Community Policing Grants	97,930	278,721	179,875	(916)
TOTAL		\$ 1,000,870	\$ 1,898,179	\$ 2,022,227	\$ 1,124,918

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF LABOR					
17.235	Senior Community Service Employment Program	\$ 200,704	\$ 405,498	\$ 249,224	\$ 44,430
17.250	Job Training Partnership Act	2,502	13,727	-	(11,225)
17.258	WIA Adult Program	179,566	376,166	262,422	65,822
17.259	WIA Youth Activities	93,176	296,076	376,232	173,332
17.260	WIA Dislocated Workers	613,124	924,610	435,834	124,348
17.504	Consultation Agreements	139,802	203,013	173,934	110,723
	TOTAL	\$ 1,228,874	\$ 2,219,090	\$ 1,497,646	\$ 507,430

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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
	U.S. NATIONAL ENDOWMENT FOR THE ARTS				
45.025	Promotion of the Arts_Partnership Agreements	\$ 510,787	\$ 133,486	\$ 197,280	\$ 574,581

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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>					
20.218	National Motor Carrier Safety	\$ 293,278	\$ 336,368	\$ 272,843	\$ 229,753
20.600	State and Community Highway Safety	320,942	754,348	616,222	182,816
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	<u>39,160</u>	<u>75,487</u>	<u>59,995</u>	<u>23,668</u>
	<b>TOTAL</b>	<u>\$ 653,380</u>	<u>\$ 1,166,203</u>	<u>\$ 949,060</u>	<u>\$ 436,237</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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
U.S. DEPARTMENT OF VETERANS AFFAIRS					
64.203	State Cemetery Grants	\$ 200,000	\$ 1,060,341	\$ 1,100,758	\$ 240,417

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
<b>U.S. DEPARTMENT OF THE INTERIOR</b>					
15.875	Economic, Social, and Political Development of the Territories				
	Second Covenant FY93 and FY94 Appropriations Act Grants	\$ 1,109,397	\$ 911,438	\$ 1,224,861	\$ 1,422,820
	FY95 Appropriations Act Grant	895,739	5,053,774	4,842,584	684,549
	FY96 - FY02 Appropriations Act Grant	58,543	688,420	1,017,398	387,521
	Public School System P.L. 11-89 CDA CIP Bond App. Act 2000 P.L. 11-119	5,035,046 (355,858)	21,566,054 445,936	22,725,632 1,171,634	6,194,624 369,840
	FY04 Appropriations Act Grant	611	105,943	106,006	674
	Commonwealth Development Authority Fund	26,578 (130,673)	1,448,423 914,445	1,539,483 898,501	117,638 (146,617)
		6,639,383	31,134,433	33,526,099	9,031,049
	Less local match	-	(10,418,701)	(10,418,701)	-
	<b>TOTAL</b>	<b>\$ 6,639,383</b>	<b>\$ 20,715,732</b>	<b>\$ 23,107,398</b>	<b>\$ 9,031,049</b>
<b>Reconciliation:</b>					
	Receivable from grantor at September 30, 2006				\$ 9,177,666
	Provision for uncollectible accounts				(5,677,320)
					\$ 3,500,346
	Deferred revenue at September 30, 2006				\$ (146,617)
	Federal awards expenditures, as stated above			\$ 33,526,099	
	Debt service related:				
	Principal			1,435,000	
	Interest			3,741,013	
	Transfers out			844,654	
				\$ 39,546,766	

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
<b>U.S. DEPARTMENT OF THE INTERIOR</b>					
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	571,407	914,445	898,501	555,463
	Other	(50,670)	-	-	(50,670)
	<b>TOTAL</b>	<b>\$ (130,673)</b>	<b>\$ 914,445</b>	<b>\$ 898,501</b>	<b>\$ (146,617)</b>

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, 2006

Federal Agency	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. Environmental Protection Agency	\$ (4,800)	\$ (4,800)	\$ -	\$ -
U.S. Department of Transportation	1,127,794	3,493,439	3,053,295	687,650
U.S. Department of Homeland Security	277,732	-	216,169	493,901
U.S. Department of the Interior	53,357	58,532	2,000	(3,175)
U.S. Department of Commerce	1,220	1,217	-	3
U.S. Department of Health and Human Services	-	(40,516)	-	40,516
Unallocated	(1,155,752)	(2,205)	-	(1,153,547)
GRAND TOTAL	<u>\$ 299,551</u>	<u>\$ 3,505,667</u>	<u>\$ 3,271,464</u>	<u>\$ 65,348</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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
	U.S. DEPARTMENT OF TRANSPORTATION				
20.205	Highway Planning and Construction	\$ 1,127,794	\$ 3,493,439	\$ 3,053,295	\$ 687,650

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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
U.S. DEPARTMENT OF HOMELAND SECURITY					
83.516	Disaster Assistance	\$ 277,732	\$ -	\$ 216,169	\$ 493,901

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, 2006

<u>CFDA #</u>	<u>Federal Agency/Program</u>	<u>Receivable From Grantor (Deferred Revenue) at October 1, 2005</u>	<u>Cash Receipts FY06</u>	<u>Expenditures FY06</u>	<u>Receivable From Grantor (Deferred Revenue) at September 30, 2006</u>
U.S. DEPARTMENT OF THE INTERIOR					
15.875	Economic, Social, and Political Development of the Territories	\$ 53,357	\$ 58,532	\$ 2,000	\$ (3,175)

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, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF COMMERCE					
11.300	Grants for Public Works and Economic Development Facilities	\$ 1,220	\$ 1,217	\$ -	\$ 3

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Public Works Grants Fund  
 Year Ended September 30, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
93.220	Clinical Research Loan Repayment Program for Individuals from Disadvantaged Backgrounds	\$ -	\$ (40,516)	\$ -	\$ 40,516

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards  
 American Memorial Park Fund  
 Year Ended September 30, 2006

CFDA #	Federal Agency/Program	Receivable From Grantor (Deferred Revenue) at October 1, 2005	Cash Receipts FY06	Expenditures FY06	Receivable From Grantor (Deferred Revenue) at September 30, 2006
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, 2006:

Federal awards expenditures, as stated above	\$ -
Local share	63,580
	<u>\$ 63,580</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, 2006

### (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, 2006

(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, 2006, are as follows:

Commonwealth Ports Authority	\$ 194,685
Northern Marianas College	\$ 68,909

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, 2006 for the following entities:

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, 2006:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2006

(2) Summary of Significant Accounting Policies, Continued

c. Subgrantees, Continued

Commonwealth Ports Authority, Continued

<u>Program Title</u>	<u>Grantor Agency</u>	<u>CFDA Number</u>	<u>Funds Received</u>	<u>Funds Expended</u>
Commonwealth Ports Authority:				
Economic, Social, and Political Development of the Territories	U.S. Department of the Interior	15.875	\$ 3,913,359	\$ 4,075,242
Public Assistance Grants	U.S. Department of Homeland Security	97.036	\$ 284,978	\$ 710,702

d. Indirect Cost Allocation

Due to the absence of a completed indirect cost rate for fiscal year 2006, the CNMI utilized the indirect cost rate approved by the U.S. Department of the Interior for fiscal year 2003 in fiscal year 2006. 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, 2006.

e. CFDA #15.875

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

(3) Expenditures

The Schedule of Expenditures of Federal Awards (pages 7 through 35) 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	\$ 50,726,568	\$ 3,283,880	\$ 54,010,448
Capital Projects - U.S. Department of the Interior	23,107,398	10,418,701	33,526,099
Capital Projects - Public Works	<u>3,271,464</u>	<u>-</u>	<u>3,271,464</u>
	\$ <u>77,105,430</u>	\$ <u>13,702,581</u>	\$ <u>90,808,011</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2006

**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, other liabilities and accrual and due to component units balances, and their effect on the determination of revenues and expenditures/expenses for the governmental activities, each major fund and the aggregate remaining fund information, and the reserve for continuing appropriation balances for the Capital Projects Fund and the aggregate remaining fund information; 2) our inability to determine the propriety of capital assets and accrued salaries and benefits payable of the Northern Marianas College; and 3) had the financial statements of the Commonwealth Utilities Corporation been included.
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
State Cemetery Grants	64.203
Environmental Protection Consolidated Grants-Program Support	66.600
Medical Assistance Program	93.778
Homeland Security Cluster:	
Homeland Security Grant Program	97.004
	97.067
Public Assistance Grants	97.036

8. A threshold of \$2,313,162 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, 2006

**Section II - Financial Statement Findings**

Reference Number	Findings	Refer Page #
2006-1	External Financial Reporting	41
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2006-3 - 4	Purchases/Disbursements	44 - 46
2006-5	Cash and Cash Equivalents	47
2006-6 - 7	Receivables	48 - 49
2006-8 - 9	Advances	50 - 52
2006-10	Payables	53 - 54
2006-11	Other Liabilities and Accruals	55 - 56
2006-12	Retirement Contributions - General Fund	57
2006-13	Tax Rebates Payable	58 - 59
2006-14	Fund Balance	60
2006-15 - 16	CNMI Local Noncompliance	61 - 62
2006-35	Eligibility	99
2006-36	Equipment and Real Property Management	100 - 102

**Section III - Federal Award Findings and Questioned Costs**

Reference Number	CFDA Number	Findings	Questioned Costs	Refer Page #
2006-17	All major programs	Allowable Costs/Cost Principles	\$ 253,789	63 - 64
2006-18	93.778	Allowable Costs/Cost Principles	\$ 135,858	65 - 66
2006-19	15.875, 97.004 and 97.067	Cash Management	\$ 32,884	67 - 70
2006-20	97.036	Cash Management	\$ 24,732	71 - 73
2006-21	93.778	Cash Management	\$ 7,518	74 - 76
2006-22	10.551	Eligibility	\$ 521	77 - 78
2006-23	15.875	Procurement and Suspension and Debarment	\$ 257,817	79
2006-24	15.875	Procurement and Suspension and Debarment	\$ 85,345	80
2006-25	15.875	Procurement and Suspension and Debarment	\$ 213,224	81
2006-26	66.600	Procurement and Suspension and Debarment	\$ 9,378	82
2006-27	97.004 and 97.067	Procurement and Suspension and Debarment	\$ 70,901	83
2006-28	97.004 and 97.067	Procurement and Suspension and Debarment	\$ 196,248	84 - 85
2006-29	97.036	Procurement and Suspension and Debarment	\$ 139,172	86 - 87
2006-30	93.778	Special Tests and Provisions	\$ 40,886	88 - 89
2006-31	97.036	Allowable Costs/Cost Principles	\$ -	90 - 91
2006-32	93.778	Allowable Costs/Cost Principles	\$ -	92 - 95
2006-33	All major programs	Allowable Costs/Cost Principles	\$ -	96
2006-34	64.203 and 66.600	Cash Management	\$ -	97 - 98
2006-35	93.778	Eligibility	\$ -	99
2006-36	66.600, 97.036, 97.004 and 97.067	Equipment and Real Property Management	\$ -	100 - 102
2006-37	All major programs	Procurement and Suspension and Debarment	\$ -	103 - 104
2006-38	All major programs	Procurement and Suspension and Debarment	\$ -	105
2006-39	15.875	Procurement and Suspension and Debarment	\$ -	106
2006-40	15.875	Procurement and Suspension and Debarment	\$ -	107 - 108
2006-41	15.875 and 64.203	Procurement and Suspension and Debarment	\$ -	109 - 110
2006-42	15.875	Procurement and Suspension and Debarment	\$ -	111
2006-43	15.875	Reporting	\$ -	112
2006-44	66.600	Reporting	\$ -	113 - 114
2006-45	93.778	Reporting	\$ -	115
2006-46	97.004 and 97.067	Reporting	\$ -	116 - 117
2006-47	97.036	Reporting	\$ -	118 - 119
2006-48	97.036	Reporting	\$ -	120
2006-49	10.551	Special Tests and Provisions	\$ -	121
2006-50	66.600	Special Tests and Provisions	\$ -	122
2006-51	93.778 and 10.551	Special Tests and Provisions	\$ -	123
2006-52	97.036	Subrecipient Monitoring	\$ -	124 - 125

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

**Section II - Financial Statement Findings**

External Financial Reporting

Finding No. 2006-1

**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, 2006, the Commonwealth Utilities Corporation (CUC), a discretely presented component unit, was unaudited at September 30, 2006.

**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.

**Prior Year Status:** Lack of audited financial statements for CUC was reported as a finding in the Single Audit of the CNMI for fiscal year 2005.

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 annual audits performed. The Office of the Public Auditor has been working with CNMI's component units to bring their annual audits current. CUC's FY05 audit should be completed in mid 2007 and the contract is in place to have the FY06 audit begin immediately after the FY05 audit is completed.

**Proposed Completion Date:** FY2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Cash Flows

Finding No. 2006-2

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>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total assets	\$ 73,178,439	\$ 74,676,988	\$ 95,490,132	\$ 63,483,266	\$ 71,163,302
Total liabilities	\$ 225,281,973	\$ 210,539,483	\$ 201,378,383	\$ 157,467,782	\$ 152,084,743
Total fund deficit	\$ (152,103,534)	\$ (135,862,495)	\$ (105,888,251)	\$ (93,984,516)	\$ (80,921,441)
Total revenues	\$ 192,660,289	\$ 214,891,036	\$ 210,630,807	\$ 200,744,520	\$ 195,090,682
Total expenditures	\$ 209,039,185	\$ 244,881,423	\$ 246,858,759	\$ 211,223,864	\$ 209,775,245
Other financing sources (uses)	\$ 137,857	\$ 16,143	\$ 25,532,709	\$ (2,583,731)	\$ (4,400,798)

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

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

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

Prior Year Status: Inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** See also Finding 2006-12 relating to the liability to the retirement fund. Since the liability to the retirement fund is \$136 million and the fund balance deficit is \$152.1 million, resolving the retirement fund issues will also be resolving this finding. On June 16, 2006, Public Laws (PL) 15-13, 15-14 and 15-15 were enacted to address issues related to the retirement fund. PL 15-13 created portable retirement accounts for all new public employees hired on or after January 1, 2007 and allowed non-vested members of the existing defined benefit plan to transfer into the new plan. The employer contribution rate is set at 4%. PL 15-14 extended the full funding period for the existing defined contribution plan for 25 years and requires an actuarial study to determine required employer contributions based on the new laws enacted. PL 15-15 suspended payment of employer contributions for fiscal year 2006, effective March 1, 2006, and for all of fiscal year 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-2, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

The above amounts do not include transfers in and out or other financing sources. This overstates the gap between revenues and expenditures for 2004, 2005 and 2006 as \$28 million in bond proceeds received in 2004 for land compensation payments are excluded as resources but the disbursement of those proceeds are included as expenditures. Disbursements were \$2.9 million in 2004, \$18.9 million in 2005 and \$6.7 million in 2006.

**Proposed Completion Date:** Ongoing

Auditor Response: The financial activities of the CNMI's General Fund presented in this finding were updated to include other financing sources (uses).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Purchases/Disbursements

Finding No. 2006-3

Criteria: Expenditures recorded in the general ledger should be supported by certified accounts payable vouchers, invoices and other relevant documents.

Condition: During tests of purchases/disbursements, we noted the following:

- Of seventeen non-payroll items tested of the General Fund aggregating \$1,141,710, the supporting accounts payable vouchers and invoices for the following were not made available:

<u>Reference No.</u>	<u>General Ledger Date</u>	<u>General Ledger Amount</u>
PV405715	11/04/05	\$ 167,000
PV405763	11/08/05	5,022
PV408495	12/06/05	7,500
PV420440	03/08/06	1,490
PV420886	03/10/06	41,471
PV423281	03/27/06	4,598
PV436735	07/26/06	111,735
PV438688	08/10/06	6,539
PV445492	09/29/06	<u>4,968</u>
		\$ <u>350,323</u>

- Of fourteen non-payroll items tested of the Special Revenue Non-major Funds aggregating \$806,288, the supporting accounts payable vouchers and invoices for the following were not made available:

<u>Reference No.</u>	<u>General Ledger Date</u>	<u>General Ledger Amount</u>
OV583031	08/22/06	\$ 53,765
PV412898	01/17/06	2,500
PV420457	03/08/06	200,000
PV438724	08/10/06	2,500
PV555628	12/09/05	162,108
PV583244	08/24/06	<u>16,338</u>
		\$ <u>437,211</u>

- Of thirty-eight non-payroll expenditure items tested of the Capital Projects Fund aggregating \$4,384,185, the supporting accounts payable voucher, invoice and relevant documents for one disbursement (# 560430 OV, dated 01/19/06, totaling \$63,572) was not made available.
- During examination of disbursements subsequent to year-end, supporting documentation for five items was not made available. Details are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-3, Continued

Condition, Continued:

<u>General Ledger Cash Account #</u>	<u>Check Number</u>	<u>Check Wire Transfer Date</u>	<u>Check Amount</u>
11430	303176	01.23.07	\$ 380,639
11430	3652	01.30.07	363,210
11430	303661	02.02.07	476,262
11540	3600	11.27.06	377,934
11540	3635	01.16.07	<u>411,957</u>
			\$ <u>2,010,002</u>

Accordingly, we were unable to determine if the above disbursements or expenditures are valid, properly recorded and recorded in the correct accounting period.

Cause: The cause of the above condition is the lack of proper systematic filing of certified accounts payable vouchers, invoices and other relevant documents.

Effect: The effect of the above condition is unsupported disbursements or expenditures and the probability of unauthorized disbursements or expenditures.

Recommendation: 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. Further, we recommend the Department of Finance ensure that all accounts payable vouchers are properly filed and maintained.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** We will continue to look for the remaining unlocated documents. Starting with fiscal year 2007 scanning of documents is being done at the time of entry which should substantially reduce or eliminate this type of finding. For fiscal year 2006, scanning was being done prior to filing by the records room custodian. When this staff member resigned, no replacement could be hired due to austerity measures and the scanning and filing was not kept up to date.

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Purchases/Disbursements

Finding No. 2006-4

Criteria: Expenditures should be recorded when incurred.

Condition: Of total medical related expenditures of \$3,332,738 at September 30, 2006, professional services of \$2,519,509 and nonpayroll expenses of \$249,413 were tested. Of one hundred thirty-seven items tested, fifty-eight items, totaling \$1,189,392 included billings from medical service providers for services rendered in prior years. These expenditures represent those approved by the responsible local office, which were subsequently forwarded to the Department of Finance (DOF) for recording and payment.

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

Effect: The effect of the above condition is that 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 basic financial statements.

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

Prior Year Status: The lack of policies and procedures regarding the timely recognition of expenditures at the time services are rendered was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2005.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen Sablan, Medicaid Administrator

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

**Proposed Completion Date:** N/A

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Cash and Cash Equivalents

Finding No. 2006-5

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

Condition: During the fiscal year ended September 30, 2006, the bank reconciliations for the Payroll, General Fund, NMTIT Rebate Trust Fund, Treasury Savings Account and the NMTIT Rebate Savings Account (A/c #s 11420.1010, 11430.1010, 11400.1010, 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.

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

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

Prior Year Status: The lack of adequate policies and procedures related to the timely preparation of bank reconciliations was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2005.

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 the finding for the Treasury Savings (1010.11610) and NMTIT Rebate Savings (1010.11640) accounts. The General Fund (1010.11430), Payroll (1010.11420) and NMTIT Rebate Trust (1010.11400) checking accounts have been reconciled on a monthly basis since 2005. Reconciliations are available in the Finance and Accounting Division Reconciliation Section. The auditors indicated the problem is the length of time reconciliations take rather than a lack of reconciliations. There are only two staff in the reconciliation Section due to staff turnover and lack of budget to replace the two departed employees. In addition, delayed bank statements contribute to the time lag experienced between month end and the reconciliation being completed. There is an assigned person to reconcile savings accounts at Treasury but due to a shortage of cashiers, Treasury staff were acting as cashiers during this period and only a year end reconciliation was done. We are planning on moving the savings account reconciliation function from Treasury to the Acting Secretary of Finance office to improve internal control. In order to improve timeliness of the checking account reconciliations, the Reconciliation Section has been given inquiry access to the bank accounts on line to allow quicker retrieval of information. We will also discuss faster availability of bank statements with our bank. In addition, coordination between the Recon section and the Treasury and Revenue and Tax Divisions will be improved to facilitate checking account reconciliations.

**Proposed Completion Date:** Ongoing



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Receivables

Finding No. 2006-6

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, 2006, the receivable balance at CHC was \$157,264,191. 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 \$157,264,191.

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 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** DPH agrees with the findings but has made major progress in the past years in correcting the problems. Implementing policies and procedures, as recommended by the auditors, will help but will not resolve the backlog in the processing of bills or decrease the huge outstanding receivable. The major cause of the problem is non-payment of bills by the Government Health Insurance (GHI) program outstanding since 1992 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. Inefficiency of the present computer billing system and inadequate FTE's in the Billing and Collection Office contribute to the billing backlog. DPH is seeking funding for a newer, faster more efficient billing system. DPH will discuss the write off of accounts considered uncollectible with the Department of Finance. Since these amounts have never been booked as revenue, no bad debt expense needs to be booked, only adjustments to the receivable and reserve accounts.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Receivables

Finding No. 2006-7

Criteria: Receivables should be assessed and monitored for collectibility. Balances deemed not collectible should be allowed for.

Condition: As of September 30, 2006, the General Fund recorded taxes receivables of \$18,708,462. Of the total balance, \$15,145,422 represents accruals made at September 30, 2006 based on the CNMI's collections subsequent to the fiscal year for which calculation was made available. CNMI did not perform an assessment of the collectibility of the remaining \$3,563,040 taxes receivables and accordingly, has not recorded any allowance for possible uncollectible accounts. Further, no detail was provided for the \$3,563,040.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that an assessment of taxes receivables is performed.

Effect: The effect of the above condition is the possibility of a misstatement of taxes receivables and related tax revenues and a qualification of the opinion on the basic financial statements.

Recommendation: We recommend the CNMI perform an assessment of its taxes receivables balances.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** We agree that the balance of the taxes receivable account needs to be reconciled and appropriate entries made. We are currently in the process of reviewing the account activity. Our records indicate that \$15,383,664 represents the fiscal year 2006 year end accruals made for subsequent collections leaving an unreconciled balance of \$\$3,324,798.

**Proposed Completion Date:** FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Advances

Finding No. 2006-8

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

Condition: As of September 30, 2006, subledgers were not available for advances to vendors totaling \$4,093,971 (A/c # 12430.1010 amounting to \$1,134,593 and # 12431.1010 amounting to \$2,959,378). In addition, advances identified in the accounts payable subledger of \$3,618,177 did not agree with advances recorded in A/c #12430.1010 of \$4,093,971. 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 2005.

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 2006-11. 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. Reconciliation procedures will be developed to reconcile the advance to vendors and received not vouchered account balances.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Advances

Finding No. 2006-9

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, 2006, the General Fund recorded travel advances of \$1,573,692, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, approximately \$1,165,800 represents carryforwards from prior years.

Additionally, of four travel advance balances tested, the following exceptions were noted:

- For one employee (employee # 100296) with outstanding travel advances as of September 30, 2006 of \$18,882, advances relating to two travel authorizations (TA #s 264736 and 266384) totaling \$7,440 were not made available. Of the \$18,882 balance, subsequent liquidations amounted to \$3,281, which was liquidated after more than the ten-day requirement specified in the travel policy. Further, the travel voucher and actual receipts supporting the liquidation was not made available. Also, two more travel advances were given to the employee subsequent to September 30, 2006 despite non-liquidation of outstanding advances.
- For one employee (employee # 100399) with outstanding travel advances as of September 30, 2006 of \$27,916, only one travel advance amounting to \$18,389 per PV385392 (as authorized under TA # 259557) was made available. However, we were unable to verify if such travel authorization provided is part of the total travel advance balance as the subsidiary ledger for the selected employee was not provided. Additionally, no evidence of subsequent liquidation was provided for our review despite numerous requests.
- For one employee (employee # 310916) with outstanding travel advances as of September 30, 2006 of \$16,932, the related travel authorizations and vouchers were not made available after numerous requests.
- For one employee (employee # 339420) with outstanding travel advances as of September 30, 2006 of \$34,188, subsequent liquidations noted amounted to only \$13,219. Additionally, it appears that of the outstanding balance, \$9,250 represent travel advances outstanding for more than one year; and the remaining balance of \$11,719 represents current year travel advances with no subsequent liquidations. The travel authorizations for the \$11,719 were not provided for review. Additionally, for two travel authorizations (TA #s FY06-27 and FY06-30) tested, travel vouchers were submitted by the employee within the current year but were processed by the Travel Section subsequent to September 30, 2006.

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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-9, Continued

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

Recommendation: We recommend that all advances outstanding for more than one year be reviewed, their 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 2005.

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 May 31, 2007 has been reduced to \$1,496,724. 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:**

Auditee Response: The amount outstanding is not reserved against fund balance on the balance sheet either through the reserve for encumbrances or reserve for related assets. Travel advances amounting to \$1,165,000 has been allowed for as of September 30, 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Payables

Finding No. 2006-10

Criteria: Recorded payables in the general ledger should represent valid liabilities and be properly supported with supplier/vendor invoices and relevant documents.

Condition: During tests of payables, we noted the following:

- Of twelve accounts payable items of the General Fund aggregating \$1,006,337, the supporting accounts payable voucher and invoices for the following were not made available:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
02/02/06	PV 415521	\$ 106,288
09/25/06	PV 444539	86,502
10/07/05	PV 549361	35,066
05/10/06	PV 571643	14,298
05/31/06	PV 573506	<u>111,358</u>
		\$ <u>353,512</u>

- Of nineteen accounts payable items of the Federal Grants Fund aggregating \$1,092,056, the supporting accounts payable voucher, invoices and relevant documents were not made available for the following:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
05/03/06	570557 PV	\$ 34,925
08/25/06	583885 PV	32,343
09/13/06	585472 PV	32,711
09/27/06	586813 PV	<u>28,086</u>
		\$ <u>128,065</u>

- Of three accounts payable items of the Special Revenue Non-major Funds aggregating \$88,614, the supporting accounts payable voucher, invoices and relevant documents for the following were not made available:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
05/08/06	571419 PV	\$ 47,076
08/16/06	582628 PV	25,200
08/24/06	583244 PV	<u>16,338</u>
		\$ <u>88,614</u>

- Of eighteen accounts payable items of the Capital Projects Fund aggregating \$4,825,731, the supporting accounts payable voucher and invoice for the following were not made available:

<u>General Ledger Date</u>	<u>Document No.</u>	<u>Amount</u>
08/18/06	582793 OV	\$ 74,979
08/22/06	583031 OV	118,527
09/14/06	585749 PV	<u>215,000</u>
		\$ <u>408,506</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-10, Continued

Condition, Continued:

Accordingly, we were unable to determine if the above items represent valid payables as of September 30, 2006.

Cause: The cause of the above condition is the lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents.

Effect: The effect of the above condition is unsupported liabilities.

Recommendation: We recommend that the Department of Finance ensure that all payables recorded in the general ledger are properly supported with supplier/vendor invoices and relevant document and ensure that these documents are filed and maintained.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** We will continue to look for the remaining unlocated documents. Starting with fiscal year 2007 scanning of documents is being done at the time of entry which should substantial reduce or eliminate this type of finding. For fiscal year 2006, scanning was being done prior to filing by the records room custodian. When this staff member resigned, no replacement could be hired due to austerity measures and the scanning and filing was not kept up to date.

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Other Liabilities and Accruals

Finding No. 2006-11

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

Condition: As of September 30, 2006, the General Fund recorded liabilities (A/c #s 20120.1010 and 20120.1012) including a credit balance of \$980,534 and a debit balance of \$12,147 for which no detailed subsidiary ledgers were 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	\$ 4,261,418
1012	19,851
1015	3,749
2020	76,689
2030	134
2043	2,462
2070	2,629
2300	2,044
4043	167
4044	102
4045	538
4052	<u>1,267</u>
	<u>\$ 4,371,050</u>

Cause: The cause of the above condition is that liabilities are recorded at the time advances are made and the lack of reconciliation procedures upon application of advances. In addition, the CNMI is currently analyzing the liability account and as of September 30, 2006, 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 2005.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-11, 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 2006-8. 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. 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. An accurate method of eliminating the detail records has not been developed at this point.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Retirement Contributions - General Fund

Finding No. 2006-12

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: As of September 30, 2006, the CNMI recorded a contribution liability of \$96,258,892. These outstanding contributions date back to fiscal year 2001. In addition, the Fund assessed an additional penalty of \$4,607,307 for the year ended September 30, 2006. The CNMI has determined that only the increase in outstanding contribution, net of suspended contribution under Public Law 15-15, from fiscal year 2005 to fiscal year 2006 is subject to the 25% resulting in a maximum penalty of \$467,179 for the year ended September 30, 2006. The Fund assessed a total penalty of \$28,603,704 on outstanding contributions of which \$21,100,949 is recorded by the CNMI as of September 30, 2006. The difference of \$7,502,755 and the manner in which the penalties were calculated is being contested 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 Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** On June 16, 2006 Public Laws (PL) 15-13, 15-14 and 15-15 were enacted to address issues related to the retirement fund. PL 15-13 created portable retirement accounts for all new public employees hired on or after January 1, 2007 and allowed non vested members of the existing defined benefit plan to transfer into the new plan. The employer contribution rate is set at 4%. PL 15-14 extended the full funding period for the existing defined contribution plan for 25 years and requires an actuarial study to determine required employer contributions based on the new laws enacted. PL 15-15 suspended payment of employer contributions for fiscal year 2006, effective March 1, 2006, and for all of fiscal year 2007.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Tax Rebates Payable

Finding No. 2006-13

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, 2006, estimated tax rebates payable aggregated \$39,428,591. The estimate consists of the following:

Estimated 2006 liability based on fiscal year 2006 collections	\$ 8,710,920
2005 and prior rebates unpaid as of September 30, 2006	<u>30,717,671</u>
	\$ <u>39,428,591</u>

The unpaid 2005 and prior rebates consist of completed tax returns and the value of matched and unmatched tax returns. The detailed listings of the matched tax returns for the tax years 2000 through 2005 for both individual returns amounting to \$17,681,439 and corporate returns amounting to \$5,265,037 were not made available. Additionally, the detailed listings of the unmatched tax returns for the tax year 2002 for individual returns amounting to \$463,070 and for the tax years 2000 through 2003 for corporate returns amounting to \$1,450,745 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, 2006 to support tax assessments. 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: A lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-13, Continued

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** The automated tax system does not produce historical "as of" detail reports required by the auditors. A report of the unmatched detail was run on September 30, 2006 and provided to the auditors but a detail report of matched returns was not run. We will insure all detail reports requested by the auditors are run on September 30, 2007. We are continuing to research the issue of the payment of interest on rebates and tax overpayments.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Fund Balance

Finding No. 2006-14

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, 2006, 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.

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 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** The fiscal year 1997 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 fiscal year 2007.

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

CNMI Local Noncompliance

Finding No. 2006-15

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, 2006, 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, 2006:

	<u>Budgeted Level of Expenditures</u>	<u>Actual Expenditures</u>	<u>Over- Expenditure</u>
Executive Branch:			
Public Safety	\$ 11,979,795	\$ 12,249,480	\$ (269,685)
First Senatorial District - Rota:			
Public Health	\$ 1,950,984	\$ 1,954,521	\$ (3,537)
Unallocated audit adjustments	\$ -	\$ 518,262	\$ (518,262)

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 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** We agree with the finding. Public Law 15-15 suspended payment of employer contributions for fiscal year 2006, effective March 1, 2006, and for all of fiscal year 2007. The affected employer contributions were not included in the budget. Unallocated audit adjustments were not budgeted for.

**Proposed Completion Date:** N/A

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

CNMI Local Noncompliance

Finding No. 2006-16

Criteria: Grants and contributions received should be expended in accordance with established agreements and be properly monitored to ensure funds are used for authorized purposes.

Condition: On July 26, 2006, the CNMI received \$4,000,000 from CDA pursuant to Public Law (P.L.) 15-1. P.L. 15-1 authorized the Governor reprogramming authority prior to the enactment of a comprehensive appropriations act for fiscal year 2006 and for other purposes. The letter that accompanied the transmittal of funds indicated that the \$4,000,000 could not be used for operating purposes. The CNMI disbursed these funds to the Commonwealth Utilities Corporation (CUC) to address CUC's emergency situation. CNMI did not monitor the use of such funds disbursed to CUC.

Cause: The cause of the above condition is the fiscal crisis and deficit spending of the CNMI and emergency situation of CUC. The CNMI represented that the funds are not federal.

Effect: The effect of the above condition is that CUC is potentially using the funds for unauthorized purposes.

Recommendation: We recommend the CNMI determine whether the funds have been used for authorized purposes.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Eloy S. Inos, Secretary of Finance and Oscar C. Camacho, CDA Acting Executive Officer

**Corrective Action:** The CNMI Department of Finance and the Commonwealth Development Authority will review the Commonwealth Utilities Corporation's use of the local funds disbursed.

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2006-17

Program	Reason for Questioned Costs	Questioned Costs																																																							
	<p><b>Criteria:</b> Expenditures recorded in the general ledger should be supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p><b>Condition:</b> Supporting accounts payable vouchers and invoices for the following programs were not provided, as follows:</p> <ul style="list-style-type: none"> <li>• Of forty-seven expenditures tested of the Homeland Security Grant Programs aggregating \$3,485,301, the supporting travel authorization for one item (ref. T264395 for PV 571431) amounting to \$3,429 was not made available.</li> <li>• Of \$2,150,136 in non-payroll expenditures of the Public Assistance Grants tested, we noted the following:               <ol style="list-style-type: none"> <li>1. While copies of the journal vouchers were made available, the supporting accounts payable vouchers, GAR's requests for payment, invoices and receiving reports for the following were not provided:                   <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Disaster</th> <th style="text-align: center;">DR #</th> <th style="text-align: center;">JV #</th> <th style="text-align: center;">Amount</th> <th></th> </tr> </thead> <tbody> <tr> <td>Chata'an</td> <td>1430</td> <td>116341</td> <td>\$ 34,362</td> <td style="text-align: right;">34,362</td> </tr> <tr> <td>Pongsona</td> <td>1447</td> <td>116121</td> <td>\$ 39,289</td> <td style="text-align: right;">5,893</td> </tr> <tr> <td>Paka</td> <td>1194</td> <td>128452</td> <td>\$ 56,512</td> <td style="text-align: right;">56,512</td> </tr> </tbody> </table> </li> </ol> </li> <li>• Of twenty-four non-payroll expenditure items tested relating to non-major programs aggregating \$1,215,957, the supporting accounts payable vouchers, invoices and relevant documents for the following were not made available:                   <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">CFDA No.</th> <th style="text-align: center;">Reference No.</th> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Amount</th> <th></th> </tr> </thead> <tbody> <tr> <td>93.959</td> <td>562803 PV</td> <td>02/15/06</td> <td>\$ 21,000</td> <td></td> </tr> <tr> <td>15.875</td> <td>564046 PV</td> <td>02/27/06</td> <td>5,000</td> <td></td> </tr> <tr> <td>93.217</td> <td>564335 PV</td> <td>02/28/06</td> <td>17,720</td> <td></td> </tr> <tr> <td>15.622</td> <td>570315 PV</td> <td>05/01/06</td> <td>96,466</td> <td></td> </tr> <tr> <td>16.579</td> <td>585296 PV</td> <td>09/12/06</td> <td>13,407</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="border-top: 1px solid black;">\$ 153,593</td> <td style="text-align: right;">153,593</td> </tr> </tbody> </table> </li> </ul>	Disaster	DR #	JV #	Amount		Chata'an	1430	116341	\$ 34,362	34,362	Pongsona	1447	116121	\$ 39,289	5,893	Paka	1194	128452	\$ 56,512	56,512	CFDA No.	Reference No.	General Ledger Date	General Ledger Amount		93.959	562803 PV	02/15/06	\$ 21,000		15.875	564046 PV	02/27/06	5,000		93.217	564335 PV	02/28/06	17,720		15.622	570315 PV	05/01/06	96,466		16.579	585296 PV	09/12/06	13,407					\$ 153,593	153,593	<p>\$ 3,429</p>
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			\$ 153,593	153,593																																																					

**Cause:** The cause of the above condition is the lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents.

**Effect:** The effect of the above condition is questioned costs of \$253,789.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-17, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><b>Recommendation:</b> We recommend that the Department of Finance ensure that all expenditures recorded in the general ledger are supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p><b>Prior Year Status:</b> Lack of proper systematic filing of certified accounts payable vouchers, invoices and other relevant documents was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.</p> <p><b>Auditee Response and Corrective Action Plan:</b></p> <p><b>Name of Contact Person:</b> Bernadita C. Palacios, Acting Director Finance &amp; Accounting</p> <p><b>Corrective Action:</b> We will continue to look for the remaining unlocated documents. Starting with fiscal year 2007 scanning of documents is being done at the time of entry which should substantial reduce or eliminate this type of finding. For fiscal year 2006, scanning was being done prior to filing by the records room custodian. When this staff member resigned, no replacement could be hired due to austerity measures and the scanning and filing was not kept up to date.</p> <p><b>Proposed Completion Date:</b> Fiscal year 2007</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Allowable Costs/Cost Principles

Finding No. 2006-18

<u>Program</u>	<u>Reason for Questioned Costs</u>				<u>Questioned Costs</u>
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/05 - 09/30/06	<b>Criteria:</b> Expenditures should be authorized, supported by documents, and approved prior to incurrence.				
	<b>Condition:</b> We noted the following:				
	<ul style="list-style-type: none"> <li>For two travel expenses, the supporting travel authorizations were not made available:</li> </ul>				
	<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>	
	11/22/05	62500	PV554330	\$ 2,338	
	11/16/05	62500	PV406430	<u>1,606</u>	
				\$ <u>3,944</u>	3,944
	Further, the related travel voucher and trip report for one item (PV421998) amounting to \$1,580 were not submitted within fifteen days upon completion of travel.				
	<ul style="list-style-type: none"> <li>For six items, accounts payable vouchers were not supported by actual billings and claims from service providers:</li> </ul>				
	<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>	
	11/25/05	62060	PV407351	\$ 21,769	
	10/06/05	62060	PV401973	3,569	
	12/20/05	62060	PV409577	83,868	
	12/20/05	62060	PV409581	12,965	
	10/06/05	62060	PV401975	7,980	
	11/16/05	62500	PV406430	<u>1,606</u>	
				\$ <u>131,757</u>	131,757
	<ul style="list-style-type: none"> <li>Of the total program payroll expenditures of \$75,374, two employees with total gross pay of \$1,685 were tested. Both employees included PTO charges totaling \$157 but the approved annual leave forms for the employees were not provided for review:</li> </ul>				
	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>No. of PTO Hours</u>		
	103084	03/18/06	22		
	210704	03/18/06	8		157

**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.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-18, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><b>Effect:</b> The effect of the above conditions is the lack of support for the authorization of expenditures prior to incurrence and questioned costs of \$135,858.</p> <p><b>Recommendation:</b> 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.</p> <p><b>Prior Year Status:</b> Failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to submit all supporting documents for filing was reported as a finding in the Single Audit of the CNMI for fiscal year 2005.</p> <p><b>Auditee Response and Corrective Action Plan:</b></p> <p><b>Name of Contact Person:</b> Helen Sablan, Medicaid Administrator</p> <p><b>Corrective Action:</b> 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.</p> <p>However, our Operational Plan does not specify or require a treatment authorization so long as the Medical Referral Committee approves the referral of the Medicaid patient for treatment off-island.</p> <p>Timekeeping has been centralized at the Department of Public Health. Copies of the annual leave forms have been requested but not received.</p> <p><b>Proposed Completion Date:</b> Ongoing</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Cash Management

Finding No. 2006-19

Program	Reason for Questioned Costs					Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2006 Appropriations Act / Federal Award Period Available Until Expended</p> <p>U.S. Department of Homeland Security / Homeland Security Cluster / CFDA #s97.004 and 97.067 / Federal Award #s 2005-GE-T5-0029, 2004-GE-T4-0044, 2003-MU-T3-0012, 2003-TE-TX-0162, 2002-TE-TX-0091 and 2002-TE-TX-0076 / Federal Award Periods 06/01/02 - 11/30/05, 08/01/02 - 01/31/06, 04/01/03 - 09/30/06, 05/01/03 - 10/31/06, 12/01/03 - 11/30/06 and 10/01/04 - 03/31/07</p>	<p><b>Criteria:</b> In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee for selected major programs. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The approved clearance pattern is three days.</p> <p><b>Condition:</b> Of eighty-four samples tested relating to the DOI Capital Projects Fund, seventy-four items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's account. Details are as follows:</p>					
	APV #	Drawdown Amount	Cash Receipts Date	Check Clearance Date	Days Elapsed After the Allowable Clearance Pattern	
	220266	\$ 100,440	11/25/05	12/12/05	14	
	548086	\$ 241,453	11/09/05	11/16/05	4	
	548136	\$ 85,824	10/12/05	10/31/05	16	
	548137	\$ 83,520	10/18/05	10/31/05	10	
	549587	\$ 99,153	10/21/05	10/31/05	7	
	550330	\$ 170,366	10/28/05	11/18/05	18	
	550584	\$ 137,352	10/27/05	11/04/05	5	
	551907	\$ 77,247	11/10/05	12/01/05	18	
	552078	\$ 151,790	11/15/05	11/21/05	3	
	552078	\$ 120,601	11/15/05	11/21/05	3	
	553139	\$ 82,468	11/22/05	11/29/05	4	
	554329	\$ 69,234	11/22/05	11/30/05	5	
	554394	\$ 108,512	12/02/05	12/09/05	4	
	554495	\$ 54,990	12/02/05	12/12/05	7	
	554702	\$ 106,800	11/18/05	12/09/05	18	
	555581	\$ 274,130	12/16/05	12/27/05	8	
	555625	\$ 81,653	01/10/06	01/24/06	11	
	555724	\$ 420,964	12/21/05	01/23/06	30	
	555724	\$ 103,242	12/21/05	01/23/06	30	
	557393	\$ 84,956	12/27/05	01/24/06	25	
	557723	\$ 139,500	01/01/06	02/03/06	30	
	558602	\$ 309,251	01/23/06	01/27/06	1	
	558605	\$ 165,155	01/23/06	02/03/06	8	
	559403	\$ 147,103	01/30/06	02/08/06	6	
	560695	\$ 201,052	02/03/06	02/10/06	4	
	561264	\$ 190,568	02/02/06	03/02/06	25	
	561364	\$ 77,172	02/14/06	02/28/06	11	
	561582	\$ 421,553	02/14/06	02/24/06	7	
	561863	\$ 132,910	02/16/06	02/24/06	5	
	561864	\$ 45,815	02/16/06	02/24/06	5	
	561872	\$ 85,345	02/22/06	03/07/06	10	
	561875	\$ 99,035	02/10/06	03/02/06	17	
	561875	\$ 69,213	02/10/06	03/02/06	17	
	563913	\$ 345,834	03/10/06	03/28/06	15	
	563918	\$ 304,170	03/10/06	03/27/06	14	
	563925	\$ 97,542	03/10/06	03/28/06	15	
	563926	\$ 315,325	03/10/06	03/23/06	10	
	563927	\$ 109,348	03/10/06	03/27/06	14	
	564657	\$ 186,000	03/17/06	05/02/06	43	
	564699	\$ 158,000	03/17/06	04/03/06	14	
	565143	\$ 186,000	04/04/06	05/02/06	25	
	565923	\$ 142,245	04/07/06	05/17/06	37	
	566322	\$ 58,324	03/20/06	03/31/06	8	
	566954	\$ 112,744	04/07/06	04/24/06	14	
	566954	\$ 124,377	04/11/06	04/24/06	10	
	567162	\$ 80,690	04/11/06	04/25/06	11	
	568676	\$ 260,394	04/25/06	05/08/06	10	
	568963	\$ 502,448	05/02/06	05/15/06	10	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-19, Continued

Program	Reason for Questioned Costs				Questioned Costs
<b>Condition, Continued:</b>					
APV #	Drawdown Amount	Cash Receipts Date	Check Clearance Date	Days Elapsed After the Allowable Clearance Pattern	
569853	\$ 320,405	05/05/06	05/24/06	16	
570361	\$ 112,463	05/08/06	05/17/06	6	
571137	\$ 254,271	05/15/06	05/22/06	4	
571137	\$ 215,746	05/15/06	05/22/06	4	
572613	\$ 270,971	05/31/06	06/19/06	16	
573295	\$ 84,230	06/07/06	07/21/06	41	
573500	\$ 167,608	06/21/06	06/29/06	5	
574572	\$ 128,625	07/03/06	08/03/06	28	
575314	\$ 58,324	06/07/06	06/27/06	17	
575672	\$ 144,000	07/11/06	07/31/06	17	
576127	\$ 184,192	07/03/06	07/19/06	13	
578186	\$ 166,081	08/02/06	08/15/06	10	
578187	\$ 247,285	08/02/06	08/15/06	10	
578485	\$ 197,019	08/02/06	09/28/06	54	
578519	\$ 81,388	08/02/06	08/15/06	10	
578570	\$ 239,556	08/02/06	08/15/06	10	
580463	\$ 59,516	08/14/06	08/22/06	5	
581328	\$ 353,662	08/17/06	09/05/06	16	
581328	\$ 128,032	08/17/06	09/05/06	16	
581772	\$ 81,869	08/17/06	08/25/06	5	
582612	\$ 257,647	08/24/06	09/14/06	18	
582613	\$ 132,212	08/24/06	09/28/06	32	
584195	\$ 376,307	09/08/06	09/20/06	19	
585832	\$ 376,307	10/17/06	11/13/06	21	
586637	\$ 288,302	10/03/06	10/17/06	11	
586638	\$ 253,777	10/03/06	10/18/06	12	21,930

Of forty-five samples tested relating to the Homeland Security Grant Programs, thirty-five items were paid between one to ninety-three days after the allowable clearance pattern from the date federal funds were credited to the CNMI's account. Details are as follows:

APV #	Drawdown Amount	Cash Receipts Date	Check Clearance Date	Days Elapsed After the Allowable Clearance Pattern
OV220772	\$ 34,585	03/21/06	04/12/06	14
OV220802	\$ 16,258	05/02/06	06/02/06	28
PV551039	\$ 45,000	11/03/05	12/19/05	43
PV551830	\$ 39,000	12/06/05	02/16/06	69
PV551837	\$ 39,000	12/06/05	01/05/06	27
PV551838	\$ 214,800	12/06/05	01/27/06	49
PV554755	\$ 146,718	12/20/05	01/31/06	39
PV557252	\$ 80,356	01/18/06	02/14/06	24
PV557254	\$ 68,192	01/18/06	04/19/06	88
PV558159	\$ 111,333	01/18/06	01/24/06	3
PV558159	\$ 85,115	01/18/06	01/24/06	3
PV558162	\$ 165,929	01/18/06	01/24/06	3
PV558556	\$ 32,200	01/18/06	02/02/06	12
PV558560	\$ 39,000	01/18/06	02/02/06	12
PV560848	\$ 121,688	02/15/06	05/18/06	89
PV562142	\$ 32,200	02/15/06	05/22/06	93
PV563958	\$ 193,750	03/07/06	04/24/06	45
PV564044	\$ 45,350	03/07/06	03/28/06	18
PV564329	\$ 113,600	03/07/06	03/14/06	4
PV564654	\$ 178,797	03/21/06	06/14/06	82
PV566969	\$ 79,200	05/02/06	06/06/06	32
PV566970	\$ 62,640	05/02/06	05/25/06	20
PV569415	\$ 99,558	05/05/06	05/19/06	11
PV570657	\$ 42,000	05/11/06	06/14/06	31
PV570658	\$ 44,200	05/11/06	06/14/06	31
PV571431	\$ 3,429	05/11/06	05/31/06	17
PV572584	\$ 32,000	06/07/06	07/10/06	30
PV572584	\$ 53,150	06/07/06	07/10/06	30
PV575200	\$ 43,124	06/21/06	07/17/06	23
PV576806	\$ 32,464	08/03/06	08/16/06	10

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-19, Continued

Program	Reason for Questioned Costs				Questioned Costs
<u>Condition, Continued:</u>					
APV #	Drawdown Amount	Cash Receipts Date	Check Clearance Date	Days Elapsed After the Allowable Clearance Pattern	
PV578708	\$ 43,033	08/03/06	08/31/06	25	
PV580503	\$ 117,869	08/10/06	08/14/06	1	
PV581131	\$ 48,217	08/10/06	08/30/06	17	
PV581132	\$ 93,400	08/10/06	08/30/06	17	
PV586080	\$ 47,785	09/28/06	11/01/06	31	10,954

The CNMI has not recognized the potential interest liability of \$32,884 related to the time elapsed after the allowable clearance pattern from the date federal funds were received to the date these funds were deducted from the CNMI's account for the above samples.

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, a potential interest liability and questioned costs of \$32,884.

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 through 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2006) shows receivables from Federal agencies of \$5,366,436 for categorical grants and \$3,500,346 for capital improvement projects as of September 30, 2005. The vouchers in this finding relate to DOI Capital Improvement Project Grants, which had a net overall receivable balance of \$3,653,720 as of the audit date and to U.S Department of Homeland Security grants under CFDA #s 97.004 and 97.067, which had receivable balances of \$33,574 and \$44,454 respectively as of the audit date.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-19, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	<b>Corrective Action, Continued:</b>	
	<p>We feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus drawdowns 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 under the CMIA, we think the audit testing should include the date the drawdown was requested as well as when it was received.</p>	
	<p>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>	
	<b>Proposed Completion Date:</b> Ongoing	
	<p><u>Auditor Response:</u> The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Cash Management

Finding No. 2006-20

Program	Reason for Questioned Costs	Questioned Costs			
<p>U.S. Department of Homeland Security / Public Assistance Grants / CFDA #97.036 / Federal Award #s MP02PA1430, MP03PA1447, 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 08/06/02 through completion, 12/11/02 through completion, 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion</p>	<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. The allowable clearance pattern is three days.</p> <p><u>Condition:</u> Of total disbursements of \$1,666,563 related to large projects, we noted the following:</p> <ul style="list-style-type: none"> <li>• 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. An additional drawdown of \$412,267 was received during the year. The liability per the DSR of \$159,142 and the additional amount drawn of \$412,267 has been included in the following interest liability calculation.</li> <li>• Funds advanced were not disbursed after receipt of drawdown for the following:</li> </ul>				
<p>APV #</p>	<p>DR</p>	<p>Cost Center</p>	<p>CR date</p>	<p>Date Cleared</p>	<p>Days Elapsed After the Allowable Clearance Pattern</p>
116341	1430	M3544O	10/06/05	09/30/06	356
586809	1611	M6036K	05/17/06	09/30/06	133
584895	1611	M6036F	05/17/06	09/30/06	133
559199	1447	M3544G	10/01/05	03/14/06	161
570106	1447	M3544G	10/01/05	05/17/06	225
573011	1447	M3544G	10/01/05	06/15/06	254
574590	1447	M3544G	05/17/06	06/19/06	30
220468	1447	M3544H	10/01/05	02/27/06	146
551791	1447	M35444	10/01/05	01/17/06	105
564330	1447	M35444	10/01/05	04/03/06	181
572071	1447	M35444	10/01/05	06/09/06	248
116121	1447	M35440	10/01/05	09/30/06	361
Payroll	1532	M30360	10/01/05	07/08/06	277
Payroll	1541	M4036S	10/01/05	09/02/06	333
Payroll	1541	M40366	10/01/05	12/10/05	67
576037	1541	M4036O	05/17/06	07/18/06	59
557245	1541	M4036S	10/01/05	01/23/06	111
563932	1541	M4036S	10/01/05	04/10/06	188



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-20, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Condition, Continued:</u></p> <p>Interest for APVs not paid or with checks outstanding was calculated up to September 30, 2006 and those reimbursed with prior year funds were calculated from October 1, 2005. Also, the supporting journal entry vouchers and related invoices were not provided for APV #s 116341 and 116121 resulting in an interest liability calculated from the date of drawdown to September 30, 2006.</p> <ul style="list-style-type: none"> <li>The interest liability and the amount questioned as a result of the above is \$24,732.</li> </ul> <p><u>Cause:</u> 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.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with federal cash management requirements and questioned costs of \$24,732 for interest due to the grantor.</p> <p><u>Recommendation:</u> 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.</p> <p><u>Prior Year Status:</u> The lack of compliance with federal cash management rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p><b>Name of Contact Person:</b> Virginia Villagomez, Governor's Authorized Representative and Antoinette Calvo, Treasurer</p> <p><b>Corrective Action:</b> We disagree with the finding. CNMI policy is to disburse advance Federal funds as close to receipt of funds as possible.</p> <p>DSR 48014 adjustments of \$159,142 are under appeal with FEMA. This amount will be remitted to FEMA or additional costs will be booked depending on the outcome of the appeal. The additional drawdown of \$412,267 in FY06 is for costs related to other Typhoon Paka projects and not the Rota Early Warning Project. The Cost Center for the base Paka grant (M8544S) only shows excess revenue related to the appeal. We do not feel these amounts should be included in the interest liability calculation.</p> <p>We reviewed each item listed as advanced funds and found that the cost centers for 11 of the 18 items had grant receivable balances as of the audit date and the total grant receivable for all the listed cost centers was \$599,167.</p>	<p>24,732</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-20, Continued

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

**Corrective Action, Continued:**

Managing large disasters with hundreds of projects sometimes results in excess draw downs for a particular project. 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. The audit report shows a net receivable balance of \$1,359,467 for U.S. Department of Homeland Security grants under CFDA # 97.036 as of the audit date.

It also appears that the auditors have not considered the difference between small project drawdowns and large project drawdowns since at least one of the items listed is a small project. Small project drawdowns are considered final and not an advance as defined by the CMIA (see June 2, 1999 letter from FEMA and CFR 44 section 205.206(a)). Any small project drawdowns included in this finding should be eliminated.

We feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus drawdowns is not considered. The agency may not have made payments for other expenditures. Since the Federal agencies also have responsibilities to disburse requested funds in a timely manner under the CMIA, we think the audit testing should include the date the drawdown was requested as well as when it was received.

**Proposed Completion Date:** FY2007

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Cash Management

Finding No. 2006-21

Program	Reason for Questioned Costs	Questioned Costs																																																																																																																																																																																																																																																																																				
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/05 - 09/30/06	<p><b>Criteria:</b> The Cash Management Improvement Act (CMIA) Agreement requires that the CNMI request funds such that they are deposited by the U.S Treasury on the dollar-weighted average day of clearance for the disbursements of ten days for the Medical Assistance Program. Otherwise, the CNMI shall be liable for interest on the Federal funds from the date the Federal funds are credited to the CNMI's account until the date those funds are paid out for program purposes.</p> <p><b>Condition:</b> For eighty-two of one hundred thirty-seven samples tested, disbursement checks were released and cleared from three to two hundred forty-two days after the allowable clearance pattern from the date cash was received from the grantor agency, as follows:</p>																																																																																																																																																																																																																																																																																					
	<table border="1"> <thead> <tr> <th style="text-align: center;">Document #</th> <th style="text-align: center;">Amount</th> <th style="text-align: center;">Check Number</th> <th style="text-align: center;">Clearing Date</th> <th style="text-align: center;">Reimbursement Date</th> <th style="text-align: center;">Days Elapsed After the Allowable Clearance Pattern</th> </tr> </thead> <tbody> <tr><td>PV404496</td><td>\$ 55,463</td><td>282218</td><td>01/03/06</td><td>11/16/05</td><td>38</td></tr> <tr><td>PV404497</td><td>\$ 68,283</td><td>282218</td><td>01/03/06</td><td>11/16/05</td><td>38</td></tr> <tr><td>PV404498</td><td>\$ 65,930</td><td>282218</td><td>01/03/06</td><td>11/16/05</td><td>38</td></tr> <tr><td>PV404499</td><td>\$ 41,333</td><td>282218</td><td>01/03/06</td><td>11/16/05</td><td>38</td></tr> <tr><td>PV404500</td><td>\$ 53,653</td><td>282218</td><td>01/03/06</td><td>11/16/05</td><td>38</td></tr> <tr><td>PV404501</td><td>\$ 56,460</td><td>282218</td><td>01/03/06</td><td>11/16/05</td><td>38</td></tr> <tr><td>PV407952</td><td>\$ 27,777</td><td>282203</td><td>01/03/06</td><td>12/19/05</td><td>5</td></tr> <tr><td>PV407963</td><td>\$ 14,484</td><td>282203</td><td>01/03/06</td><td>12/19/05</td><td>5</td></tr> <tr><td>PV407967</td><td>\$ 17,508</td><td>282203</td><td>01/03/06</td><td>12/19/05</td><td>5</td></tr> <tr><td>PV408427</td><td>\$ 15,254</td><td>282214</td><td>01/18/06</td><td>12/19/05</td><td>20</td></tr> <tr><td>PV408428</td><td>\$ 14,270</td><td>282214</td><td>01/18/06</td><td>12/19/05</td><td>20</td></tr> <tr><td>PV408431</td><td>\$ 22,623</td><td>282214</td><td>01/18/06</td><td>12/19/05</td><td>20</td></tr> <tr><td>PV408432</td><td>\$ 14,875</td><td>282214</td><td>01/18/06</td><td>12/19/05</td><td>20</td></tr> <tr><td>PV408436</td><td>\$ 47,105</td><td>282214</td><td>01/18/06</td><td>12/19/05</td><td>20</td></tr> <tr><td>PV411386</td><td>\$ 39,394</td><td>288214</td><td>04/25/06</td><td>01/31/06</td><td>74</td></tr> <tr><td>PV414522</td><td>\$ 18,802</td><td>285705</td><td>05/01/06</td><td>01/31/06</td><td>80</td></tr> <tr><td>PV563224</td><td>\$ 19,572</td><td>287748</td><td>04/07/06</td><td>02/27/06</td><td>29</td></tr> <tr><td>PV563226</td><td>\$ 16,328</td><td>287748</td><td>04/07/06</td><td>02/27/06</td><td>29</td></tr> <tr><td>PV563227</td><td>\$ 13,058</td><td>287748</td><td>04/07/06</td><td>02/27/06</td><td>29</td></tr> <tr><td>PV563231</td><td>\$ 32,067</td><td>287748</td><td>04/07/06</td><td>02/27/06</td><td>29</td></tr> <tr><td>PV563232</td><td>\$ 21,883</td><td>287748</td><td>04/07/06</td><td>02/27/06</td><td>29</td></tr> <tr><td>PV563241</td><td>\$ 115,197</td><td>287749</td><td>03/31/06</td><td>02/27/06</td><td>22</td></tr> <tr><td>PV563243</td><td>\$ 152,288</td><td>287749</td><td>03/31/06</td><td>02/27/06</td><td>22</td></tr> <tr><td>PV428853</td><td>\$ 14,109</td><td>293971</td><td>08/11/06</td><td>05/16/06</td><td>77</td></tr> <tr><td>PV428854</td><td>\$ 86,265</td><td>293971</td><td>08/11/06</td><td>05/16/06</td><td>77</td></tr> <tr><td>PV433235</td><td>\$ 39,656</td><td>296823</td><td>09/06/06</td><td>08/11/06</td><td>16</td></tr> <tr><td>PV434212</td><td>\$ 35,848</td><td>296039</td><td>08/28/06</td><td>08/11/06</td><td>7</td></tr> <tr><td>PV437795</td><td>\$ 21,356</td><td>296822</td><td>09/06/06</td><td>08/24/06</td><td>3</td></tr> <tr><td>PV437801</td><td>\$ 22,460</td><td>296822</td><td>09/06/06</td><td>08/24/06</td><td>3</td></tr> <tr><td>PV437822</td><td>\$ 20,593</td><td>296822</td><td>09/06/06</td><td>08/24/06</td><td>3</td></tr> <tr><td>PV437832</td><td>\$ 21,915</td><td>296822</td><td>09/06/06</td><td>08/24/06</td><td>3</td></tr> <tr><td>PV437837</td><td>\$ 14,689</td><td>296822</td><td>09/06/06</td><td>08/24/06</td><td>3</td></tr> <tr><td>PV401975</td><td>\$ 6,605</td><td>280250</td><td>12/27/05</td><td>11/16/05</td><td>31</td></tr> <tr><td>PV408103</td><td>\$ 3,383</td><td>282207</td><td>02/17/06</td><td>12/19/05</td><td>50</td></tr> <tr><td>PV408115</td><td>\$ 4,663</td><td>286103</td><td>06/09/06</td><td>12/19/05</td><td>162</td></tr> <tr><td>PV408433</td><td>\$ 12,368</td><td>282214</td><td>01/18/06</td><td>12/19/05</td><td>20</td></tr> <tr><td>PV414703</td><td>\$ 4,948</td><td>288244</td><td>06/09/06</td><td>02/27/06</td><td>92</td></tr> <tr><td>PV414704</td><td>\$ 5,963</td><td>289778</td><td>05/02/06</td><td>02/27/06</td><td>54</td></tr> <tr><td>PV562560</td><td>\$ 1,400</td><td>285556</td><td>03/21/06</td><td>02/27/06</td><td>12</td></tr> <tr><td>PV563229</td><td>\$ 3,852</td><td>287748</td><td>04/07/06</td><td>02/27/06</td><td>29</td></tr> <tr><td>PV563237</td><td>\$ 5,386</td><td>287749</td><td>03/31/06</td><td>02/27/06</td><td>22</td></tr> <tr><td>PV563238</td><td>\$ 5,096</td><td>287749</td><td>03/31/06</td><td>02/27/06</td><td>22</td></tr> <tr><td>PV563240</td><td>\$ 5,730</td><td>287749</td><td>03/31/06</td><td>02/27/06</td><td>22</td></tr> <tr><td>PV418763</td><td>\$ 2,307</td><td>289220</td><td>05/23/06</td><td>02/27/06</td><td>75</td></tr> <tr><td>PV418777</td><td>\$ 3,620</td><td>287119</td><td>05/12/06</td><td>02/27/06</td><td>64</td></tr> </tbody> </table>	Document #	Amount	Check Number	Clearing Date	Reimbursement Date	Days Elapsed After the Allowable Clearance Pattern	PV404496	\$ 55,463	282218	01/03/06	11/16/05	38	PV404497	\$ 68,283	282218	01/03/06	11/16/05	38	PV404498	\$ 65,930	282218	01/03/06	11/16/05	38	PV404499	\$ 41,333	282218	01/03/06	11/16/05	38	PV404500	\$ 53,653	282218	01/03/06	11/16/05	38	PV404501	\$ 56,460	282218	01/03/06	11/16/05	38	PV407952	\$ 27,777	282203	01/03/06	12/19/05	5	PV407963	\$ 14,484	282203	01/03/06	12/19/05	5	PV407967	\$ 17,508	282203	01/03/06	12/19/05	5	PV408427	\$ 15,254	282214	01/18/06	12/19/05	20	PV408428	\$ 14,270	282214	01/18/06	12/19/05	20	PV408431	\$ 22,623	282214	01/18/06	12/19/05	20	PV408432	\$ 14,875	282214	01/18/06	12/19/05	20	PV408436	\$ 47,105	282214	01/18/06	12/19/05	20	PV411386	\$ 39,394	288214	04/25/06	01/31/06	74	PV414522	\$ 18,802	285705	05/01/06	01/31/06	80	PV563224	\$ 19,572	287748	04/07/06	02/27/06	29	PV563226	\$ 16,328	287748	04/07/06	02/27/06	29	PV563227	\$ 13,058	287748	04/07/06	02/27/06	29	PV563231	\$ 32,067	287748	04/07/06	02/27/06	29	PV563232	\$ 21,883	287748	04/07/06	02/27/06	29	PV563241	\$ 115,197	287749	03/31/06	02/27/06	22	PV563243	\$ 152,288	287749	03/31/06	02/27/06	22	PV428853	\$ 14,109	293971	08/11/06	05/16/06	77	PV428854	\$ 86,265	293971	08/11/06	05/16/06	77	PV433235	\$ 39,656	296823	09/06/06	08/11/06	16	PV434212	\$ 35,848	296039	08/28/06	08/11/06	7	PV437795	\$ 21,356	296822	09/06/06	08/24/06	3	PV437801	\$ 22,460	296822	09/06/06	08/24/06	3	PV437822	\$ 20,593	296822	09/06/06	08/24/06	3	PV437832	\$ 21,915	296822	09/06/06	08/24/06	3	PV437837	\$ 14,689	296822	09/06/06	08/24/06	3	PV401975	\$ 6,605	280250	12/27/05	11/16/05	31	PV408103	\$ 3,383	282207	02/17/06	12/19/05	50	PV408115	\$ 4,663	286103	06/09/06	12/19/05	162	PV408433	\$ 12,368	282214	01/18/06	12/19/05	20	PV414703	\$ 4,948	288244	06/09/06	02/27/06	92	PV414704	\$ 5,963	289778	05/02/06	02/27/06	54	PV562560	\$ 1,400	285556	03/21/06	02/27/06	12	PV563229	\$ 3,852	287748	04/07/06	02/27/06	29	PV563237	\$ 5,386	287749	03/31/06	02/27/06	22	PV563238	\$ 5,096	287749	03/31/06	02/27/06	22	PV563240	\$ 5,730	287749	03/31/06	02/27/06	22	PV418763	\$ 2,307	289220	05/23/06	02/27/06	75	PV418777	\$ 3,620	287119	05/12/06	02/27/06	64	
Document #	Amount	Check Number	Clearing Date	Reimbursement Date	Days Elapsed After the Allowable Clearance Pattern																																																																																																																																																																																																																																																																																	
PV404496	\$ 55,463	282218	01/03/06	11/16/05	38																																																																																																																																																																																																																																																																																	
PV404497	\$ 68,283	282218	01/03/06	11/16/05	38																																																																																																																																																																																																																																																																																	
PV404498	\$ 65,930	282218	01/03/06	11/16/05	38																																																																																																																																																																																																																																																																																	
PV404499	\$ 41,333	282218	01/03/06	11/16/05	38																																																																																																																																																																																																																																																																																	
PV404500	\$ 53,653	282218	01/03/06	11/16/05	38																																																																																																																																																																																																																																																																																	
PV404501	\$ 56,460	282218	01/03/06	11/16/05	38																																																																																																																																																																																																																																																																																	
PV407952	\$ 27,777	282203	01/03/06	12/19/05	5																																																																																																																																																																																																																																																																																	
PV407963	\$ 14,484	282203	01/03/06	12/19/05	5																																																																																																																																																																																																																																																																																	
PV407967	\$ 17,508	282203	01/03/06	12/19/05	5																																																																																																																																																																																																																																																																																	
PV408427	\$ 15,254	282214	01/18/06	12/19/05	20																																																																																																																																																																																																																																																																																	
PV408428	\$ 14,270	282214	01/18/06	12/19/05	20																																																																																																																																																																																																																																																																																	
PV408431	\$ 22,623	282214	01/18/06	12/19/05	20																																																																																																																																																																																																																																																																																	
PV408432	\$ 14,875	282214	01/18/06	12/19/05	20																																																																																																																																																																																																																																																																																	
PV408436	\$ 47,105	282214	01/18/06	12/19/05	20																																																																																																																																																																																																																																																																																	
PV411386	\$ 39,394	288214	04/25/06	01/31/06	74																																																																																																																																																																																																																																																																																	
PV414522	\$ 18,802	285705	05/01/06	01/31/06	80																																																																																																																																																																																																																																																																																	
PV563224	\$ 19,572	287748	04/07/06	02/27/06	29																																																																																																																																																																																																																																																																																	
PV563226	\$ 16,328	287748	04/07/06	02/27/06	29																																																																																																																																																																																																																																																																																	
PV563227	\$ 13,058	287748	04/07/06	02/27/06	29																																																																																																																																																																																																																																																																																	
PV563231	\$ 32,067	287748	04/07/06	02/27/06	29																																																																																																																																																																																																																																																																																	
PV563232	\$ 21,883	287748	04/07/06	02/27/06	29																																																																																																																																																																																																																																																																																	
PV563241	\$ 115,197	287749	03/31/06	02/27/06	22																																																																																																																																																																																																																																																																																	
PV563243	\$ 152,288	287749	03/31/06	02/27/06	22																																																																																																																																																																																																																																																																																	
PV428853	\$ 14,109	293971	08/11/06	05/16/06	77																																																																																																																																																																																																																																																																																	
PV428854	\$ 86,265	293971	08/11/06	05/16/06	77																																																																																																																																																																																																																																																																																	
PV433235	\$ 39,656	296823	09/06/06	08/11/06	16																																																																																																																																																																																																																																																																																	
PV434212	\$ 35,848	296039	08/28/06	08/11/06	7																																																																																																																																																																																																																																																																																	
PV437795	\$ 21,356	296822	09/06/06	08/24/06	3																																																																																																																																																																																																																																																																																	
PV437801	\$ 22,460	296822	09/06/06	08/24/06	3																																																																																																																																																																																																																																																																																	
PV437822	\$ 20,593	296822	09/06/06	08/24/06	3																																																																																																																																																																																																																																																																																	
PV437832	\$ 21,915	296822	09/06/06	08/24/06	3																																																																																																																																																																																																																																																																																	
PV437837	\$ 14,689	296822	09/06/06	08/24/06	3																																																																																																																																																																																																																																																																																	
PV401975	\$ 6,605	280250	12/27/05	11/16/05	31																																																																																																																																																																																																																																																																																	
PV408103	\$ 3,383	282207	02/17/06	12/19/05	50																																																																																																																																																																																																																																																																																	
PV408115	\$ 4,663	286103	06/09/06	12/19/05	162																																																																																																																																																																																																																																																																																	
PV408433	\$ 12,368	282214	01/18/06	12/19/05	20																																																																																																																																																																																																																																																																																	
PV414703	\$ 4,948	288244	06/09/06	02/27/06	92																																																																																																																																																																																																																																																																																	
PV414704	\$ 5,963	289778	05/02/06	02/27/06	54																																																																																																																																																																																																																																																																																	
PV562560	\$ 1,400	285556	03/21/06	02/27/06	12																																																																																																																																																																																																																																																																																	
PV563229	\$ 3,852	287748	04/07/06	02/27/06	29																																																																																																																																																																																																																																																																																	
PV563237	\$ 5,386	287749	03/31/06	02/27/06	22																																																																																																																																																																																																																																																																																	
PV563238	\$ 5,096	287749	03/31/06	02/27/06	22																																																																																																																																																																																																																																																																																	
PV563240	\$ 5,730	287749	03/31/06	02/27/06	22																																																																																																																																																																																																																																																																																	
PV418763	\$ 2,307	289220	05/23/06	02/27/06	75																																																																																																																																																																																																																																																																																	
PV418777	\$ 3,620	287119	05/12/06	02/27/06	64																																																																																																																																																																																																																																																																																	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-21, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
					Days Elapsed After the Allowable Clearance Pattern	
	<u>Document #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Clearing Date</u>	<u>Reimburse- ment Date</u>	
	PV418854	\$ 2,670	287119	05/12/06	02/27/06	64
	PV421955	\$ 7,398	290710	05/29/06	03/22/06	58
	PV423391	\$ 7,151	289244	08/22/06	05/16/06	88
	PV423392	\$ 2,606	291929	08/04/06	05/16/06	70
	PV423397	\$ 2,694	291884	09/01/06	05/16/06	98
	PV437838	\$ 11,731	296822	09/06/06	08/11/06	16
	PV422022	\$ 19,333	287684	04/21/06	03/22/06	20
	PV418350	\$ 15,327	287224	03/22/06	02/27/06	13
	PV430088	\$ 16,047	292848	06/20/06	06/06/06	4
	PV574564	\$ 14,703	293876	07/25/06	06/21/06	24
	PV407253	\$ 1,074	00343	04/03/06	12/19/05	95
	PV407771	\$ 1,983	00346	04/03/06	12/19/05	95
	PV404502	\$ 11,390	282214	01/18/06	11/16/05	53
	PV408420	\$ 7,412	282214	01/18/06	12/19/05	20
	PV408742	\$ 16,973	284307	02/02/06	12/19/05	35
	PV428852	\$ 51,781	296214	10/02/06	05/16/06	129
	PV434066	\$ 15,742	297488	10/02/06	08/11/06	42
	PV434067	\$ 19,637	297488	10/02/06	08/11/06	42
	PV418919	\$ 2,377	295178	11/06/06	02/27/06	242
	PV418923	\$ 3,221	295178	11/06/06	02/27/06	242
	PV428413	\$ 2,977	296165	09/29/06	05/16/06	126
	PV433729	\$ 12,305	Unpaid	02/05/07	07/14/06	196
	PV434056	\$ 11,275	297488	10/02/06	07/14/06	70
	PV434063	\$ 9,829	297488	10/02/06	07/14/06	70
	PV434065	\$ 11,662	297488	10/02/06	07/14/06	70
	PV435669	\$ 3,473	296347	10/02/06	08/11/06	42
	PV406430	\$ 1,606	333	04/03/06	12/19/05	95
	PV445177	\$ 14,471	301742	12/15/06	10/25/06	41
	PV445619	\$ 41,345	Unpaid	02/05/07	10/25/06	93
	PV445620	\$ 44,281	Unpaid	02/05/07	10/25/06	93
	PV445631	\$ 56,249	Unpaid	02/05/07	10/25/06	93
	PV443914	\$ 3,100	Unpaid	02/05/07	10/25/06	93
	PV444047	\$ 3,411	300428	02/05/07	10/25/06	93
	PV445176	\$ 12,350	301742	12/15/06	10/25/06	41
	PV445178	\$ 12,719	301742	12/15/06	10/25/06	41
	PV441949	\$ 5,242	299579	10/31/06	09/13/06	38
	PV441951	\$ 5,845	299579	10/31/06	09/13/06	38
						7,518

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 and in accordance with the requirement of the CMLA Agreement.

Effect: The effect of the above condition is noncompliance with federal cash management requirements and questioned costs of \$7,518. This matter is reportable as the projected questioned costs exceed the threshold.

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 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-21, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><b><u>Auditee Response and Corrective Action Plan:</u></b></p> <p><b>Name of Contact Person:</b> Antoinette Calvo, CNMI Treasurer and Helen C. Sablan, Medicaid Administrator</p> <p><b>Corrective Action:</b> 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.</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 in the program. The audit report shows receivable balances as of the audit date of \$520,826 for CFDA #93.778 (Medical Assistance Program).</p> <p>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.</p> <p><b>Proposed Completion Date:</b> Ongoing</p> <p><b><u>Auditor Response:</u></b> The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Eligibility

Finding No. 2006-22

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Agriculture / Food Stamps / CFDA #10.551 / Federal Award # 7NM4004NM / Federal Award Period 10/01/05 - 9/30/06	<p><b>Criteria:</b> Title V, Section E (4) of the NAP Manual of Operations specifies that if the household member required to register for work refused or failed to comply with Work Registration Requirements, that member shall be subject to disqualification for at least one (1) month and not counted as part of the household in determining the household's level of benefits based on household size.</p> <p><b>Condition:</b> Of fifty-three individuals tested for eligibility, we noted the following:</p> <ul style="list-style-type: none"> <li>The eligibility files for two items (case #s 06369 and 20017) lack evidence of participant's compliance with the Work Registration requirements. The benefits paid relating to these two items amount to \$521.</li> </ul> <p><b>Cause:</b> The cause of the above condition is the lack of reports from the CNMI Department of Labor and Immigration to confirm participant's compliance with the Work Registration requirements.</p> <p><b>Effect:</b> The effect of the above condition is noncompliance with the specific requirements of the MOU and Manual of Operations and questioned costs of \$521. This matter is reportable as the projected questioned costs exceed the threshold.</p> <p><b>Recommendation:</b> We recommend that the CNMI ensure that NAP recipients are in compliance with all eligibility requirements.</p>	521
<b><u>Auditee Response and Corrective Action Plan:</u></b>		
<p><b>Name of Contact Person:</b> Eleanor Cruz, NAP Administrator and Peggy Sers Nicholas, Certification Unit Supervisor</p>		
<p><b>Corrective Action:</b> The lack of reports from the CNMI Department of Labor (DOL) to confirm the participants' compliance with WR requirements was largely due to equipment failure with their computer system and lack of funding to upgrade their system to meet increasing demand in participation and other private individuals in need of job search assistance. NAP had made numerous attempts to rectify this problem with the Division of Employment Services (DES) when it stopped transmitting their compliance reports dating back to September 2004, but to no avail. Inadequate manpower at the Certification Unit (CU) due to a significant increase in participation also became a factor, and for FY2007, NAP justified the need for an additional eligibility worker to the federal grantor and to date, this request is still under review. Unfortunately, CU inadvertently failed to provide proper documentation for both case files. We have finalized the new and revised MOU for NAP and DES and is ready for signature by appropriate authorities. The MOU is to reinforce the WR requirements, including establishment of another MOU with WIA for additional assistance to our clients. Further, NAP recently established its internal Employment and Training section to provide much needed service and assistance to all work registrants for job placement in government and private sectors as well as continuing education with college or for a high school diploma.</p>		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-22, Continued

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

**Corrective Action, Continued:**

With this in place, CU now refers clients to MEU Employment and Training section for determination whether job placement or continuing education assistance is appropriate and proper disposition eventually acted upon thereafter. Periodic monitoring and constant communication between MEU, CU and DES and other agencies would ensure that the quarterly status updates, documentation and reporting requirements, and subsequent appropriate actions are in compliance with established guidelines.

**Proposed Completion Date:** With the necessary revisions on the existing MOU with DOL, establishment of an MOU with WIA, finalization of our newly established Employment and Training section and hiring of an additional eligibility worker for CU, NAP expects to be in full compliance with reporting requirements with WR requirements in September 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment

Finding No. 2006-23

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2006 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><b>Criteria:</b> Expenditures recorded in the general ledger shall be subjected to the CNMI Procurement regulations and should be properly supported with complete procurement and contract files.</p> <p><b>Condition:</b> Of twenty-five contracts relating to DOI Capital Projects Fund tested, we noted the following:</p> <ul style="list-style-type: none"> <li>• Two contracts (contract #s 277-OS and 363-OS) were procured through competitive sealed bids. However, the relevant documents (i.e., bid invitation, bid summary, bids received, evidence of public notice) supporting the procurement were not locatable. The fiscal year 2006 expenditures tested related to those contracts amounted to \$257,817.</li> </ul> <p><b>Cause:</b> The cause of the above conditions is lack of proper and systematic filing of relevant documents supporting procurement</p> <p><b>Effect:</b> The effect of the above conditions is incomplete procurement files and questioned costs of \$257,817.</p> <p><b>Recommendation:</b> We recommend the CNMI's Procurement and Supply Division to ensure that all relevant procurement documents are maintained and filed accordingly.</p> <p><b>Auditee Response and Corrective Action Plan:</b></p> <p><b>Name of Contact Person:</b> Robert Florian, Assistant Director, Procurement and Supply</p> <p><b>Corrective Action:</b> We accept your recommendation. Given the number of contracts processed yearly and the amount of paper related to each, some things can fall through the cracks. Effective immediately, we will re-emphasize with our staff the importance of being able to locate all documents relating to any procurement at all times.</p> <p><b>Proposed Completion Date:</b> Ongoing</p>	<p>257,817</p>



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment

Finding No. 2006-24

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2006 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><b>Criteria:</b> 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.</p> <p><b>Condition:</b> During the year ended September 30, 2006, 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. The fiscal year 2006 expenditures tested relating to this contract amounted to \$85,345.</p> <p><b>Cause:</b> The cause of the above condition is failure to provide for full and open competition in the applicable procurement transactions.</p> <p><b>Effect:</b> The effect of the above condition is the lack of full and open competition in the applicable procurement transactions and questioned costs of \$85,345.</p> <p><b>Recommendation:</b> We recommend that the CNMI review its current procurement regulations to ensure conformity with applicable federal laws.</p> <p><b>Prior Year Status:</b> The lack of compliance with Section 3-108 of the CNMI Procurement Regulation was reported as a finding in the Single Audit of the CNMI for fiscal year 2005.</p> <p><b>Auditee Response and Correction Action Plan:</b></p> <p><b>Name of Contact Person:</b> Robert Florian, Assistant Director, Procurement and Supply</p> <p><b>Corrective Action:</b> We accept your recommendation and are fully aware of the requirement for written documentation supporting the use of the expedited procurement method. Effective immediately, our contract and PO reviewers will be asked to be particularly aware to ensure that such documentation is included.</p> <p><b>Proposed Completion Date:</b> Ongoing</p>	<p>85,345</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment

Finding No. 2006-25

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2006 Appropriations Act / Federal Award Period Available Until Expended	<p><b>Criteria:</b> In accordance with Section 3-106 (2) of the CNMI Procurement Regulations, a written justification for sole source procurement shall be prepared by the official with expenditure authority. The written sole source justification shall contain the following: a) the specific unique capabilities of the contractor selected; b) the specific reasons why such unique capabilities are required for the particular procurement; c) what specific efforts were made to obtain competition and d) what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. Moreover, generalized statements are not adequate and documents to support the statements justifying the sole source procurement are mandatory.</p> <p><b>Condition:</b> Two contracts (contract #s 357-OS and 381-OS) were procured using sole source procurement. Although justification was provided for the procurement method utilized, justification did not meet sole source procurement requirements for these two contracts. The fiscal year 2006 expenditures tested relating to these contracts amounted to \$213,224.</p> <p><b>Cause:</b> The cause of the above condition is failure to comply with Sec. 3-106 of the CNMI Procurement Regulations.</p> <p><b>Effect:</b> The effect of the above condition is the lack of compliance with Section 3-106 of the CNMI Procurement Regulation and questioned costs of \$213,224.</p> <p><b>Recommendation:</b> We recommend that the CNMI ensure strict adherence to established Procurement Regulations.</p> <p><b>Auditee Response and Corrective Action Plan:</b></p> <p><b>Name of Contact Person:</b> Robert Florian, Assistant Director, Procurement &amp; Supply</p> <p><b>Corrective Action:</b> We disagree with the finding. Contract 357-OS was not obtained through sole source but as an expedited procurement under Emergency regulations specifically written so support the Water Task Force. Copies provided to auditors.</p> <p>Contract 381-OS was a sole source contract and while the two page justification does not specifically address 3.106(2)(a)(b)(c)(d), a fair reading will reveal each of these criteria has been dealt with.</p> <p><b>Proposed Completion Date:</b> N/A</p> <p><b>Auditor Response:</b> Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. The regulations do not indicate that emergencies are recognized unless they are agreed to by the federal government. Hence, competitive procurement should occur unless appropriate use of sole source criteria is demonstrated.</p>	213,224

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment

Finding No. 2006-26

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award # M 09156-04 / Federal Award Period 10/01/03 - 09/30/08</p>	<p><b>Criteria:</b> In accordance with Section 3-101 of the CNMI Procurement Regulations, an official 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><b>Condition:</b> Of twenty-two nonpayroll expenditures of the Environmental Protection Consolidated Grants program tested aggregating \$398,001, there is no indication of the type of procurement method used for three (ref PV #s 574899, 574277 and 561307) items. Additionally, there were no relevant supporting documents in the file that competitive procurement procedures occurred for these items. The fiscal year 2006 expenditures tested relating to these items amounted to \$9,378.</p> <p><b>Cause:</b> The cause of the above condition is the lack of adherence to the CNMI Procurement Regulations.</p> <p><b>Effect:</b> The effect of the above condition is lack of full and open competition on federal funded purchases and questioned costs of \$9,378. This matter is reportable as the projected questioned costs exceed the threshold.</p> <p><b>Recommendation:</b> We recommend all procurement regulations be strictly adhered to.</p> <p><b>Auditee Response and Corrective Action Plan:</b></p> <p><b>Name of Contact Person:</b> Robert Florian, Assistant Director, Procurement and Supply</p> <p><b>Corrective Action:</b> We agree that documents evidencing the request for at least 3 competitive quotations must be in file for procurements less than \$10,000 but more than \$2,500. We will immediately remind our reviewers to ensure that such is the case with every PO in this dollar range.</p> <p><b>Proposed Completion Date:</b> Ongoing</p>	<p>9,378</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment

Finding No. 2006-27

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Homeland Security / Homeland Security Cluster / CFDA #s97.004 and 97.067 / Federal Award #s 2005-GE-T5-0029, 2004-GE-T4-0044, 2003-MU-T3-0012, 2003-TE-TX-0162, 2002-TE-TX-0091 and 2002-TE-TX-0076 / Federal Award Periods 06/01/02 - 11/30/05, 08/01/02 - 01/31/06, 04/01/03 - 09/30/06, 05/01/03 - 10/31/06, 12/01/03 - 11/30/06 and 10/01/04 - 03/31/07</p>	<p><b>Criteria:</b> In accordance with the Office of Justice Financial Guide Chapter 10, all sole source procurements in excess of \$100,000 must receive prior approval of the awarding agency.</p> <p><b>Condition:</b> Of total expenditures of \$4,942,864 related to the State Domestic Preparedness Equipment Support and Homeland Security Grant programs, the procurement of one contract (ref. #450045-OC) amounting to \$282,576 was tested. The contract was procured under sole source and was approved by the Division of Procurement and Supply. However, the grantor approval of sole source procurement was not provided. The fiscal year 2006 expenditures tested related to this contract amounted to \$70,901.</p> <p><b>Cause:</b> The cause of the above condition is the lack of awareness of program requirements and the lack of filing of relevant documents supporting procurement.</p> <p><b>Effect:</b> The effect of the above condition is questioned costs of \$70,901.</p> <p><b>Recommendation:</b> We recommend that CNMI review all program requirements and ensure compliance with such prior to entering into contracts/agreements. We also recommend that CNMI ensure all that relevant documents supporting procurement are filed properly.</p>	<p>70,901</p>
<p><u>Auditee Response and Corrective Action Plan:</u></p>		
<p><b>Name of Contact Person:</b> Vicky S. Nicholas, OHS Administrative Officer and Rita Chong-Dela Cruz, OHS Planner</p>		
<p><b>Corrective Action:</b> Presently, the Office of Homeland Security (OHS) has one personnel who is responsible for contract procurement. The main responsibility of this personnel is to ensure strict adherence to the Department of Homeland Security (DHS) and local procurement rules and regulations.</p>		
<p>In 2006, OHS gathered all of its procurement contracts and reviewed all of them especially those in excess of \$100,000, to see if they were procured after receiving prior approval from the DHS Preparedness Officer.</p>		
<p>OHS is currently working on developing a tracking and filing system for all its contracts, to ensure that all relevant and contract-supporting documents are filed properly, and that all contracts are accounted for.</p>		
<p><b>Proposed Completion Date:</b> Ongoing</p>		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment

Finding No. 2006-28

Program	Reason for Questioned Costs	Questioned Costs															
U.S. Department of Homeland Security / Homeland Security Cluster / CFDA #s97.004 and 97.067 / Federal Award #s 2005-GE-T5-0029, 2004-GE-T4-0044, 2003-MU-T3-0012, 2003-TE-TX-0162, 2002-TE-TX-0091 and 2002-TE-TX-0076 / Federal Award Periods 06/01/02 - 11/30/05, 08/01/02 - 01/31/06, 04/01/03 - 09/30/06, 05/01/03 - 10/31/06, 12/01/03 - 11/30/06 and 10/01/04 - 03/31/07	<p><u>Criteria:</u> Under CNMI procurement policies and procedures, procurement shall provide full and open competition among vendors. Any allowable exceptions must be properly documented and approved in accordance with applicable CNMI procurement requirements and such approvals should be documented in the procurement files. Additionally, CNMI's procurement policies provide for the following:</p> <ul style="list-style-type: none"> <li>• Section 3-102 of the procurement policies states that unless otherwise authorized by law or regulation, all contracts shall be awarded by competitive sealed bidding.</li> <li>• Formal bidding is required for procurement above \$10,000 unless otherwise authorized by law or regulation.</li> <li>• Section 3-105 allows the use of small purchase method. Bidding is not required for any procurement \$10,000 or under. The official with expenditure authority should obtain price quotations from at least three (3) vendors and base the selection on price and quality. Any price quotations must be written, documented, and submitted to the Director of Procurement and Supply for approval.</li> <li>• Section 3-106, 3-107, and 3-108 of the procurement policies and procedures permit the use of sole source, emergency and expedited procurement methods, respectively, subject to certain requirements. When these methods are utilized, a written justification for the use of such methods shall be prepared by the official with expenditure authority and submitted to Director of Procurement and Supply for approval before executing a contract. Additionally, the procurement shall be as competitive as possible under the circumstances.</li> </ul>																
	<p><u>Condition:</u> Of twenty-four contracts tested related to the State Domestic Preparedness Equipment Support and Homeland Security Grant programs, we noted the following:</p> <ul style="list-style-type: none"> <li>• For three contracts acquired through expedited procurement, the written request was approved by the Director of Procurement and Supply; however, the justification memo containing the urgency of the government's need for the good or services, comparative costs of procuring the goods or services from a sole source or through the competitive process, availability of the goods or service in the CNMI and the timeliness of acquiring it, and any other factors establishing that the expedited procurement is in the best interest of the CNMI was not on file. Details follows:</li> </ul>																
	<table border="1"> <thead> <tr> <th data-bbox="602 1709 792 1736">Contract Number</th> <th data-bbox="846 1709 1036 1736">Contract Amount</th> <th data-bbox="1114 1682 1256 1736">Expenditures Tested</th> </tr> </thead> <tbody> <tr> <td data-bbox="630 1761 764 1789">451038-OC</td> <td data-bbox="873 1761 984 1789">\$ 18,747</td> <td data-bbox="1117 1761 1227 1789">\$ 16,258</td> </tr> <tr> <td data-bbox="630 1791 764 1818">446138-OC</td> <td data-bbox="901 1791 984 1818">64,200</td> <td data-bbox="1144 1791 1227 1818">32,200</td> </tr> <tr> <td data-bbox="630 1820 764 1848">453018-OC</td> <td data-bbox="889 1820 984 1848"><u>114,856</u></td> <td data-bbox="1144 1820 1227 1848"><u>85,150</u></td> </tr> <tr> <td></td> <td data-bbox="873 1871 984 1898">\$ <u>197,803</u></td> <td data-bbox="1117 1871 1227 1898">\$ <u>133,608</u></td> </tr> </tbody> </table>	Contract Number	Contract Amount	Expenditures Tested	451038-OC	\$ 18,747	\$ 16,258	446138-OC	64,200	32,200	453018-OC	<u>114,856</u>	<u>85,150</u>		\$ <u>197,803</u>	\$ <u>133,608</u>	133.608
Contract Number	Contract Amount	Expenditures Tested															
451038-OC	\$ 18,747	\$ 16,258															
446138-OC	64,200	32,200															
453018-OC	<u>114,856</u>	<u>85,150</u>															
	\$ <u>197,803</u>	\$ <u>133,608</u>															

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-28, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Condition, Continued:</u>		
	<ul style="list-style-type: none"> <li>• One contract (contract # 448629-OC amounting to \$147,815) procured under the competitive sealed proposals does not have an approved written justification memo on file to support that such method was in the best interest of the CNMI. The fiscal year 2006 expenditures tested related to this contract amounted to \$62,640.</li> <li>• One contract (contract # 453018-OC amounting to \$114,856) was not signed by the Special Assistant for Homeland Security who has the authority for all program expenditures.</li> </ul>	62,640
<p><u>Cause:</u> The cause of the above condition is the lack of adherence to established procurement policies and regulations and the lack of proper filing of relevant documents supporting procurement.</p>		
<p><u>Effect:</u> The effect of the above condition is noncompliance with established procurement policies and regulations, incomplete procurement files and questioned costs of \$196,248. Additional expenditures under these contracts may have occurred that were not tested and therefore, additional costs may have occurred during the period that should be questioned.</p>		
<p><u>Recommendation:</u> We recommend that CNMI adhere to established procurement policies and regulations and ensure that vendor selections are supported with complete procurement files. Further we recommend that CNMI establish proper and systematic filing procedures of relevant procurement documents and ensure that these are strictly followed and implemented.</p>		
<p><u>Auditee Response and Corrective Action Plan:</u></p>		
<p><b>Name of Contact Person:</b> Robert Florian, Assistant Director, Procurement and Supply</p>		
<p><b>Corrective Action:</b> We accept your recommendation. Effective immediately, we will re-double our efforts to ensure that our filing procedures emphasize the importance of all relevant documents being filed timely and in the proper place, both with respect to contracts and vendor selections.</p>		
<p>With regard to the five contract files for Homeland Security based upon expedited procurement not containing a written justification for such, but only a memorandum requesting approval to use the method, be advised that we have interpreted Section 3-108 1. and 2.a. as both requiring and allowing us to approve expedited procurements for the Office of Homeland Security based simply upon their assertion of the need for an urgent procurement because security issues were involved in their request.</p>		
<p>We now recognize that such is not the case, and effective immediately, will require the proper written justifications from Homeland Security.</p>		
<p><b>Proposed Completion Date:</b> Ongoing</p>		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment

Finding No. 2006-29

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Homeland Security / Public Assistance Grants / CFDA #97.036 / Federal Award #s MP02PA1430, MP03PA1447, 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 08/06/02 through completion, 12/11/02 through completion, 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion</p>	<p><b>Criteria:</b> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><b>Condition:</b> Of \$1,097,396 in nonpayroll expenditures tested, we noted the following:</p> <ul style="list-style-type: none"> <li>• For Typhoon Nabi (DR 1611) PW#12, quotations were obtained and a purchase order issued for services amounting to \$39,200 (459332 OP) when CNMI Procurement Regulations stipulate that anything over \$10,000 requires competitive bidding. A justification stating the use of purchase order and the absence of competitive bidding was not provided. Total expenditures for the year amounting to \$10,665 (APV #s 584884-584895) are questioned.</li> <li>• For Typhoon Chaba (DR 1541) PW#380, justification supporting an emergency procurement for contract 427989 OC was not provided. Although the vendor was specified in the PW's scope of work, grantor approval of sole source procurement was not provided. As such, related costs of \$24,215 are questioned.</li> <li>• For Typhoon Chaba (DR 1541) PW#434, sole source procurement was not approved by the grantor agency. As such, related costs of \$7,492 (APV # 574051) are questioned.</li> <li>• For Typhoon Chaba (DR 1541) PW#412, vendor (contract 441001 OC) was sole sourced when other vendors with similar capabilities exist. Although the vendor was specified in the PW's scope of work, grantor approval of sole source procurement was not provided. As such, related costs of \$96,800 are questioned.</li> </ul>	<p>10,665</p> <p>24,215</p> <p>7,492</p> <p>96,800</p>
	<p><b>Cause:</b> The cause of the above condition is lack of policies and procedures in place within the requesting departments to ensure compliance with local and federal procurement regulations.</p>	
	<p><b>Effect:</b> The effect of the above condition is noncompliance with established procurement regulations and questioned costs of \$139,172.</p>	
	<p><b>Recommendation:</b> We recommend that the CNMI require that all departments establish policies and procedures consistent with procurement regulations to ensure that all commitments to vendors are obtained and processed through the Department of Procurement and Supply in a timely manner and that sole-sourcing is approved by the grantor and is adequately documented in accordance with CNMI Procurement Regulations.</p>	
	<p><b>Prior Year Status:</b> The lack of compliance with federal procurement rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-29, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><u>Auditee Response and Corrective Action Plan:</u></p> <p><b>Name of Contact Person:</b> Virginia Villagomez, Governor's Authorized Representative</p> <p><b>Corrective Action:</b> The criteria citing Federal small purchase procurement regulations does not seem to apply to the findings.</p> <p>We disagree that the \$7,492 for PW#434 should be questioned. Emergency sole source procurement justification from DPW was approved by the Director of Procurement and Supply. There was no need for the grantor agency to approve as CNMI procurement regulations were followed.</p> <p>We disagree that the \$10,665 for PW#12 should be questioned. The purchase requisition was approved by the Governor's Authorized Representative, the Attorney General and the Director of Procurement with attached letter from the Director of DPW and three quotes. Lowest quote was selected.</p> <p><b>Proposed Completion Date:</b> N/A</p> <p><u>Auditor Response:</u> Adequate evidence to substantiate sole source procurement was not on file. The issue is not the approval of the contracts. The issue is that competitive procurement should have been utilized and was not.</p>	



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Special Tests and Provisions

Finding No. 2006-30

<u>Program</u>	<u>Reason for Questioned Costs</u>					<u>Questioned Costs</u>																																										
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/05 through 09/30/06	<p><b>Criteria:</b> In accordance with Section 4.7 of the Medicaid Operational Plan, Medicaid must maintain agreements with all providers in the CNMI and Guam who furnish reimbursable services. For providers in Hawaii or in off-island jurisdictions other than Guam, Medicaid relies on the provider agreements in place for the Medicaid programs in the respective state(s).</p> <p><b>Condition:</b> We noted the following:</p> <ul style="list-style-type: none"> <li>The Service Provider Agreement for the CNMI Public Health Clinic covered the period from April 1, 2005 to March 31, 2006. Medicaid was not able to provide the approved agreements after the covered periods.</li> <li>For three items tested, the services were incurred from two off-island providers which are not included in the list of service providers accredited with the local Medicaid program.</li> </ul> <table border="1"> <thead> <tr> <th><u>General Ledger Date</u></th> <th><u>General Ledger Account</u></th> <th><u>Reference No.</u></th> <th><u>Recipient #</u></th> <th><u>Amount</u></th> <th></th> </tr> </thead> <tbody> <tr> <td>03/28/06</td> <td>62060</td> <td>PV423392</td> <td>14-09357</td> <td>\$ 2,606</td> <td></td> </tr> <tr> <td>03/28/06</td> <td>62060</td> <td>PV423397</td> <td>11-12880</td> <td>2,694</td> <td></td> </tr> <tr> <td>09/19/06</td> <td>62060</td> <td>PV443914</td> <td>16-13142</td> <td><u>3,100</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td><u>\$ 8,400</u></td> <td>8,400</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Expenditures tested not covered by the services agreement follows:</li> </ul> <table border="1"> <thead> <tr> <th><u>General Ledger Date</u></th> <th><u>General Ledger Account</u></th> <th><u>Reference No.</u></th> <th><u>Recipient #</u></th> <th><u>Amount</u></th> <th></th> </tr> </thead> <tbody> <tr> <td>09/27/06</td> <td>62060</td> <td>PV5045</td> <td>Various</td> <td>\$ 32,486</td> <td>32,486</td> </tr> </tbody> </table> <p><b>Cause:</b> The cause of the above condition is the lack proper file maintenance.</p> <p><b>Effect:</b> The effect of the above condition is that expenditures may be unallowable and questioned costs of \$40,886.</p> <p><b>Recommendation:</b> We recommend that the Medicaid office ensure all service provider agreements are kept current, are filed and are properly maintained.</p> <p><b>Prior Year Status:</b> The lack of proper file maintenance was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.</p> <p><b>Auditee Response and Corrective Action Plan:</b></p> <p><b>Name of Contact Person:</b> Helen Sablan, Medicaid Administrator</p>					<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Recipient #</u>	<u>Amount</u>		03/28/06	62060	PV423392	14-09357	\$ 2,606		03/28/06	62060	PV423397	11-12880	2,694		09/19/06	62060	PV443914	16-13142	<u>3,100</u>						<u>\$ 8,400</u>	8,400	<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Recipient #</u>	<u>Amount</u>		09/27/06	62060	PV5045	Various	\$ 32,486	32,486	
<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Recipient #</u>	<u>Amount</u>																																												
03/28/06	62060	PV423392	14-09357	\$ 2,606																																												
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<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Recipient #</u>	<u>Amount</u>																																												
09/27/06	62060	PV5045	Various	\$ 32,486	32,486																																											

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-30, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan, Continued:</u>		
<b>Corrective Action:</b> We agree with the audit finding. We have provided CHC with the renewal application form prior to the expiration of their agreement contract and we only received it in January 2007. However, we will make the adjustment on the current claims.		
We have issues with the Hawaii providers to accept our Medicaid patients for a lot of reasons. Therefore, these two (2) providers are the only providers that are willing to accept our Medicaid patients and this was an emergency case. So even though these providers were not on list of providers, however, we have reimbursed these providers at the Hawaii Medicaid reimbursement rate.		
<b>Proposed Completion Date:</b> Ongoing		
Total Questioned Costs		<u>\$ 1,468,273</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of Homeland Security

Allowable Costs/Cost Principles - Public Assistance Grants

CFDA #97.036, Federal Award #s MP02PA1430, MP03PA1447, 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 08/06/02 through completion, 12/11/02 through completion, 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion

Finding No. 2006-31

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 \$1,097,396 in nonpayroll expenditures tested, we noted the following:

- The equipment rates used for one Typhoon Chaba (DR 1541) project (PW 16) 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 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 Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** The GAR reviewed PW 16 and did not find specific equipment rates listed. This is a small project for which a specific amount will be provided to the CNMI.

FEMA reviews all documents submitted by the CNMI and in the absence of established State equipment rates, makes the final determination of the rates to be used. The schedule of FEMA equipment rates is based on the going rates in the continental USA but FEMA also takes into consideration the remoteness of the CNMI in determining the equipment rate to be reimbursed. See letter and email from FEMA. Since FEMA approved the project cost the equipment rate used was approved.

**Proposed Completion Date:** N/A

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-31, Continued

Auditor Response: To ensure that rates used are approved by the grantor, the CNMI should compile a state listing of equipment rates and have it approved by the grantor to avoid the possibility of unauthorized rates being used.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

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 10/01/05 - 09/30/06

Finding No. 2006-32

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

**Condition:** Of one hundred thirty-seven items tested totaling \$3,332,738 at September 30, 2006, sixty-six items totaling \$1,647,963 were not reviewed for eligibility of services or for propriety of rates charged. Further, there was no evidence of rate verification or review of the accuracy of billings. Based on 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>
10/26/05	62060	PV404496	\$ 55,463
10/26/05	62060	PV404497	68,283
10/26/05	62060	PV404498	65,930
10/26/05	62060	PV404499	41,333
10/26/05	62060	PV404500	53,653
10/26/05	62060	PV404501	56,460
12/06/05	62060	PV408428	14,270
12/06/05	62060	PV408431	22,623
12/06/05	62060	PV408432	14,875
12/20/05	62060	PV409584	90,665
02/17/06	62060	PV563224	19,572
02/17/06	62060	PV563226	16,328
02/17/06	62060	PV563227	13,058
02/17/06	62060	PV563231	32,067
02/17/06	62060	PV563232	21,883
02/17/06	62060	PV563241	115,197
02/17/06	62060	PV563243	152,288
05/31/06	62060	PV430745	18,661
05/31/06	62060	PV430746	23,380
05/31/06	62060	PV430747	19,295
05/31/06	62060	PV430748	20,851
05/31/06	62060	PV430749	21,399
05/31/06	62060	PV430750	25,445
05/31/06	62060	PV430751	18,752
05/31/06	62060	PV430757	22,089
05/31/06	62060	PV430758	21,548
05/31/06	62060	PV430759	24,917
05/31/06	62060	PV430760	22,130
05/31/06	62060	PV430761	25,051
05/31/06	62060	PV430762	21,399
05/31/06	62060	PV430763	23,555
05/31/06	62060	PV430764	22,964
05/31/06	62060	PV430765	23,977
06/20/06	62060	PV433235	39,656
06/29/06	62060	PV434066	15,742
06/30/06	62060	PV434215	18,403
08/08/06	62060	PV437795	21,356

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-32, Continued

Condition, Continued:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
08/08/06	62060	PV437801	22,460
08/08/06	62060	PV437822	20,593
08/08/06	62060	PV437832	21,915
08/08/06	62060	PV437837	14,689
10/06/05	62060	PV401977	6,258
12/06/05	62060	PV408433	12,368
12/20/05	62060	PV409583	8,004
02/17/06	62060	PV563229	3,852
06/29/06	62060	PV434063	9,829
06/29/06	62060	PV434065	11,662
08/08/06	62060	PV437838	11,731
12/06/05	63050	PV408420	7,412
12/20/05	63050	PV409578	7,826
12/20/05	63050	PV409579	8,119
02/17/06	62060	PV563237	5,386
02/17/06	62060	PV563238	5,096
02/17/06	62060	PV563240	5,730
10/26/05	63050	PV404502	11,390
09/14/06	62060	PV443062	15,028
09/14/06	62060	PV443066	14,320
09/14/06	62060	PV443070	14,234
09/28/06	62060	PV445177	14,471
09/14/06	62060	PV443072	13,885
09/14/06	62060	PV443073	13,822
09/14/06	62060	PV443075	13,898
09/14/06	62060	PV443079	10,466
09/14/06	62060	PV443081	13,930
09/28/06	62060	PV445176	12,350
09/28/06	62060	PV445178	12,719
			<u>\$ 1,647,961</u>

In connection with the lack of complete rate verification and failure to review accuracy of billings, we noted the following specific matters:

- For six claims, Medicaid was charged twice for the same service dates and amounts as follows:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Recipient #</u>	<u>Amount</u>
11/30/05	62060	PV407963	15-15661	\$ 69
11/30/05	62060	PV407963	20-12811	80
11/30/05	62060	PV407963	14-09767	80
12/20/05	62060	PV409586	12-14562	96
06/30/06	62060	PV434212	14-16243	117
06/30/06	62060	PV434212	11-01496	125
				<u>\$ 567</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-32, Continued

Condition, Continued:

- For two optometrist expenses, the rate charged and paid by Medicaid was higher than the established Medicare rate for similar service. Details as follows:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Recipient #</u>	<u>Amount</u>
12/06/05	62060	PV408427	16-00933-02	\$ 184
12/06/05	62060	PV408432	13-11313-01	<u>184</u>
				\$ <u>368</u>

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

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Recipient #</u>	<u>Amount</u>
05/31/06	62060	PV430746	14-02738	\$ 19
05/31/06	62060	PV430749	15-11213	19
05/31/06	62060	PV430751	12-14568	253
05/31/06	62060	PV430760	20-20789	17
05/31/06	62060	PV430761	11-12544	42
05/31/06	62060	PV430762	20-20152	17
05/31/06	62060	PV430765	12-09002	10
06/20/06	62060	PV433235	14-13160	2
08/08/06	62060	PV437801	14-16234	17
08/08/06	62060	PV437822	11-01433	17
08/08/06	62060	PV437832	12-14685	6
08/08/06	62060	PV437838	11-02493-01	4
09/14/06	62060	PV443062	14-00948	30
09/28/06	62060	PV445177	11-01433	24
09/14/06	62060	PV443072	13-12773	19
09/14/06	62060	PV443073	13-02336	31
09/14/06	62060	PV443075	14-01096	11
09/28/06	62060	PV445176	12-02187	10
09/28/06	62060	PV445178	11-12544	<u>21</u>
				\$ <u>569</u>

- For two pharmacy claims, the rates could not be verified since the related drugs were not included in the list of Average Wholesale Price list maintained by Medicaid to compute the EAC.

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Recipient #</u>	<u>Amount</u>
05/31/06	62060	PV430764	14-14108	\$ 1,501
09/14/06	62060	PV443066	20-20789	<u>706</u>
				\$ <u>2,207</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-32, Continued

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 2005.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen Sablan, Medicaid Administrator

**Corrective Action:** We agree with the audit finding. The review of claims is being done randomly. Adjustments are made on the current claims.

**Proposed Completion Date:** N/A



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2006-33

**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, 2006, 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 carry 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 Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** Our cognizant agency approved use of the prior year rate for fiscal year 2004. A similar letter has been requested for 2005 and 2006. We are in the process of updating our allocation plans and indirect costs rates for these years. As our rate is fixed with carry forward, any adjustments to those years will be reflected in the latest approved rate.

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of Veterans Affairs  
Cash Management - State Cemetery Grants  
CFDA #64.203, Federal Award # VA Project MP-94-01  
Federal Award Period 08/25/05 - 08/25/08

U.S. Environmental Protection Agency  
Cash Management - Environmental Protection Consolidated Grants-Program Support  
CFDA #66.600, Federal Award # M 09156-04  
Federal Award Period 10/01/03 - 09/30/08

Finding No. 2006-34

**Criteria:** In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee for selected major programs. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is three days.

**Condition:** For six of ten samples tested related to the State Cemetery Grants program, the following were paid out between three to seven days after the allowable clearance pattern from the date federal funds were credited to the CNMI's account:

<u>Document #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipts Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
PV555756	\$ 41,219	286857	03/10/06	03/03/06	4
PV561190	\$ 82,340	286859	03/13/06	03/03/06	7
PV566721	\$ 157,627	290868	05/25/06	05/19/06	3
PV569851	\$ 145,915	290869	05/25/06	05/19/06	3
PV573525	\$ 255,729	292864	06/26/06	06/20/06	3
PV560709	\$ 13,500	286833	03/13/06	03/03/06	7

For eight of twenty-two samples tested related to the Environmental Protection Consolidated Grants - Program Support, disbursement checks were released and cleared between eight to one hundred twenty-seven days after the allowable clearance pattern from the date federal funds were credited to the CNMI's account. Details are as follows:

<u>Document #</u>	<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipts Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
PV568764	\$ 28,130	292888	07/04/06	06/06/06	25
PV557693	\$ 20,000	289611	07/24/06	03/16/06	127
PV562157	\$ 29,760	287677	04/10/06	03/16/06	22
PV406620	\$ 13,177	292822	06/22/06	06/06/06	13
PV552712	\$ 3,187	282564	03/10/06	02/27/06	8
PV561033	\$ 10,495	287727	04/05/06	03/16/06	17
PV558558	\$ 31,499	289753	05/22/06	03/16/06	64
PV558559	\$ 31,499	289753	05/22/06	03/16/06	64

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-34, Continued

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 and a possible interest liability of \$970. However, no questioned costs result from the condition as the estimated interest liability to the U.S. Department of Veterans Affairs and the U.S. Environmental Protection Agency is less than \$10,000.

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

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Antoinette Calvo, CNMI Treasurer

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

We feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus drawdowns are not considered. The agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$124,189 for CFDA #66.600 (U.S. Environmental Protection Agency) and \$240,417 for CFDA #64.203 (U.S. Department of Veterans Affairs)

**Proposed Completion Date:** Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

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

Finding No. 2006-35

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 performed on a regular basis throughout the period.

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 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** We disagree with the audit finding. Database 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. Hard copies are filed in the recipients file. The account clerks are restricted to verifying eligibility and third party liability information only.

**Proposed Completion Date:**

Auditor Response: We were informed that the independent review and verification is not performed on a regular basis. Further, such independent review or verification of the eligibility database is currently not evident.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

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 - Homeland Security Cluster

CFDA #s97.004 and 97.067, Federal Award #s 2005-GE-T5-0029, 2004-GE-T4-0044, 2003-MU-  
T3-0012, 2003-TE-TX-0162, 2002-TE-TX-0091 and 2002-TE-TX-0076

Federal Award Periods 06/01/02 - 11/30/05, 08/01/02 - 01/31/06, 04/01/03 - 09/30/06, 05/01/03 -  
10/31/06, 12/01/03 - 11/30/06 and 10/01/04 - 03/31/07

U.S. Department of Homeland Security

Equipment and Real Property Management - Public Assistance Grants

CFDA #97.036, Federal Award #s MP02PA1430, MP03PA1447, 1532DRMPP00000001,  
1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 08/06/02 through completion, 12/11/02 through completion, 07/29/04  
through completion, 08/26/04 through completion and 11/08/05 through completion

Finding No. 2006-36

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-36, Continued

**Condition:** During the year ended September 30, 2006, the Division of Environmental Quality (DEQ) maintained a fixed asset listing representing its physical count as of fiscal year 2006. Further, the Division of Procurement and Supply (P&S) also maintained a master listing of DEQ's fixed asset as of March 2006. Reconciliations were performed by DEQ and differences were provided to P&S. 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, three items (ref #s US267410CM, 41533275 and HDE2K1002320) were not tagged to indicate ownership of the property. These items have no property number.

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.

During the year ended September 30, 2006, the Office of Homeland Security (OHS) was not able to provide a listing of equipment acquired with Homeland Security grants. Further, a physical inventory of the equipment was not conducted in the past two years by either the OHS or 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 2005.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Joseph T. Flores, NAP Administrative Officer III, Frank Rabauliman, Director, DEQ, Virginia Villagomez, Governor's Authorized Representative, Sebastian Tajibmai, OHS Federal Programs Coordinator and Robert Florian, Assistant Director, Procurement & Supply

**Corrective Action:**

The Division of Environmental Quality (DEQ) conducted an inventory of DEQ property as of June 2006 and submitted the updated inventory listing to P&S on August 9, 2006. P&S does not perform inventory counts but provides the listings to the accountable person. DEQ is in the process of conducting another physical inventory and will indicate in the listing, the total of the assets and percentage of federal share. The finding indicates three items were not tagged. One number listed contains an extra digit from our numbering system and we cannot match it to a property item. The other two items are computer components. P&S policy is to not tag these items.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-36, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

The Public Assistance Office (PAO) has updated their inventory listing to include all required information and implanted a written procedure to record assets procured with FEMA grant funds. A listing was received from P&S of PAO assets and PAO is in the process of reconciling the records. Any corrections noted will be transmitted to P&S to update their records.

The Office of Homeland Security (OHS) has a reporting tool called the BISR (Biannual Strategy Implementation Reports). The BISR is the tool OHS uses to keep track of all physical inventory of all equipment and supplies purchased using OHS funds. OHS personnel use this tool to track all inventory bought by OHS funding to keep track of location of inventory and their condition. Keeping an inventory of equipment and supplies is mandatory in keeping with the guidelines set forth in the OHS grant. It is also used to measure how OHS is meeting its goals and objectives as stated in its Homeland Security Strategy.

We accept the recommendation that the CNMI comply with all CNMI Property Management Policies and Procedures, particularly those related to inventory and the tagging of property. In April of 2007, P&S will amend its policy to require reconciled physical inventory of property every two years as P&S resources cannot support the requirement of an annual inventory for approximately 246 locations.

We do not accept the recommendation that the CNMI comply with the federal property rules in the Common Rule Section .32 "Equipment" which are referenced. Subsection (b) "States" says "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures. Other grantees and subgrantees will follow paragraphs (c) through (e) of this section. The Common Rule Section .3 "Definitions" defines "State" as "any of the several states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States....."

Clearly the CNMI is a "State" under the Common Rule.

**Proposed Completion Date:** Ongoing

Auditor Response: We acknowledge that the CNMI is a State. However, the CNMI is also a grantee. A grantee is a government to which a grant is awarded and which is accountable for the use of the provided funds. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document. The CNMI receives grant funds which are administered by program agencies. As a grantee, the CNMI is accountable for the use of the funds provided. While the CNMI is a State, it is also clear that the CNMI is a grantee and as such should comply with the criteria.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2006-37

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 Audits of the CNMI for fiscal years 2004 and 2005.



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-37, Continued

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert Florian, Assistant Director, Procurement and Supply

**Corrective Action:** We do not accept the recommendation that the CNMI provide for "competitive procurements" in procurements under \$2,500. The Common Rule Section .36 "Procurement" says at Subsection (a) "States" that "When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurement from its non-Federal funds. We have demonstrated earlier that the CNMI is a "State" for purposes of the Common Rule.

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

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

It is also worth noting that the National Association of State Purchasing Officials (NASPO) in its 4<sup>th</sup> edition of "State and Local Government Purchasing" Handbook (1994) reported that "The current survey indicates that in 42 of the states, (only) small purchases over a specified amount require obtaining competitive quotation".

**Proposed Completion Date:** Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2006-38

**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 airfare. Currently, the CNMI's travel policies are based on directives and memorandums, which do not require competitive procurement when acquiring transportation services.

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

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

**Recommendation:** We recommend that the CNMI adhere 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 Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert Florian, Assistant Director, Procurement and Supply

**Corrective Action:** We are unaware of any set of procurement regulations which include provisions expressly dealing with expenditures for airline tickets or lodging (e.g., the Federal Acquisition Regulations and Model Procurement Code (used in 23 states) do not). The purchase of airline tickets is a procurement which follows the general rules for methods/types of procurement and is therefore, not specially treated in the CNMI Procurement Regulations. Travel policy and per diem rates are not within the purview of P&S and consequently, are not addressed in procurement regulations. Typically, these are addressed by administrative regulations and rules such as the Federal Travel Regulations administered by the General Services Administration or by a State Travel Manual. If the CNMI travel policies and procedures presently exist in directives and memoranda, they can be compiled in a CNMI Government Travel Manual.

**Proposed Completion Date:** Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of the Interior  
Procurement and Suspension and Debarment - Economic, Social, and Political Development of the Territories  
CFDA #15.875, Federal Award # Fiscal Years 1996 - 2006 Appropriations Act  
Federal Award Period Available Until Expended

Finding No. 2006-39

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, 2006, the CNMI executed change orders (CO) related to four contracts (contract #s 277-OS - CO #1 for \$319,599, 282-OS - CO #2 for \$516,588, 358-OS - CO #7 for \$530,857 and 337-OS - CO #4 for \$442,532) 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 on three (#s 277-OS, 282-OS and 358-OS), we did not note the justification for sole source procurement. Further, a sole source justification was noted regarding additional work to be performed for one contract (# 337-OS). The justification was not sufficient to support 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 Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert Florian, Assistant Director, Procurement and Supply

**Corrective Action:** Recommendation is accepted. Note that in addition to sole source, methods not requiring full and open competition include small purchases, expedited procurement and emergency procurement.

Corrective action will be to emphasize this review element on A&E and Construction Change Orders as well as change orders in general to ensure that proposed change orders which add new work to a contract are reasonable in scope and cost.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of the Interior  
Procurement and Suspension and Debarment - Economic, Social, and Political Development of the Territories  
CFDA #15.875, Federal Award # Fiscal Years 1996 - 2006 Appropriations Act  
Federal Award Period Available Until Expended

Finding No. 2006-40

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.

Condition: During the year ended September 30, 2006, the CNMI executed change orders (CO) related to the following contracts:

<u>Contract No.</u>	<u>Change Order No.</u>	<u>Change Order Amount</u>
272 OS	1	\$ 40,155
306 OS	1	\$ 132,000
306 OS	2	\$ 124,958
306 OS	4	\$ 137,595
306 OS	5	\$ 66,855
332 OS	1	\$ 18,334
332 OS	2	\$ 64,300
337 OS	1	\$ 54,990
337 OS	2	\$ 56,700
337 OS	3	\$ 99,269
356 OS	1	\$ 76,525
357 OS	2	\$ 45,353
361 OS	1	\$ 46,100

The CNMI Procurement Regulations provide for automatic competitive procurement procedures for change orders only when the change order exceeds 25% of the cumulative contract price except when the procurement of the additional work is authorized without using full and open competition under Section 3-104 of the regulations.

While the amount of the change order for the above contracts did not exceed 25 percent of the cumulative contract price, the change orders exceeded \$10,000 but were not subjected to competitive procurement procedures.

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. We are unable to assess the possible questioned costs that may result from this finding due to the lack of available details to identify the expenditures tested that relate to these change orders.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-40, Continued

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert Florian, Assistant Director, Procurement and Supply

**Corrective Action:** CNMI is a State under part 33 of the Common Rule, not a "grantee", and as such use our own procurement regulations. There is no mention of a \$10,000 rule in the CNMI procurement regulations, only the 25% rule. Change orders by their very nature are "non-competitive" additions to a contract and are a normal everyday occurrence in project/contract management.

**Proposed Completion Date:** N/A

Auditor Response: We acknowledge that CNMI is a State. However, the CNMI is also a grantee. A grantee is a government to which a grant is awarded and which is accountable for the use of the provided funds. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document. Further, CNMI's procurement regulations provide that bidding is not required, but is encouraged, for procurements over \$2,500 and under \$10,000. As such, it appears that the CNMI procurement regulations require competitive bidding for contracts over \$10,000.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of the Interior

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

CFDA #15.875, Federal Award # Fiscal Years 1996 - 2006 Appropriations Act  
Federal Award Period Available Until Expended

U.S. Department of Veterans Affairs

Procurement and Suspension and Debarment - State Cemetery Grants

CFDA #64.203, Federal Award # VA Project MP-94-01  
Federal Award Period 08/25/05 - 08/25/08

Finding No. 2006-41

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

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

- Seventeen (17) contracts (#s 201-OS, 272-OS, 282-OS, 306-OS, 311-OS, 325-OS, 332-OS, 337-OS, 357-OS, 358-OS, 374-OS, 375-OS, 387-OS, 393-OS, 397-OS, 398-OS and 405-OS) did not contain provisions of compliance under Section 306 of the Clean Air Act.
- Twenty-five (25) contracts (#s 153-OS, 201-OS, 272-OS, 277-OS, 282-OS, 306-OS, 311-OS, 325-OS, 329-OS, 332-OS, 337-OS, 356-OS, 357-OS, 358-OS, 361-OS, 363-OS, 374-OS, 375-OS, 380-OS, 381-OS, 387-OS, 393-OS, 397-OS, 398-OS and 405-OS) did not contain provisions of federal access to contractor's records.
- One contract (# 398-OS) did not contain provisions indicating compliance requirement on the Equal Opportunity (Executive Order 11246) and Sections 102 and 107 of the Contract Hours and Safety Standards Act.

Of two contracts relating to expenditures of the State Cemetery Grants program, one contract (ref # 444951-OC) did not contain provisions of compliance under Section 306 of the Clean Air Act.

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-41, Continued

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

Prior Year Status: The lack of compliance with the federal regulations relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2005.

Auditee Response and Correction Action Plan:

**Name of Contact Person:** Robert Florian, Assistant Director, Procurement and Supply

**Corrective Action:** We accept your recommendation and are fully aware of the requirement of .36 (a) "Procurement" that a State "will ensure that every purchase order or contract will include any clauses required by Federal statutes and executive orders and their implementing regulations.

Effect immediately, P&S will review purchase orders and both original contracts and contracts upon which change orders are based to ensure that this requirement is met.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of the Interior  
Procurement and Suspension and Debarment - Economic, Social, and Political Development of the Territories  
CFDA #15.875, Federal Award # Fiscal Years 1996 - 2006 Appropriations Act  
Federal Award Period Available Until Expended

Finding No. 2006-42

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, 2006, the CNMI executed five contracts (contract #s 380-OS, 387-OS, 398-OS 405-OS and 447337-OC), which provided advance payments of more than 25% of the contract amount. Additionally, we did not note the presence of written justification that common business practice of the related industry requires buyers to pay on an advance payment basis.

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. 2006-6).

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.

Prior Year Status: The lack of compliance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulation was reported as a finding in the Single Audit of the CNMI for fiscal year 2005.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert Florian, Assistant Director, Procurement and Supply

**Corrective Action:** We accept your recommendation. However, we understand the advance payment rules to mean that any advance payment must be justified, not just those over 25%. Please note that in CNMI-PR Section 501 2.1 Subsections (i), (ii) and (iii) are mutually exclusive. The introduction to 2. "Payment Terms" says that advance payments are generally not allowable. In (i), a financially stressed but otherwise acceptable contractor can be allowed up to 25%. In (ii), a contractor who can demonstrate that his particular industry has a business practice of requiring advance payment could be allowed up to 50%, and (iii) seems to have no advance payment limit when procurement is made pursuant to the referenced sections of the CNMI-PR.

**Proposed Completion Date:** Ongoing



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of the Interior  
Reporting - Economic, Social, and Political Development of the Territories  
CFDA #15.875, Federal Award #(s) Fiscal Years 1996 - 2006 Appropriations Act  
Federal Award Period Available Until Expended

Finding No. 2006-43

**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-nine business units of the Capital Projects Fund tested, ten business units reflected differences in reported drawdowns and expenditures in the CIP Status Report and one business unit did not reflect actual expenditures on the CIP Status Report submitted to the grantor agency. Details follow:

<u>Business Unit</u>	<u>Drawdown Per CIP Status Report</u>	<u>Expenditure Per CIP Status Report (Federal Portion Only)</u>	<u>Drawdown Variance</u>	<u>Amount Per CIP Status Reports (Total Federal and Local)</u>	<u>Amount Per GL (Total Federal and Local)</u>	<u>General Ledger Variance</u>
5148	\$ 3,070,714	\$ 3,217,937	\$ (147,224)	\$ 3,217,937	\$ 3,217,937	\$ -
5175	\$ 844,087	\$ 700,585	\$ 143,502	\$ 700,585	\$ 700,585	\$ -
5210	\$ 1,789,426	\$ 1,999,568	\$ (210,142)	\$ 3,999,135	\$ 3,999,135	\$ -
5145	\$ 433,789	\$ 418,024	\$ 15,765	\$ 846,753	\$ 912,668	\$ (65,916)
5605	\$ 935,697	\$ 1,069,935	\$ (134,238)	\$ 1,069,935	\$ 1,069,935	\$ -
5606	\$ 119,806	\$ 114,951	\$ 4,854	\$ 114,951	\$ 114,951	\$ -
5608	\$ 152,223	\$ 165,906	\$ (13,685)	\$ 165,906	\$ 165,906	\$ -
5426	\$ 73,938	\$ 161,164	\$ (87,226)	\$ 161,164	\$ 161,164	\$ -
5424	\$ 28,611	\$ 115,797	\$ (87,187)	\$ 115,797	\$ 115,797	\$ -
4898	\$ 113,104	\$ 76,789	\$ 36,314	\$ 76,789	\$ 76,789	\$ -

**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 the federal financial reports reflect actual transactions recorded in the general ledger and that all transactions be properly supported.

**Prior Year Status:** The lack of updating the federal financial reports submitted to the grantor was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2005.

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:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

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. 2006-44

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

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

- The SF-269 for the year ended September 30, 2006 reported total expenditures that were \$37,428 less than the total expenditures recorded in the general ledger as of September 30, 2006.
- Total expenditures reported per the SF-269 were overstated by \$30,321 versus the cash transaction report (SF-270) as follows:

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

Cause: The cause of the above condition is that the amounts reflected on the SF-269 for the fiscal year ended September 30, 2006 did not reflect total expenditures at that date. Additionally, the SF-269 was not updated to reflect fiscal year 2003 expenditures erroneously included in fiscal year 2006.

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

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

Prior Year Status: The lack of compliance with the reporting requirements of the grant was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-44, Continued

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** The under reported amounts appear related to adjustments of prior years. We will reconcile and make appropriate adjustments. We will make every effort to submit the required reports in a timely manner.

**Proposed Completion Date:** Fiscal year 2007 and ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

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

Finding No. 2006-45

**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 ended September 30, 2006 using the CMS 64 Certification, total federal expenditures amounted to \$3,618,546. The actual expenditures per the general ledger amounted to \$3,332,738 resulting in a variance of \$285,808. 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 2005.

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:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of Homeland Security  
Reporting - Homeland Security Cluster

CFDA #s 97.004 and 97.067, Federal Award #s 2005-GE-T5-0029, 2004-GE-T4-0044, 2003-MU-T3-0012, 2003-TE-TX-0162, 2002-TE-TX-0091 and 2002-TE-TX-0076  
Federal Award Periods 06/01/02 - 11/30/05, 08/01/02 - 01/31/06, 04/01/03 - 09/30/06, 05/01/03 - 10/31/06, 12/01/03 - 11/30/06 and 10/01/04 - 03/31/07

Finding No. 2006-46

Criteria: Pursuant to the grant terms and special conditions, the grantee must submit an Initial Strategy Implementation Plan (ISIP) no later than sixty days after the grant award date. Further, grantee is required to submit the following reports:

- FEMA form SF-269A, Financial Status Reports (FSR) shall be submitted within forty-five days after the end of each quarter. Final SF-269 is due within one hundred twenty days after the end of the grant period. Effective January 1, 2006, quarterly SF-269 reports are required to be submitted online through the GMS Online Reporting System within thirty days following the end of the calendar quarter while close-out or final reports are due within ninety days after the end of the grant period; and
- Categorical Assistance Progress Reports (CAPR) shall be submitted within thirty days after the end of the each reporting period, which is June 30 and December 31 for the life of the award. Final performance report is due within ninety days after the end of the grant period.

Additionally, total outlays/expenditures reported to the grantor should correspond to amounts recorded in the general ledger.

Condition: We noted the following:

- The ISIP for the fiscal year 2006 grant (#2006-GE-T6-0036) was not made available for review.
- The CAPRs for the following periods and grants were not made available:

<u>Grant Number</u>	<u>Grant Award Date</u>	<u>Reporting Period</u>
2005-GE-T5-0029	03/01/05	01/01/06 to 06/30/06
2005-GE-T5-0029	03/01/05	07/01/05 to 12/31/05
2004-GE-T4-0044	06/21/04	01/01/06 to 06/30/06
2003-MU-T3-0012	06/10/03	01/01/06 to 06/30/06
2003-TE-TX-0162	05/02/03	01/01/06 to 06/30/06
2002-TE-CX-0091	09/24/02	01/01/06 to 06/30/06

- The SF-269/FSR for the year ended September 30, 2006 reported total expenditures that were \$246,586 more than the total expenditures recorded in the general ledger.

Cause: The cause of the above condition is failure to ensure that all grant reporting requirements are submitted completely and on a timely basis and the subsequent transactions and adjustments are made to the general ledger after submission of reports to the grantor.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-46, Continued

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

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

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Patrick J. Tenorio, Special Assistant for Homeland Security, Victoria S. Nicholas, Administrative Officer and Bernadita C. Palacios, Acting Director Finance & Accounting

**Corrective Action:** OHS has recently hired and Administrative Officer to oversee the scheduling of all OHS reporting activities so that missed deadlines will become a thing of the past. In previous years, OHS was severely short-staffed, forcing the office to rely on personnel from other agencies to submit some of its reports. Because there was no direct supervision, often times, OHS assignments get put on the back burner because they have to fulfill their duties. Presently, OHS has begun acquiring more personnel to handle these reporting issues. We do not anticipate any more missed deadlines in the future. Our scheduling issues should be ironed out by the end of February of this year.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

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

CFDA #97.036, Federal Award #s MR11944160, MP02PA1430, MP03PA1447,  
1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 12/24/97 through completion, 08/06/02 through completion, 12/11/02  
through completion, 07/29/04 through completion, 08/26/04 through completion and 11/08/05  
through completion

Finding No. 2006-47

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 six disasters tested, we noted the following:

- Variances between cumulative expenditures per the quarter ended 09/30/06 FEMA 20-10 (which reflects federal expenditures per the general ledger) and Project Status reports were noted for the following:

<u>Disaster</u>	<u>DR #</u>	<u>Variance</u>
Nabi	DR 1611	\$ 13,745
Chaba	DR 1541	\$ (34,423)
Tingting	DR 1532	\$ 104,173
Pongsona	DR 1447	\$ 302,090
Chata'an	DR 1430	\$ (6,073)
Paka	DR 1194	\$ 1,156,331

- Variances between total cash drawn from grantor for the year ended 9/30/06 per the SF-272 and Project Status Reports were noted for the following:

<u>Disaster</u>	<u>DR #</u>	<u>Variance</u>
Nabi	DR 1611	\$ 23,613
Chaba	DR 1541	\$ (472,872)
Tingting	DR 1532	\$ -
Pongsona	DR 1447	\$ 271,373
Chata'an	DR 1430	\$ 83,185
Paka	DR 1194	\$ 412,267

- Total cumulative Federal funding as of September 30, 2006 was reported differently per the FEMA 20-10, the Project Status Report, and the S.1 Grant Summary (updated by grantor periodically) provided as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-47, Continued

Condition, Continued:

<u>Disaster</u>	<u>DR #</u>	<u>Per FEMA 20-10</u>	<u>Per Project Status Report</u>	<u>Per Grant Summary (S.1 Report)</u>
Nabi	DR 1611	\$ 1,110,220	\$ 1,078,638	\$ 1,136,631
Chaba	DR 1541	\$ 6,548,490	\$ 6,654,923	\$ 6,676,047
Tingting	DR 1532	\$ 1,925,216	\$ 1,932,241	\$ 1,963,904
Pongsona	DR 1447	\$ 5,849,911	\$ 5,871,396	\$ 5,862,941
Chata'an	DR 1430	\$ 711,576	\$ 707,672	\$ 711,576
Paka	DR 1194	\$ 2,058,573	\$ 1,940,413	not available

- We also noted variances between total cash drawn from grantor reported on the SF-272 and reflected in the Schedule of Federal Awards for two disasters as follows:

<u>Disaster</u>	<u>DR #</u>	<u>Per SF-272</u>	<u>Per G/L</u>	<u>Variance</u>
Pongsona	DR 1447	\$ 118,784	\$ 234,479	\$ 115,695
Chata'an	DR 1430	\$ 198,881	\$ 83,186	\$ (115,695)

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

Effect: The effect of the above condition is 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.

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

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 and mispostings. The Public Assistance Office will verify Project Status Reports with Finance records and make corrections where necessary. 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:** FY2008



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

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

CFDA #97.036, Federal Award #s MP02PA1430, MP03PA1447, 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 08/06/02 through completion, 12/11/02 through completion, 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion

Finding No. 2006-48

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

**Condition:** Of thirty-two nonpayroll expenditures tested, seven were erroneously reported on the Financial Status Reports as follows:

<u>Cost Center</u>	<u>DR</u>	<u>APV #</u>	<u>Federal Share @ 90%</u>	<u>Federal Share @ 81% (FSR)</u>	<u>FSR Error</u>
M4036J.61110	1541	123663	\$ 37,567	\$ 33,810	\$ (3,757)
M6036F.65400	1611	584895	\$ 936	\$ 1,040	<u>104</u>
Total underreported federal share:					\$ <u>(3,653)</u>

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

**Effect:** The effect of the above condition is noncompliance with reporting requirements.

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

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** We disagree with the finding. The amounts in the column titled "Federal Share @81% FSR" is the Federal share of 90%. The agency receiving the funding is responsible for providing the 10% match on their books.

**Proposed Completion Date:** N/A

**Auditor Response:** We updated our review of the amounts reported on the Financial Status Reports. Our review supports the citation for the items in this finding.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of Agriculture  
Special Tests and Provisions - Food Stamps  
CFDA #10.551, Federal Award # 7NM4004NM  
Federal Award Period 10/01/05- 09/30/06

Finding No. 2006-49

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 third and fourth quarters of the fiscal year ended September 30, 2006.

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 2005.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frances P. Roberto, NAP Retail & Redemption Officer

**Corrective Action:** We agree that the "high redeemers" on site visits were not performed for two quarters in FY2006. The R&R unit has had only two FTEs assigned to it since 1982 despite the significant changes and increase in participation over the years, requiring more time to verify and reconcile weekly and monthly redemption reports, bank statements, transmittal sheets, debit and credit memos, redeemed coupons and retailers quarterly gross income. An additional FTE for the unit has been approved in the budget for FY2007.

**Proposed Completion Date:** FY2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Environmental Protection Agency  
Special Tests and Provisions - 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. 2006-50

Criteria: In accordance with Section G of the Administrative Conditions of the grant award, effective October 1, 1994, the recipient agrees to ensure that all conference, meeting, convention or training space funded in whole or in part with Federal funds complies with the Hotel and motel Fire Safety Act of 1990.

Condition: The following hotels/motels: Rota Resort, Sunset Villa, Saipan Grand and World Resort where meetings, trainings and/or workshops held funded with Federal funds were not included in the hotel/motel fire-safe list by the U.S. Fire administration approved under the Hotel and Motel Fire Safety Act of 1990.

Cause: The cause of the above condition is the lack of available resource reference.

Effect: The effect of the above condition is the lack of compliance with Section G of the Administrative Conditions of the grant.

Recommendation: We recommend that DEQ review the Hotel and Motel Fire Safety Act of 1990 and ensure compliance with grant requirements.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frank Rabauliman, Director, DEQ

**Corrective Action:** DEQ has reviewed the Hotel and Motel Fire Safety Act of 1990 and House Bill No. 11-297 cited as the "Commonwealth Fire Safety Code Act of 1998" that was passed and became Public Law 11-56. However, due to lack of establishments on island that are in compliance with the Hotel and Motel Fire Safety Act of 1990, the Commonwealth Fire Division Prevention Office has extended their help to DEQ by encouraging establishments to comply with the Safety Act. The DEQ will continue to seek establishments that are in compliance with DEQ's grant requirements before holding any meetings, training and/or workshops.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

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 10/01/05 - 09/30/06

U.S. Department of Agriculture  
Special Tests and Provisions - Food Stamps  
CFDA #10.551, Federal Award # 7NM4004NM  
Federal Award Period 10/01/05- 09/30/06

Finding No. 2006-51

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).

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 second 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 through 2005.

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. 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.

**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. This procedure was implemented in March 2007.

**Proposed Completion Date:** FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

U.S. Department of Homeland Security

Subrecipient Monitoring - Public Assistance Grants

CFDA #97.036, Federal Award #s MP02PA1430, MP03PA1447, 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001

Federal Award Periods 08/06/02 through completion, 12/11/02 through completion, 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion

Finding No. 2006-52

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, and provided no documentation regarding the status of any on-going audits required.

Of \$1,252,910 in subrecipient expenditures incurred during the year, we noted the following:

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

	<u>Per CNMI</u>	<u>Per Subrecipient</u>	<u>Variance</u>
CPA	\$ 158,053	\$ 284,276	\$ (126,193)
NMC	\$ 29,161	\$ -	\$ 29,161

- 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	\$ 56,266
PSS	511,120
CUC	<u>498,280</u>
Total	\$ <u>1,065,666</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2006

Finding No. 2006-52, Continued

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

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

Prior Year Status: The lack of compliance with federal subrecipient monitoring rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** We disagree with the finding. Payments are made to subrecipients based on invoices submitted and payment amounts are approved by FEMA prior to funds being disbursed. 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:**

Auditor Response: The Public Assistance Office (PAO), on behalf of the CNMI, is the grant recipient and is therefore the party responsible for monitoring the activities of subgrantees. The issue is not regarding the submission of invoices and supporting documents but PAO's reconciliation of its records with that of the subrecipient. PAO is responsible to reconcile its records with the subrecipients.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2006

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, 2006:

Questioned costs as previously reported	\$ 3,567,232
Questioned costs of fiscal year 2006 Single Audit	<u>1,468,273</u>
Unresolved questioned costs at September 30, 2006	\$ <u>5,035,505</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 125).



## Office of the Secretary Department of Finance

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### Summary Schedule of Prior Audit Findings

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2005:

#### **Financial Statement Findings Section**

- Finding No. 2005-1 - Not corrected. See corrective action plan to Finding No. 2006-1.
- Finding No. 2005-2 - Not corrected. See corrective action plan to Finding No. 2006-2.
- Finding No. 2005-3 - Not corrected. See corrective action plan to Finding No. 2006-5.
- Finding No. 2005-4 - Not corrected. See corrective action plan to Finding No. 2006-6.
- Finding No. 2005-5 - Not corrected. See corrective action plan to Finding No. 2006-8.
- Finding No. 2005-6 - Not corrected. See corrective action plan to Finding No. 2006-9.
- Finding No. 2005-7 - Not corrected. See corrective action plan to Finding No. 2006-11.
- Finding No. 2005-8 - Not corrected. See corrective action plan to Finding No. 2006-12.
- Finding No. 2005-9 - Not corrected. See corrective action plan to Finding No. 2006-13.
- Finding No. 2005-10 - Not corrected. See corrective action plan to Finding No. 2006-14.
- Finding No. 2005-11 - Not corrected. See corrective action plan to Finding No. 2006-15.

#### **Federal Award Findings and Questioned Costs Section**

- Finding No. 2005-12 - Not corrected. See corrective action plan to Finding No. 2006-17.
- Finding No. 2005-13 - Corrective action was taken.
- Finding No. 2005-14 - Not corrected. See corrective action plan to Finding No. 2006-19.
- Finding No. 2005-15 - Not corrected. See corrective action plan to Finding No. 2006-20.
- Finding No. 2005-16 - Corrective action was taken.
- Finding No. 2005-17 - Corrective action was taken..



**Federal Award Findings and Questioned Costs Section, Continued**

- Finding No. 2005-18 - Corrective action was taken.
- Finding No. 2005-19 - Corrective action was taken.
- Finding No. 2005-20 - Not corrected. See corrective action plan to Finding No. 2006-31.
- Finding No. 2005-21 - Not corrected. See corrective action plan to Finding No. 2006-4.
- Finding No. 2005-22 - Corrective action was taken.
- Finding No. 2005-23 - Not corrected. See corrective action plan to Finding No. 2006-32.
- Finding No. 2005-24 - Corrective action was taken.
- Finding No. 2005-25 - Not corrected. See corrective action plan to Finding No. 2006-18.
- Finding No. 2005-26 - Not corrected. See corrective action plan to Finding No. 2006-33.
- Finding No. 2005-27 - Not corrected. See corrective action plan to Finding No. 2006-21.
- Finding No. 2005-28 - Not corrected. See corrective action plan to Finding No. 2006-35.
- Finding No. 2005-29 - Not corrected. See corrective action plan to Finding No. 2006-36.
- Finding No. 2005-30 - Corrective action was taken.
- Finding No. 2005-31 - Not corrected. See corrective action plan to Finding No. 2006-37.
- Finding No. 2005-32 - Not corrected. See corrective action plan to Finding No. 2006-38.
- Finding No. 2005-33 - Not corrected. See corrective action plan to Finding No. 2006-39.
- Finding No. 2005-34 - Not corrected. See corrective action plan to Finding No. 2006-41.
- Finding No. 2005-35 - Not corrected. See corrective action plan to Finding No. 2006-24.
- Finding No. 2005-36 - Not corrected. See corrective action plan to Finding No. 2006-42.
- Finding No. 2005-37 - Not corrected. See corrective action plan to Finding No. 2006-29.
- Finding No. 2005-38 - Corrective action was taken.
- Finding No. 2005-39 - Not corrected. See corrective action plan to Finding No. 2006-43.
- Finding No. 2005-40 - Corrective action was taken.
- Finding No. 2005-41 - Not corrected. See corrective action plan to Finding No. 2006-44.
- Finding No. 2005-42 - Not corrected. See corrective action plan to Finding No. 2006-45.
- Finding No. 2005-43 - Not corrected. See corrective action plan to Finding No. 2006-47.

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2005. Continued:

Page Three

**Federal Award Findings and Questioned Costs Section, Continued**

Finding No. 2005-44 - Not corrected. See corrective action plan to Finding No. 2006-49.

Finding No. 2005-45 - Not corrected. See corrective action plan to Finding No. 2006-51.

Finding No. 2005-46 - Corrective action was taken.

Finding No. 2005-47 - Not corrected. See corrective action plan to Finding No. 2006-52.

Finding No. 2005-48 - Not corrected. See corrective action plan to Finding No. 2006-30.