

EXECUTIVE SUMMARY

Audit Recommendations Tracking Report as of December 31, 2005

Report No. TR-05-02, June 29, 2006

Summary

The Office of the Public Auditor (OPA) maintains an audit recommendations tracking system to monitor implementation and resolution of audit recommendations. On a semi-annual basis, OPA issues its Report on CNMI Agencies' Implementation of Audit Recommendations (Audit Recommendations Tracking Report) which presents the audited agencies' compliance with OPA's recommendations.

Open and resolved audit recommendations are included in OPA's tracking system report. In addition, we have also included recommendations which were closed during the past six months. An *open* recommendation is one where no action or plan of action has been made, or no time frame for the plan of action has been provided by the client (department or agency). A *resolved* recommendation is one in which OPA is satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame for action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or we have withdrawn it. Also, we have considered open or resolved recommendations as *delinquent* if the recommendation has been outstanding for at least 180 days and we have not been informed by the concerned agency or department of any action being taken to close the recommendations.

Audit recommendations tracked in 2005 totaled 84. Of the 84 audit recommendations, 5 were closed and 79 remained either open or resolved. Of the 79 open or resolved recommendations, 46 were considered delinquent.

The table below presents the status of OPA's audit recommendations for the year 2005.

Status of Audit Recommendations	Year 2005
Total Recommendations Tracked for the year 2005	84
Less: Closed Recommendations	(5)
Outstanding Recommendations as of December 31, 2005 (Open or Resolved)	79
Number of Delinquent Recommendations	46

OPA's follow-up on outstanding audit recommendations and the response letters received from various government agencies resulted in the closure of audit recommendations and encouraged agency action on delinquent recommendations. OPA closed 5 of the 84 recommendations it tracked in the year 2005. The number of delinquent recommendations, however, increased by 53% as of December 31, 2005.

An analysis of the five closed recommendations showed that two were closed because the agencies implemented OPA's recommendations, one was closed because the agency implemented the decision of an arbitration panel, one was closed because the agency adopted a policy as recommended by OPA, and one was closed due to alternative actions taken that was sufficient enough for the closure of the recommendation.

Recommendations issued by private CPA firms are also included in OPA's audit recommendations tracking report. OPA is not responsible for tracking the implementation of these recommendations, however, they are included in the audit tracking report for information purposes. Based on the classification followed by private CPA firms, a recommendation is described as either *resolved* or *unresolved*. OPA has included in the tracking report a total of 103 recommendations in 8 recent audit reports issued by private CPA firms under contract by OPA.

As of December 31, 2005, recommendations in 13 audit reports were referred to the Attorney General's Office for legal action to recover monies improperly expended. According to OPA's audit reports, approximately \$2,735,557 is potentially recoverable. In addition to this, potential recovery of another \$3.7 million also hinges on agencies' actions.

Recommendations in 9 audit reports identified potential recoveries due to unpaid rentals of land leases, uncollected labor processing fees, overpayments in professional services contracts and retirement benefits, and improper expenditure of public funds. Initial actions by agencies as of December 31, 2005 resulted in the partial recovery of \$942,382.

A balance recoverable was also redirected to the AGO [AR-99-02] thus leaving a balance recoverable of \$3,719,606 which hinge on agencies' actions.

In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals and entities in the audits are not disclosed in this report.



A copy of the entire report is available at the Office of the Public Auditor, or through OPA's Website

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Report on CNMI Agencies' Implementation of
Audit Recommendations
As of December 31, 2005

Office of the Public Auditor
Commonwealth of the Northern Mariana Islands



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Introduction

Background

The provisions of 1 CMC §2307 established the Interagency Audit Coordinating Advisory Group (Coordinating Group) consisting of the presiding officer and minority leader of each house of the Legislature, the Secretary of Finance, and the Special Assistant for Management and Budget. According to the law, the Coordinating Group is to review all audit reports of the Public Auditor, and the Public Auditor will discuss the manner in which audit recommendations can be implemented with the assistance of the members of the Coordinating Group. The Coordinating Group shall also recommend to the Governor and to the Legislature any changes in laws or regulations which it finds necessary or desirable as a result of its work with the Public Auditor.

In early 1999, the former Governor appointed the former Secretary of the Department of Finance as the Chairperson of the Coordinating Group. The former Secretary of the Department of Commerce was also named a member of the Coordinating Group to help pursue closure of open and resolved recommendations. On March 10, 1999, the former Governor issued a memorandum advising all Department and Activity Heads to provide assistance to the Coordinating Group in resolving all outstanding recommendations.

In early 2000, the Coordinating Group met and decided to follow-up on the actions taken by various government agencies to address OPA's outstanding audit recommendations by scheduling meetings with each Department Head. Starting September 2000, meetings were held by the Coordinating Group to discuss actions which could be taken to close the outstanding recommendations pertaining to government agencies under the Executive Branch of the Government which include, among others, the Department of Public Safety, the Department of Community and Cultural Affairs, the Department of Lands and Natural Resources, the Attorney General's Office, the Department of Public Health, the Department of Finance and the Department of Public Works.

The Coordinating Group members did not meet with OPA and agency heads in 2001, 2002, 2003, and 2004. OPA, however, sent follow-up letters and/or called various government agencies asking them what actions were taken toward addressing the outstanding recommendations. Meetings on various dates were also held with various government agencies to discuss and clarify actions to be taken to close outstanding recommendations.

On March 13, 2002, the then-Acting Governor issued a letter to the Senate President, Speaker of the House, and the then-Acting Secretary of Finance to remind them of their membership on the Coordinating Group.

Although the Coordinating Group members did not meet in 2005, OPA again issued follow-up letters and/or called various government agencies with outstanding audit

recommendations as of December 31, 2005. This report incorporates agency responses to follow-up letters which OPA received on or before June 12, 2006. The response letters received resulted in the closure of five audit recommendations. In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals and entities in the audits are not disclosed in this report.

Audit Recommendations Tracking System

OPA maintains an audit recommendations tracking system to monitor implementation and resolution of OPA audit recommendations. Recommendations issued by Independent Auditors are also included in the tracking system for information purposes.

OPA Recommendations - Open and resolved audit recommendations are included in OPA's tracking report. In addition, we have also included recommendations which were closed during the past six months. An *open* recommendation is one where no action or plan of action has been made, or no time frame for the plan of action has been provided by the client (department or agency). A *resolved* recommendation is one in which OPA is satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame for action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or we have withdrawn it. Also, we have considered open or resolved recommendations as *delinquent* if the recommendation has been outstanding for at least 180 days and we have not been informed by the concerned agency or department of any action being taken to close the recommendations.

Independent Auditors Recommendations - We have also included in this report recommendations issued by private Certified Public Accountant (CPA) firms. OPA is not responsible for tracking the implementation of these recommendations, however, they are included in the audit tracking report for information purposes. Because OPA is responsible for overseeing all audits of the CNMI government, follow-up procedures are also conducted for these recommendations to determine what actions have been taken by the individual agencies to implement the recommendations issued by private CPA firms. A copy of the agencies' responses is subsequently provided to the Independent Auditor who conducted the audit to determine whether the agencies' responses are sufficient to consider the recommendations resolved. Based on the classification followed by private CPA firms, a recommendation is described as either *resolved* or *unresolved*.

Status of Audit Recommendations

For the year 2005, OPA issued four audit reports, one of which was addressed to the Department of Labor, one to the Department of Public Safety, one to the Marianas Hawaii Liaison Office, and one addressed to various government agencies, which set forth a total of 32 recommendations added into the tracking system. The recommendations were in addition to the 52 recommendations outstanding at the beginning of the year, making a total of 84 recommendations tracked for the year. Of the 84 audit recommendations, 5 were closed and 79 remained either open or resolved. Of the 79 open or resolved recommendations, 46 were considered delinquent.

The following table presents a comparative schedule of the status of all our audit recommendations for calendar years 2003, 2004 and 2005.

Status of Audit Recommendations	2003	2004	2005
Total Recommendations Tracked for the Year	110	67	84
Less: Closed Recommendations	(43)	(15)	(5)
Outstanding Recommendations, End of Year (Open or Resolved)	67	52	79
Number of Delinquent Recommendations	32	30	46

The response letters received from various government agencies resulted in the closure of recommendations and encouraged agency action on delinquent recommendations. OPA closed 5 of the 84 recommendations it tracked in 2005. The number of delinquent recommendations increased by 53 percent as of December 31, 2005.

Independent Auditor's Report

OPA has included in the tracking report a total of 103 recommendations from 8 recent audit reports released by private CPA firms under contract by OPA.

Other OPA Reports

OPA issued two other reports in 2005. The first report issued on November 2, 2005, was a review of Campaign Statements of Account filed by candidates and political parties who participated in the 2003 general and special elections. The other report issued on November 15, 2005, was an interim report on OPA's examination of expenditures by the Marianas Public Land Trust's Board of Trustees.

OPA issued three procurement determinations in 2005. The three determinations all involved appeals to OPA as follows:

- OPA determined that it did not have jurisdiction over the appeal filed by a company regarding the cancellation of the Department of Finance's request for proposal for the procurement of the CNMI's Tax System Maintenance

and Support Application and subsequent award of an emergency contract to another company.

- OPA issued an order dismissing two appeals filed by a company based upon a Stipulated Motion to dismiss the two appeals, which was sign by all the parties. The appeals pertained to the solicitation of laundry services for the Commonwealth Health Center by the Department of Public Health.
- OPA issued a decision denying the appeal pertaining to the Public School System Commissioner's denial of a company's protest regarding the Public School System's procurement of typhoon shutters for various schools in the CNMI.

In addition to the three determinations, based upon the Declaration of State of Emergency: Commonwealth Utilities Corporation Lack of Power May 2005, issued by the Governor dated May 19, 2005, which specifically suspended CUC's Procurement Regulations, OPA did not rule on the appeal filed by a company regarding CUC's invitation for bid for the replacement of anchor bolts for one of its diesel generators, as its jurisdiction to do so was suspended by the Declaration.

Closed Recommendations

An analysis of the five closed recommendations for 2005 showed that two of them were closed because the agencies implemented OPA's recommendations, one was closed because the agency implemented the decision of an arbitration panel, one was closed because the agency adopted a policy as recommended by OPA, and one was closed due to alternative actions taken that was sufficient enough for the closure of the recommendation.

Delinquent Recommendations

Delinquent recommendations increased by 16 (53%) from 30 in 2004 to 46 in 2005.

Year	2003	2004	2005
1995	3	6	4
1996	1	2	1
1997	3	3	3
1998	1	1	1
1999	2	2	3
2000	6	10	7
2001	5	5	3
2002	2	0	2
2003	9	7	8
2005			14
Total	32	30	46

Table 1 - Delinquent Recommendations

Below is an aging of the 46 delinquent recommendations issued in years 1995 to 2005:

Agency to Act	1995	1996	1997	1999	2000	2001	2002	2003	2005	Total
1. Attorney General's Office	4	1	3	2	3	1	1	1	1	17
2. Northern Marianas College							7	1		8
3. Department of Labor						1		4		5
4. Northern Marianas Retirement Fund				2	2			1		5
5. Department of Public Health			1					1		2
6. Commonwealth Development Authority								1		1
7. Commonwealth Ports Authority								1		1
8. Department of Lands and Natural Resources				1						1
9. Marianas Hawaii Liaison Office								1		1
10. Marianas Visitors Authority								1		1
11. Northern Marianas Housing Corporation								1		1
12. Office of the Governor				1						1
13. Office of Personnel Management								1		1
14. Tinian Mayor's Office								1		1
Number of Delinquent Recommendations	4	1	3	3	7	3	2	8	15	46

AGO Action Needed for Recovery of Approximately \$2,735,557

As of December 31, 2005, recommendations in 13 audit reports were referred to the Attorney General's Office (AGO) for legal action to recover monies improperly expended. OPA requested on March 10, 2006 an update of these referrals. On March 22, 2006, OPA again made a follow-up call to remind the AGO and to verify their receipt of the letter. The AGO's office did acknowledge receipt of the letter and that it was on the Attorney General's desk for review. OPA did not receive a response from the AGO, and as such, OPA is unable to determine the current status of the following referrals.

OPA also forwarded two new recommendations from two separate audit reports (AR-99-02 and AR-05-03) to the AGO for review and action. Report No. AR-99-02 involved a the recovery of a loan receivable that was issued to a CNMI constituent from the former Washington Representative. Report No. AR-05-03 involved the recovery of improper payments of housing allowances by the Marianas Hawaii Liaison Office.

The following table presents an updated listing of AGO referral recommendations involving recovery of funds in which approximately \$2,735,557 is potentially recoverable.

	Report No. (Issue Date)	Particulars	Amount Recoverable	Status per AGO
1	AR-99-03 (4-7-99)	TCGCC - Legal action to recover overpayment of \$543,375 from the consultant on grounds of unjust enrichment, conversion, fraud and breach of fiduciary duty and recovery of \$195,971 from three other individuals for breach of fiduciary trust for total amount recoverable of \$739,346.	\$739,346	AGO is researching legal issues that have arisen in the pending suit and will follow-up on this matter with TCGCC's legal counsel. In January 2005, AGO requested information from DOF regarding payments made to the Gaming Commission and other entities.
2	AR-02-02 (9/11/02)	TCGCC - Audit of Travel Transactions for fiscal years 1996 - 2001. The potential recovery amount for outstanding advances of \$406,925 was reduced by \$14,672 and \$75 leaving a balance of \$392,178 to be recovered	392,178	AGO is currently researching standing issues related to the collection of the debt.
3	AR-99-04 (10-28-99)	CNMI - Overpayments of professional services contracts. Balance of overpayments totaling \$1,315,102 re-directed to AGO of which \$8,302 is immediately recoverable and \$1,306,800 is recoverable unless adequately supported.	1,315,102	AGO requested to pursue collection of overpayments on 6/2/05.
4	AR-00-01 (4-13-00)	DPW - Recovery of \$164,534 in improper payments made to a surveying contractor and adverse action against contractor for misrepresentation relating to the Tinian road resurfacing project in 1997. Pursuant to a decision issued by the United States District Court, amount recoverable from the contractor is reduced to \$100,000 in restitution.	100,000	AGO stated that enforcement of the federal court order of restitution should be the responsibility of the U.S. Attorney's Office. Accordingly, the AGO plans to request enforcement by that office.
5	AR-98-06 (12-14-98)	DOF - Funds misused by the former Secretary of Finance during fiscal years 1995 to 1997.	75,000	A civil case against the defendant is still pending for the recovery of funds.
6	AR-97-06 (4-23-97)	DPH - Improper payments made by former RHC Director for repairs and non-existent lease extensions possibly paid out of the Rota imprest fund account.	9,000	AGO requested to review case and inform OPA whether or not it plans to pursue this case.
7	AR-97-06 (4-23-97)	DPH - Rota Health Center (RHC) - Recovery from the	4,982	AGO informed OPA that although this referral

	Report No. (Issue Date)	Particulars	Amount Recoverable	Status per AGO
		former RHC Director of amount taken from RHC funds and reimbursement for cost of a washing machine for the period December 1993 to March 1996.		case was previously closed on 9/5/02, the AGO plans to contact OPA for verification of records.
8	AR-96-05 (3-21-96)	MPLA - Recovery of rentals due from a restaurant and recovery from a lessor of all payments collected from a sublessee for the subleasing of the Saipan Fishing Center building as of October 31, 1995.	Unknown.	According to AGO, OPA agreed to do follow-up investigation as agreed in a meeting between AGO and OPA on 10/19/99. Upon further review, it was determined that additional investigative work by OPA will not result in any changes to the findings and conclusions stated in the report. On 8/16/04, OPA forwarded to the AGO a copy of the audit report for AGO's review and action.
9	AR-95-18 (10-10-95)	MPLA - Double payment of travel expenses and overpaid per diem allowances to the former Executive Director for the period September 1992 to September 1994.	Unknown.	AGO should provide documents on conveyance of property for debt settlement of former Executive Director.
10	AR-95-17 (10/2/95)	CPA - Legal action to recover the remaining balance of \$40,131 for improper reimbursement from the board members.	40,131	AGO has adopted a policy to pursue all collection cases involving money owed to the government "in the public interest" until the CNMI Supreme Court rules to the contrary.
11	LT-01-07 (11/23/01)	CUC - Recover travel overpayments and questionable payment from current and former Board Members.	2,973	This case has been assigned to an Assistant Attorney General for evaluation and collection if appropriate.
12	AR-99-02 (3/29/99)	WRO - Recovery of the balance of a loan receivable made to a CNMI constituent by the former Washington Representative.	2,200	AGO to inform OPA on the results of its review.
13	AR-05-03 (8/12/05)	MHLO - Determine appropriate legal action to be taken to recover improper payments of housing allowances.	54,645	AGO to inform OPA in the results of its review and determination.
		Total Amount Recoverable	\$2,735,557	

OPA also referred one audit report [AR-00-03] to the AGO to determine the propriety of the Commonwealth Ports Authority's practice of making advance payments of unused annual leave and salary, instead of complying with the provision in the employment contracts that payments will be made upon contract expiration. In addition, AGO was to review OPA's opinion regarding granting six designated officials 14 annual leave hours per pay period. According to the Attorney General's most recent response dated September 1, 2005, there has been no change to the development of this case.

Another recommendation from Audit Report No. AR-05-03 was addressed to the AGO to issue a determination on whether recovery of funds for double benefits paid to a former Liaison Officer is appropriate and should be pursued.

A recommendation redirected to the AGO relating to OPA's audit of DLNR's agreement with a submerged land lease to operate the Outer Cove Marina is now closed [AR-01-02]. AGO was asked to provide OPA the status of the on-going negotiation between the CNMI government and the submerged land lessee. In her September 1, 2005 response, the former Attorney General informed OPA that the binding arbitration is complete and the AGO has since closed this case. A panel of arbitrators ruled in favor of the submerged land lessee and the CNMI was ordered to pay \$5.6 million.

Potential Recovery of \$3.7 Million Hinges on Agencies' Actions

Recommendations in nine audit reports identified potential recoveries due to unpaid rentals of land leases, uncollected labor processing fees, overpayments in professional services contracts and retirement benefits, and improper expenditures of public funds.

As of December 31, 2005, initial actions by agencies resulted in the partial recovery of \$942,382 and a balance recoverable of \$2,200 redirected to the AGO [AR-99-02] leaving a balance of \$3,719,606 still recoverable as shown in the following table:

	Report No. (Issue Date)	Particulars	Amount Recoverable	Status per Agency
1	AR-00-04 (11-22-00)	Board of Marianas Public Lands Authority - Collection of rentals from 8 quarry operators for six lease years from 1990 to 1995 totaling \$4,690,708, less \$946,968 write-off for one bankrupt quarry operator resulting in an amount recoverable of \$3,743,740.	\$3,743,740	\$896,747 was recovered from seven quarry operators. Due to incomplete ledgers provided to OPA on 4/11/06, OPA was unable to ascertain total amount collected from Quarry Operator F as of April 2006.
2	AR-05-02 (6-6-05)	DOL - Audit of Controls Over the Nonresident Worker Application Process.	512,410	DOL will update OPA based on the conclusions

Report No. (Issue Date)	Particulars	Amount Recoverable	Status per Agency
	Amount recoverable consists of uncollected fees of \$330,835 from Company A and \$181,575 from Company B.		drawn by the investigators tasked with identifying the responsible parties for the uncollected fees.
3 AR-00-03 (7-20-00)	CPA - NMIRF to recover improper payments to two former CPA officials for retirement benefits and compensatory time claimed.	126,730	The former Executive Director had appealed the Board's final decision to the Superior Court and the case is still on-going; The Board of Trustees agreed to revisit the issue of recovering overpayments.
4 AR-95-18 (10-10-95)	MPLA - Double payment of travel expenses and overpaid per diem allowances to the former Board Chairman, Tinian board member and Rota board member for the period September 1992 to September 1994. Amount recoverable from the former Rota Board member as of 3/26/04 is \$71,289.14 (principal plus interest); amount recoverable from the former Board Chairman as of 3/26/04 is \$27,743.74 (principal plus interest); and amount recoverable from the former Tinian Board member as of 6/7/04 is \$16,829.45 (principal only). Total amount recoverable from the three former board members as of 3/26/04 and 6/7/04 is \$115,862.33.	115,862	\$20,400 partially recovered from the former Rota Board member, \$5,825 partially recovered from the former Board Chairman, and \$10,250 partially recovered from the former Tinian Board member. Total amount partially recovered is \$36,475. Due to discrepancies noted in the subsidiary ledgers provided to OPA on 4/11/006, OPA was unable to ascertain the total amount recovered from the three board members.
5 AR-97-05 (3-20-97)	CNMI - Promissory note for \$96,100 on overpayment of two professional services contracts (Contract nos. C40113 and C50108) covering the period October 1, 1991 to July 20, 1995.	96,100	Partial recovery of \$14,000 leaving a balance of \$81,900 still to be recovered.
6 AR-98-06 (12-14-98)	DOF - Funds misused by the former Secretary of Finance from fiscal years 1995 to 1997. On 2/22/01, the Federal Court ordered the Secretary of Finance to pay \$56,462 in restitution.	56,462	\$625 partially recovered from the former Secretary of Finance.
7 AR-97-05 (3-20-97)	CNMI - Overpayment to contractors of four professional services contracts (Contract nos. C40276, C50083, C50132 & C50208) audited covering the period October 1, 1991 to July 20, 1995. Overpayments for C40276 totaling	15,079	DOF is consulting with AGO as to the appropriate course of action(s) that can be taken considering lack of supporting documents and the statute of limitations on these

	Report No. (Issue Date)	Particulars	Amount Recoverable	Status per Agency
		\$10,000 was fully recovered by OMB. Therefore, recovery of \$25,079 is reduced to \$15,079.		claims.
8	AR-03-04 (3-10-03)	AGIU - Recovery of overpayments of per diem from three travelers involved.	1,605	Partial recovery of \$535.
9	AR-99-02 (3-29-99)	WRO - Outstanding employee loans for Fiscal Years 1995 and 1996.	3,580	Partial recovery of \$1,380
		Total Amount Recoverable	\$4,671,568	
		Less: Partial Recoveries	(\$949,762)	
		Less: Balance redirected to AGO (AR-99-02)	(\$2,200)	
		Balance of Amount Recoverable as of 6/30/05	\$3,719,606	

Executive Branch Offices

Office of the Governor
Office of the Attorney General
Department of Commerce
Department of Finance
Department of Labor
Department of Lands and Natural Resources
Department of Public Health
Department of Public Lands
Department of Public Safety
Office of Personnel Management

Office of the Governor

Report No. LT-00-01 issued February 16, 2000 Compilation of CNMI Government-Paid Travel For Fiscal Year 1997

Date(s) of followup letter(s) sent : 2/16/00 (CDA), 7/3/00 (CDA), 7/6/00 (NMIRF) (HOUSEREP), 7/11/00 (CPA) (CUC) (GOV) (SENATE) (NMC), 1/17/01 (CPA), 1/18/01 (CUC) (NMC), 1/19/01 (NMIRF), 1/23/01 (HOUSEREP) (SENATE), 1/30/01 (GOV), 8/20/01 (CPA) (NMC) (CUC), 8/21/01 (NMIRF), 8/22/01 (Legislature) (GOV) (SENATE), 3/4/02 (CUC) (GOV) (HOUSEREP) (NMC), 3/5/02 (NMIRF) (SENATE), 8/9/02 (NMIRF), 8/12/02 (NMC) (CUC) (GOV), 2/12/03 (GOV), 2/18/03 (NMIRF), 8/4/03 (GOV) (NMIRF), 4/13/04 (GOV), 9/28/04 (GOV), 2/15/05 (GOV), 8/9/05 (AGO), 3/7/06

Date(s) of response letter(s) received : 2/16/00 (CDA), 2/17/00 (NMIRF), 9/27/01 (CUC), 10/4/01 (NMIRF letter of request for extension to respond until 11/3/01), 10/12/01 (CPA), 3/11/02 (HOUSEREP), 3/15/02 (SENATE), 8/13/02 (NMC), 9/5/02 (CUC), 7/22/03 (NMIRF), 9/2/05 (AGO)

Recommendation 2 : Strictly enforce the requirement of not granting requested new travel advances to travelers with unliquidated travel advances, and the required sanction of payroll deduction for travelers who failed to timely file TVs. Travelers such as board members who are not part of the government payroll should be required to immediately repay the advances when a complete TV is not timely filed.

Agency to Act : Office of the Governor

Status : Open - Delinquent

Agency Response : The former Governor's response upon completion of the audit did not reemphasize the requirement of not granting requested new travel advances to travelers with unliquidated travel advances.

Additional Information or Action Required : Provide OPA copies of the written instruction to the person in charge of issuing and liquidating travel advances regarding strict enforcement of the requirement of not granting requested new travel advances to travelers with unliquidated travel advances.

Office of the Attorney General

Report No. AR-95-17 issued October 2, 1995 Audit of Board-Related Transactions and Purchase of Vehicles for the Department of Public Works

Date(s) of followup letter(s) sent : 11/20/95, 3/7/96, 12/5/96, 2/02/98, 9/18/98, 11/22/99, 7/11/00, 1/17/01, 8/20/01, 3/5/02, 8/9/02, 10/3/02 (AGO), 2/14/03 (AGO), 8/4/03 (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/06

Date(s) of response letter(s) received : 3/27/96, 12/24/96, 3/27/99, 10/12/01, 1/29/02, 8/21/02 (CPA request for extension), 8/30/02, 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 9/1/05 (AGO)

Recommendation 2 : *Original:* The CPA Board Chairman should recover the \$42,191 in improper reimbursements from the board members unless they can specifically identify the expenses as CPA official business and/or present supporting documents.

As Revised and Redirected to AGO: Determine appropriate legal action to be taken to pursue collection from the board members of the remaining balance of \$40,131 which was improperly reimbursed.

Agency to Act : Commonwealth Ports Authority - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : In his letter response dated 3/27/96, the former Board Chairman stated that out of the \$42,191 improper reimbursements, \$2,060 has been repaid (\$808.60 was offset against travel receivables and \$1,251.60 was directly paid to CPA), leaving a balance of \$40,131 still collectible.

On 10/12/01, the CPA Executive Director informed OPA that this matter was referred to AGO for review and action. AGO has yet to issue a determination on whether the recommendation should be pursued in court. CPA suggested that OPA ask AGO for a response in this matter.

In his response dated 8/30/02, the CPA Executive Director provided OPA with a copy of its referral letter to AGO dated 12/24/96.

In his response dated 9/15/03, the Acting Attorney General stated that a search of their files reveal that there are no records of this case in the AGO. On 10/27/03, OPA provided AGO with a copy of the audit report on this case referral and requested the Acting Attorney General to review the matter on this case and determine (1) whether the statute of limitations bars an action, and (2) if it is a matter that the AGO will pursue. On 10/31/03, the Acting Attorney General informed OPA that the CNMI's claim in this matter is potentially in the public interest, thereby removing the statute of limitations as a defense in this case insofar as civil liability is concerned. He further stated that AGO will further evaluate whether a viable suit exists. Based on the 10/31/03 response, OPA will forward to the AGO the file on this referral case for further evaluation.

In his 4/30/04 response, the Deputy Attorney General stated that AGO has adopted a policy to pursue all collection cases involving money owed to the government "in the public interest" until the CNMI Supreme Court rules to the contrary.

In her 9/1/05 response, the Attorney General stated that they are still unable to locate the original file on this referral case.

Additional Information

or Action Required : AGO should inform OPA of the results of legal action taken to pursue collection from the board members for the remaining balance of \$40,131 which was improperly reimbursed.

Report No. AR-95-18 issued October 10, 1995
Division of Public Lands (DPL)
Audit of Credit Card and Related Travel Transactions

Date(s) of followup letter(s) sent : Verbal follow-ups made through the telephone, 11/29/96, 12/3/96, 2/20/97 (AGO), 11/20/97, 9/17/98 (AGO), 3/3/98 (AGO), 9/18/98 (DLNR), 11/23/99 (DLNR), 1/26/99, 1/5/00 (AGO), 7/6/00 ((DPL), 7/12/00 (AGO), 1/17/01 (AGO), 1/24/01 (DLNR), 8/21/01 (AGO), 8/23/01 (OPL), 8/12/02 (MPLA) (AGO), 10/3/02 (AGO), 2/14/03 (AGO) (MPLA), 8/4/03 (MPLA) (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 4/23/04 (MPLA), 9/21/04 (AGO) (MPLA), 2/15/05 (AGO) (MPLA), 8/9/05 (AGO) (MPLA), 3/10/06

Date(s) of response letter(s) received : 11/14/95, 6/27/96, 4/4/97 (AGO), 9/11/97, 4/20/08 (AGO), 3/17/99, 10/21/99 (DPL), 10/31/00 (meeting with Coordinating Group on DLNR), 11/7/00 (meeting with Coordinating Group on AGO), 2/8/01 (DPL), 2/22/01 (DPL), 3/9/01 (AGO), 8/30/01 (OPL), 9/28/01 (OPL), 2/12/02 (meeting with AGO), 3/6/02 (MPLA), 8/19/02 (MPLA), 3/10/03 (MPLA), 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 6/7/04 (MPLA), 9/1/05 (AGO)

Recommendation I : *Original:* -The Secretary of DLNR should require the cardholders to reimburse the Marianas Public Land Corporation (MPLC) for all the unallowable and unsupported credit card charges, unless they can specifically relate the charges to MPLC official business and present supporting documents. If necessary, the Secretary of DLNR and the Director of DPL should seek the assistance of the Attorney General to recover the personal, unallowable, and unsupported credit card charges from the cardholders.

As Revised and Redirected to the Attorney General's Office: The Attorney General should take appropriate action to recover the personal, unallowable, and unsupported credit card charges from the cardholders.

Agency to Act : Attorney General's Office

Status : Resolved - Delinquent

Agency Response : OPA was informed that the former Board Chairman and Rota Board member both signed promissory notes requiring monthly payments to MPLA, the former Tinian Board entered into a settlement agreement with monthly installments to be made to MPLA beginning January 2000, and a trial court's judgement was ordered on 7/9/01 in the civil case against the former Comptroller which found the former Comptroller not liable on any of the allegations in the complaint filed against him. Therefore, the portion of the recommendation pertaining to the former Board Chairman, former Rota Board member, former Tinian Board member, and former Comptroller is considered closed. Monitoring of collections for the former Board Chairman, former Rota Board Member and former Tinian Board Member is addressed in Recommendation 6.

With regards to the former Executive Director, a settlement agreement was entered in which he agreed to pay back in excess of \$54,000. The payment was made by release of retirement benefits that were owed to him, and by transferring private property to the CNMI government and waiving a potential land claim.

Additional Information or Action Required : In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.
The AGO should provide documents on conveyance of property for debt settlement of the former Executive Director to completely close this recommendation.

Recommendation 2 : *Original:* The Secretary of DLNR should recover from the cardholders the amount of \$45,698.
As Revised and Redirected to the Attorney General's Office: The Attorney General's Office should take appropriate action to recover the amount of \$45,698 from the cardholders.

Agency to Act : Attorney General's Office

Status : Resolved - Delinquent

Agency Response : OPA was informed that the former Board Chairman and Rota Board member both signed promissory notes requiring monthly payments to MPLA, the former Tinian Board entered into a settlement agreement with monthly installments to be made to MPLA beginning January 2000, and a trial court's judgement was ordered on 7/9/01 in the civil case against the former Comptroller which found the former Comptroller not liable on any of the allegations in the complaint filed against him. Therefore, the portion of the recommendation pertaining to the former Board Chairman, former Rota Board member, former Tinian Board member, and former Comptroller is considered closed. Monitoring of collections for the former Board Chairman, former Rota Board Member and former Tinian Board Member is addressed in Recommendation 6.

With regards to the former Executive Director, a settlement agreement was entered in which he agreed to pay back in excess of \$54,000. The payment was made by release of retirement benefits that were owed to him, and by transferring private property to the CNMI government and waiving a potential land claim.

Additional Information or Action Required : In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.
The AGO should provide documents on conveyance of property for debt settlement of the former Executive Director to completely close this recommendation.

Recommendation 4 : *Original:* The Secretary of DLNR should review and evaluate whether charges for official representation expenses were properly chargeable to MPLC, and recover improper charges from the former Executive Director.

Agency to Act : Attorney General's Office

Status : Resolved - Delinquent

Agency Response : OPA was informed that the former Board Chairman and Rota Board member both signed promissory notes requiring monthly payments to MPLA, the former Tinian Board entered into a settlement agreement with monthly installments to be made to MPLA beginning January 2000, and a trial court's judgement was ordered on 7/9/01 in the civil case against the former Comptroller which found the former Comptroller not liable on any of the allegations in the complaint filed against him. Therefore, the portion of the recommendation pertaining to the former Board Chairman, former Rota Board member, former Tinian Board member, and former Comptroller is considered closed. Monitoring of collections for the former Board Chairman, former Rota Board Member and former Tinian Board Member is addressed in Recommendation 6.

With regards to the former Executive Director, a settlement agreement was entered in which he agreed to pay back in excess of \$54,000. The payment was made by release of retirement benefits that were owed to him, and by transferring private property to the CNMI government and waiving a potential land claim.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

**Additional Information
or Action Required**

: The AGO should provide documents on conveyance of property for debt settlement of the former Executive Director to completely close this recommendation.

**Report No. AR-96-05 issued March 21, 1996
Division of Public Lands
Audit of the Saipan Fishing Center and the Lease of the Garapan Fishing Base**

Date(s) of followup letter(s) sent : 12/4/96, 11/20/97, 3/3/98 (AGO), 9/17/98, 11/23/99, 1/26/99, 1/5/00 (AGO), 7/12/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 8/12/02 (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 8/4/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/05

Date(s) of response letter(s) received : 4/4/97 (AGO), 9/11/97, 3/10/98, 4/20/98 (AGO), 1/20/00 (AGO), 11/7/00 (meeting with Coordinating Group on AGO), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 9/15/03 (AGO), 4/30/04 (AGO), 9/1/05 (AGO)

Recommendation I : *Original:* - The Secretary of DLNR should terminate Corporation A's lease of the Garapan Fishing Base and instruct the DPL Legal Counsel to: (a) initiate legal proceedings to collect rentals due from Corporation A and Restaurant A, (b) recover from the former President of Corporation B all payments collected from Corporation C for the unauthorized subleasing of the Saipan Fishing Center building, as well as any rentals collected from the operators of Restaurant B, and (c) notify Restaurant A to pay rentals directly to DPL on a month-to-month basis.

As Revised and Redirected to the Attorney General's Office: The Attorney General's Office should: (a) initiate legal proceedings to collect rentals due from Corporation A and Restaurant A, (b) recover from the former President of Corporation B all payments collected from Corporation C for the unauthorized subleasing of the Saipan Fishing Center building, as well as any rentals collected from the operators of Restaurant B, and (c) notify Restaurant A to pay rentals directly to DPL on a month-to-month basis.

Agency to Act : Attorney General's Office

Status : Resolved - Delinquent

Agency Response : On March 10, 1998, the Attorney General's Office provided OPA documents showing collection of the \$338,910.63 representing rentals due from Corporation A. However, the Attorney General's Office is still considering whether to bring action against Restaurant A and against the former President of Corporation B. In view of this, OPA closed only the portion of the recommendation pertaining to Corporation A.

In his 3/9/01 response, the Acting Attorney General stated that liability in this case is clear, as the purchasing corporation signed a "promise to pay" reasonable value for use of public lands. Prospects for recovery need to be fully explored to determine if the case truly has merit.

In a meeting on 2/12/02, this recommendation was included in the list provided by OPA to AGO pertaining to outstanding matters requiring specific actions to be taken by AGO.

In his response dated 9/15/03, the Acting Attorney General stated that a settlement agreement was reached in September 1997 and that the AGO will forward a copy of the settlement agreement to OPA upon written request. On 11/7/03, OPA issued a written request to the AGO requesting a copy of the settlement agreement. On 11/12/03, OPA received a copy of the settlement agreement from the AGO. Upon further review, OPA determined that the settlement agreement pertained to rentals due from Corporation A which was already considered closed by OPA.

In his response dated 4/30/04, the Deputy Attorney General stated that AGO and OPA met on this matter on 10/19/99 and that OPA agreed to do "follow-up" investigation and provide a memorandum to AGO. Upon further review, it was determined that additional investigative work will not result in any changes to the findings and conclusions stated in our report. Accordingly, OPA will leave it to the discretion of the AGO to determine what course of action will be appropriate to address our recommendation. On 8/16/04, OPA provide AGO with a copy of the audit report on this matter for review and action.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

**Additional Information
or Action Required**

: To address the other portions of the recommendation, AGO should provide OPA with results of their review and actions to be taken against Restaurant A and against the former President of Corporation B.

**Report No. AR-97-06 issued April 23, 1997
Rota Health Center (RHC) Director's Claims Against the RHC**

Date(s) of followup letter(s) sent : 6/23/97, 7/16/97, 2/02/98, 9/17/98 (DOF), 9/21/98 (RMO), 11/23/99 (DOF), 11/29/99 (RMO), 7/6/00 (RMO), 7/13/00 (DOF), 1/17/01 (AGO), 1/19/01 (DOF), 8/21/01 (AGO) (DOF), 2/14/02 (AGO), 3/12/02 (DOF), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (AGO) (DOF), 8/9/05 (AGO), 3/10/06

Date(s) of response letter(s) received : 6/16/97 (RMO), 2/24/98 (RMO), 7/19/00 (RMO), 11/17/00 (DOF), 11/21/00 (meeting with Coordinating Group on DOF), 11/27/00 (DOF), 3/9/01 (AGO), 9/18/01 (DOF), 2/12/02 (meeting with AGO), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 9/1/05 (AGO)

Recommendation I : *Original:* The Secretary of Finance should require the current Director of RHC to return the amount of \$4,282.02 taken from RHC funds.

As Revised and Redirected to AGO: Determine appropriate legal action to be taken to recover from the current Director of RHC the \$4,282.02 taken from RHC funds.

Agency to Act : Department of Finance - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : During the 11/21/00 meeting with the Coordinating Group, the DOF Secretary provided OPA a bill of collection dated 11/17/00 for \$4,982.02 sent to the current Director of RHC which consists of \$4,282.02 taken from RHC funds and \$700 reimbursement for the cost of the washing machine. On 11/27/00, DOF referred the

matter to the AGO to possibly pursue collection through legal proceedings. In his 3/9/01 response, the Acting Attorney General requested a copy of the report for further review purposes.

During a meeting on 2/12/02, AGO informed OPA that the Statute of Limitations has passed regarding this recommendation. In a follow-up letter dated 2/14/02, OPA requested AGO to provide a letter documenting the applicability of the Statute of Limitations to formally close this recommendation.

In his response dated 9/15/03, the Acting Attorney General stated that a search of their files reveal that there are no records of this case in the AGO. On 10/27/03, OPA provided AGO with a copy of the audit report on this case referral and requested the Acting Attorney General to review the matter on this case and determine (1) whether the statute of limitations bars an action, and (2) if it is a matter that the AGO will pursue. On 10/31/03, the Acting Attorney General informed OPA that the CNMI's claim in this matter is potentially in the public interest, thereby removing the statute of limitations as a defense in this case insofar as civil liability is concerned. He further stated that AGO will further evaluate whether a viable suit exists. Based on the 10/31/03 response, OPA will forward to the AGO the file on this referral case for further evaluation.

In his 4/30/04 response, the Deputy Attorney General stated that AGO has adopted a policy to pursue all such cases until the CNMI Supreme Court rules to the contrary.

In his 10/25/04 response, the Acting Attorney General informed OPA that although this referral case was previously closed on 9/5/02, the AGO plans to contact OPA for verification of records.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

**Additional Information
or Action Required**

: AGO should follow-up with OPA regarding the file and advise OPA of the results of legal action taken on this referral recommendation.

Recommendation 2

: *Original:* The Secretary of Finance should deny the \$5,000 claim for repairs, and the \$4,000 amount claimed for a non-existent lease extension.

As Revised and Redirected to AGO: Determine whether this referral case should be pursued. If the AGO decides to pursue this case, the AGO should instruct the Resident Director of Finance to verify whether the \$5,000 claim for repairs and \$4,000 claim for a non-existent lease extension were paid out of the Rota Imprest Fund account. If the claims were indeed paid out of the Rota Imprest Fund account, the AGO should determine appropriate legal action to be taken to recover funds improperly paid.

Agency to Act

: Department of Finance - Redirected to the Attorney General's Office

Status

: Resolved - Delinquent

Agency Response

: The former Secretary of Finance provided OPA a copy of its 9/18/01 letter to the Acting Resident Director of DOF-Rota requesting assistance in verifying whether or not the \$5,000 claim for repairs and the \$4,000 claim for a non-existent lease extension were paid through the Rota Imprest Fund Account.

In his 4/12/02 response, the current Secretary of Finance informed OPA that his office has not received a response to its 9/18/01 letter to the Acting Resident Director of DOF-Rota. However, DOF has sent a follow-up letter to the Mayor requesting assistance on the matter.

On 3/18/05, the Secretary of Finance informed OPA that no response has been received from either the Resident Director of Finance or the Mayor of Rota. The

Secretary of Finance further stated that DOF was unable to confirm whether or not the payments in question were made to the vendor nor confirm any information through the DOF financial management system since these transactions were initiated before the system change in 1997. The Secretary of Finance requested that OPA refer this matter to the AGO. On 6/2/05, OPA referred this matter to the AGO for their review and legal action.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

**Additional Information
or Action Required** :

AGO should inform OPA whether or not it plans to pursue this case. If AGO decides to pursue this case, AGO should instruct the Resident Director of Finance to verify whether the \$5,000 claim for repairs and \$4,000 claim for a non-existent lease extension were paid out of the Rota Imprest Fund account. If the claims were indeed paid out of the Rota Imprest Fund account, AGO should determine appropriate legal action to be taken to recover funds improperly paid.

Recommendation 4 :

Original: The Secretary of Finance should deny the claim of the Director of RHC for reimbursement of the cost of the washing machine.

As Revised and Redirected to AGO: Determine appropriate legal action to be taken to recover the \$700 reimbursement for the cost of the washing machine.

Agency to Act :

Department of Finance - Redirected to the Attorney General's Office

Status :

Resolved - Delinquent

Agency Response :

During the 11/21/00 meeting with the Coordinating Group, the DOF Secretary provided OPA a bill of collection dated 11/17/00 for \$4,982.02 sent to the current Director of RHC which consists of \$4,282.02 taken from RHC funds and \$700 reimbursement for the cost of the washing machine. On 11/27/00, DOF referred the matter to the AGO to possibly pursue collection through legal proceedings. In his 3/9/01 response, the Acting Attorney General requested a copy of the report for further review purposes.

During a meeting on 2/12/02, AGO informed OPA that the Statute of Limitations has passed on this recommendation. In a follow-up letter dated 2/14/02, OPA requested AGO to provide a letter documenting the applicability of the Statute of Limitations to formally close this recommendation.

In his response dated 9/15/03, the Acting Attorney General stated that a search of their files reveal that there are no records of this case in the AGO. On 10/27/03, OPA provided AGO with a copy of the audit report on this case referral and requested the Acting Attorney General to review the matter on this case and determine (1) whether the statute of limitations bars an action, and (2) if it is a matter that the AGO will pursue. On 10/31/03, the Acting Attorney General informed OPA that the CNMI's claim in this matter is potentially in the public interest, thereby removing the statute of limitations as a defense in this case insofar as civil liability is concerned. He further stated that AGO will further evaluate whether a viable suit exists. Based on the 10/31/03 response, OPA will forward to the AGO the file on this referral case for further evaluation.

In his 4/30/04 response, the Deputy Attorney General stated that AGO has adopted a policy to pursue all such cases until the CNMI Supreme Court rules to the contrary.

In his 10/25/04 response, the Acting Attorney General informed OPA that although this referral case was closed on 9/5/02, the AGO plans to contact OPA for verification of records.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

Additional Information

or Action Required : AGO should follow-up with OPA regarding the file and advise OPA of the results of legal action taken on this referral recommendation.

Report No. AR-98-06 issued December 14, 1998
Department of Finance
Audit of Misuse of Funds by the Former Secretary of Finance
Fiscal Years 1995, 1996, and 1997

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 1/26/99, 1/5/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 2/14/02 (AGO), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (DOF) (AGO), 8/8/05 (DOF), 8/9/05 (AGO), 3/10/06

Date(s) of response letter(s) received : 1/20/00 (AGO), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 3/31/05 (DOF), 9/1/05 (AGO)

Recommendation I : *As Revised:* DOF should provide OPA documents showing recovery of the \$56,461.98 in restitution on the federal case. In addition, AGO should take further legal action against the former Secretary for misappropriation and improper expenditure of public funds.

Agency to Act : Department of Finance / Attorney General's Office

Status : Resolved - Active

Agency Response : On 2/22/01, the Federal Court sentenced the former Finance Secretary to 33 months imprisonment and ordered payment of \$56,461.98 in restitution to the court for disbursement to the CNMI Department of Finance.

In his 3/9/01 response, the Acting Attorney General stated that AGO waited until the federal crime case concluded since one count in the case was covered by AGO's case. The former Secretary was ordered to pay restitution in the federal case, thereby reducing the maximum potential judgment. AGO will make a Motion for Summary Judgment and will still seek a judgment of approximately \$75,000 against the former Secretary of Finance for misappropriation and improper expenditure of public funds.

During the 2/12/02 meeting, AGO informed OPA that it will file a Motion for Summary Judgement in the civil action filed against the former Secretary of Finance. In a follow-up letter to AGO dated 2/14/02, OPA compiled a list of its referrals for AGO to prioritize for action. The list included this recommendation.

In his response dated 9/15/03, the Acting Attorney General stated that this case has been forwarded to the AGO's collection team (an in house team assembled to collect debts owed the government that are over the statutory limit for small claims) and the matter is still pending.

In his 10/25/04 response, the Acting Attorney General stated that the civil case against the defendant is still pending for the recovery of funds.

In a response letter dated 3/18/05, the Secretary of Finance stated that the defendant has not made any payments towards his restitution obligation to the CNMI government to date. On 3/31/05, OPA was provided a copy of the letter received from the U.S. Attorney of the District of Guam to the Secretary of Finance informing him that the former Secretary of Finance's assigned U.S. Probation Officer will be setting a payment schedule to dispose of his restitution obligation after July 2005. The U.S. Attorney of the District of Guam will be

notifying the Secretary of Finance once the payment plan is established.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

In his letter response dated 4/18/06, the Secretary of Finance provided OPA with a copy of the letter from the US Attorney's District Office on Guam advising OPA of the payment plan the former secretary will be making to the Government. OPA was also provided with a summary of all payments made by the former secretary owed to the government to date. The US Attorney's District Office has been notified that the former secretary has agreed to make monthly payments in the amount of \$100 effective 8/1/05. Additionally, the letter stated that a balance still remains towards the former secretary's imposed assessment fee and that any payments will first be applied to it until it is paid off.

Additional Information

or Action Required : DOF should provide OPA proof of collection of the \$56,461.98 restitution in the federal case. In addition, AGO should also provide OPA with copies of any judgement issued.

**Report No. AR-99-02 issued March 29, 1999
Verification of Expenses and Review of Selected Administrative
Practices of the Washington Representative's Office
Fiscal Years 1995 and 1996**

Date(s) of followup letter(s) sent : 11/29/99, 7/11/00, 1/24/01, 8/22/01, 3/4/02, 8/9/02, 2/18/03 (DOF), 8/4/03 (DOF), 4/14/04 (DOF), 9/28/04 (DOF), 2/15/05 (DOF), 8/8/05 (DOF), 3/13/06 (DOF), 4/28/06 (AGO)

Date(s) of response letter(s) received : 10/6/99, 9/25/01, 3/20/02, 8/12/02, 8/21/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 3/29/06 (DOF request for extension), 4/18/06 (DOF)

Recommendation 15 : *Original:* The Washington Representative should continue his efforts to collect the outstanding loans until such time as he is assured that any further collection efforts would be futile. At that time, the loan documentation should be turned over to the Department of Finance in Saipan for further action. If the obligations are collected, the amount should be returned to the CNMI General Fund.

As Revised and Redirected to DOF: DOF should determine the current status of the loan receivable from the former Resident Representative.

As Revised and Redirected to AGO: AGO should determine appropriate legal action to be taken to recover the \$2,200 reimbursement for the loan receivable from the former Resident Representative.

Agency to Act : Washington Representative's Office - Redirected to the Attorney General's Office

Status : Resolved - Active

Agency Response : In the 9/25/01 response from WRO, it was stated that the \$1,080 loan was fully paid. OPA was provided copies of the official cash receipt and a check for \$50.25 evidencing final payment representing the balance on the employee loan of \$1,080. This portion of the recommendation pertaining to the \$1,080 employee loan is considered closed.

For the \$2,500 loan, the former Resident Representative has entered into an agreement with DOF to make monthly payments in the amount of \$100. The Resident Representative has made three payments totaling \$300 leaving a balance still collectible of \$2,200. OPA was provided copies of the official receipts and checks evidencing payments made of \$300 and a copy of the promissory note for

the \$2,500 loan.

In his 3/20/02 response, the current Resident Representative sought the advice of OPA on how to go about collecting the loan made by the former Resident Representative.

In his 8/12/02 response, the Resident Representative suggested that OPA redirect the recommendation to DOF as his office is not involved in the repayment of the loan. On 8/28/02, OPA issued a letter to the Secretary of Finance requesting the current status of the loan receivable.

In his letter dated 3/18/05, the Secretary of Finance stated that the Director of Finance and Accounting had issued a letter to the former Washington Representative on 2/7/03 requesting verification on the total amount already paid pursuant to the audit. DOF has not received a response from the former Washington Representative. DOF will be sending another letter concerning the outstanding balance. DOF will be updating OPA on the status of the outstanding balance upon receipt of a response to their latest letter.

In his letter response dated 4/18/06, the Secretary of Finance informed OPA that the current balance of the loan receivable is \$2,200. He stated that they have not received any additional payments from the former Washington Representative since their last update. The Secretary provided OPA with a copy of the last notice sent out regarding this matter. On 4/28/06, OPA forwarded this to the AGO requesting that they pursue recovery of the remaining balance due from the former Washington Representative.

**Additional Information
or Action Required**

The AGO should inform OPA of their progress in their attempt to recover the remaining balance due from the former Washington Representative.

**Report No. AR-99-03 issued April 7, 1999
Audit of Consultant's Contract
Fiscal Year 1997**

Date(s) of followup letter(s) sent : 1/5/00 (AGO), 7/12/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 8/12/02 (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 8/4/03 (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/06(AGO)

Date(s) of response letter(s) received : 4/9/99 (TMO), 1/20/00 (AGO), 11/7/00 (meeting with Coordinating Group on AGO), 3/9/01 (AGO), 12/31/01, 2/12/02 (meeting with AGO), 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 9/1/05 (AGO)

Recommendation I : *Original* - The Mayor of Tinian and Aguiguan should request the Attorney General to institute an action to declare the Consulting Service Agreement between TCGCC and the consultant null and void, and to recover all amounts paid by TCGCC to the consultant and the consultant's son.

As Redirected to AGO - Institute legal action to declare the Consulting Service Agreement between TCGCC and the consultant null and void, and to recover all amounts paid by TCGCC to the consultant and the consultant's son.

Agency to Act : Attorney General's Office

Status : Resolved - Delinquent

Agency Response : In his 3/9/01 response, the Acting Attorney General informed OPA that

there is an ongoing investigation related to the facts and circumstances of this matter.

On December 31, 2001, civil action was filed against the consultant to recover overpayment of \$543,375 on grounds of unjust enrichment, conversion, fraud and breach of fiduciary duty. Civil action was also filed against three other individuals to recover \$195,971 for breach of fiduciary trust. Recoverable amounts totaled \$739,346.

In a meeting on 2/12/02, this recommendation was included in the list provided by OPA to AGO pertaining to outstanding matters requiring specific actions to be taken by AGO.

In his response dated 9/15/03, the Acting Attorney General stated that a search of their files reveal that there are no records of this case in the AGO. On 10/27/03, OPA provided AGO with a copy of the audit report on this case referral.

On 4/30/04, the Deputy Attorney General informed OPA that a request for Declaratory and Injunctive relief is currently pending in the CNMI Superior Court.

In his response dated 10/25/04, the Acting Attorney General informed OPA that the AGO is researching legal issues that have arisen in the pending suit and will follow-up on this matter with TCGCC's legal counsel.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case. The Attorney General further stated that a memo from an Acting Attorney General dated 3/23/05 indicated that DOF was contacted in January 2005 requesting documentation of payments made to the Gaming Commission and payments made to other entities. She also stated that the case is still pending as the DOF is still trying to locate the documents.

**Additional Information
or Action Required**

: The AGO should inform OPA of the result of its follow-up with TCGCC's legal counsel and any changes in any pending civil actions.

**Report No. AR-99-04 issued October 28, 1999
Executive Branch of the CNMI Government
Audit of Professional Service Contracts
From October 1, 1995 to May 4, 1998**

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 11/26/99 (TMO), 1/5/00 (AGO), 7/12/00 (AGO), 7/13/00 (DOF), 1/17/01 (AGO), 1/19/01 (DOF), 8/21/01 (DOF) (AGO), 2/14/02 (AGO), 3/12/02 (DOF), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/14/04 (DOF), 9/28/04 (DOF), 2/15/05 (DOF), 8/9/05 (AGO), 3/10/06

Date(s) of response letter(s) received : 1/12/00 (GOV), 1/20/00 (AGO), 2/18/00 (DOF), 11/7/00 (meeting with Coordinating Group on AGO), 11/9/00 (DOF), 11/19/00 (DOF), 11/21/00 (meeting with Coordinating Group on DOF), 1/14/01 (DOF), 3/9/01 (AGO), 5/01 (DOF), 10/01/01 (DOF), 2/12/02 (meeting with AGO), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 10/21/03 (AGO), 10/22/03 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 9/1/05 (AGO)

Recommendation 7 : *Original:* Issue a memorandum instructing the DOF - Accounting Section to recover the nearly \$1.49 million in overpayments by requesting contractors to return the amounts overpaid. Of these amounts, \$87,096.02 is immediately recoverable and \$1,400,955.91 is recoverable unless adequately supported by the contractors. If a contractor refuses to cooperate or repay the funds, the matter should be referred to the AGO for legal action.

Of the \$87,096.02 which is immediately recoverable: \$61,794.07 has already been recovered (C50305, C60114 and C60142); \$6,000 will not be pursued (C60334); and \$11,000 has been redirected to the AGO leaving a balance of \$8,301.95 immediately recoverable [\$1,320.94 for C60196, \$2,426.25 for C70156, \$3,619.66 for C50388, and \$935 for C60355].

Of the \$1,400,955.91 recoverable unless adequately supported, \$94,156.41 was substantiated by invoices and receipts by the contractor for C60114 and C50305 leaving a balance of \$1,306,799.50 still recoverable unless adequately supported [\$1,199,316.56 for C50388 and 31075-OC; \$65,182.12 for C60323, C60373, C70091, C70179 and 300082-OC; and \$42,300.82 for C60196].

(Note: No further action required for contract nos. C50305, C60114, C60142, C70180, C70149, C60334).

As Revised and Redirected to AGO: Determine appropriate legal action to be taken to recover the remaining \$8,301.95 that is immediately recoverable and the remaining \$1,306,799.50 that is recoverable unless adequately supported.

Agency to Act : Department of Finance - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : On 1/4/01, DOF provided OPA with copies of bills for collection dated 9/1/99 for the following contracts: Contract No. C60196 for \$1,320.94; Contract No. C70156 for \$2,426.25; Contract No. C50388 for \$1,619.66 (additional billing for \$2,000 still to be provided).

In the 10/1/01 response by DOF, the Secretary of Finance stated that the contractor for Contract no. C60355 has a claim against the CNMI for \$18,000. The CNMI refuses to pay the contractor's claim for lack of a change order. DOF is planning to charge the \$935 against the amount claimed by the contractor. For Contract no. C50388, DOF claims that the additional billing of \$2,000 to be provided to OPA is already included in the \$1.4 million which is separately recoverable. OPA looked into DOF's claim and ascertained that the \$2,000 was not included in the \$1.4 million. In addition, DOF is verifying all documents which were identified in the \$1.4 million as recoverable unless adequately supported. DOF provided OPA letters to three contractors requesting supporting documents for invoice under Contract nos. C50388, C31075, C60323, C60373, C70091, C70179, 300082-OC and C60196. DOF will inform OPA of any responses.

In his 4/12/02 response, the Secretary of Finance informed OPA that DOF has sent out notices to four contractors. One contractor responded. Two of the notices were returned undelivered and one contractor replied asking for a more reasonable request given the amount of information and length of time that has elapsed.

On 3/18/05, the Secretary of Finance provided OPA a copy of the invoices and receipts to substantiate payments made for C60114 and C50305 totaling \$94,156.41. Therefore, of the \$1,400,955.91 that is recoverable unless adequately supported, \$1,306,799.50 from three contractors remain to be recovered. The Secretary of Finance is requesting that OPA refer the remaining \$8,301.95 that is immediately recoverable and the remaining \$1,306,799.50 that is recoverable unless adequately supported to AGO given the time lapsed since the issuance of the bills for collections and letters requesting for supporting documents from the contractors with no response to date. On 6/2/05, OPA referred this matter to the AGO for their review and legal action.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

Additional Information or Action Required : AGO should inform OPA of the results of legal actions taken to pursue collection of the remaining \$8,301.95 that is immediately recoverable and the remaining \$1,306,799.50 that is recoverable unless adequately supported.

Report No. AR-00-01 issued April 13, 2000
Audit of the Land Survey Contract
for the Tinian Road Resurfacing Project
Fiscal Year 1997

Date(s) of followup letter(s) sent : 7/3/00 (DPW), 7/12/00 (AGO), 7/13/00 (DOF), 1/17/01 (AGO), 8/21/01 (AGO), 2/14/02 (AGO), 8/12/02 (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 8/4/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/06

Date(s) of response letter(s) received : 5/10/00 (DPW), 11/7/00 (meeting with Coordinating Group on AGO), 12/7/00 (meeting with Coordinating Group on DOF), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 9/1/05 (AGO)

Recommendation 5 : *Original:* DOF should continue to take necessary steps to recover the \$164,534 improper payments made to the contractor, unless restitution to the CNMI Government is made in the Federal Court mail fraud case. Recovery efforts should be coordinated with the Attorney General's Office. In implementing this recommendation, recovery of the whole contract price of \$229,438 on the basis that the contract was invalid may be undertaken in lieu of the approach taken above where recovery would be based on the overpayments made to the contractor.

As Redirected to AGO: AGO should continue to take necessary steps to recover the \$164,534 improper payments made to the contractor, unless restitution to the CNMI Government is made in the Federal Court mail fraud case. Recovery efforts should be coordinated with the Attorney General's Office. In implementing this recommendation, recovery of the whole contract price of \$229,438 on the basis that the contract was invalid may be undertaken in lieu of the approach taken above where recovery would be based on the overpayments made to the contractor.

As Revised: AGO should provide OPA documents showing recovery of the \$100,000 in restitution imposed by the United States District Court's sentence imposed on the contractor.

Agency to Act : Department of Finance - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : The DOF Secretary requested AGO's assistance in getting information on the Federal Court case involving the contract. The DOF Secretary stated that her office will proceed with the recommendation after the Federal Court's decision.

During the 12/7/00 meeting with the Coordinating Group, it was agreed that this recommendation should be redirected to the AGO. In its 3/9/01 response, the Acting Attorney General stated that no further action will be taken on this matter. Contact has been made with the United States Probation Department requesting that restitution from the contractor be ordered at sentencing.

During the 2/12/02 meeting, AGO informed OPA that it had already requested the United States Probation Department to recommend that restitution be required from the contractor and that it is awaiting sentencing decision.

On 4/2/02, the United States (US) District Court's sentence imposed on the contractor was 8 months imprisonment and restitution of \$100,000.

In his response date 9/15/03, the Acting Attorney General stated that this case was assigned to an Assistant Attorney General on 5/21/03 and is pending further legal analysis.

In his response dated 10/25/04, the Acting Attorney General stated that the enforcement of the federal court order of restitution should be the responsibility of the U.S. Attorney's Office. Accordingly, the AGO plans to request enforcement by that office.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

Additional Information or Action Required : AGO should inform OPA of the results of its request to enforce payment of the restitution ordered by the federal court.

**Report No. AR-00-03 issued July 20, 2000
Commonwealth Ports Authority
Audit of the Compensatory Time Claimed and Retirement Benefits
Paid to Two Former Officials of the CPA**

Date(s) of followup letter(s) sent : 1/17/01 (CPA), 1/19/01 (NMIRF), 8/20/01 (CPA), 8/21/01 (NMIRF), 3/5/02 (CPA) (NMIRF), 8/9/02 (CPA) (NMIRF), 8/12/02 (AGO), 10/3/02 (AGO), 12/24/02 (AGO), 2/14/03 (AGO) (CPA), 2/18/03 (NMIRF), 8/4/03 (NMIRF) (AGO), 4/13/04 (AGO), 4/16/04 (NMIRF), 9/21/04 (AGO), 9/28/04 (NMIRF), 2/15/05 (AGO) (NMIRF), 8/9/05 (AGO), (NMIRF), 3/10/06 (AGO), (NMIRF)

Date(s) of response letter(s) received : 8/31/01 (meeting with CPA), 10/4/01 (NMIRF letter of request for extension to respond until 11/3/01), 10/12/01 (CPA), 1/29/01, 2/12/02 (meeting with AGO), 8/12/02 (CPA request for extension), 8/30/02 (CPA), 9/25/02 (CPA), 4/2/03 (NMIRF), 7/22/03 (NMIRF), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/22/05 (NMIRF), 9/1/05 (AGO)

Recommendation 1 : *Original:* The CPA Board of Directors should adopt personnel rules and regulations that are: (a) within the authority granted by the Commonwealth Ports Authority Act and other CNMI laws such as the Compensation Adjustment Act, (b) consistent with and governed by the same principles of fairness and equality as the CNMI Personnel Regulations, thereby eliminating authorization for FLSA-exempt (executive, administrative and professional) officials and employees to earn comptime, and the granting to six designated officials of 14 annual leave hours per payperiod, or 360 hours per year.

As Redirected: The AGO should review the opinion provided by OPA regarding granting six designated officials 14 annual leave hours per payperiod and take legal action if determined necessary.

Agency to Act : Commonwealth Ports Authority - Redirected to the Attorney General's Office

Status : Open - Delinquent

Agency Response : In his letter response dated 5/12/00, the CPA Board Chairman disagreed with Recommendation 1. He believed that CPA is not required or obliged to adopt rules and regulations similar or identical to the CNMI Personnel Regulations. He also stated that CPA's system of compensation is generally commensurate with the rest of the Commonwealth government. He further said that the granting of 14 hours annual leave per pay period to designated officials is a matter of personnel policy.

In his 10/12/01 response, the CPA Executive Director also disagreed with OPA's conclusion that CPA is required to adopt personnel rules and regulations that are similar, if not identical, to the CNMI's PSSRR. He stated that matters involving CPA personnel regulations, policies and benefits are strictly for the CPA board to decide. The Executive Director, suggested that the legislature could always review the matter and make recommendations to CPA to enact remedial legislation.

In the proposed CPA Personnel Rules and Regulations, the CPA Executive Director has proposed provisions enumerated under Sections 3.05 and 3.07 which addressed OPA's recommendation of eliminating the grant to FLSA-exempt officials and employees to earn overtime or comptime. Also, Section 5.02 of the proposed Personnel Rules and Regulations states that "Employees shall accumulate annual leave at the same rate as such leave time would be accumulated by employees of the Government of the Commonwealth of the Northern Marianas Islands." However, upon inquiry to the CPA Office Manager, OPA learned that CPA still granted the 14 annual leave hours for the last personnel contract executed. The proposed Personnel Rules and Regulations were published in the Commonwealth Register on January 29, 2002 for review and comments by interested parties until February 29, 2002.

In his response dated 8/30/02, the CPA Executive Director informed OPA that CPA's Personnel Rules and Regulations were adopted on August 8, 2002 and were published in the Commonwealth Register. He also stated that CPA's Personnel Rules and Regulations are similar to the PSSRR in terms of personnel regulations, benefits and policies', however, the CPA Board decided to continue the accrual of 14 hours annual leave bi-weekly for several of its key management employees. On 9/16/02, OPA requested CPA for additional information on the matter.

Based on additional information CPA provided to OPA on 9/25/02, OPA conducted an analysis of the various CPA positions that are currently receiving the 14 hours annual leave benefit per pay period. Based on the analysis, OPA concluded that the positions of the deputy director, deputy comptroller, and the staff engineer may not be entitled to 14 hours annual leave per pay period because they are not encompassed in the exception provided by 2 CMC §2122(n) and are not considered to be "specialists for which no comparable position exist in the Commonwealth". Thus, the compensation, wages, and salary scales of these positions "shall be commensurate with those paid by the Commonwealth requiring comparable education, training, or experience." Based on the analysis, OPA also concluded that while certain positions such as the executive director, comptroller and ports managers, are able to receive compensations non-commensurate "with those paid by the Commonwealth requiring comparable education", OPA maintains its concerns regarding the extension of such generous leave benefits and whether such compensation is truly "reasonable related to the operations of the government" as set forth in Article X, Section 1 of the NMI Constitution, Public Laws 12-2 and 11-84. On 12/24/02, OPA forwarded this information to the AGO for review of the legal issues identified and action if determined necessary.

In his response dated 9/15/03, the Acting Attorney General stated that this case has been assigned to an Assistant Attorney General for review.

On 4/30/04, the Deputy Attorney General informed OPA that the Chief of the Civil Division is currently evaluating this case and expects to have its analysis and review completed by June 30, 2004.

The Acting Attorney General's response dated 10/25/04 did not address this recommendation.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

**Additional Information
or Action Required**

: The AGO should provide OPA the results of its review on the matter.

Recommendation 5

: *Original:* The CPA Board of Directors should instruct the CPA Accounting Department to stop the practice of making advance payments of unused annual leave and salary, and comply with the provision in the employment contracts that payments will be made upon contract expiration. In the case of retiring employees not covered by employment contracts, payment should be made on the next payday following the termination of employment or on payroll due dates.

As Redirected: The AGO should provide its legal opinion on the propriety of

CPA's practice of making advance payments of unused annual leave and salary, instead of complying with the provision in the employment contracts that payments will be made upon contract expiration. In the case of retiring employees not covered by employment contracts, payment should be made on the next payday following the termination of employment or on payroll due dates.

Agency to Act : Commonwealth Ports Authority - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : In his 10/12/01 response, the CPA Executive Director disagreed with the recommendation and stated that there is nothing illegal about making advanced leave payments for annual leave that has already accrued or advancing a salary that an employee has already earned. He further stated that this is a matter that rests exclusively with the CPA Board.

In a meeting on 2/12/02, this recommendation was included in the list provided by OPA to AGO pertaining to outstanding matters requiring AGO's legal opinion.

In his response dated 9/15/03, the Acting Attorney General stated that this case has been assigned to an Assistant Attorney General for review.

On 4/30/04, the Deputy Attorney General informed OPA that the Chief of the Civil Division is currently evaluating this case and expects to have its analysis and review completed by June 30, 2004.

The Acting Attorney General's response dated 10/25/04 did not address this recommendation.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

Additional Information or Action Required : AGO should provide OPA a copy of its legal opinion on the matter.

Report No. LT-01-07 issued November 23, 2001
Commonwealth Utilities Corporation Audit of Travel of the Board of Directors,
Key Management and Other CNMI Government Officials from October 1999 through March 2001

Date(s) of followup letter(s) sent : 3/4/02, 8/12/02, 2/14/03, 4/21/03, 8/5/03, 11/10/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/06

Date(s) of response letter(s) received : 1/17/02, 9/5/02, 3/20/03, 7/7/03, 4/30/04 (AGO), 9/1/05 (AGO)

Recommendation 4 : *Original* - The Chairman of the Board and the Executive Director initiate recovery of any overpayments mentioned in this report.

As re-directed to the AGO: The AGO should determine whether recovery of the overpayments which have not been repaid will be pursued and inform OPA of what actions the AGO will be taking.

Agency to Act : Commonwealth Utilities Corporation - Redirected to the Attorney General's Office

Status : Resolved - Delinquent

Agency Response : On 9/5/02, CUC provided OPA with a schedule showing payment paid by Board Member 1 for TA no. 00-375 totaling \$471, and CUC Officer 1 and Board Member 7 for \$415 and \$525, respectively, for erroneous per diem payments.

In his response dated 3/20/03, the Chairman for the CUC Board of Directors informed OPA that CUC has reverted to paying the subsistence allowance as recommended in the OPA audit report but that the present CUC Board of Directors

has sanctioned the overpayments of the concerned Board members for the difference between the per diem they received and the subsistence allowance authorized and has provided justification for its decision, particularly in the case of the current board member who resides in Rota. On 4/21/03, OPA issued a letter to the Chairman of the CUC Board of Directors informing him that the position taken by the Board of Directors causes OPA concern for two reasons. First, it is inconsistent. To collect refunds for the overpayment from two individuals, but to excuse the others is inequitable. In addition, to state that CUC has reverted to paying the subsistence amount, indicating recognition that it is the authorized amount, but allowing individuals to retain the excess received over the subsistence amount is contradictory. Second, the letter provided by the Chairman of the CUC Board of Directors does not reflect the legal authority for an after the fact sanctioning of what the text of his letter and actions against the former employee and board member appear to recognize to be an improper act. OPA informed the Chairman of the CUC Board of Directors that without clearer legal authority or additional information to support their decision to sanction the overpayments, the recommendation will remain open.

On 7/7/03, OPA received a response from the CUC Board of Director's former Legal Counsel informing OPA that the Board has determined that they will (1) immediately reimburse the individuals who have paid the difference between the subsistence allowance and the per diem rate, (2) waive any further payment of outstanding sums, as noted in the audit recommendation, (3) insure that only payment of the subsistence amount is paid, and (4) present any anticipated change in policy as to sums paid with respect to inter-island travel to OPA for review and comment prior to final action. According to the Board's former Legal Counsel, the timing for denial of the payment, or requirement for reimbursement under an audit has passed, therefore, CUC will reimburse those who previously made payment and waive any additional payments from others.

On 8/5/03, OPA issued a letter to the Chairman of the CUC Board of Directors informing him that the time for collection has not passed and that the overpayments must be repaid by the individuals that received the monies as "such payments were improper", which is undisputed, as set forth by CUC in its response. As such, there is no legal basis presented by CUC to justify the waiver of payment by those individuals that have not repaid the funds. In addition, there is no legal basis to justify the reimbursement to those individuals that have repaid CUC for the erroneous payment. OPA believes that action for collection of the overpayments would be in the public interest and would be made against those having possibly breached their fiduciary duties by receiving and not repaying the funds. OPA is also concerned that the reimbursement for the funds received in repayment and the waiver of the funds due for the overpayment by the other individuals, absent a legal basis to do so, may present a new breach of duty based on unjustified sanctioning of such actions. OPA, therefore, cannot consider this matter closed and must refer this matter to the Office of the Attorney General for review at this time.

On 11/10/03, OPA forwarded to the Deputy Attorney General documents relating to the overpayments and questionable payment for further review and determination as to whether amounts in question should be recovered.

In his 4/30/04 response, the Deputy Attorney General stated that this case has been assigned to an Assistant Attorney General for evaluation and collection if appropriate.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

**Additional Information
or Action Required** :

The AGO should inform OPA whether recovery for the erroneous per diem payments and questionable payment below which have not been repaid will be pursued and what actions will be taken.

1. TA's with erroneous per diem payments for Board Member 1, Board Member 3, and Board Member 4 totaling \$2,730.

2. Questionable payment for one day per diem for TA no. 00-238 amounting to \$243.

Report No. AR-02-02 issued September 11, 2002
Tinian Casino Gaming Control Commission
Audit of Travel Transactions
Fiscal Years 1996 - 2001

Date(s) of followup letter(s) sent : 3/5/02, 8/9/02, 2/18/03, 8/4/03, 4/13/04, 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/06

Date(s) of response letter(s) received : 7/22/03, 6/17/04, 10/25/04 (AGO), 9/1/05 (AGO)

Recommendation I : *Original* - Recover advances totaling \$406,925 (Appendix A) from the commissioners, officials, and employees unless convincing evidence is submitted showing otherwise. If the commissioners, officials, and employees refuse to repay the funds, the Chairman should request the Attorney General's Office to take legal action against the commissioners, officials, and employees to recover the amount of advances outstanding.

As re-directed to the AGO - Institute legal action against the commissioners, officials, and employees to recover the amount of advances outstanding.

Agency to Act : Tinian Casino Gaming Control Commission - Redirected to the Attorney General's Office

Status : Open - Delinquent

Agency Response : The table on page 4 of the report presents five types of exceptions noted and the potentially recoverable amount. The following information or actions are required for each exception in order to consider the recommendation closed:

1. No travel voucher submitted - \$107,414 - the Tinian Casino Gaming Control Commission (TCGCC) should present travel vouchers and documents to support claimed expenses. Otherwise, it should collect the advances and present evidence of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.
2. Insufficient supporting documentation - \$247,278 - TCGCC should present valid documents to support claimed expenses. Otherwise, it should collect the advances and present evidence of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.

After the exit briefing conducted on August 14, 2002, certain travelers provided copies of documents evidencing that official trips were performed. Although these documents had not been timely submitted, most of them adequately documented claimed expenses and would reduce exception no. 2 by \$14,672.

3. Unallowable discretionary fund expenses - \$15,829 - TCGCC should present evidence of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.

Two travelers concurred that they should pay TCGCC for personal expenses cited by OPA.

4. Improper CNMI advances - \$26,808 - TCGCC should present evidence of collection from the traveler such as official receipts or, if applicable, evidence of payroll deduction.
5. Excessive Per diem - \$9,596 - TCGCC should present proof of collection from

the traveler such as official receipts or, if applicable, evidence of payroll deduction.

On August 16, 2002, a traveler provided OPA a copy of official receipt for payment of \$75 excess per diem.

In his response dated 6/17/04, the Chief Legal Counsel for TCGCC stated that TCGCC had contacted certain commissioners, officials and employees about the allegations in the audit report and was unable to settle their accounts consistent with the requirements of the recommendation. However, they have followed the recommendation made by OPA and has referred this matter to the AGO for "appropriate action". Although no specific referral letter was issued to the AGO, one of the Assistant Attorney General acknowledged his familiarity with the conclusions of the report and the request by TCGCC that the AGO take "appropriate action" to recover the funds identified in this recommendation. The Assistant Attorney General advised the Chief Legal Counsel that the AGO will review the report and determine what "appropriate action" will be taken against the commissioners, officials and employees identified in the report.

In his response dated 10/25/04, the Acting Attorney General stated that the AGO is currently researching standing issues related to the collection of the debt.

In her letter response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

Additional Information or Action Required : The AGO should inform OPA the results of its research and whether it will pursue this case.

Report No. AR-02-04 issued on November 5, 2002
Audit of the Department of Labor and Immigration - (Currently Dept. of Labor/AGO Division of Immigration)
Tinian Long Distance Telephone Charges
January 1998 through June 2000

Date(s) of followup letter(s) sent : 2/18/03 (DOLI), 8/4/03 (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO) (DOL), 2/15/05 (AGO) (DOL), 8/9/05 (AGO) (DOL), 3/10/06

Date(s) of response letter(s) received : 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 10/27/04 (DOL), 9/1/05 (AGO)

Recommendation 2 : Request the telephone company to reduce the number of agency telephone lines with long-distance access and limit long-distance access only to certain employees.

Agency to Act : Department of Labor - Tinian / AGO-Division of Immigration - Tinian

Note: This recommendation was previously addressed to the Department of Labor and Immigration (DOLI) - Tinian. Pursuant to Executive Order 03-01 dated 3/10/03, the Division of Immigration was transferred to the AGO. Implementation of this recommendation will now be required from both the Department of Labor - Tinian and the AGO-Division of Immigration - Tinian. Although the Division of Immigration is not under the Department of Labor, OPA included this section of the report under the DOL to avoid duplication.

Status : Resolved - Delinquent

Agency Response : The Resident Director of DOLI Tinian appears to disagree with the recommendation. She stated that DOLI Tinian has four divisions which contains an average of two to three sections. She explained that the current ten telephone lines often results in hampered public services due to busy telephone signals. Hence, she maintained that her department will continue with the set up of ten telephone lines.

In a conference call between the DOLI Tinian Resident Director's Secretary and OPA on 2/18/03, the Secretary stated that there are only four DOLI personnel who have access to a pin number used to make long-distance calls. Also, the only telephone line with direct access to long-distance is in the Resident Director's office.

AGO - DIVISION OF IMMIGRATION - In a telephone conversation with the Deputy Attorney General in Mid-June, OPA was informed that the recommendation has been implemented. OPA will request the AGO to provide written documentation evidencing implementation of the recommendation in order to consider the recommendation closed.

DEPARTMENT OF LABOR - On 10/27/04, the Secretary of DOL provided OPA with a copy of the letter addressed to the Resident Department Head of DOL - Tinian instructing him to (1) submit a written request to the telephone company to block all long distance telephone access to every telephone line, including facsimile lines, (2) procure and utilize a long distance calling card to be in his possession or a designee, (3) maintain a log book to record long distance calls made by an authorized employee to be used to certify each month's long distance call billing, and (4) re-issue policy memoranda to all employees regarding the use of long distance telephone calls.

In her response letter dated 9/1/05, the Attorney General stated that they are currently working on this matter.

**Additional Information
or Action Required**

: *AGO - DIVISION OF IMMIGRATION* - AGO should provide written documentation evidencing that authorization of the long-distance pin number is limited to certain employees.

DEPARTMENT OF LABOR - DOL should provide OPA with a copy of the policy memoranda on the use of long distance telephone calls and a copy of the log sheet used to record and monitor all long distance calls made.

**Report No. AR-03-04 issued March 10, 2003
Office of the Attorney General
Audit of the Attorney General's Investigative Unit Confidential
Informant/Cash Funds From October 1, 1994 to April 30, 2002**

Date(s) of followup letter(s) sent : 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06

Date(s) of response letter(s) received : 5/12/03, 9/15/03, 4/30/04, 10/25/04, 9/1/05

Recommendation 3 : Recovering the residual value of three unused return airline tickets totaling \$723 and the overpayment of per diem of \$1,605 from the three travelers involved.

Agency to Act : Attorney General's Investigative Unit

Status : Resolved - Delinquent

Agency Response : In her response dated 5/12/03, the former Attorney General informed OPA that a \$723 credit voucher had been issued by the involved travel agency to be depleted by off-setting with future airline tickets for investigation related to the local law enforcement funds purpose with no restrictions. Furthermore, the Attorney General outlined two steps to resolve the travelers' overpayment of per diem - (1) the current AGIU investigator will re-pay the fund in cash, and (2) the two other travelers, now both civilians and not attached to AGIU, will be contacted by an Assistant Attorney General for repayment through legal process.

In his response dated 9/15/03, the Acting Attorney General stated that this case was cleared by OPA. Upon further review, OPA determined that this case has not yet been cleared since OPA was not provided copies of documents evidencing repayment made into the fund by the current AGIU investigator for the overpayment

of per diem and the results of their collection effort for the other two travelers with overpayments of per diem who are no longer employed with the AGIU.

On 4/30/04, the Deputy Attorney General informed OPA that one AGIU investigator has repaid \$535 to the CI Fund. Supporting documents to evidence repayment made by the AGIU investigator was subsequently provided to OPA on 7/20/04. Also, an attorney has been assigned to evaluate the case and to recover the uncollected balances due to the CNMI government. Based on AGO's response and supporting documents provided, \$535 has been collected, leaving a balance of \$1,070 still recoverable from the two remaining investigators who are no longer attached to AGIU.

In his response dated 10/25/04, the Acting Attorney General stated that OPA only allowed \$200 per diem rate, however, the AGO Administrative Officer determined that AGIU was allowed higher per diem rate. He further stated that OPA required receipts and disallowed some expenses, however, under current travel policies and memoranda, per diem does not have to be justified by receipts. The requirement imposed is that boarding passes must be supplied. The AGO also stated that there are no fiscal rules regarding paid travel, per diem, or hearing procedures in contested cases. AGO plans to meet with OPA and DOF to discuss this matter.

OPA Response to AGO: The CNMI Travel Regulations are clear as to what type of expenses can be covered by the travel advance and OPA agrees that per diem does not have to be covered by receipts. However, per diem rates per locality are also established by the Regulations and we have not seen anything in writing allowing AGIU to exceed the \$200 per diem rate for the Korea trip. Pursuant to regulations, meals are covered by the per diem and should not form part of the additional expenses deductible from the advance. Sightseeing tour entrance fees are also not among those allowed as legitimate travel expenses. OPA still believes that the excess amount should be returned by the travelers unless the AGO can justify what it claims "a higher per diem rate for investigators". OPA would be ready to further discuss this issue with AGO.

In her response dated 9/1/05, the Attorney General stated that there has been no change to the development of this case.

**Additional Information
or Action Required**

: AGO should inform OPA of the results of their collection effort for the other two travelers with overpayments of per diem who are no longer employed with the AGIU and provide copies of documents evidencing payments until fully recovered.

**Report No. AR-05-03 issued August 12, 2005
Marianas Hawaii Liason Office
Audit of the Marianas Liason Office
From October 1, 1999 through December 31, 2002**

Date(s) of followup letter(s) sent : 3/13/06

Date(s) of response letter(s) received :

Recommendation I : Issue a determination on whether recovery of funds for double benefits paid to a former Liaison Officer is appropriate and should be pursued.

Agency to Act : Attorney General's Office

Status : Open - Delinquent

Agency Response : In a letter dated 7/27/05, the Attorney General stated that the AGO will take OPA's recommendation under advisement and review the matter. The AGO requested OPA forward all documents generated in connection with the particular contract cited in the report in order to expedite their review.

OPA forwarded all pertinent documents relating to the contract to the AGO on

Additional Information or Action Required	8/1/05. The AGO should inform OPA of the results of its review and whether recovery of funds for double benefits paid to a former Liaison Officer is appropriate and be pursued.
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Recommendation 3	<i>Original:</i> Compute the total improper payments of housing allowances to employees hired in Hawaii, including those made prior to FY 2000, and initiate recovery of improper payments by forwarding the information to the AGO and making a legal query as to how to proceed in recovering the improper payments. <i>As Revised and Redirected to the AGO:</i> Determine appropriate legal action to be taken to recover improper payments of housing allowances.
Agency to Act	Marianas Hawaii Liaison Office - Redirected to the Attorney General's Office
Status	Resolved - Active
Agency Response	On 9/6/05, MHLO provided OPA with the schedule of payments for housing allowances improperly paid to two of the three employees cited in the report. MHLO did not inform OPA, however, whether it has forwarded the information to the AGO for legal query as to how to proceed in recovering the improper payments. OPA was subsequently contacted by an Assistant Attorney General to request a meeting to discuss and review pertinent files relating to OPA's findings of improper payments of housing allowances. OPA staff met with the Assistant Attorney General assigned to this case on 1/27/06. On 2/1/06, OPA forwarded to the Assistant Attorney General requested copies of audit work papers relating to the improper payments.
Additional Information or Action Required	AGO should inform OPA of the results of its review and determination regarding the improper payments of housing allowances.
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Department of Commerce

Report No. AR-05-01 issued March 3, 2005 Audit of the Security of CNMI Government Funds Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/13/06

Date(s) of response letter(s) received : 3/31/06

Recommendation 14 : The Department of Commerce should implement a system to monitor all securities pledged by banks as collateral for all CNMI Government deposits, or seek legislative amendment to designate or transfer such responsibility to another capable government office or agency.

Agency to Act : Department of Commerce

Status : Resolved - Active

Agency Response : In his letter dated 3/31/06, the Acting Secretary of the Department of Commerce informed OPA that the Office of the Director of Banking is in the process of implementing a quarterly monitoring of all government deposits held by banks and financial institutions covered under Public Law 12-61. He further stated that a draft administrative notice/order effecting this new requirement, is currently being reviewed by the AGO, and that this new reporting requirement will become effective beginning the first quarter of 2006.

According to the Acting Secretary, under this new reporting/monitoring scheme, all banks and financial institutions holding government deposits will be required to furnish the Director of Banking, on a quarterly basis, with evidence(s) and a certification that they are in compliance with Public Law 12-61, the Government Deposit Safety Act. This new reporting will be in addition to the quarterly submission of statements of financial condition that banks already provide the Office of the Director of Banking. As with the quarterly statements, banks will be given 30 days following the end of each calendar quarter to submit the government deposit compliance reports.

Additionally, the Acting Secretary stated that they are currently working with members of the Legislature to amend Public Law 12-61 to address other issues cited in the audit report

Additional Information or Action Required : The Department of Commerce should provide OPA with a copy of the adopted administrative order and evidence that the new monitoring plan has been implemented. OPA will review the administrative order to determine if it addresses the recommendation.

Department of Finance

Report No. AR-98-06 issued December 14, 1998
Department of Finance
Audit of Misuse of Funds by the Former Secretary of Finance
Fiscal Years 1995, 1996, and 1997

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 1/26/99, 1/5/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 2/14/02 (AGO), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (DOF) (AGO), 8/8/05 (DOF), 8/9/05 (AGO), 3/9/06

Date(s) of response letter(s) received : 1/20/00 (AGO), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 3/31/05 (DOF), 9/1/05 (AGO), 3/31/06 (request for extension), 4/18/06

Recommendation I : *As Revised:* DOF should provide OPA documents showing recovery of the \$56,461.98 in restitution on the federal case. In addition, AGO should take further legal action against the former Secretary for misappropriation and improper expenditure of public funds.

Agency to Act : Department of Finance / Attorney General's Office

Status : Resolved - Active

Agency Response : On 2/22/01, the Federal Court sentenced the former Finance Secretary to 33 months imprisonment and ordered payment of \$56,461.98 in restitution to the court for disbursement to the CNMI Department of Finance.

In his 3/9/01 response, the Acting Attorney General stated that the AGO waited until the federal crime case concluded since one count in the case was covered by AGO's case. The former Secretary was ordered to pay restitution in the federal case, thereby reducing the maximum potential judgment. AGO will make a Motion for Summary Judgment and will still seek a judgment of approximately \$75,000 against the former Secretary of Finance for misappropriation and improper expenditure of public funds.

During the 2/12/02 meeting, AGO informed OPA that it will file a Motion for Summary Judgment in the civil action filed against the former Secretary of Finance. In a follow-up letter to AGO dated 2/14/02, OPA compiled a list of its referrals for AGO to prioritize for action. The list included this recommendation.

In his response dated 9/15/03, the Acting Attorney General stated that this case has been forwarded to the AGO's collection team (an in house team assembled to collect debts owed the government that are over the statutory limit for small claims) and the matter is still pending.

In his 10/25/04 response, the Acting Attorney General stated that the civil case against the defendant is still pending for the recovery of funds.

In a response letter dated 3/18/05, the Secretary of Finance stated that the defendant has not made any payments towards his restitution obligation to the CNMI government to date. On 3/31/05, OPA was provided a copy of the letter received from the U.S. Attorney of the District of Guam to the Secretary of Finance informing him that the former Secretary of Finance's assigned U.S. Probation Officer will be setting a payment schedule to dispose of his restitution obligation after July 2005. The U.S. Attorney of the District of Guam will be notifying the Secretary of Finance once the payment plan is established.

In his response letter dated 4/18/06, the Secretary of Finance provided OPA with a copy of the letter from the US Attorney's District Office on Guam advising OPA of the payment plan the former secretary will be making to the government. OPA was also provided with a summary of all payments made by the former secretary owed to the government to date. The US Attorney's District Office has been notified that the former secretary has agreed to make monthly payments in the amount of \$100 effective 8/1/05. According to the payment summary provided by DOF, payments made by the former secretary totaled \$625.00 as of 3/21/06, thus leaving a balance outstanding of \$55,837.00. Additionally, the letter stated that a balance still remains towards the former secretary's imposed assessment fee and that any payments will first be applied to it until it is paid off.

**Additional Information
or Action Required**

: DOF should continue to update OPA on the collection of the \$55,837.00 restitution in the federal case until the entire amount is fully recovered. In addition, AGO should also provide OPA with copies of any judgement issued.

**Report No. LT-95-06 issued November 1, 1995
Investigation of a Motor Vehicle Leased by the Tinian Mayor's Office**

Date(s) of followup letter(s) sent : 7/16/96,11/29/96,12/3/96, 2/2/98, 9/17/98, 11/23/99, 7/13/00,
1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04,
9/28/04, 2/15/05, 8/8/05, 3/9/06

Date(s) of response letter(s) received : 11/21/00 (meeting with Coordinating Group on DOF), 10/01/01,
3/27/02 (DOF request for extension), 4/12/02, 3/17/03 (DOF
request for extension), 3/7/05 (DOF request for extension),
3/18/05, 3/31/06 (request for extension), 4/18/06

Recommendation 2 : The Secretary of Finance should designate responsibility to a specific DOF office for implementing government vehicle regulations, developing specific procedures for confiscating vehicles, and bringing disciplinary actions against offending officials or employees.

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : The provisions of Government Vehicle Regulations No. 1101 Section 11 (e) as adopted by the Department of Finance in the Commonwealth Register on 4/15/93 state that the Secretary of Finance shall have the authority to revoke the employee's CNMI government vehicle permit, immediately confiscate the vehicle in question, bring disciplinary action against the offending official or employee, or refer the matter to the Attorney General or Department of Public Safety for further investigation.

In his 4/12/02 response, the Secretary of Finance informed OPA that revisions to the amended Government Vehicle Regulations are near completion and a copy will be provided to OPA upon their adoption.

In his 3/18/05 response, the Secretary of Finance informed OPA that DOF is currently reviewing the proposed amendments to the regulations. The Director of Procurement and Supply has asked for an additional 30 days to conduct further review with the assistance of the Attorney General's Office. The Secretary of Finance stated that they will have the amended regulations published in the April 2005 Commonwealth Register and have the amendments adopted in May 2005.

In his letter response dated 4/18/06, the Secretary of Finance informed OPA that the review of existing regulations has taken longer than expected. The Secretary of Finance was informed by the Director of Procurement and Supply that the amended regulations will be due by June 30, 2006 and published for adoption 60 days thereafter.

Additional Information

or Action Required : DOF should provide OPA a copy of the revised Government Vehicle Regulations upon its adoption.

Report No. AR-96-01 issued January 31, 1996
Office of the Mayor
Audit of Operations
For Fiscal Years Ended September 30, 1990 to 1993

Date(s) of followup letter(s) sent : 3/28/96, 11/25/96, 2/2/98, 9/17/98, 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06

Date(s) of response letter(s) received : 6/11/97, 9/27/00, 9/22/99, 11/21/00 (meeting with Coordinating Group on DOF), 3/27/02 (DOF request for extension), 4/12/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05, 3/31/06 (request for extension), 4/18/06

Recommendation 7 : The Secretary of Finance should direct the head of the Tinian Procurement Office to maintain an updated record of capital assets. On a regular basis, the Tinian Procurement Office should conduct an inventory to establish the physical existence, condition and location of fixed assets. It should also compare its record of assets with the inventory and take appropriate action with respect to any differences. Any missing item should be properly accounted for by the concerned agency.

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : During the 11/21/00 meeting with the Coordinating Group, the Procurement and Supply (P&S) Director agreed to issue a memorandum to the Tinian Procurement Office and even to the Rota Procurement Office directing them to conduct their own annual inventory. In the 10/1/01 response from DOF, there was no indication of any action taken on this recommendation.

On 4/12/02, the current Secretary of Finance responded that his office has requested copies of the inventory results from Rota and Tinian for DOF to provide to OPA.

On 3/18/05, the Secretary of Finance provided OPA a copy of the new CNMI Property Management Policies and Procedures dated 1/8/03 which states that capital inventories shall be conducted on an annual basis. Based on the new policies and procedures, the inventory results for 2004 is due on March 23, 2005. OPA was also provided a copy of the memorandum from the Secretary of Finance addressed to the Supply Representatives for Tinian and Rota dated 3/14/05 requesting for their office inventory listing of all CNMI government property assigned under each department and agency in their respective area no later than March 23, 2005. The Property Management Branch will schedule a physical inventory verification once the listing has been received and compiled. DOF will be providing OPA with the inventory results once completed.

In his letter dated 4/18/06, the Secretary of Finance informed OPA that the Director of Procurement and Supply has issued notices to the Procurement Offices in Rota and Tinian to conduct an annual inventory of their fixed assets. The Secretary of Finance further stated that the physical inventory of all fixed assets on Tinian and Rota are still ongoing and that DOF will provide OPA with the inventory results as soon as they are completed.

Additional Information

or Action Required : The P&S Director should provide OPA a copy of the inventory results and actions taken.

Report No. AR-97-05 issued March 20, 1997
Audit of the Executive Branch of the CNMI Government's
Professional Services Contracts from October 1991 to July 1995

Date(s) of followup letter(s) sent : 7/9/97, 2/02/98, 9/17/98, 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06

Date(s) of response letter(s) received : 11/9/00, 11/21/00 (meeting with Coordinating Group on DOF), 5/01, 10/1/01, 3/27/02 (DOF request for extension), 4/12/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05, 3/22/05, 3/29/06 (request for extension), 4/18/06

Recommendation 3 : The Contracting Officers should recover payments (including interest) made to contractors whom we identified as having been paid without performing their work, and refer those who refuse to pay to the AGO for legal action.

Agency to Act : Department of Finance - Treasury for Contact C40113, C50108

Status : Resolved - Active

Agency Response : On 1/14/00, AGO and the Director of Procurement and Supply met with the former contractor which resulted in the former contractor agreeing to repay the Commonwealth \$96,100. The former contractor signed a promissory note with the AGO for monthly payments of \$300 to the CNMI Treasury beginning 2/15/00.

During the 2/12/02 meeting, AGO informed OPA that the former contractor in this matter remains in compliance with the settlement promissory note and therefore AGO just needs to continue to monitor compliance.

In his letter dated 4/18/06, the Secretary of Finance informed OPA that total payments made on the promissory note as of 3/21/06 amounted to \$14,000 leaving a balance of \$81,900 still to be recovered. According to the summary schedule provided by DOF, the former contractor is 27 months behind with his payments as of 3/21/06.

Additional Information or Action Required : *For Contract Nos. C40113 and C50108* - Until full amount has been paid, DOF-Treasury should continuously provide OPA evidence (*i.e.*, official receipts) of collections from the former contractor which pay directly to the CNMI Treasury. DOF should also update AGO on the status of payments made by the former contractor and his non-compliance with the promissory note. Accordingly, DOF should update OPA on the results of its communication with the AGO on this matter.

Recommendation 8 : The Secretary of Finance should issue a memorandum instructing the DOF - Accounting Section to recover or offset from future payments the \$15,079 in overpayments to contractors.

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : In the 10/1/01 response from DOF, the Secretary of Finance stated that \$7,559 (for Contract no. C50083) of the \$15,079 in total overpayment has already been settled and that supporting documents regarding the settlement were provided to OPA. For the others in question which include \$1,020 (for Contract no. C50132) and \$6,500 (for Contract no. C50208), DOF requested that AGO initiate a recovery action, given the length of time involved and the improbability of a reply from both contractors.

In his 4/12/02 response, the Secretary of Finance provided OPA a copy of a memorandum requesting the Acting Director of Finance and Accounting to review the records pertaining to the payments in question and to issue a demand for payment immediately.

In his letter dated 3/18/05, the Secretary of Finance informed OPA that after their review of the files, DOF was unable to confirm whether bills were sent out to two contractors. DOF will gather all the required documents to include with the bills for collection and provide OPA a copy. DOF will also refer the matter to the AGO for collection.

In his response letter dated 4/18/06, the Secretary of Finance informed OPA that the Acting Director of Finance and Accounting is unable to provide copies of accounts payable vouchers (APV) that are needed as supporting documents when bills are sent out for collection. The Secretary further stated that since this was an OPA-initiated audit, the OPA should have copies of the payment vouchers in question, as they should have been part of the working files. In the meantime, they are consulting with the Office of the Attorney General as to the appropriate course of action(s) that can be taken considering the lack of supporting documents and the statute of limitation on these claims.

**Additional Information
or Action Required :**

DOF should provide OPA with the documents evidencing settlement of the \$7,559 (for Contract no. C50083). DOF should also provide OPA a copy of the bills for collection to recover the overpayment of \$1,020 (for Contract no. C50132) and \$6,500 (for Contract no. C50208). Finally, DOF should update OPA on the results of its communication with the AGO on the appropriate course of action(s) that can be taken on these claims.

Report No. AR-98-02 issued May 26, 1998
Review of CNMI's Compliance with Government Vehicle Act and Regulations
March 1995 to March 1997

Date(s) of followup letter(s) sent : 9/9/98 (DLNR) (CDA) (DPW) (PDO) (SMO), 9/17/98 (DOF) (GOV), 9/18/98 (DLI) (SAA) (DCCA) (DPS) (WRO) (SENATE) (HOUSEREP) (LEGBUREAU) (TMC) (BOE) (BOELEC) (CPA) (CUC) (NMIRF) (TCGCC) (LIBCOUNCIL), 9/21/98 (EMO) (DOC) (DPH) (SPMC) (SPRC) (TMO) (RMO) (NIMO) (SMC) (RMC) (CSC) (NMC) (MVB), 9/22/98 (OMB), 10/16/98 (TMO) (CSC), 10/28/98 (TMO) 4/22/99 (EMO), 7/19/99 (DPS), 11/22/99 (BOE) (BOELEC) (CUC) (DCCA) (DLI), 11/23/99 (CPA) (DOC) (DOF) (DPH) (DPS) (EMO) (GOV) (HOUSEREP) (LEGBUREAU) (LIBCOUNCIL), 11/24/99 (MVA) (NIMO) (NMC), 11/26/99 (OMB), (NMIRF), 11/29/99 (RMC), (RMO), (SPMC), (SPRC), (SMC), (SAA), (SENATE), (TCGCC), (TMC) (WRO), 1/17/00 (NMIRF), 7/3/00 (GOV), 7/6/00 (EMO) (LEG) (MVA) (RMO) (DCCA), 7/11/00 (BOE) (CPA) (CUC) (DLI) (LIBCOUNCIL) (NIMO) (RMC) (SENATE) (SPMC) (SPRC) (TMC) (WRO), 7/13/00 (DOF), 9/5/00 (NIMO), 7/00 (Verbal follow-ups made through the telephone), 9/6/00 (TMC) (LIBCOUNCIL) (SPMC), 1/16/01 (BOE), 1/17/01 (CPA), 1/18/01 (CUC) (DLI) (EMO) (RMC), 1/19/01 (DOF) (LEGBUREAU), 1/23/01 (SENATE), 1/24/01 (WRO), 1/30/01 (SPRC), 1/31/01 (RMO), 8/20/01 (CPA) (CUC), 8/21/01 (DOF) (RMC), 8/22/01 (LEGBUREAU) (WRO) (EMO) (SENATE) (BOE), 8/23/01 (DLI), 3/4/02 (EMO) (WRO), 3/5/02 (BOE) (SENATE), 3/12/02 (DOF), 8/9/02 (WRO), 8/12/02 (DOF), 2/18/03 (DOF), 8/4/03 (DOF), 4/14/04 (DOF), 9/28/04 (DOF), 2/15/05 (DOF), 8/8/05 (DOF), 3/9/06

Date(s) of response letter(s) received : 5/28/98 (DLI) 5/11/98 06/1/98 (DLNR), 6/04/98 (CDA), 6/29/98 (DPW), 7/1/98 (DCCA), 7/31/98 (PDO), 8/24/98 (SMO), 10/1/98 (TMO), 10/6/98 (CSC), 10/8/98 (DCCA), 10/13/98 (HOUSEREP), 10/15/98 (SAA), 10/21/98 (TMO), 11/6/98 (HOUSEREP), 2/25/99 (DPH), 4/7/99 (EMO), 4/8/99 (NIMO), 4/14/99 (TCGCC), 4/26/99 (DOC), 6/30/99 (DPS), 11/24/99 (BOE), 12/1/99 (NMIRF) (NMC), 12/3/99 (SPMC), 12/6/99 (OMB), 1/3/00 (SMC), 1/12/00 (GOV) 1/20/00 (NMIRF), 7/14/00 (SPMC), 7/16/00 (LIBCOUNCIL), 7/19/00 (NIMO) (RMO), 7/20/00 (TMC), 8/25/00 (MVA), 9/29/00 (DOF), 12/7/00 (meeting with Coordinating Group on DOF), 2/8/01 (RMO), 2/21/01 (SPRC), 8/29/01 (DLI), 8/30/01 (LEGBUREAU), 9/4/01 (meeting with EMO), 9/2/01 (RMC), 9/27/01 (CUC), 9/25/01 (WRO), 10/01/01 (DOF), 10/12/01 (CPA), 3/15/02 (SENATE), 3/20/02 (BOE) (EMO) (WRO), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 8/21/02 (WRO), 8/23/02 (WRO), 8/26/02 (WRO), 8/30/02 (WRO), 3/17/03 (DOF request for extension), 3/7/05 (DOF), 3/18/05 (DOF), 3/31/06 (request for extension), 4/18/06

Recommendation 2 : The Secretary of Finance should instruct the Director of Procurement and Supply to:

a) Develop written procedures for marking of government vehicles (except law enforcement vehicles and vehicles used by elected officials). Among other things, the written procedures should specify 1) the period when markings should be made (e.g., within a specified time frame after vehicle has been delivered by vendor); 2) the information to be included in the markings, such as the agency name, and if the vehicle is government-owned, the property number as well; 3) the exact size of the markings that will allow them to be visible and readable even when the vehicle is in motion; 4) the exact placement of the markings on the door; and 5) the material to be used for marking.

(**Note:** The marking should show the agency’s full name and not just the acronym or the first letters of the agency’s name. Use of full name instead of acronym readily identifies the agency accountable for the vehicle, and prevents mistaking one agency for another that has the same acronym.)

- b) Maintain updated government vehicle inventory listings and conduct periodic inventories of all government vehicles on Saipan, Rota, and Tinian.
- c) Revise the standard vehicle specifications and features guidelines issued by the Procurement and Supply Division to emphasize that procurement of vehicles with factory-tinted windows is prohibited by statute. Reject purchase requisitions made by any government agency to procure vehicles that do not conform to the standard vehicle specifications and features guidelines.

Agency to Act : Department of Finance - Procurement & Supply

Status : Resolved - Active

Agency Response : In the 10/1/01 response from DOF, the Secretary of Finance stated that DOF is currently updating the vehicle regulations to include items (a) and (c) of Recommendation 2. OPA was provided the initial draft copy of the regulations. In addition, DOF provided OPA a government vehicle inventory listing as of January 2001 which addressed item (b) of the recommendation.

In his 4/12/02 response, the Secretary of Finance informed OPA that revisions to the amended Government Vehicle Regulations are near completion, and a copy will be provided to OPA upon their adoption.

In his 3/18/05 response, the Secretary of Finance informed OPA that DOF is currently reviewing the proposed amendments to the regulations. The Director of Procurement and Supply had requested for an additional 30 days to conduct further review with the assistance of the Attorney General’s Office. The Secretary of Finance stated that they will have the amended regulations published in the April 2005 Commonwealth Register and have the amendments adopted in May 2005.

In his letter response dated 4/18/06, the Secretary of Finance informed OPA that the amended regulations will be completed by 6/30/06 and published for adoption 60 days thereafter.

Additional Information or Action Required : DOF should provide OPA a copy of the revised Government Vehicle Regulations upon their adoption.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/9/06

Date(s) of response letter(s) received : 3/31/06 (request for extension), 4/18/06

Recommendation I : The Secretary of Finance should adopt regulations to “interpret, execute and enforce” the Government Deposit Safety Act, including defining and clarifying what items constitute “obligations and securities backed by the CNMI government.”

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : In his letter response dated 4/18/06, the Secretary of Finance provided OPA with the proposed Rules and Regulations of the Department of Finance Government Deposit Safety Act. The Secretary noted that the regulation was not adopted and

that they will review the regulations and submit the update for publication and subsequent adoption in the CNMI register.

**Additional Information
or Action Required**

: DOF should inform OPA of actions taken to adopt regulations to “interpret, execute and enforce” the Government Deposit Safety Act, including defining and clarifying what items constitute “obligations and securities backed by the CNMI government.” DOF should also provide OPA with a copy of the regulations once they are adopted.

**Report No. AR-05-03 issued August 12, 2005
Marianas Hawaii Liason Office
Audit of the Marianas Liason Office
From October 1, 1999 through December 31, 2002**

Date(s) of followup letter(s) sent : 3/9/06

Date(s) of response letter(s) received : 3/31/06 (request for extension), 4/18/06

Recommendation 13 : Establish policies and procedures requiring DOF staff to account and record expenditures and receivables related to advances for funeral service charges of medical referral patients.

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA’s concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to ensure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system. The Secretary of Finance directed this action as DPH and MHLO enter their own payment vouchers and cash receipts into the DOF financial management system and have the responsibility to insure initial transactions are properly entered and the proper accounting codes are used.

OPA Response - OPA agrees that DOF’s assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. Since DOF has a better understanding of the system and the proper coding of payments and receipts, OPA believes that it will also be helpful if DOF establish guidelines and procedures in the proper coding and recording of these payments and receipts which DPH and MHLO can follow.

In his letter dated 3/18/06, the Secretary of Finance stated that they have met with the Medical Referral Office Manager to discuss the recording of accounts receivables for funeral expenses, as well as other medical referral related expenses not covered by the CNMI government. The MRO Manager will renew the existing MOU with each of the responsible parties to ensure that the amount outstanding is accurate. Once this is completed, all the receivables will be entered into the financial management system. He further stated that the DOF will assist with any training needed to ensure the completion of this project.

The Secretary also proposes that all vendor payments relating to funeral expense advances to families come directly out of the Treasury Office on Saipan to ensure that receivable accounts are established correctly through the MRO.

**Additional Information
or Action Required**

: OPA reiterates the need for DOF to adopt written guidelines and procedures to ensure proper accounting and recording of funeral service advances. Written procedures will also help ensure that proper accounting and recording will continue when DOF or MLHO personnel change. The guidelines and procedures can be

incorporated in a memorandum or directive from the DOF secretary to DOF and MHLO personnel. A copy of the circulated memorandum or directive should also be provided to OPA so this recommendation can be closed.

Recommendation 14 : Designate DOF staff to review: (a) the outstanding balance of receivable accounts (#12150 and #12151) and (b) disbursements and collections debited/credited to Professional Service expense account to establish an accurate outstanding receivable balance of each promisor.

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA's concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to insure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system.

OPA Response - Although the benefit of what DOF intends to do will only be realized prospectively, OPA agrees that DOF's assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. As DOF has a better understanding of the system and the proper coding of payments and receipts, OPA believes that it will also be helpful if DOF establish guidelines and procedures in the proper coding and recording of these payments and receipts which DPH and MHLO can follow.

In his letter dated 4/18/06, the Secretary of Finance stated that as noted in Recommendation 13, DOF will assist the MRO in booking the accurate A/R amount for each responsible party. The Secretary also noted that the MRO must determine the accurate amount since the receivables were never included in either the CHC billing system or the DOF financial management system.

Additional Information or Action Required : As stated in recommendation 13, DOF should provide OPA a copy of the written guidelines and procedures adopted to ensure proper accounting and recording of funeral service advances. These guidelines and procedures should also identify the designated DOF and MHLO personnel responsible for reviewing the accuracy of accounts receivable balances, and for billing outstanding receivables.

Recommendation 15 : Establish procedures and designate a DOF employee to perform follow-up on collection of outstanding receivables.

Agency to Act : Department of Finance

Status : Closed

Agency Response : The Secretary of Finance stated that this recommendation should be directed to DPH as they are the originator of the receivable and have a collection section experienced in following up on outstanding receivables.

OPA Response - OPA inquired with a MRO staff member and was informed that their files relating to funeral service receivables and collections are incomplete. OPA made inquiry to CHC-Collections and Billing Department and was informed that they are not responsible for periodic billings and follow up on outstanding funeral service receivables. OPA was informed that the CHC-Collections and Billing Department only coordinates with the MRO when a probate claim needs to be filed.

It appears that it is unclear as to where responsibility for maintaining the records and ensuring collection of funeral service receivables lies. Since DPH is the originator of the receivable, OPA agrees with DOF that it is more practical that DPH, in coordination with MRO, be responsible for following up on these receivables. However, OPA believes that it would be more beneficial to DPH if

DOF officials meet with DPH officials and assist them in establishing procedures to monitor and follow up on these outstanding receivables.

In his letter response dated 3/18/06, the Secretary of Finance stated that based on their meeting with the MRO manager, it will be the responsibility of the MRO to establish procedures and follow-up on collection of the receivables. The manager was provided a copy of the DOF Regulations on Accounts Payable/Receivable Offset Procedures to assist in her collection efforts. OPA expects that the issue under recommendation 15 will also be addressed in the written memorandum or directive required in recommendation no. 13. Thus, recommendation 15 will be considered closed.

Recommendation 16 : DOF Should establish written guidelines and procedures for the use of check exchanges. Such guidelines should address: (a) the purpose of check exchanges, (b) circumstances when a check may be issued through check exchange before receiving DOF-Treasury or DOF-Payroll approval, and (c) whether personal checks should be accepted for a check exchange. As DOF requires pre-approval of all check exchange transactions, DOF should establish monitoring procedures to ensure that all check exchanges are collected and credited to the check exchange receivable account.

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : The Acting Director of Finance and Accounting was directed to prepare written guidelines for the use of the check exchange account and provide a copy to MHLO and assign a staff member to review the check exchange account periodically to ensure MHLO is following the guidelines.

In his letter dated 4/18/06, the Secretary of Finance informed OPA that they are currently in the process of drafting procedures and guidelines for the use of check exchange accounts. DOF will provide OPA a copy of the policy once completed.

Additional Information or Action Required : DOF should provide OPA a copy of the written guidelines for the use of the check exchange account for OPA's review.

Recommendation 17 : DOF should issue a memorandum instructing staff to: make adjustments to the proper fund and receivable accounts. The Secretary of Finance should also instruct the staff assigned to record expenditure transactions concurrently with payment transactions to avoid double recording of disbursements. (The Secretary of Finance should ensure that Acct#1972 should be used for all expenditure transactions of medical referral operations, Acct#1041 should be used for operations of MHLO other than medical referral, and Receivable Acct#12160 should be used for disbursements and deposits of check exchange transactions).

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : DOF agreed with the intent of the recommendation but added that DPH and MHLO have the responsibility to insure transactions are properly entered. To address OPA's concern, the Acting Director of Finance and Accounting was directed to assign a staff member to work with DPH and MHLO to assist them in setting up procedures to insure proper coding of payment vouchers and cash receipts when entering them into the DOF financial management system.

OPA Response - Although the benefit of what DOF intends to do will only be realized prospectively, OPA agrees that DOF's assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. Proper coding and accurate recording will then eliminate the need for DOF to perform future bank reconciliation adjustments to correct expenditure accounts of MHLO Operations and Medical

Referral Imprest Funds. DOF should provide OPA the name of the DOF official who will be responsible for assisting DPH and MHLO and the target date to complete the task as well as a copy of the written guidelines and procedures to be followed by DOF and MHLO.

In his response letter dated 4/18/06, the Secretary of Finance indicated that there are two imprest fund accounts for the MHLO, one for operational expenses and another for medical referral expenses. He stated that the MHLO has to post each transaction into the appropriate accounts and object class. He also noted that they have provided training on posting transactions to the financial management system to designated staff at the MHLO on two separate occasions.

The Secretary also proposes that all vendor payments relating to funeral expense advances to families come directly out of the Treasury Office on Saipan to ensure that receivable accounts are established correctly through the MRO.

Additional Information or Action Required : DOF should provide OPA the name of the DOF official who will be responsible for assisting DPH and MHLO and the target date to complete the task as well as a copy of the written guidelines and procedures to be followed by DOF and MHLO.

Recommendation 18 : Ensure that: MHLO complies with DOF's Regulations for the Control of Public Funds; MHLO's official representation expenditures meet public purpose criteria; and, all requests for reimbursement for unauthorized or unsupported expenditures are disallowed.

Agency to Act : Department of Finance

Status : Resolved - Active

Agency Response : The Acting Director of Finance and Accounting was directed to prepare a memorandum for the Secretary of Finance's signature transmitting a copy of the Regulations for the Control of Public Funds to MHLO and stating that DOF will not reimburse the imprest fund account for improper expenditures and that the authorizing official will be responsible for repayment and instruct DOF-Finance and Accounting staff to review imprest fund replenishment requests and deny reimbursement for improper disbursements.

In his letter dated 4/18/06, the Secretary of Finance informed OPA they have sent a notice to the MHLO Officer advising her that the office is not authorized to incur official representation expenses. He further added that they will advise the office that future replenishment of the imprest fund must be accompanied by supporting documentation.

Additional Information or Action Required : DOF should provide OPA a copy of the notice transmitted to the Marianas Hawaii Liaison Officer and a copy of the memorandum issued to DOF-Finance and Accounting staff instructing them to review Imprest Fund replenishment requests and to deny reimbursement for improper disbursements.

Department of Labor

Report No. AR-02-04 issued on November 5, 2002 Audit of the Department of Labor and Immigration - (Currently Dept. of Labor/AGO Division of Immigration) Tinian Long Distance Telephone Charges January 1998 through June 2000

Date(s) of followup letter(s) sent : 2/18/03 (DOLI), 8/4/03 (AGO), 10/27/03 (AGO), 4/13/04 (AGO),
9/21/04 (AGO) (DOL), 2/15/05 (AGO) (DOL), 8/9/05 (AGO) (DOL),
3/13/06

Date(s) of response letter(s) received : 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 10/27/04 (DOL),
9/1/05 (AGO)

Recommendation 2 : Request the telephone company to reduce the number of agency telephone lines with long-distance access and limit long-distance access only to certain employees.

Agency to Act : Department of Labor - Tinian / AGO-Division of Immigration - Tinian

Note: This recommendation was previously addressed to the Department of Labor and Immigration (DOLI) - Tinian. Pursuant to Executive Order 03-01 dated 3/10/03, the Division of Immigration was transferred to the AGO. Implementation of this recommendation will now be required from both the Department of Labor - Tinian and the AGO-Division of Immigration - Tinian. Although the Division of Immigration is not under the Department of Labor, OPA included this section of the report under the DOL to avoid duplication.

Status : Resolved - Delinquent

Agency Response : The Resident Director of DOLI Tinian appears to disagree with the recommendation. She stated that DOLI Tinian has four divisions which contains an average of two to three sections. She explained that the current ten telephone lines often results in hampered public services due to busy telephone signals. Hence, she maintained that her department will continue with the set up of ten telephone lines.

In a conference call between the DOLI Tinian Resident Director's Secretary and OPA on 2/18/03, the Secretary stated that there are only four DOLI personnel who have access to a pin number used to make long-distance calls. Also, the only telephone line with direct access to long-distance is in the Resident Director's office.

AGO - Division of Immigration - In a telephone conversation with the Deputy Attorney General in Mid-June, OPA was informed that the recommendation has been implemented. OPA will request the AGO to provide written documentation evidencing implementation of the recommendation in order to consider the recommendation closed.

Department of Labor - On 10/27/04, the Secretary of DOL provided OPA with a copy of the letter addressed to the Resident Department Head of DOL - Tinian instructing him to (1) submit a written request to the telephone company to block all long distance telephone access to every telephone line, including facsimile lines, (2) procure and utilize a long distance calling card to be in his possession or a designee, (3) maintain a log book to record long distance calls made by an authorized employee to be used to certify each month's long distance call billing, and (4) re-issue policy memoranda to all employees regarding the use of long distance telephone calls.

Additional Information

or Action Required : *AGO - Division of Immigration* - AGO should provide written documentation evidencing that authorization of the long-distance pin number is limited to certain employees.

Department of Labor - DOL should provide OPA with a copy of the policy memoranda on the use of long distance telephone calls and a copy of the log sheet used to record and monitor all long distance calls made.

Report No. AR-05-02 issued on July 06, 2005
Audit of Controls Over the Nonresident Worker Application Process
October 18, 1999 through January 05, 2004

Date(s) of followup letter(s) sent : 3/13/06

Date(s) of response letter(s) received :

Recommendation 1 : Enforce section II B(3) of the DOL Alien Labor Rules and Regulations which requires the submission of Proof of Payment with other required documents.

Agency to Act : Department of Labor

Status : Resolved - Delinquent

Agency Response : The DOL will ask the DOF to produce one receipt per application that is being paid. The receipt will be attached to its respective application and would allow for the performance of the newly established procedure in response to recommendation 2.

Additional Information or Action Required : DOL should provide OPA a copy of the memorandum from the Secretary of Labor to the Labor Processing staff directing them to enforce section II B(3) of the DOL Alien Labor Rules and Regulations requiring submission of proof of payment with other required documents.

Recommendation 2 : Direct that managers and supervisors responsible for reviewing and approving do not also receive and input applications.

Agency to Act : Department of Labor

Status : Resolved - Delinquent

Agency Response : An independent verification of proper payment of fees will be performed by the application reviewer. Someone other than the person who initially received the application, will perform a second examination of the amounts stated on the receipt and the voucher respectively.

Additional Information or Action Required : DOL should provide OPA a copy of the memorandum from the Secretary of Labor identifying guidelines to ensure that an independent verification of amounts stated on the receipt and voucher is conducted.

Recommendation 3 : In collaboration with the DOF, establish controls for periodic comparison between the fees reflected on the DOL's records and the fees actually collected as shown on DOF's records so that corrective actions can be taken if necessary.

Agency to Act : Department of Labor

Status : Resolved - Delinquent

Agency Response : Daily summaries for fees actually collected will be requested from the DOF. The DOL will use the summaries to compare the fees actually collected as shown on DOF's records as shown against the fees that should have been collected as per the DOL's records and discrepancies, if any, will be investigated.

Additional Information or Action Required : DOL should inform OPA a copy of the controls or procedures established in collaboration with DOF for periodic comparison between the fees reflected on the DOL's records and the fees actually collected as shown on DOF's records.

Recommendation 4 : Recover uncollected fees of \$330,835 from Company A and \$181, 575 from Company B.

Agency to Act : Department of Labor

Status : Resolved - Delinquent

Agency Response : The response that the DOL would make with regards to this recommendation will be based on the conclusions drawn by the investigators tasked with identifying the responsible parties for the uncollected fees identified.

Additional Information or Action Required : DOL should keep OPA informed on the progress of this recommendation.

Department of Land and Natural Resources

Report No. LT-00-04 issued June 7, 2000

Division of Fish and Wildlife (DFW)

Audit of Two DFW Employees' Time and Attendance and Whether their Arrangement with DFW was Consistent with the Pacific Islands Education Initiative

Date(s) of followup letter(s) sent : 7/6/00, 1/24/01, 8/20/01, 3/4/02, 8/9/02, 2/12/03, 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06

Date(s) of response letter(s) received : 10/31/00 (meeting with Coordinating Group on DLNR), 9/6/02, 9/13/02 (meeting with DFW Director), 9/16/02 (DFW), 9/25/02 (DFW), 2/18/03 (DLNR), 5/27/04 (DFW)

Recommendation 3 : The DFW Director should develop a special educational leave program in accordance with the MOU to be approved by the grantor. Also, the Director must ensure that DFW is in compliance with the provisions of the various grants, in order to assure continued federal support.

Agency to Act : Department of Lands and Natural Resources

Status : Resolved - Delinquent

Agency Response : On 9/25/02, DFW provided OPA with a copy of the proposed rules and regulations currently being developed with the assistance of the Northern Mariana Islands Scholarship Program that provides guidelines on how the Pacific Island Education Initiative (PIEI) should be administered as far as recruitment and selection process are concerned.

In his response dated 2/18/03, the Secretary of DLNR stated that the draft rules and regulations on the recruitment and selection process for the PIEI is anticipated to be finalized in the next sixty days with the U.S. Fish and Wildlife Service. The federal grantor agency will provide their written approval shortly thereafter.

In his 5/27/04 response, the DFW Director informed OPA that the pending matter in regards to the Pacific Education Initiative Program has already been completed and is presently being reviewed for approval by their Region 1 Chief Officer of the U.S. Fish and Wildlife.

Additional Information or Action Required : DLNR should provide OPA with evidence of concurrence by the grantor agency.

Department of Public Health

Report No. LT-99-06 issued August 18, 1999 Audit of DPH's Granting of Unequal Salaries to Social Worker Employees

Date(s) of followup letter(s) sent : 11/23/99 (DPH), 11/26/99 (OPM), 2/28/00 (OPM), 7/6/00 (DPH) (OPM), 1/30/01, 8/22/01, 3/8/02 (DPH), 8/9/02 (DPH), 2/13/03 (DPH), 8/4/03 (DPH), 4/13/04 (DPH), 9/28/04 (DPH), 2/15/05 (DPH), 8/9/05 (DPH), 3/9/06

Date(s) of response letter(s) received : 12/20/99 (OPM), 12/22/99 (DPH), 11/14/00 (meeting with Coordinating Group on DPH), 10/22/01 (DPH), 6/8/04 (DPH)

Recommendation 3 : The Secretary of Public Health should ensure that DPH employees are compensated equitably. The salaries of the three social worker employees should be adjusted to reflect the appropriate salaries based on their qualifications and responsibilities.

As Revised: The Secretary of Public Health should review the salary structure of DPH and propose a revised salary structure for review by OPM and for approval by the Civil Service Commission (CSC).

Agency to Act : Department of Public Health

Status : Resolved - Delinquent

Agency Response : During the 11/14/00 meeting with the Coordinating Group, the DPH Secretary presented an alternative action to address this recommendation which is to revise the salary structure of DPH to address the salary inequity and DPH's concerns about attracting upcoming college graduates to work for the department. DPH will present a proposed salary structure for review by OPM and for approval by CSC. OPA agreed to this alternative action suggested by the DPH Secretary.

In his 10/22/01 response, the DPH Secretary informed OPA that the Director of the Community and Guidance Center has completed the proposed salary structure of social workers and submitted it to the CHC Human Resources for review. DPH will submit the proposed salary structure to CSC no later than 10/31/01. When approved by CSC, DPH will provide OPA a copy.

On 6/8/04, the Secretary of Public Health informed OPA that the DPH Community Guidance Center will present an alternative action to address their concerns to OPM which is to propose a new class reassignment for all social worker classes in order to attract up-coming graduates to work for DPH. DPH is hoping that OPM and CSC will support their proposal for a new class reassignment for all social worker classes for DPH. (Upon verification with OPM, a new class reassignment is similar to a revised salary structure which OPA had previously agreed to as an alternative action).

Additional Information or Action Required : The Secretary of Public Health should provide OPA a copy of the class reassignment for all DPH social worker classes approved by OPM and CSC.

Report No. AR-05-03 issued August 12, 2005
Audit of the Marianas Hawaii Liaison Office
October 1, 1999 through December 31, 2002

Date(s) of followup letter(s) sent : 3/9/06

Date(s) of response letter(s) received :

Recommendation 20 : Require patient escorts to follow the MRPRR's requirements regarding filing TV's or, alternatively, amend the existing regulations to provide for a revised method of ensuring that travel and subsistence payments made to or for escorts are accurately paid, substantiated and verified.

Agency to Act : Department of Public Health

Status : Open - Delinquent

Agency Response : In his response dated August 3, 2005, the Acting Secretary of Public Health stated that the current version of the MRPRR does not require escorts to file travel vouchers upon completion of travel. The Acting Secretary of Public Health further added that there are adequate internal controls to ensure proper payments are made that substantiates and verifies expenditure of public funds. More specifically: travel and subsistence payments for patient escorts are substantiated and verified through an official travel authorization form in Saipan prior to departure; additional subsistence and/or travel allowances requested by the liaison office are pre-approved by MRO before disbursement; and total subsistence, travel allowance, and hotel accommodations issued to an escort as provided in an exit report prepared by the liaison office is reconciled by DOF for liquidation of encumbered funds and reports to MRO any overpayments and underpayments.

OPA Response - OPA confirmed that the particular section of the MRPRR is unchanged and still requires escorts to file travel vouchers upon completion of travel. OPA believes that the current process detailed by DPH is adequate to ensure that travel and subsistence payments made to or for escorts are accurately paid, substantiated and verified. OPA also believes that the current process is preferable as patient escorts are not traveling as government employees and, may not be subject to executive branch travel policies. Furthermore, the travel voucher process is not defined or detailed elsewhere in the MRPRR, making enforcement of the provision difficult. OPA, therefore, recommends that DPH amend the existing regulations to remove the submission of travel voucher requirement and establish written procedures (current process in place) for ensuring that subsistence payments are accurately paid, substantiated and verified. Unless the relevant section of the MRPRR is amended, the MRPRR still requires escorts to file travel vouchers with the MRO. DPH should provide OPA with a copy of the amended section of the MRPRR removing the submission of travel voucher requirement for patient escorts and a copy of the written procedures for ensuring that subsistence payments are accurately paid, substantiated and verified.

Additional Information or Action Required : DPH should provide OPA with a copy of the amended section of the MRPRR removing the submission of travel voucher requirement for patient escorts and a copy of the written procedures for ensuring that subsistence payments are accurately paid, substantiated and verified.

Department of Public Lands

Report No. AR-95-18 issued October 10, 1995
Department of Public Lands (DPL)
(Formerly Marianas Public Lands Authority)
Audit of Credit Card and Related Travel Transactions

Date(s) of followup letter(s) sent : Verbal follow-ups made through the telephone, 11/29/96, 12/3/96, 2/20/97 (AGO), 11/20/97, 9/17/98 (AGO), 3/3/98 (AGO), 9/18/98 (DLNR), 11/23/99 (DLNR), 1/26/99, 1/5/00 (AGO), 7/6/00 ((DPL), 7/12/00 (AGO), 1/17/01 (AGO), 1/24/01 (DLNR), 8/21/01 (AGO), 8/23/01 (OPL), 8/12/02 (MPLA) (AGO), 10/3/02 (AGO), 2/14/03 (AGO) (MPLA), 8/4/03 (MPLA) (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 4/23/04 (MPLA), 9/21/04 (AGO) (MPLA), 2/15/05 (AGO) (MPLA), 8/9/05 (AGO) (MPLA), 3/13/06

Date(s) of response letter(s) received : 11/14/95, 6/27/96, 4/4/97 (AGO), 9/11/97, 4/20/08 (AGO), 3/17/99, 10/21/99 (DPL), 10/31/00 (meeting with Coordinating Group on DLNR), 11/7/00 (meeting with Coordinating Group on AGO), 2/8/01 (DPL), 2/22/01 (DPL), 3/9/01 (AGO), 8/30/01 (OPL), 9/28/01 (OPL), 2/12/02 (meeting with AGO), 3/6/02 (MPLA), 8/19/02 (MPLA), 3/10/03 (MPLA), 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 6/7/04 (MPLA), 9/1/05 (AGO), 4/3/06 (request for extension), 4/11/06

Recommendation 6 : The Secretary of DPL should instruct the current Comptroller to determine the correct balance of the travel advance account, and forward advances not reimbursed to DOF for collection. The remaining travel advance balances of cardholders/travelers still working for the Government should be recovered through salary deduction. For employees/officials who no longer work for the Government, the assistance of the Attorney General should be sought to collect the outstanding balances.

Agency to Act : Department of Public Lands (formerly Marianas Public Lands Authority)

Status : Resolved - Active

Agency Response : On 3/4/04, a member of the 14th CNMI Legislature requested OPA to review documents relating to the status of the outstanding account balance of the former Rota board member. During the review, OPA discovered that some of the documents provided by the member of the 14th Legislature regarding the account balance of the former Rota Board member were not previously submitted by MPLA during OPA's periodic audit recommendation follow-up requests. OPA also discovered that the schedule of payments submitted did not incorporate interest computation.

On 7/21/05, the MPLA Commissioner provided OPA with a copy of the subsidiary ledgers maintained to record payments received from these former board members. The subsidiary ledgers provided incorporated interest computations on the outstanding balances for the former Board Chairman and former Rota Board member.

The status of accounts based on the above documents provided by the MPLA Commissioner are as follows:

Former Chairman of the Board - The account balance through 6/30/05 is \$25,393.86. The MPLA Commissioner stated that since the account is overdue, it would be forwarded to their Legal Counsel for further action.

Former Rota Board Member - The account balance through 6/30/05 is \$52,942.06. The MPLA Commissioner also stated that MPLA is attempting to have a lien put on the former Rota board member's property, and that if no property is pledged, MPLA will bring his account to their Legal Counsel for further action.

Former Tinian Board Member - The account balance through 6/30/05 is \$5,172.45. The MPLA Commissioner stated that since the former Tinian board member is not faithful with his account, he is referring the account to their Legal Counsel for further action.

On 4/11/06, DPL provided OPA with the updated subsidiary ledgers pertaining to the accounts listed above. Due to discrepancies found between the balances of these ledgers to the ledgers provided to OPA on July 21, 2005, OPA was unable to accurately ascertain the exact amount still to be recovered from the former board members. OPA will be contacting DPL to reconcile the balances. Aside from the account ledgers provided to OPA, DPL stated that the accounts of the former Board Chairman and former Rota Board Member are seriously delinquent. Their accounts will be forwarded to their in-house Legal Counsel for legal action and to obtain some collateral. DPL further stated that the former Tinian Board Member will be reimbursed for their overpayment of \$1,310. Due to the discrepancies noted by OPA, the recommendation pertaining to the former Tinian Board Member will remain resolved - active until OPA resolves the discrepancies found with DPL.

**Additional Information/
Action Required** :

DPL should continue to provide OPA with the updated ledgers of the accounts for the three former board members as well as an update on possible legal proceedings to be taken against the former board chairman and the former Tinian board member. Additionally, DPL should inform OPA of the results of DPL's attempt to have the former Rota board member lien his property and subsequent action if no property is pledged by the former Rota Board Member.

**Report No. AR-00-04 issued November 22, 2000
Department of Public Lands
(Formerly Marianas Public Lands Authority)
Audit of Collection of Rentals on Land Leases with Quarries
For Six Lease Years from 1990 to 1995**

Date(s) of followup letter(s) sent : 12/4/96, 11/20/97, 3/3/98 (AGO), 9/17/98, 11/23/99, 1/26/99, 1/5/00 (AGO), 7/12/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 8/12/02 (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 8/4/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/13/06

Date(s) of response letter(s) received : 4/4/97 (AGO), 9/11/97, 3/10/98, 4/20/98 (AGO), 1/20/00 (AGO), 11/7/00 (meeting with Coordinating Group on AGO), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 9/15/03 (AGO), 4/30/04 (AGO), 9/1/05 (AGO), 4/3/06 (request for extension), 4/11/06

Recommendation 2 : The DPL Secretary should take steps to collect the \$4.69 million in underpayment of rentals (including interest) on land leases with 8 quarries, and refer those lessees who refuse to pay to the Attorney General's office for legal action.

Agency to Act : Department of Public Lands (formerly addressed to the Board of Marianas Public Lands Authority)

Status : Resolved - Active

Agency Response : After billings were sent to eight quarry operators to collect \$4,690,707.81 in underpaid rentals, Quarry Operator H paid \$789.87 as full payment while \$946,967.58 owed by Quarry Operator B was written off due to bankruptcy.

Four additional Quarry Operators accounts were also considered fully recovered and closed based on OPA's 8/12/04 review of their subsidiary ledgers showing account balances through 5/31/04. These Quarry Operators are: Quarry Operator C of which amount recoverable of \$5,384.25 has been fully recovered, Quarry Operator D of which amount recoverable of \$424,083.85 has been fully recovered, Quarry Operator E of which amount recoverable of \$379,486.51 has been fully recovered, and Quarry Operator G of which amount recoverable of \$27,585.74 has been fully recovered. (OPA's review of the subsidiary ledgers for these four Quarry Operators showed that their account balances included additional rentals and interest which may have increased their receivable, however, OPA applied total payments and adjustments through 5/31/04 to their 1995 balance per OPA's FY2000 audit). For the remaining two Quarry Operators (Quarry Operators A and F), DPL should continue to pursue collection of \$2,906,410.01 in underpaid lease rentals and interest.

On 4/11/06, the DPL Chief Financial Officer provided OPA with a copy of the subsidiary ledgers showing the account balances for the remaining two quarry operators through 4/10/06 as follows.

Quarry Operator A - Amount recoverable per FY2000 audit is \$2,753,839.88 as of FY1995. Based on DPL records, additional rentals and interest of \$1,826,829.25 increased the receivable to \$4,580,669.13 as of April 2006. Within 2001 to 2005, only \$4,987.50 was paid by Quarry Operator A. Thus, if payments were applied against the old balance, the amount still to be recovered from the 1995 balance is still \$2,748,852. According to the DPL Chief Financial Officer, the account of Quarry Operator A will be forwarded to their in-house Legal Counsel to pursue legal action and obtain some collateral.

Quarry Operator F - Amount recoverable per FY2000 audit is \$152,570.13 as of FY1995. Based on MPLA records, additional rentals and interest of \$708,407.31 increased the receivable to \$860,977.44 as of May 2004. Payments and adjustments as of 5/31/04 totaled \$54,429.25. Thus, if payments and adjustments were applied against the 1995 balance, the amount still to be recovered is \$98,140.88.

In his 4/11/06 update, the DPL Chief Financial Officer provided OPA incomplete subsidiary ledgers for Quarry Operator F. Therefore, OPA is unable to ascertain total amount collected as of April 2006. Total amount to be recovered of \$98,140.88, therefore, remains unchanged from the previous audit tracking report. The DPL Chief Financial Officer informed OPA, however, that there has been no movement in Quarry Operator F's account. DPL will be forwarding this account to their in-house Legal Counsel to pursue legal action and obtain some collateral.

Additional Information or Action Required

: DPL should continue to update OPA on the status of accounts for Quarry Operators A and F and provide subsidiary ledgers to support account balances and total payments made by these two Quarry Operators.

Recommendation 3

: The DPL Secretay should review the effect of the additional revenues identified in this audit on each affected year's operation in order to determine if there will be surplus funds due to the Marianas Public Land Trust (MPLT).

Agency to Act

: Department of Public Lands (formerly addressed to the Board of Marianas Public Lands Authority)

Status

: Closed

Agency Response

: The response expressed concurrence with the recommendation and stated that DPL is currently reviewing the effect of the foregoing unrealized revenues for each affected year's operation to determine whether there are surplus funds due to MPLT.

In a 1/4/02 response from MPLA, the Commissioner (formerly Executive Director) stated that they will be providing OPA updates on the “open” recommendations as they materialize.

In her response letter dated 8/19/02, the Commissioner stated that MPLA has yet to finalize assessment of the additional revenues pending requests and negotiations with lessees/permittees which require thorough review.

The response submitted by the Commissioner of MPLA dated 3/10/03 did not address this recommendation.

In his response dated 6/8/04, the MPLA Comptroller informed OPA of the three types of reasonable expenses for which the function of MPLA is governed by the CNMI Constitution and CNMI statutes which are management expenses, homestead expenses, and comprehensive land use plan expenses. He further stated that the use of public land lease revenues shall be used solely for the projects specifically related to homestead development such as constructing roads, water lines, sewer, etc which is consistent with the Commonwealth Constitution. MPLA has revised the reporting section of the net assets of the Statement of Net Assets to read “Net Assets Restricted for Homestead Development Projects” which have been validly approved by MPLA board and obligated for expenditure on Homestead Projects in accordance with the CNMI Constitution. Therefore, such project is ear-marked and committed along with a 5-year plan. MPLA will finance the 5-year plan using any surplus available at the end of the year. The MPLA Comptroller also stated in his response that OPA had previously issued a letter to MPLT on 10/20/98 concluding that no net revenue transfers have been made by DPL from FYs 1992 to 1994 due to excess expenditures incurred over revenues realized from the cost of operations.

In his response dated 4/11/06, the DPL Chief Financial Officer stated that DPL and MPLT recently reached an agreement to settle the past unreported surpluses. As a result, in FY04, DPL reported \$1million due to MPLT. The terms of the settlement was that DPL will pay MPLT \$5,000 monthly with an interest of one percent throughout a ten year period, and that a balloon payment will be made after ten years if there is sufficient cash flow. Based on the formation provided by DPL, OPA will now close this recommendation.

Recommendation 5	:	The DPL Secretary should send letters to lessees who misinterpreted certain provisions of the lease agreements/permits and incorrectly computed required rentals, clarifying for them the proper interpretation of material subject to royalty or gross receipts rent, and the common errors noted such as not implementing rate increases on the anniversary dates of lease agreements.
Agency to Act	:	Department of Public Lands (formerly addressed to the Board of Marianas Public Lands Authority)
Status	:	Resolved - Active
Agency Response	:	<p>OPA was provided with a 9/15/00 letter sent by DPL to quarry operator E evidencing communication as to the audit finding on its quarry operations. Another quarry operator, quarry operator H, fully paid its amount due to DPL, so there is no need to send it a letter. We consider the part of the recommendation pertaining to quarry operators E and H closed.</p> <p>On 12/18/01, OPA was provided with a 3/13/01 letter sent by MPLA to quarry operator G clarifying the proper interpretation of material subject to royalty or gross receipts rent, and the common errors noted such as not implementing rate increases on the anniversary dates of lease agreements. Based on the response provided, we consider the part of the recommendation pertaining to quarry operator G closed.</p>

In her response letter dated 8/19/02, the Commissioner informed OPA that MPLA has not yet sent a letter to Quarry Operator F pending an investigation of the permittee's land exchange claim.

The response submitted by the Commissioner of MPLA dated 3/10/03 did not address this recommendation.

In his response dated 6/8/04, the MPLA Comptroller stated that although Quarry Operator F was involved in a land exchange during the time, MPLA should have notified the lessee about the results of the OPA audit which uncovered revenues of \$115,210.11. The Comptroller provided OPA with a copy of the memorandum he had addressed to the Commissioner requesting him to send a letter notifying Quarry Operator F to this effect.

In his letter dated 4/11/06 DPL Chief Financial Officer stated that in part, this recommendation is connected to recommendation 2 regarding Quarry Operator F. He further stated that he was going to schedule a meeting with Quarry Operator F to discuss the recognition of royalty revenue, and that he would update OPA with the results of the meeting.

Additional Information or Action Required : DPL should Provide OPA copies of documents evidencing communication with the remaining lessee, *i.e.* Quarry Operator F.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/13/06

Date(s) of response letter(s) received : 4/11/06

Recommendation 6 : The Department of Public Lands should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Department of Public Lands (formerly Marianas Public Lands Authority)

Status : Open - Active

Agency Response : In his response dated 4/11/06, the DPL Chief Financial Officer informed OPA that through the enactment of Public Law 15-2, all funds of the Department of Public Lands except the frozen funds at Bank of Saipan have been deposited into an FDIC insured institution. He further stated that the funds that are at Bank of Saipan are under a depository agreement and that the agreement reveals the collateralization of the funds.

Additional Information or Action Required : The Department of Public Lands should provide OPA with documentation that DPL Funds are fully secured in accordance with the Government Deposit Safety Act.

Department of Public Safety

Report No. AR-05-04 issued September 21, 2005 Audit of the Department of Public Safety's Evidence Controls through June 2004

Date(s) of followup letter(s) sent : 3/7/06

Date(s) of response letter(s) received : 3/30/06

Recommendation 1 : The DPS should develop and implement a plan of action to address evidence presently in DPS custody. OPA encourages DPS to consult, as appropriate or necessary, with agencies or experts such as the AGO, FBI, US Attorney's Office, Office of the Public Defender, CNMI Judiciary, and CNMI Bar Association. This plan of action should included, at a minimum, the following:

- a. Conducting a physical inventory to determine the actual quantity, classification and condition of evidence;
- b. Reconciliation of the physical inventory list with existing COCs or other evidence listings;
- c. Segregation of items to be disposed, disposal of evidence in accordance with laws and regulations, and proper documentation of all disposals;
- d. Implementation of an evidence tracking system; and
- e. Evaluation of the condition of the existing evidence storage facility and equipment and the implementation of necessary controls and improvements.

Agency to Act : Department of Public Safety

Status : Open - Resolved

Agency Response : In his letter response to OPA's draft audit report dated 9/6/05, the Deputy Commissioner informed OPA that he agrees with most of the findings of the audit conducted and is aware of the issues that need immediate attention and correction for deficiencies. Accordingly, he has instructed one of the Sergeants to begin assessing the following: bars on windows; bar door to main entrance; bars to cover gap; assess bio-hazard chemicals in refrigerator; procure additional refrigerator; restart master list; labeling shelves; one location for COC; and procure aircondition for CST (purchase requisition enroute).

On 1/12/06, OPA staff performed a walkthrough of the new evidence storage facility as requested by DPS. During the walkthrough, OPA staff identified surrounding areas to have been renovated as follows: evidence receiving areas for submission of evidence; 17 separate rooms to house the different types of evidence; key-pad entry for all doors; air-conditioning in every room; back-up generator of up to 24 hours; and security camera system located around perimeter and inner rooms/halls, with records kept for three months. OPA was also informed that new refrigerators for bio-hazard materials have been ordered and a six-foot perimeter fence will be installed around the facility. Based on OPA's observation of the new evidence storage facility, recommendation 1 (e) is now considered closed.

OPA was also informed by DPS during the walkthrough of the new evidence storage facility that DPS is in the process of creating a task force to develop an evidence tracking system. Two personnel from the Guam Police Department's evidence storage facility are scheduled to assist DPS in developing its tracking system and transferring the evidence temporarily stored in two containers into the newly renovated facility. Plans for an additional facility that will be used to

store general items of evidence is also being considered. Based on the information provided, OPA considers recommendation 1 (a through d) resolved.

In his letter dated 3/30/06, the CIB Commander stated that due to the organizational restructuring of the CIB, the ongoing project at the evidence room has been delayed. However, he stated that the evidence custodian with the assistance of the Crime Scene Investigators are currently conducting a physical inventory and creating a data base for all evidence materials with respect to items a through d of this recommendation. In addition, he stated that they are also coordinating with the Attorney General's Office to decide what to do with all evidence materials that are no longer needed.

The CIB Commander also informed OPA that their plan to bring in two personnel from the Guam Police Department (GPD) to assist DPS with the creation of an evidence tracking system has been put on hold and most likely will not materialize. This was a result of a recent discovery by GPD that they too are experiencing problems with respect to their handling of evidence. The CIB Commander also informed OPA of a \$48,000 grant which was recently awarded to them under the Justice Assistance Grant for Crime Scene Investigation (CSI) Enhancement Project. He further stated that this money will be used to purchase programs and equipment to aid them in the tracking of evidence.

**Additional Information
or Action Required** :

DPS should provide OPA with a time line for the estimated completion date for addressing items a through d of recommendation 1, as well as documentation to evidence that this recommendation has been addressed.

Recommendation 2 :

Adopt and implement amendments to DPS policies and procedures regarding the receipt, storage and management of evidence. When developing these policies and procedures, OPA encourages DPS to refer to (1) established industry standards, such as those created by the CALEA or the IAPE, and (2) policies and procedures of established law enforcement agencies, such as the HPD. These policies and procedures should be in writing, be applicable department-wide, and, at a minimum, address the following:

- a. Deadline for submission of evidence;
- b. Temporary storage of evidence;
- c. Required documentation for the collection, transfer and storage of evidence;
- d. Classification, segregation, security, and disposal of evidence;
- e. Structural measures and management controls over the evidence storage facility;
- f. Duties and responsibilities of the Evidence Custodian and any alternate(s);
- g. Prohibition of incompatible duties for evidence room personnel; and
- h. Periodic inspections, inventory and reports.

Agency to Act :

Department of Public Safety

Status :

Open - Active

Agency Response :

In his letter response to OPA's draft audit report dated 9/6/05, the Deputy Commissioner informed OPA that he agrees with most of the findings of the audit conducted and is aware of the issues that need immediate attention and correction for deficiencies.

On 1/12/06, OPA staff performed a walkthrough of the new evidence storage facility as requested by DPS. During the walkthrough, OPA was informed that DPS is in the process of creating a task force to develop a Standard Operating Procedures (SOP) manual over evidence controls and that a government attorney will be assigned to take part on the development of the SOP.

In his letter dated 3/30/06, the CIB Commander stated their legal counsel was in the process of reviewing the Honolulu Police Department's evidence policy to use as a model for DPS when he was transferred unexpectedly. The Commander stated that he will be working with their new legal counsel on this matter. He further stated that the Commissioner has indicated his desire to incorporate some items from the military evidence policy to DPS's policy.

**Additional Information
or Action Required**

: DPS should provide OPA with a copy of the written amendments to its policies and procedures applicable department-wide regarding the receipt, storage and management of evidence adopted by DPS. These policies and procedures should address items a through h of recommendation 2.

Recommendation 3

: Develop and implement a plan to ensure that, during the transition to a new evidence system, evidence collected is properly received, stored and managed.

Agency to Act

: Department of Public Safety

Status

: Closed

Agency Response

: In his letter response to OPA's draft audit report dated 9/6/05, the Deputy Commissioner informed OPA that he agrees with most of the findings of the audit conducted and is aware of the issues that need immediate attention and correction for deficiencies.

On 1/12/06, OPA staff performed a walkthrough of the new evidence storage facility as requested by DPS. During the walkthrough, OPA staff noted two air-conditioned cargo containers to the side of the evidence storage facility being used to temporarily store evidence during the renovation of the old evidence storage facility (one container for older items of evidence and the other for most recent items of evidence).

On 2/23/06, OPA staff, while in the vicinity of the DPS evidence storage facility on unrelated business, noted that the two containers observed on 1/12/06 have been removed. OPA was later informed by the Alternate Evidence Custodian that the evidence has been transferred back into the new evidence storage facility, and only the Evidence Custodian can access the evidence. Upon the Evidence Custodian's return, an inventory will be conducted.

In his letter dated 3/30/06, the CIB Commander stated that due to the time constraint placed on CIB in returning the shipping containers to the vendor, the evidence was moved into the main space of the evidence facility. He stated that they are currently waiting for additional evidence racks for the designated rooms for the different classifications of evidence before they are able to segregate the evidence into their respective classifications. Additionally, the current/new evidence are being stored separately from the old evidence. Based on the information provided, this recommendation is now considered closed.

Office of Personnel Management

Report No. AR-05-03 issued August 12, 2005
Audit of Marianas Hawaii Liaison Office
October 1, 1999 through December 31, 2002

Date(s) of followup letter(s) sent : 3/9/06

Date(s) of response letter(s) received :

Recommendation 19 : Establish a written procedure instructing staff to verify the point of recruitment of employees to determine entitlement to housing allowance. Such procedure may require agencies to document employees' residency when hired or verify employee's present address as stated on the application form.

Agency to Act : Office of Personnel Management

Status : Resolved - Delinquent

Agency Response : On August 1, 2005, the Acting Director of Personnel provided OPA a draft copy of Policy and Procedure No. 1026-106 entitled "Housing or Housing Allowance Benefit for Authorized Government Employees". As provided under section 5.0, "Procedures for Confirming Eligibility for Housing or Housing Allowance", OPM staff are required to review the application at the time of submission, if submitted personally by the applicant, and should confirm based on specific guidelines whether the employee is considered a local hire or outside-the-Commonwealth hire. Also, Department or Activity staff members responsible for processing the contract document are required to perform post-offer reference checks including verification of actual place of residence and should have the employee complete, prior to the preparation of the contract document, a certification form attesting to the employee's Point of Recruitment. Entitlement to the housing allowance or government housing must be supported by the pre-contracting reference check and certification by the employee.

According to the Acting Director of Personnel, Policy and Procedure No. 1026-106 will be finalized and distributed after the review and approval of the Director of Personnel.

Additional Information or Action Required : OPM should provide OPA a copy of Policy and Procedure No. 1026-106 officially approved by the Director of Personnel to formally close this recommendation.

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Municipalities

Tinian Mayor's Office

Tinian Mayor's Office

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/13/06

Date(s) of response letter(s) received :

Recommendation 13 : The Tinian Mayor's Office should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Tinian Mayor's Office

Status : Open - Delinquent

Agency Response : No response to date.

Additional Information or Action Required : The Tinian Mayor's Office should provide OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Autonomous Agencies

Commonwealth Development Authority
Commonwealth Ports Authority
Commonwealth Utilities Corporation
Commonwealth Government Employees Credit Union
Marianas Hawaii Liaison Office
Marianas Public Land Trust
Marianas Visitors Authority
Northern Marianas College
Northern Mariana Islands Retirement Fund
Public School System

CDA and NMHC

Report No. AR-05-01 issued March 3, 2005 Audit of the Security of CNMI Government Funds Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/10/06

Date(s) of response letter(s) received :

Recommendation 2 : The Commonwealth Development Authority should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Commonwealth Development Authority

Status : Open - Delinquent

Agency Response : No response to date.

Additional Information or Action Required : The CDA should provide OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Recommendation 11 : The Northern Mariana Housing Corporation should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Northern Mariana Housing Corporation

Status : Open - Delinquent

Agency Response : No response to date.

Additional Information or Action Required : The NMHC should provide OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Commonwealth Ports Authority

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/7/06

Date(s) of response letter(s) received :

Recommendation 4 : The Commonwealth Ports Authority should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Commonwealth Ports Authority

Status : Open -Delinquent

Agency Response : No response to date.

Additional Information or Action Required : The CUC should provide OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Commonwealth Utilities Corporation

Report No. AR-02-01 issued August 27, 2002
Commonwealth Utilities Corporation
Audit of Small Purchases
from October 1999 through March 2001

Date(s) of followup letter(s) sent : 2/14/03, 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06
Date(s) of response letter(s) received : 10/17/03, 10/29/04, 3/16/05, 8/24/05, 3/27/06 (request for extension), 4/11/06

Recommendation I : The CUC Board should amend CUC's Procurement Regulations to include:

- (a) a clear definition of artificial division of purchases or split purchases;
- (b) the procurement method to be followed in special circumstances, such as for urgently needed goods or services;
- (c) an exception to the required 3 quotations when the number of available suppliers is very limited.

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Active

Agency Response : On 10/17/03, the CUC Executive Director provided OPA with the following proposed policies, forms, and amendments to the CUC Procurement Regulations which are now with the CUC Board for their review, adoption, and promulgation.

Split Purchases - CUC has proposed amendments to the CUC Procurement Regulations regarding split purchases which provided clear definition of split purchases and guidance for determining the existence of such type of procurement.

Emergency Procurement - CUC has proposed amendments to the CUC Procurement Regulations regarding emergency procurement which specifies conditions for use, procedures, documentation, and authorizations required for such type of procurement.

Sole Source Procurement - CUC has designed a Sole Source Justification Form to document the procurement method when CUC cannot obtain three quotations because of special circumstances.

On 10/29/04, the CUC Executive Director informed OPA that the CUC Board has adopted the Proposed Amendments to the Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement on 10/7/04 and is in the process of promulgating the said amendments.

On 3/16/05, the CUC Executive Director advised OPA that the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement will be submitted to the Attorney General's Office for review by April 15, 2005.

In her response letter dated 8/24/05, the Executive Director Stated that CUC is in the process of finalizing all the necessary documents to promulgate the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement.

In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding

OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

**Additional Information
or Action Required :**

CUC should provide OPA with its plan of action to address the following recommendation, as well as an official copy of the amendments to its Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement promulgated as regulations.

Recommendation 2 :

- The CUC Board should adopt policies and procedures for small purchases that:
1. provided adequate guidance to CUC employees on determining split purchases or artificially divided purchases;
 2. define the coverage of emergency procurement under the after-the-fact procurement method specified in the CUC Comptroller's memorandum dated October 24, 2001;
 3. provide procedures for identifying and documenting actual or potential conflicts of interest, including procedures for ensuring that conflicted employees recuse themselves from participating in the procurement process.

Agency to Act :

Commonwealth Utilities Corporation

Status :

Resolved - Active

Agency Response :

On 10/17/03, the CUC Executive Director provided OPA with the following proposed policies, forms, and amendments to the CUC Procurement Regulations which are now with the CUC Board for their review, adoption, and promulgation.

Split Purchases - CUC has proposed amendments to the CUC Procurement Regulations regarding split purchases which provided clear definition of split purchases and guidance for determining the existence of such type of procurement.

After-the-Fact Purchase Orders - CUC has drafted a proposed policy on after-the-fact purchase orders viewing it as a serious matter and with the ultimate goal of eliminating it. Only in emergency situations may the corporation ratify after-the-fact purchases as commitments which are governed by applicable emergency procurement regulations.

Conflict of Interest - In a memorandum dated 10/17/03, the CUC Executive Director instructed the CUC Procurement Manager to advise all employees involved in the procurement process to observe CUC's policy on conflict of interest. CUC has proposed a Disclosure Statement Form which will require all concerned to disclose any substantial interest that employees or their relative have in any CUC procurement matter. The CUC Procurement Manager was also instructed to coordinate with OPA to provide annual Government Ethics training for its staff.

On 10/29/04, the CUC Executive Director informed OPA that the CUC Board has adopted the Proposed Amendments to the Procurement Rules and Regulations addressing split purchases, after-the-fact purchase orders, and Disclosure Statement Form and is in the process of promulgating the said rules and regulations.

On 3/16/05, the CUC Executive Director advised OPA that the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, after-the-fact purchase orders, and Disclosure Statement Form will be submitted to the Attorney General's Office for review by April 15, 2005.

In her response letter dated 8/24/05, the Executive Director Stated that CUC is in the

process of finalizing all the necessary documents to promulgate the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, after-the-fact purchase orders, and Disclosure Statement Form.

In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

**Additional Information
or Action Required :**

CUC should provide OPA with a copy of the official amendments to its Procurement Rules and Regulations addressing split purchases, after the fact purchase orders, and disclosure statement form promulgated as regulations.

**Report No. AR-03-01 issued January 15, 2003
Commonwealth Utilities Corporation
Audit of Personnel Hiring
from October 1, 1999 through July 15, 2001**

Date(s) of followup letter(s) sent : 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06

Date(s) of response letter(s) received : 2/21/03, 10/17/03, 10/29/04, 3/16/05, 8/24/05, 3/27/06 (request for extension), 4/11/06

Recommendation I : Continue the effort to develop and adopt comprehensive personnel rules and regulations. If it determines that limited term appointments are necessary for CUC operation, it should define its practice in the proposed personnel regulations.

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Active

Agency Response : In her response dated 10/17/03, the CUC Executive Director stated that the Board's Personnel Committee is pursuing the revision of their existing Personnel Rules and Regulations to be presented to the Board for approval and for promulgation as CUC Regulations. OPA was provided a copy of the Executive Director's letter to the Board dated 10/2/03 requesting action on this matter.

On 10/29/04, the CUC Executive Director informed OPA that the CUC Board has adopted the proposed CUC Human Resources Rules and Regulations on 10/7/04 and is in the process of promulgating the said rules and regulations.

On 3/16/05, the CUC Executive Director advised OPA that the revised Personnel Rules and Regulations will be brought back to the Personnel Committee for further review. Upon adoption of the necessary changes, the Corporation will pursue promulgation of the said revised rules and regulations.

In her letter response dated 8/24/05, the Executive Director stated that CUC is in the process of finalizing all the necessary documents to promulgate its revised Personnel Rules and Regulations.

In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations

will be forwarded to OPA as they become available.

Additional Information

or Action Required : CUC should provide OPA with the official copy of the Human Resources Rules and Regulations promulgated as regulations.

**Report No. AR-03-02 issued January 22, 2003
Commonwealth Utilities Corporation
Audit of Premium Pay, Overtime, and Salary Increases
from October 1, 1999 through September 30, 2001**

Date(s) of followup letter(s) sent : 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06

Date(s) of response letter(s) received : 2/21/03, 10/17/03, 10/29/04, 3/16/05, 8/24/05, 3/27/06 (request for extension), 4/11/06

Recommendation I : Develop and adopt Personnel Rules and Regulations to cover promotion and salary increase justifications, and the various forms of premium pay it plans to use, as well as to conform to the requirements of the Fair Labor Standards Act concerning computation of overtime.

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Active

Agency Response : In her response dated 2/21/03, the CUC Executive Director informed OPA that the CUC Board of Directors adopted an interim manual for Human Resources Policies and Procedures (HRPP) on 12/27/02. Upon completion of its review from staff and management, the Board will adopt the manual in a final form and present it to the AGO for review and promulgation in the Commonwealth Register as a regulation. CUC is preparing to issue a solicitation for a firm to create new classification and compensation plans for reclassification for the Corporation. The HRPP will address the issues of promotion and provide for a competitive promotional process. The compensation plan will provide for step increases in salaries for employees. The HRPP requires strict compliance with the Fair Labor Standards Act and it is CUC's intention that, with the concurrence of the consulting firm doing the compensation plan, CUC will eliminate premium pay and incorporate all aspects of any individual position which would impact compensation into the base salary. Based on the information provided, this recommendation is considered resolved until such time that the manual for HRPP is promulgated as regulations.

In her response dated 10/17/03, the CUC Executive Director stated that the Board's Personnel Committee is pursuing the revision of their existing Personnel Rules and Regulations to be presented to the Board for approval and for promulgation as CUC Regulations.

On 10/29/04, the CUC Executive Director informed OPA that the CUC Board has adopted the proposed Human Resources Rules and Regulations on 10/7/04 and is in the process of promulgating the said rules and regulations.

On 3/16/05, the CUC Executive Director advised OPA that the revised Personnel Rules and Regulations will be brought back to the Personnel Committee for further review. Upon adoption of the necessary changes, the Corporation will pursue promulgation of the said revised rules and regulations.

In her letter response dated 8/24/05, the Executive Director stated that CUC is in the process of finalizing all the necessary documents to promulgate its revised Personnel Rules and Regulations.

In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that

the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

Additional Information or Action Required : CUC should provide OPA with the official copy of the Human Resources Rules and Regulations promulgated as regulations.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/10/06

Date(s) of response letter(s) received : 3/27/06 (request for extension), 4/11/06

Recommendation I : The Commonwealth Utilities Corporation should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Commonwealth Utilities Corporation

Status : Open - Active

Agency Response : In his response dated 4/11/06, the CUC Acting Executive Director informed OPA that the CUC management is currently assessing its plan of actions to address outstanding OPA recommendations given its current organizational structure under the Department of Public Works. He further noted that the CUC management will be working with the Attorney General's Office to settle recommendations stated in the OPA audit reports and that information regarding the status of such recommendations will be forwarded to OPA as they become available.

Additional Information or Action Required : The CUC should provided OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Commonwealth Government Employees Credit Union

Report No. AR-05-01 issued March 3, 2005 Audit of the Security of CNMI Government Funds Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/10/06
Date(s) of response letter(s) received : 3/14/06, 3/14/06 (telephone conversation), 4/5/06 (telephone follow-up)

Recommendation 3 : The Commonwealth Government Employees' Credit Union should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Commonwealth Government Employees' Credit Union

Status : Open - Active

Agency Response : In her letter response dated 3/14/06, the Acting General Manager of CGECU stated that the board has not approved any new policies or procedures to date. However, its current board members are determined to keep credit union funds in FDIC banks. In a telephone conversation with the Acting General Manager on 3/14/06, OPA was informed that a measure will be introduced to the Board to require that all government funds under its control shall be deposited into FDIC insured banks. In a subsequent telephone conversation with the Acting General Manager on 4/5/06, OPA was informed that no action was taken on the measure during the last board meeting on 3/22/06 but that the Acting General Manager will bring it to the board's attention during their next scheduled meeting.

Additional Information or Action Required : CGECU should continue to update OPA on actions the board will take on the measure to be proposed by the Acting General Manager. CGECU should also provide OPA with a copy of the measure adopted as policy and/or regulations in addressing the issue of the security of public funds to formally close the recommendation.

Marianas Hawaii Liaison Office

**Report No. AR-05-03 issued August 12, 2005
Audit of the Marianas Hawaii Liaison Office
October 1, 1999 through December 31, 2002**

Date(s) of followup letter(s) sent : 3/7/06

Date(s) of response letter(s) received : 8/30/05

Recommendation 7 : Consult with DOF to ensure that MHLO's official representation expenditures meet public purpose prior to expending public funds. MHLO should comply with DOF's Regulations for the Control of Public Funds to ensure that official representation expenditures are justified and the appropriate forms are submitted.

Agency to Act : Marianas Hawaii Liaison Office

Status : Resolved - Delinquent

Agency Response : On 8/30/05, OPA was provided with a copy of MHLO's communication to the Secretary of Finance dated 8/29/05 requesting for clarification and guidance regarding official representation expenditures.

Additional Information or Action Required : MHLO should provide OPA a copy of DOF's response to MHLO's request for clarification and guidance to formally close this recommendation.

Marianas Public Land Trust

Report No. AR-05-01 issued March 3, 2005 Audit of the Security of CNMI Government Funds Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/10/06

Date(s) of response letter(s) received : 6/12/06

Recommendation 7 : The Marianas Public Land Trust should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Marianas Public Land Trust

Status : Closed

Agency Response : In his letter response dated 2/11/05, the Executive Director stated that since there were no specific findings related to MPLT, it is difficult to respond to the recommendation by way of concurrence or specific courses of action. Additionally, the Executive Director stated that it is the policy of the MPLT Board of Directors to maintain its checking account or any other depository account with an FDIC bank. Furthermore, he stated that it is their Constitutional function to invest the principal and income funds of the Trust and is done so through well-established and generally accepted Investment Fiduciary Practices. He added that they maintain an Investment Policy Statement which guides their investment of public funds.

OPA response - The scope of this audit only included readily available cash accounts (e.g., checking, savings, and time certificate of deposits) of CNMI Government agencies/corporations. As such, MPLT's investment portfolio was not part of the audit.

In his letter response dated 6/12/06, the Executive Director provided OPA with a copy of the resolution recently adopted which requires that public funds be deposited in FDIC insured institutions. As such, OPA now considers this recommendation closed.

Marianas Visitors Authority

Report No. AR-05-01 issued March 3, 2005 Audit of the Security of CNMI Government Funds Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/7/06

Date(s) of response letter(s) received :

Recommendation 8 : The Marianas Visitors Authority should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Marianas Visitors Authority

Status : Open - Delinquent

Agency Response : No response to date

Additional Information or Action Required : The MVA should provide OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Northern Marianas College

Report No. AR-03-03 issued February 19, 2003 Northern Marianas College Evaluation of the Facts and Circumstances Surrounding the Termination of Employees

Date(s) of followup letter(s) sent : 8/1/03, 4/28/04, 9/27/04, 2/15/05, 8/8/05, 3/8/06

Date(s) of response letter(s) received : 4/1/03, 8/5/03, 6/7/04

Recommendation 2 : The Board Chairman reiterate to Board members the need to thoroughly review policy level actions involving: (a) organizational structure in light of NMC goals and objectives as required by Board policy 1000, and (b) the establishment of faculties or staff as required by Board policy 1009.

Agency to Act : Northern Marianas College

Status : Open - Delinquent

Agency Response : In his 8/5/03 response, the former NMC President stated that the Board has already initiated review and the entire Board is in the process of updating all policies, section at a time, using a model set of policies recommended by their WASC consultant adapted to the needs of the Commonwealth. OPA was provided a copy of the first section of revised policies which were approved by the Board in its regular June meeting. OPA was not informed, however, on how the Board has reviewed policy level actions involving organizational structure and the establishment of faculties or staff.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

Additional Information or Action Required : Document for the record how the Board has reviewed policy level actions involving (a) organizational structure, and (b) the establishment of faculties or staff.

Recommendation 3 : The Board Chairman and the President strongly consider strengthening processes in place for obtaining broader employee involvement in NMC decisions by implementing a policy to address it and thus comply with WASC accreditation standards.

Agency to Act : Northern Marianas College

Status : Resolved - Delinquent

Agency Response : In his response dated 8/5/03, the former President stated that Governance is a matter for the WASC accreditation process. Their recent actions will be reviewed during their next self-study and WASC visitation. NMC has also implemented a new approach to governance over the last academic year by establishing a College Governance Assembly and three subordinate councils. The Board has not yet reviewed and updated its current policy on Governance.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

Additional Information or Action Needed : Provide OPA with a copy of the updated policy on Governance addressing employee involvement in NMC decisions upon its adoption.

Recommendation 4 : The President (a) document his reorganization with objectives, time-lines, and fiscal impact; (b) identify positions affected; (c) provide a mechanism to assess whether the results have met the redesigned organization's objectives; and (d) identify legal and human resource issues such as compliance with applicable laws, policy, and accreditation standards.

Agency to Act : Northern Marianas College

Status : Resolved - Delinquent

Agency Response : In his response dated 8/5/03, the former President stated that these issues will be dealt with through the accreditation process in a timely and appropriate fashion during their upcoming self-study and accreditation visit.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

Additional Information or Action Required : Provide the Board with documentation that shows: (a) reorganization objectives, time-lines, and fiscal impact; (b) positions affected; (c) a mechanism to assess whether the results have met the redesigned organization's objectives; and (d) legal and human resource issues such as compliance with applicable laws, policy, and accreditation standards.

Recommendation 5 : The Board Chairman review with the Board of Regents its policy on reductions-in-force (RIF), and clarify when RIF procedures should apply.

Agency to Act : Northern Marianas College

Status : Resolved - Delinquent

Agency Response : In his response dated 8/5/03, the former President stated that the Board has already initiated review and the entire Board is in the process of updating all policies, section at a time, using a model set of policies recommended to them by their WASC consultant adapted to the needs of the Commonwealth. NMC will forward more policies as they are adopted.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

Additional Information or Action Required : Provide OPA with a copy of the updated policy on reductions-in-force (RIF) which should clarify when RIF procedures should apply.

Recommendation 6 : The President inquire with the Western Association for Schools and Colleges (WASC) as to whether or not the Administration Procedures Act should apply to NMC; if WASC determines that they should apply, the President should ensure that NMC policies are published as regulations as required by the Administrative Procedures Act; if WASC determines they do not apply, the President should bring this matter to the Board to propose legislation which would exclude NMC from the Act.

Agency to Act : Northern Marianas College

Status : Resolved - Delinquent

Agency Response : In the NMC Board of Regent's response prior to issuance of the final audit report, the Board agreed that NMC should follow the Administrative Procedures Act on future actions. In his 8/5/03 response, the former NMC President stated that the Board initially approved the first section of revised policies at its regular June meeting. These policies have been reviewed by the Chamorro/Carolinian Language Policy Commission as the initial step in the Administrative Procedures Act and will soon be published. OPA was provided a copy of the first section of revised policies that have already been adopted. NMC will forward more policies as they are adopted.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

Additional Information or Action Required : NMC should provide OPA with a copy of the revised policies published as regulations in the Commonwealth Register.

Recommendation 7 : The President seek legal determination as to whether four recent reassignments were made in accordance with Board policy and, if not, take appropriate action to rectify the situation.

Agency to Act : Northern Marianas College

Status : Resolved - Delinquent

Agency Response : On 8/5/03, OPA was provided a copy of the legal decision rendered by its attorney dated 5/22/03 as to whether four assignments were made in accordance with Board policy. NMC's attorney ruled that two of the four reassignments violated NMC policy because they were not announced. NMC's attorney also recommended that the Board meet with the former President to arrive at a resolution of this violation.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

Additional Information or Action Required : NMC should inform OPA of appropriate actions taken to rectify the situation.

Recommendation 10 : The President and the Board consult with its legal counsel to determine the effect of the Civil Service Commission's decision on NMC employment status.

Agency to Act : Northern Marianas College

Status : Open - Delinquent

Agency Response : In his response dated 8/5/03, the NMC President stated that the Civil Service issue is still pending in the court.

In his 6/7/04 response, the NMC Director of Finance and Procurement stated that the Office of the President is currently researching the actions taken by the former NMC President to address this recommendation and will provide OPA with the relevant information upon completion of its research.

Additional Information or Action Required : NMC should provide OPA with the results of the courts decision in reference to the Civil Service issue pending in court.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/8/06

Date(s) of response letter(s) received :

Recommendation 10 : The Northern Marianas College should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Northern Marianas College

Status : Open - Delinquent

Agency Response : No response to date.

Additional Information or Action Required : The NMC should provide OPA with a copy of the policies and procedures, and/or regulations to address the issues of the security of public funds.

Northern Mariana Islands Retirement Fund

Report No. LT-01-04 issued August 8, 2001 Northern Mariana Islands Retirement Fund Audit of Travel Outside the CNMI from October 1996 Through March 2000

Date(s) of followup letter(s) sent : 3/5/02, 8/9/02, 2/18/03, 8/4/03, 4/16/04, 9/28/04, 2/15/05, 8/9/05
3/10/06

Date(s) of response letter(s) received : 7/22/03, 3/22/05

Recommendation 2 : The Fund Administrator should consistently enforce sanctions or other remedies for travel violations. Travelers with unliquidated advances should be denied additional travel advances; payroll deductions should be immediately implemented for travelers who fail to submit the required travel documents on time; and board members, especially those who are not government employees, should be required to immediately repay outstanding travel advances.

Agency to Act : Northern Mariana Islands Retirement Fund

Status : Resolved - Delinquent

Agency Response : NMIRF agreed with the recommendation and stated that erroneous and unnecessary travel reimbursements must be collected. The BOT will work with the Administrator towards identifying the travel violations and collecting from the travelers who owe the Fund.

On 7/22/03, the NMIRF Administrator provided OPA with a copy of the memorandum directed to the Fund Comptroller reminding him to strictly enforce the NMIRF Travel Policy that no further travel shall be authorized or permitted for a traveler who has failed to submit the proper vouchers from prior travel, until the vouchers are received and approved by the Administrator, and all outstanding travel advances cleared. He also authorized the Comptroller to deduct from payroll any amounts due from travelers and require Board of Trustees who are not part of the government payroll to immediately repay the advances when a completed travel voucher is submitted. OPA was not informed, however, of the expected date of when the scheduled overpayments will be collected.

In his response dated 3/22/05, the NMIRF Administrator stated that the Fund is strictly enforcing its travel policy and continuously reminds travelers to liquidate travel vouchers within 10 days after the culmination of official travels. The Fund also collected from travelers anything that was due from each individual traveler upon liquidation of advances.

Additional Information or Action Required : NMIRF is requested to provide OPA the status of collection of overpayments cited in the audit report. NMIRF should also provide OPA reasons, if any, for those overpayments that were not collected or resolved.

Recommendation 3 : The Fund Administrator should disallow the practice of using corporate credit cards for payment of hotel and car rentals. Corporate credit cards should be used to guarantee hotel and car reservations only, when and if required by vendors. In addition, a strict credit card policy should be adopted to limit the use of corporate credit cards.

Agency to Act : Northern Mariana Islands Retirement Fund

Status : Resolved - Delinquent

Agency Response : In his response dated 7/22/03, the NMIRF Administrator stated that NMIRF has a standing policy that “no individual traveler” (staff or Board of Trustees) shall be issued corporate credit cards. The Fund corporate credit card is used only to guarantee hotel and car reservations and for procuring supplies off-island, with appropriate measures taken for authorize personnel to place emergency order. OPA was not provided, however, with the written policy restricting the use of corporate credit card.

On 3/22/05, the NMIRF Administrator stated that the Fund maintains only one corporate credit card used only to guarantee hotel and car reservations, procure supplies outside the CNMI, and to place advertisements in magazines. The corporate credit card policies will be integrated into NMIRF’s policies and procedures by the Fund Policies & Procedures Committee.

Additional Information or Action Required : NMIRF should provide OPA a copy of the written policies and procedures restricting the use of the corporate credit cards adopted by the Board.

Report No. AR-00-03 issued July 20, 2000
Commonwealth Ports Authority
Audit of the Compensatory Time Claimed and Retirement Benefits
Paid to Two Former Officials of the CPA

Date(s) of followup letter(s) sent : 1/17/01 (CPA), 1/19/01 (NMIRF), 8/20/01 (CPA), 8/21/01 (NMIRF), 3/5/02 (CPA) (NMIRF), 8/9/02 (CPA) (NMIRF), 8/12/02 (AGO), 10/3/02 (AGO), 12/24/02 (AGO), 2/14/03 (AGO) (CPA), 2/18/03 (NMIRF), 8/4/03 (NMIRF) (AGO), 4/13/04 (AGO), 4/16/04 (NMIRF), 9/21/04 (AGO), 9/28/04 (NMIRF), 2/15/05 (AGO) (NMIRF), 8/9/05 (AGO) (NMIRF), 3/10/06, (NMIRF) (AGO)

Date(s) of response letter(s) received : 8/31/01 (meeting with CPA), 10/4/01 (NMIRF letter of request for extension to respond until 11/3/01), 10/12/01 (CPA), 1/29/01, 2/12/02 (meeting with AGO), 8/12/02 (CPA request for extension), 8/30/02 (CPA), 9/25/02 (CPA), 4/2/03 (NMIRF), 7/22/03 (NMIRF), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/22/05 (NMIRF), 9/1/05 (AGO)

Recommendation 8 : The Fund Administrator should instruct his staff to recalculate and adjust the pension benefits of all other fund members by disregarding overtime and comptime hours that were considered as additional credited service.

Agency To Act : Northern Mariana Islands Retirement Fund

Status : Resolved - Delinquent

Agency Response : NMIRF obtained the legal opinion of AGO on whether overtime and compensatory time can be used to determine the benefit amount of a retirement annuity.

AGO, in its legal opinion dated 6/9/00, stated that overtime and compensatory time may not be used to calculate the amount of benefit, but only for determining eligibility for retirement. AGO also stated that overtime and compensatory time cannot be used to determine the amount of the benefit paid to a retiree by the Retirement Fund.

AGO recommended that re-calculation of benefits to affected members should be made, and the amount of overpayments should be determined. AGO further stated that members should be informed and advised of their right to appeal an adverse determination. If no appeal is filed, then the collection process must be undertaken by the NMIRF.

The Fund is in the process of determining which beneficiaries have been overpaid. Further actions will be taken after this determination, *i.e.*, informing affected beneficiaries, appeal and collection process, etc.

In his response dated 7/22/03, the NMIRF Administrator stated that the pensions of two former CPA officials were recalculated “down” from the original calculations. OPA was not informed, however, of the results for recalculating the pension benefits of all other fund members in determining which beneficiaries have been overpaid and what further actions were taken after their determination.

On 3/22/05, the NMIRF Administrator stated that at the 3/10/05 Board of Trustees meeting, the Board agreed to revisit the issue of recovering overpayments at its next regular meeting. The Administrator also stated that the Fund does not currently have a full-time legal counsel.

**Additional Information
or Action Required**

: NMIRF should inform OPA of the results of their recalculation of pension benefits for all other fund members in determining which beneficiaries have been overpaid and provide evidence that corrective action was taken to adjust the benefits of affected members.

Recommendation 9

: The Fund Administrator should recover improper payments to the two former CPA officials totaling \$126,730.06, and also from all other fund members who have been overpaid by including overtime and comptime in the computation of their retirement annuity. If any problems exist in recovering overpayments, refer the matter to the Attorney General for legal action.

Agency to Act

: Northern Mariana Islands Retirement Fund

Status

: Resolved - Delinquent

Agency Response

: On 5/15/00, the Fund began withholding 50% of the former CPA Executive Director’s semi-monthly pension. The Fund also conducted two separate agency hearings in connection with the retirement benefits improperly paid or being paid to the former Executive Director and former Security Chief. In its decision dated 2/15/01, the Fund’s Board of Trustees affirmed the decision and actions of its Administrator in terminating the retirement benefit of the former Security Chief. Also, in a letter dated 7/27/00, AGO concurred with the findings of OPA and determined that the overpayment to the former Security Chief of CPA must be recovered. The Fund’s Board of Trustees has not yet issued its decision on the case of the former Executive Director.

On 4/2/03, OPA was provided with a copy of the Board of Trustees decision dated 6/21/01 in which it affirmed the decision and actions of its Administrator in recalculating and adjusting the retirement benefits of the Former Executive Director. OPA was informed, however, that the Former Executive Director had appealed the Board’s final decision to the Superior Court (Civil Action No. 00-0409E) and the case is still on-going.

In his response dated 7/22/03, the NMIRF Administrator stated that they will update OPA on this issue when the CNMI Courts renders its decision on the Former Executive Director’s appeal to the Superior Court.

On 3/22/05, the NMIRF Administrator stated that at the 3/10/05 Board of Trustees meeting, the Board agreed to revisit the issue of recovering overpayments at its next regular meeting. The Administrator also stated that the Fund does not currently have a full-time legal counsel.

In a phone conversation with the NMIRF Administrator on 4/5/05, OPA was informed that the Former Executive Director’s appeal to the Superior Court is still on-going.

**Additional Information
or Action Required**

: NMIRF should provide OPA (1) evidence of a written settlement plan with the former CPA Security Chief requiring repayment to the Retirement Fund and (2) the

results of the Superior Courts decision in reference to the appeal made by the Former Executive Director to the Superior Court.

Report No. AR-05-01 issued March 3, 2005
Audit of the Security of CNMI Government Funds
Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/10/06

Date(s) of response letter(s) received :

Recommendation 9 : The Northern Mariana Retirement Fund should adopt policies and procedures, and/or regulations to address the issue of the security of public funds

Agency to Act : Northern Mariana Islands Retirement Fund

Status : Open -Delinquent

Agency Response : No response to date.

Additional Information or Action Required : The NMIRF should provide OPA with a copy of the policies and procedures, and/or regulations to address the issue of the security of public funds.

Public School System

Report No. AR-05-01 issued March 3, 2005 Audit of the Security of CNMI Government Funds Deposited in Banks and Financial Institutions

Date(s) of followup letter(s) sent : 3/9/06

Date(s) of response letter(s) received :

Recommendation I2 : The Public School System should adopt policies and procedures, and/or regulations to address the issue of the security of public funds.

Agency to Act : Public School System

Status : Open - Active

Agency Response : In her letter response dated 3/28/06, the Commissioner of Education informed OPA that all PSS monies must be deposited in an FDIC insured bank. However, OPA was not provided with a copy of the PSS policy evidencing this requirement.

Additional Information or Action Required : The PSS should provide OPA with a copy of the policies and procedures, and/or regulations addressing the issue of the security of public funds. More specifically, PSS should provide OPA with evidence showing that it is the policy of PSS that all monies belonging to PSS be deposited into FDIC insured banks.

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Senate

Senate

Report No. AR-03-05 issued August 6, 2003 CNMI Senate, Thirteenth Legislature Monthly Subsistence Allowance Provided to Members of the Senate Covering the Period Ending June 30, 2002

Date(s) of followup letter(s) sent : 4/13/04, 9/27/04, 2/15/05, 8/9/05, 9/22/05, 3/8/06
Date(s) of response letter(s) received : 5/12/04 (request for extension to respond), 10/13/04, 3/8/05 (telephone follow-up), 3/16/05, 8/17/05 (meeting with Senate Legal Counsel), 8/29/05

Recommendation 1 : Introduce legislation to grant it authority for the subsistence allowance, to set the amount of the allowance, and to certify it as a public purpose.

Agency to Act : Senate

Status : Open - Active

Agency Response : The Senate stated that the subsistence allowance need not be in the form of a law. Instead the Senate asserts that it has implied statutory authority to establish the subsistence allowance for its members by Senate rule because 1 CMC §121(i) states that “expenditures authorized and regulated by legislative rules are expressly declared to be for a public purpose...”.

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate and that no further legislation is necessary at this time.

OPA Response - OPA did extensive legal research which formed the basis for the recommendation. OPA believes the CNMI Constitution clearly addresses these issues. OPA disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. Therefore, until such time as the allowances that have been created by the Senate rules are discontinued, OPA must reiterate that the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists. OPA urges the Senate to reconsider its position and to establish and justify the amount of its subsistence allowance through legislation.

In a telephone follow-up conversation with a Senate Legal Counsel, OPA was informed that the Senate’s position on this matter remains the same. Therefore, this recommendation will remain *Open - Active* until such time that the Senate reconsiders its position and addresses OPA’s recommendation.

Additional Information or Action Required : The Senate should introduce legislation to authorize monthly subsistence allowance and any changes in its amount, and to certify it as public purpose

Recommendation 2 : Undertake an analysis of reasonable travel costs to ensure that the amount set for allowance is appropriate given expenses incurred.

Agency to Act : Senate

Status : Open - Active

Agency Response : The Senate said it will replace the existing subsistence allowance system with a new revolving reimbursement system that would use uniform per diem rates to reimburse Senators for expenses incurred in the exercise of their constitutional duties. It would also conduct an analysis of travel expenses to ensure that the new per diem rate was reasonable.

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate and that no further legislation is necessary at this time.

OPA Response - OPA did extensive legal research which formed the basis for the recommendation. OPA believes the CNMI Constitution clearly addresses these issues. OPA disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. Therefore, until such time as the allowances that have been created by the Senate rules are discontinued, OPA must reiterate that the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists. OPA urges the Senate to reconsider its position and pursue the analysis to determine the reasonable amount of members' travel allowance.

In a telephone follow-up conversation with a Senate Legal Counsel, OPA was informed that the Senate's position on this matter remains the same. Therefore, this recommendation will remain *Open - Active* until such time that the Senate reconsiders its position and addresses OPA's recommendation.

On 8/17/05, OPA met with the Senate Legal Counsel to discuss OPA's audit recommendations. The Senate Legal Counsel informed OPA that the Senate's position on this matter is essentially the same. However, OPA expressed its concern that a better system of accountability should be established. On 8/29/05, the Senate President reiterated to OPA that the Senate's position on this matter still remains the same and that no further legislation is necessary at this time. However, after discussing the matter with the Senate Legal Counsel and the concerns expressed by OPA staff during the 8/17/05 meeting, the Senate President agreed that a better system of accountability should be established. The Senate President therefore requested OPA's assistance in establishing an accounting system for the monthly Senatorial allowance or stipend that balances ease of use and proper accountability and is mutually acceptable to both the Senate and OPA. In OPA's response to the Senate President dated 9/22/05, OPA stated that in developing a system for the Senate's use, OPA consulted with representatives of the Hawaii Legislature, the Hawaii State Auditor, the Virgin Islands Inspector General, and the American Samoa Territorial Auditor because of the similarities in the multi-island geographic composition of the state or territory and the level of sophistication of accounting systems. OPA provided the Senate President with a copy of the Hawaii House Administrative and Financial Manual for the Hawaii House of Representatives, Twenty Second State Legislature as reference in developing an accounting system for the monthly allowances paid to CNMI Senators. In its letter, OPA cited various requirements, restrictions, and forms which must be completed governing the Hawaii Legislature's annual allowance. For the CNMI Senator's stipend, OPA proposed a simple one page form which would simply list the date and amount of the monthly disbursement and then account for its usage. Since the Senators are currently being required to provide the Senate President with their monthly receipts, this system incorporates that method and make it easily reviewable. This form will also allow the Senators to undertake an analysis to determine reasonable travel costs to ensure that the amounts set for allowances are appropriate for the expenses incurred.

Additional Information or Action Required : The Senate should inform OPA whether or not it will adopt the proposed form for accounting the monthly Senatorial allowance.

- Recommendation 3** : Document travel activity to enable the Senate to more accurately estimate an appropriate monthly allowance.
- Agency to Act** : Senate
- Status** : Open -Active
- Agency Response** : The Senate agreed to provide OPA with a written analysis of what it considers as reasonable travel to support changing the amount set for the monthly subsistence allowance.

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate and that no further legislation is necessary at this time.

OPA Response - OPA did extensive legal research which formed the basis for the recommendation. OPA believes the CNMI Constitution clearly addresses these issues. OPA disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. Therefore, until such time as the allowances that have been created by the Senate rules are discontinued, OPA must reiterate that the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists. OPA urges the Senate to reconsider its position and pursue the analysis to determine the reasonable amount of its subsistence allowance.

In a telephone follow-up conversation with a Senate Legal Counsel, OPA was informed that the Senate's position on this matter remains the same. Therefore, this recommendation will remain *Open - Active* until such time that the Senate reconsiders its position and addresses OPA's recommendation.

On 8/17/05, OPA met with the Senate Legal Counsel to discuss OPA's audit recommendations. The Senate Legal Counsel informed OPA that the Senate's position on this matter is essentially the same. However, OPA expressed its concern that a better system of accountability should be established. On 8/29/05, the Senate President reiterated to OPA that the Senate's position on this matter still remains the same and that no further legislation is necessary at this time. However, after discussing the matter with the Senate Legal Counsel and the concerns expressed by OPA staff during the 8/17/05 meeting, the Senate President agreed that a better system of accountability should be established. The Senate President therefore requested OPA's assistance in establishing an accounting system for the monthly Senatorial allowance or stipend that balances ease of use and proper accountability and is mutually acceptable to both the Senate and OPA. In OPA's response to the Senate President dated 9/22/05, OPA stated that in developing a system for the Senate's use, OPA consulted with representatives of the Hawaii Legislature, the Hawaii State Auditor, the Virgin Islands Inspector General, and the American Samoa Territorial Auditor because of the similarities in the multi-island geographic composition of the state or territory and the level of sophistication of accounting systems. OPA provided the Senate President with a copy of the Hawaii House Administrative and Financial Manual for the Hawaii House of Representatives, Twenty Second State Legislature as reference in developing an accounting system for the monthly allowances paid to CNMI Senators. In its letter, OPA cited various requirements, restrictions, and forms which must be completed governing the Hawaii Legislature's annual allowance. For the CNMI Senator's stipend, OPA proposed a simple one page form which would simply list the date and amount of the monthly disbursement and then account for its usage. Since the Senators are currently being required to provide the Senate President with their monthly receipts, this system incorporates that method and make it easily reviewable.

- Additional Information or Action Required** : The Senate should inform OPA whether or not it will adopt the proposed form for accounting the monthly Senatorial allowance.

Recommendation 5 : Amend legislation and/or travel policy to prevent senators from being reimbursed for other concurrent travel.

Agency to Act : Senate

Status : Open -Active

Agency Response : The Senate stated it would take action so that members do not receive “double compensation” for travel costs.

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate and that no further legislation is necessary at this time.

OPA Response - OPA did extensive legal research which formed the basis for the recommendation. OPA believes the CNMI Constitution clearly addresses these issues. OPA disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. Therefore, until such time as the allowances that have been created by the Senate rules are discontinued, OPA must reiterate that the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists. OPA urges the Senate to reconsider its position and amend legislation and/or travel policy to prevent Senators from being reimbursed for other concurrent travel.

In a telephone follow-up conversation with a Senate Legal Counsel, OPA was informed that the Senate’s position on this matter remains the same. Therefore, this recommendation will remain *Open - Active* until such time that the Senate reconsiders its position and addresses OPA’s recommendation.

Additional Information or Action Required : The Senate should amend language in legislation and/or travel policy requiring senators to adjust their vouchers or allowances so as not to obtain reimbursement for other concurrent travel.

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House of Representatives

House of Representatives

Report No. LT-01-02 issued May 3, 2001 Audit of the Maintenance and Use of the Challenger Since its Purchase in 1995

Date(s) of followup letter(s) sent : 8/22/01, 3/4/02, 8/12/02, 2/12/03, 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/7/06

Date(s) of response letter(s) received : 3/13/03, 6/19/03 (meeting with Speaker of the House), 5/12/04, 9/29/04, 2/17/05, 3/27/06

Recommendation 6 : The CNMI Legislature should amend 1 CMC §7402 (a) (2) of the Planning and Budgeting Act by adding a provision to the Act that any CNMI Government employee who illegally reprograms government funds or receives illegally reprogrammed funds will be held personally liable for the amount of the reprogramming action.

Agency to Act : House of Representatives

Status : Resolved - Active

Agency Response : In a letter dated 4/2/01, the Attorney General advised that the reprogramming authorized by a former official of the Office of Management and Budget did indeed violate the Planning and Budgeting Act. However, the Act provides no sanction or remedy for this violation. Consequently, the Attorney General's Office is unable to take appropriate action because evidence was not presented showing that reprogramming action itself involved a clear waste and abuse of government funds. The Attorney General, however, stated that this illegal action and OPA's report clearly identified a defect in the Act, and agreed to support legislative action to amend the law. OPA agreed with the Attorney General's position that legislation should be introduced to amend the Act. OPA therefore added Recommendation No. 6 for the Legislature to act upon.

On 9/29/04, the Speaker of the House provided OPA a draft of a bill to amend the Planning and Budgeting Act. House Bill No. 14-249, which was introduced by the House on 10/1/04 to amend 1 CMC §7402 (a) (2), states that "No funds may be reprogrammed to any account which has been zero-funded by the legislature or to any account for which the legislature has not made an appropriation. Any person who reprograms government funds or knowingly receives reprogrammed funds contrary to this subsection shall each be held personally liable for the amount of the reprogrammed amount." This recommendation will remain resolved - active until such time that the bill is passed and signed into law.

OPA was informed by the Acting Speaker on 2/17/05 that House Bill No. 14-249 which was introduced on 10/1/04 was referred to the Standing Committee on Judiciary and Governmental Operations. The Acting Speaker stated that he will encourage the committee to report on the bill so the House can pass it and transmit it to the Senate.

On 3/27/06, the Speaker of the House provided OPA a draft of a bill to amend the Planing and Budgeting Act. House Bill No. 15-108, which was introduced by the House on 3/22/06 to amend 1 CMC §7402(a)(2), by holding personally liable those who illegally reprogram or knowingly receive reprogrammed funds. House Bill 15-108 mirrors House Bill 14-249 which was introduced by the 14th Legislature.

Additional Information or Action Required : The House of Representatives should continue to update OPA on the status of House Bill 15-108 until passed and signed into law.

Independent Auditor's Recommendations

CNMI
Commonwealth Development Authority
Commonwealth Ports Authority
Commonwealth Utilities Corporation
Department of Public Lands
Marianas Visitors Authority
Northern Marianas College
Public School System

Commonwealth Develop
Commonwealth
Commonwealth Utili
Department
Marianas V
Northern M
Public

Attached is the Schedule of Findings, Questioned Costs and Recommendations issued by Independent Auditors.¹

This section of the report presents recommendations from Single Audit reports and other types of audit reports issued by private Certified Public Accountant (CPA) firms. The Office of the Public Auditor is not responsible for tracking the implementation of these recommendations, however, they are included in our audit tracking report for information purposes. Because OPA is responsible for overseeing all audits of the CNMI government, follow-up procedures are also conducted for these recommendations to determine what actions have been taken by the individual agencies to implement the recommendations issued by private CPA firms. A copy of the agencies' responses is subsequently provided to the Independent Auditor who conducted the audit to determine whether the agencies' responses are sufficient to consider the recommendations resolved.

Based on the classification followed by private CPA firms, a recommendation is described as either resolved or unresolved.

¹ The following pages were taken directly out of the Independent Auditors' reports. As such, the page numbers in this section of the report do not correspond with the page numbers in the original documents.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Section I - Summary of Auditor's Results

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Section II - Financial Statement Findings

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

Section III - Federal Award Findings and Questioned Costs

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Section II - Financial Statement Findings

Cash Flows

Finding No. 2004-1

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash and Cash Equivalents

Finding No. 2004-2

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2004-3

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Due to Component Units

Finding No. 2004-4

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Advances

Finding No. 2004-5

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Advances

Finding No. 2004-6

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

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

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

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

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

Prior Year Status: Liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2003.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree that the travel advance balance needs to be adjusted for old balances and that most these old balances cannot be adequately documented. We have implemented automated sub ledgers by traveler for our travel advance accounts. Advance and voucher filing procedures are now being enforced so that new advances are not issued if there are pending outstanding advances. Payroll deductions are being made if vouchers are not filed in a timely manner. Scanning of travel vouchers is now being done. We are reviewing and clearing old balances. The amount outstanding is reserved against fund balance on the balance sheet either through the reserve for encumbrances or reserve for related assets.

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Other Liabilities and Accruals

Finding No. 2004-7

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Retirement Contributions - General Fund

Finding No. 2004-8

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Tax Rebates Payable

Finding No. 2004-9

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-9, Continued

Auditee Response and Corrective Action Plan:

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Fund Balance

Finding No. 2004-10

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

CNMI Local Noncompliance

Finding No. 2004-11

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-11, Continued

Prior Year Status: Over-expenditures in excess of budget allotments was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2003.

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles and Procurement and Suspension and Debarment

Finding No. 2004-12

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2004-13

Program	Reason for Questioned Costs	Questioned Costs												
U.S. Department of Homeland Security / State Domestic Preparedness Equipment Support Program / CFDA # 97.004 / Federal Award #s 2003-TE-TX-0162, 2003-MU-T3-0012 and 2002-TE-CX-0091 / Federal Award Periods 04/01/03 - 03/31/06 / 05/01/03 - 10/31/05 and 08/01/02 - 01/31/05	<p>Criteria: 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>Condition: Of total expenditures of \$2,200,057 related to the State Homeland Security Grant program, the procurement of three contracts entered into by the CNMI was tested. All were procured under sole source and were properly approved by the Division of Procurement and Supply. However, the contracts were entered into prior to obtaining grantor approval, which to date has not been obtained.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">Fiscal Year 2004</th> </tr> <tr> <th style="text-align: center;"><u>Contract No.</u></th> <th style="text-align: center;"><u>Expenditures</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">404758</td> <td style="text-align: center;">\$ 335,102</td> </tr> <tr> <td style="text-align: center;">406428</td> <td style="text-align: center;">178,013</td> </tr> <tr> <td style="text-align: center;">413568</td> <td style="text-align: center;"><u>200,000</u></td> </tr> <tr> <td></td> <td style="text-align: center;">\$ <u>713,115</u></td> </tr> </tbody> </table>	Fiscal Year 2004		<u>Contract No.</u>	<u>Expenditures</u>	404758	\$ 335,102	406428	178,013	413568	<u>200,000</u>		\$ <u>713,115</u>	713,115
Fiscal Year 2004														
<u>Contract No.</u>	<u>Expenditures</u>													
404758	\$ 335,102													
406428	178,013													
413568	<u>200,000</u>													
	\$ <u>713,115</u>													
	<p>Cause: The cause of the above condition is the lack of awareness of program requirements.</p> <p>Effect: The effect of the above condition is questioned costs of \$713,115.</p> <p>Recommendation: We recommend that the CNMI review all program requirements and ensure compliance with such prior to entering into contracts/agreements.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Homeland Security Office, Office of the Governor</p> <p>Corrective Action: We disagree with the finding based on emails from the grantor agency. Emails indicate that if attempts were made to secure competitive bids from other vendors the requirements of the OJP Financial Guide were met and a second email indicates that no sole source justification approval is required if such attempts were made. Since there seems to be some confusion at the grantor agency regarding this grant condition, we will contact the agency for clarification.</p> <p>Proposed Completion Date: Already in compliance.</p> <p>Auditor Response: Emails indicate only one vendor was subsequently approved and did not include the \$713,115 in question.</p>													

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles - All Federal Programs

Finding No. 2004-14

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2004-15

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2004-16

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-17

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-17, Continued

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

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

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

Auditee Response and Corrective Plan:

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

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-18

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-19

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-20

Criteria: Expenditures should be recorded when incurred.

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-20, Continued

Auditee Response and Corrective Action Plan, Continued:

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

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

Proposed Completion Date: FY2006

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-21

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

Condition: One service provider submitted a spreadsheet for billing purposes instead of required invoices itemizing services and rates charged. Of fifty-three benefit payments totaling \$1,135,540 tested, thirteen items (APV # 305486, 307644, 307645, 307646, 316203, 316204, 322623, 322624, 329753, 329754, 334115, 334118 and 339659) totaling \$674,160, related to this service provider were not reviewed for eligibility of services or for propriety of rates charged. Further, we were unable to determine that the third party liability was properly recognized for participants who have such coverage. Based on the results of our tests, the eligibility of services was in accordance with Part 3 of the revised Operational Plan; therefore, no questioned costs result from this condition.

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2005

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-22

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

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

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

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

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

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

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 and 2003.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-22, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

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

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

Federal Award Period Available Until Expended

Finding No. 2004-23

Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. In addition, the terms stipulated in the Cash Management Improvement Act Agreement should be followed by the grantee for selected major programs.

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-23, Continued

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-23, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Homeland Security

Cash Management - State Domestic Preparedness Equipment Support Program

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

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

Finding No. 2004-24

Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government.

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-24, Continued

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-25

Criteria: Per OMB Circular A-133, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing (three to four days) between the transfer of funds from the U.S. Treasury and disbursement.

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-25, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-26

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

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

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

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

Finding No. 2004-27

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-27, Continued

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-27, Continued

Auditee Response and Corrective Action Plan, Continued:

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

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

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

Proposed Completion Date: Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Federal Programs

Finding No. 2004-28

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-28, Continued

Auditee Response and Corrective Action Plan, Continued:

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

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

Proposed Completion Date: 2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Federal Programs

Finding No. 2004-29

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

Condition: The CNMI procurement regulations do not include procurement procedures relating to travel expenses (i.e., airline tickets, accommodations, transportation, etc.). Currently, the CNMI's travel policies are based on directives and memorandums, which do not require competitive procurement.

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

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

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

Federal Award Period Available Until Expended

Finding No. 2004-30

Criteria: In accordance with Section 5-103 (2) of the CNMI Procurement Regulations, before adding significant new work to existing contracts, the agency shall thoroughly assess whether or not it would be more prudent to seek competition. Change orders on construction and A&E contracts which exceed 25 percent of the cumulative contract price shall automatically be procured through competitive procedures pursuant to Section 3-101, except when the procurement of the additional work is authorized without using full and open competition under Section 3-104.

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

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

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

Federal Award Period Available Until Expended

Finding No. 2004-31

Criteria: The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (the Common Rule) requires that grantee and subgrantee contracts must include, among others, provisions for: 1) termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement; 2) compliance with Equal Employment Opportunity; 3) compliance with the Copeland "Anti-Kickback" Act; 4) compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act; and 5) compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act.

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

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

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

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

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

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

Auditee Response and Correction Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-31, Continued

Auditee Response and Correction Action Plan, Continued:

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

Proposed Completion Date: Already in compliance

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-32

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-32, Continued

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-33

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

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

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

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

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

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

Auditee Response and Correction Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-34

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-34, Continued

Prior Year Status: The lack of updating the federal financial reports submitted to the grantor was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2003.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Coordinator

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

Proposed Completion Date: FY2005

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-35

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-35, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-36

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

Condition: Based on our testing of total expenditures reported to the grantor during the year via the CMS 64 Certification, total federal expenditures reported amounted to \$2,122,022. The actual expenditures per the general ledger amounted to \$1,967,669 resulting in a variance of \$154,353. The funds drawn down, however, relate to expenditures recorded in the general ledger and therefore, no questioned costs result from this condition.

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

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

Recommendation: We recommend that steps be taken to ensure information reported to the grantor is based on the CNMI's financial records as of a specified period.

Prior Year Status: Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 and 2003.

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-37

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-38

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

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-38, Continued

Auditee Response and Corrective Action Plan, Continued:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-39

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Walter Macaranas, NAP Administrator

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

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

Finding No. 2004-40

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

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

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

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

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

Recommendation: We recommend that policies and procedures be established for system security, which would address and reduce risks involved with the ADP system.

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

Auditee Response and Corrective Action Plan:

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

Corrective Action:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2004-40, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-41

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Walter Macaranas, NAP Administrator

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-42

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Walter Macaranas, NAP Administrator

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-43

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Already in compliance

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2004-44

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: FY2006

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2004:

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

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

Unresolved Findings

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

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COMMONWEALTH DEVELOPMENT AUTHORITY

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

Section II - Financial Statement Findings

Receivables

Finding No. 2004-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis.

Condition: Our audit included an analysis of the Development Corporation Division's past due loans to determine the propriety of the allowance for doubtful loans as of September 30, 2004. This analysis revealed that as of September 30, 2004, one hundred thirty-two loans (61% of the two hundred fifteen total loans outstanding) were six months or more in arrears. At September 30, 2003, one hundred twenty-seven loans (57% of the two hundred twenty-three total loans outstanding) were six months or more in arrears. Accrued interest on loans has also increased from \$8,969,125 at September 30, 2003 to \$11,225,283 as of September 30, 2004. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio.

Cause: The cause of the above condition is the increase in past due loans.

Effect: The effect of the above condition is an increased possibility of loan losses due to non-payment by borrowers.

Recommendation: We recommend that follow-up procedures on past due loans be adhered to. We recommend that evaluations be performed on these loans and a corrective plan be developed and documented. Future results may be compared against this plan and actions taken by management as deemed necessary. Legal action should be considered for those loans which are considered unlikely to be serviceable by the borrower.

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2003.

Agency Response: The Loan Department continues to do its loan servicing. Clients have been contacted to come to the office and try to establish workable solutions to bring their accounts to current. Aging letters of 30, 60 and 90-day delinquency and loan statements as well are mailed to clients on a monthly basis. Field visits are conducted so that a better communication system may be established with the clients to have a better understanding of their business situation and financial conditions. Intern services from the Pacific Business Center Program of the University of Hawaii are maximized by conducting educational assistance such as workshops and working on a one on one basis with our clients. After all means have been exhausted, accounts that are 120 days in arrears are referred to Legal Counsel for litigation. All accounts are carefully scrutinized and analyzed in how best the clients can be assisted to either pay their accounts or improve their existing business conditions. The Loan Manager has exemplified the performance of this department in trying to improve better client relationship and gradually reduce the delinquency rate. The process will take time before it will come to fruition due to no loan servicing being done in the past.

COMMONWEALTH DEVELOPMENT AUTHORITY

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

Receivables

Finding No. 2004-2

Criteria: The allowance for loan losses should be adequate to absorb possible losses on existing loans that may be uncollectible based on periodic evaluations of the collectibility of loans and prior loan loss experience.

Condition: The allowance for delinquent loans is automatically calculated in the loan system based on CDA's allowance policy. Our review of the loan loss reserve calculation revealed several loan accounts not included in the calculation. A large portion of these accounts represents matured loans. Moreover, a review and analysis of the reserve calculation to evaluate adequacy of the reserve was not performed. An audit adjustment was proposed to record an additional reserve.

Cause: The cause of the above condition is the failure of the loan system to completely capture all loan accounts subject to reserve calculation as programmed in CDA's loan system and also the lack of periodic review and analysis to evaluate the adequacy of the reserve.

Effect: The effect of the above condition is the misstatement of loans receivables and bad debt expense.

Recommendation: We recommend that management evaluate the existing computerized calculation of loan loss reserve, identify areas where errors are likely to occur and adopt and implement corrective measures and actions. We also recommend that management ensure that periodic reviews and assessments of adequacy of the loan loss reserve be performed.

Agency Response: CDA determined that the computerized Loan Loss Report did not include matured loans in the calculation for the loan loss. This was the reason for the understated booking of the loan loss reserve. The programmer was contacted to modify the program to include matured loans. The exclusion of the matured loans was intended due to the fact that those loans were actually matured and must be categorized as non-performing loans. Effective with the modification of the Loan Loss Program, the loan loss calculation will include all matured loans.

COMMONWEALTH DEVELOPMENT AUTHORITY

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

Section III - Federal Award Findings and Questioned Costs

Procurement and Suspension and Debarment

Finding No. 2004-3

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Housing and Urban Development / Community Development Block Grant / CFDA #14.225	<p><u>Criteria:</u> The <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i> (the Common Rule) and the CNMI Procurement Regulations (CNMI-PR) aim to provide an effective broad-based competition within a free enterprise system. The CNMI-PR provide that all government procurement shall be awarded through competitive bidding except if another method of procurement is justified, such as a small purchase, sole source, emergency or expedited procurement.</p> <p><u>Condition:</u> Three disbursements through purchase orders (check #s 15672, 14577 and 15079) for construction management services, amounting to \$13,406 were awarded via in-house management authorization without open competition or valid certification from the Division of Procurement and Supply (P&S).</p> <p><u>Cause:</u> The cause of the above condition is management's belief that the contract does not require compliance with CNMI-PR.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with the Common Rule and the CNMI-PR.</p> <p><u>Recommendation:</u> We recommend that NMHC ensure strict compliance with the requirements of the Common Rule and the CNMI-PR on competitive bidding.</p>	\$ 13,406
Total Questioned Costs		\$ 13,406

Finding No. 2004-3 Continued

Agency Response: NMHC ensures strict compliance with requirements of the Common Rule and the CNMI-PR on competitive bidding. This condition was an issue due to leaks and possible cracks in the building casing causing water to seep. Management was called upon to act and needed the building repaired immediately because the community was going to hold a large function at the Center. The air conditioning was also not working and the main assembly hall was very hot. The engineer called in to do the assessment was also the engineer that designed and acted as construction manager during construction. The engineer, members of the Kagman Association, and management met to discuss the problem. Since the engineer did the assessment and came up with some recommendations to correct the problem, the same engineer did the oversight of the work. Quick action needed to be done. The engineer was given the responsibility to review the work of the contractor for general repairs and another company for the air conditioning. NMHC did speak to CNMI Procurement discussing the initial contract under this project that it was like an extension of the original contract. Also, it was anticipated that the cost was within the amount needing only a purchase order. We did contact some alternative sources to get quotations. The information we received was that it would cost NMHC significantly more because they would have to review and evaluate all of the construction plans, drawings and specifications. If we were to bid the project, it would have taken longer. We didn't have funding allocated specifically for this project to oversee the repairs and air conditioning these came from CDBG administration. It was management's decision to act quickly and not to solicit bids or proposals. In urgent and critical cases, Procurement generally grants its approval for us to proceed. NMHC gives its assurances that every project executed or to be executed by NMHC meets the Common Rule and CNMI-PR requirements.

COMMONWEALTH DEVELOPMENT AUTHORITY

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

U.S. Department of Housing and Urban Development
Reporting - HOME Investment Partnerships Program
CFDA #14.239

Finding No. 2004-4

Criteria: HUD requires that HOME expenditures be reported on SF-272, Federal Cash Transactions Report.

Condition: NMHC draws funds for use in HOME expenditures and reports these expenditures on the SF-272. We noted that funds drawn in the current year include administrative expenditures incurred in prior years amounting to \$167,128. Additionally, NMHC has not requested for drawdowns for administrative costs incurred in the current year. Administrative costs are included under operating expenses and cannot be readily identified from other federal grant administrative expenses.

Cause: The cause of the above condition is the timing of filing for administrative expenditure.

Effect: The effect of the above condition is variances between expenditures reported on the SF-272 and the general ledger.

Recommendation: We recommend that management ensure proper reporting of expenditures on SF-272's to HUD. We also recommend that management separately account for and monitor administrative costs incurred per specific grant programs.

Agency Response: NMHC management ensures proper reporting of expenditures on SF-272s to HUD. NMHC did reconcile expenditures versus revenue prior to reporting to HUD and implemented supporting documents for justification of allowable cost for all grant expenditures.

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COMMONWEALTH PORTS AUTHORITY

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

Section II - Financial Statement Finding

Notes Payable

Finding No. 2004-1

Criteria: In accordance with Section 9(a) of the note agreement with the Commonwealth Development Authority (CDA), an event of default includes failure by CPA to make any payment within sixty days of the due date or within thirty days after written notice of default is received from CDA.

Condition: During the year ended September 30, 2004, CPA did not make the last quarterly payment to CDA.

Cause: The cause of the above condition is inadequate cash flow.

Effect: The effect of the above condition is noncompliance with the CDA note.

Recommendation: We recommend that management meet with CDA to obtain resolution of the current payment structure to ensure CPA's compliance with the agreement.

Auditee Response and Corrective Action Plan: See attachment to this report.

Finding No. 2004-1

Cash flow constraints made it difficult for CPA to pay its required last quarter of payments of \$204,113 to CDA due to the following circumstances:

- 1) Damage sustained by the seaports from Typhoon Tingting and Typhoon Chaba. Rota seaport sustained \$1.7 million in estimated typhoon damage. Tinian Harbor sustained over \$7 million in estimated typhoon damages. Saipan Harbor sustained close to \$200,000 in typhoon damage.
- 2) \$250,000 matching 25% share that CPA has to come up with in order to avail of disaster assistance funding from FEMA. FEMA decided to fund up to only 75%, or \$750,000, of CPA's insurance deductible to repair the damage caused to the harbors by Typhoon Tingting and Typhoon Chaba. FEMA decided to only fund a maximum of a 75% share of the insurance deductible even before settlement was reached on CPA's insurance claim. CPA will appeal FEMA's decision.
- 3) Increase of \$340,763, or 71%, in the seaport insurance premium caused by the filing of typhoon damage insurance claim prior to renewal of insurance in October 2004. Insurance premium increased from \$479,295 in FY2004 to \$820,058 in FY2005.
- 4) \$71,309 cost to repair dock fenders due to damage sustained by recent typhoons. Repair urgently needed in order to allow vessels to safely dock at the Saipan seaport.

CPA will work with CDA on an agreement for its loan payments.

CPA will request bondholders to approve the temporary suspension of CPA's payments to its Seaport Supplemental Bond Reserve Fund. This temporary suspension will allow CPA to free up its cash flow commitments that will enable CPA to update its CDA loan payments, pay the insurance premium increase and have the matching funds required by the FEMA disaster grant funding in order to initiate urgently typhoon damage repairs to its harbors.

COMMONWEALTH UTILITIES CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Section II - Financial Statement Findings

Revenue/Receipts

Finding No. 2003-1

Criteria: All recorded revenues and receivables should reflect collectible balances.

Condition: Investigation of long outstanding undisconnected accounts revealed a listing of twenty-two accounts amounting to \$763,456 prepared by the credit and collections division of accounts that were not to be disconnected. Although these accounts are fully provided for, the explanation given for the lack of disconnection of these accounts was that these customers had CUC wells, poles, pumps, etc., on their property, and were therefore not billed for utility usage.

Cause: The cause of the above condition is the lack of formal agreements with landowners.

Effect: The effect of the above condition is the potential uncollectibility of accounts receivable and understatement of rental expense. Additionally, there could be inequalities in the consideration paid for certain parcels depending on the value of utilities used.

Recommendation: We recommend that CUC execute formal agreements with all landowners for the use of land.

Prior Year Status: Lack of formal agreements with landowners for the use of land was reported as a finding in the audits of CUC for fiscal years 1996 through 2002.

Agency Response: CUC agrees with the finding. CUC has forwarded all easement disputes on file to outside counsel for immediate resolution. All but two disputes (involving eight accounts) forwarded to counsel have either been resolved or is pending resolution. The unresolved dispute account holders are requesting administrative hearing to resolve their dispute. CUC's administrative hearing officer is handling these accounts.

To prevent the occurrence of future easement claims, CUC requires all new connections to be accompanied with dedication of easement by the applicant or owners of the land. For its own in house projects, CUC has hired an easement specialist to ensure that CUC projects do not encroach private property. For those projects requiring the use of private property CUC shall formally seek an agreement with the affected parties prior to using such properties.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Purchases/Disbursements

Finding No. 2003-2

Criteria: Proper internal control requires the receipt of purchases at a central location with goods subsequently dispatched to the requesting division.

Condition: Purchased goods can be received by the requesting, purchasing and/or warehouse divisions.

Cause: The cause of the above condition is the lack of established policies and procedures regarding the receipt of purchases.

Effect: The effect of the above condition is the possibility of purchases not being properly recorded in the subsidiary ledger and/or general ledger. As a result, misstatements are likely to occur in inventory, payables and expenses.

Recommendation: We recommend that CUC's management establish policies and procedures to centralize receiving of all purchases and properly monitor assets, liabilities and expenses.

Prior Year Status: Lack of established policies and procedures regarding the receipt of purchases was reported as a finding in the audit of CUC for fiscal year 2002.

Agency Response: CUC partially agrees with the finding. CUC's policies and procedures (No. PC-010) state that receiving function will be handled by the warehouse for which the goods are assigned. However, there were instances, especially during emergency situations that the requesting division received the purchased goods. The Comptroller met with all the division managers and reiterated the CUC policy on centralized receipts at the warehouse. All items received, both stock and non-stock must be entered in the inventory system for automatic interface to payment processing.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Purchases/Disbursements

Finding No. 2003-3

Criteria: Expenditures should be recorded in the period incurred.

Condition: Of \$2,468,818 in construction in progress expenditures tested, we noted that expenditures incurred in prior fiscal years were recorded in the current year for the following:

<u>Contract</u>	<u>Invoice #/ Payment Request #</u>	<u>Amount</u>
191 OS	3	\$ 9,064
163 OS	7	\$ 28,208
184 OS	2	\$ 165,935

The amounts, however, were not material to warrant audit adjustments.

Cause: The cause of the above condition is the lack of reconciliation of expenses with the CNMI Government Capital Improvement Projects Coordinator.

Effect: The effect of the above condition is the overstatement of current year expenditures.

Recommendation: We recommend that CUC ensure expenditures are recognized in the proper period and that disbursements are properly certified and supported.

Prior Year Status: Lack of reconciliation of expenses with the CNMI Government Capital Improvement Projects Coordinator was reported as a finding in the audit of CUC for fiscal year 2002.

Agency Response: CUC partially agrees with the finding. CUC prepared a thorough review of all expenditures from federal grants recorded in the books. To get accurate and complete information, CUC got hold of the CIP 702 report prepared by CNMI Government. In order to reconcile CUC books with CNMI report, adjustments were entered. Since prior years are under audit, all unrecorded prior years' expenditures were taken up in the current year.

COMMONWEALTH UTILITIES CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Payroll

Finding No. 2003-4

Criteria: Changes to employee timesheets should be authorized and personnel independent of the payroll process should perform the input of employee pay rates.

Condition: We noted the following:

- Division timekeepers are allowed to make changes on the timesheet edit reports; and
- The payroll department inputs the approved pay rate into the system.

Cause: The cause of the above condition is the lack of established policies and procedures over timesheet changes and proper segregation of duties of payroll processing.

Effect: The effect of the above condition is the potential for division timekeepers to alter hours in the system subsequent to finalizing the timesheet edit report, and the potential for payroll personnel to alter pay rates.

Recommendation: We recommend that management review the payroll process to ensure all changes to the timesheet edit report are authorized. In addition, we recommend all input of pay rates be performed by the Human Resources Department.

Prior Year Status: Lack of established policies and procedures over timesheet changes and proper segregation of duties of payroll processing was reported as a finding in the audit of CUC for fiscal year 2002.

Agency Response: CUC partially agrees with the finding. Upon review of the procedures, CUC agrees with the finding that the division timekeepers can make changes on the timesheet edit reports subsequent to payroll verification. To address the finding, the Payroll Manager disallows access to timesheet edit after submission of the time sheet edit and time cards to Payroll. She restricts them thru the Timekeeper User Security Controls. For next payroll processing, she restores their access necessary for time data entries.

CUC is in the process of purchasing a human resources module to ensure proper segregation of duties in payroll processing. As soon as the new system is installed, the Human Resources Office will be responsible in inputting the approved pay rates in the system. At present, the Payroll Section inputs the approved pay rate in the system. Only the Payroll Manager has access in inputting the pay rates in the system. The other payroll personnel are restricted.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Payroll

Finding No. 2003-5

Criteria: Payroll timesheet/timecard reports, overtime and leave authorizations should be signed by the employee and approved by the respective division manager. Non-emergency overtime is required to be pre-approved by a supervisor seventy-two hours in advance. Additionally, all allotments should be approved by the employee and be maintained in the employee personnel file.

Condition: Of twenty-five payroll disbursements tested, the following exceptions were noted:

- Although timesheets were properly approved, the timecard reports did not present evidence of the employee's signature and approval from the division managers for the following employees:

<u>Pay Period Ended</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Employee No.</u>
02/22/2003	407	07/26/2003	1245
02/08/2003	233	10/04/2003	1
01/11/2003	7	01/25/2003	800
02/22/2003	806	04/18/2003	4607
05/31/2003	10001	07/11/2003	9959
02/08/2003	9998		

- The overtime requests and authorization for the following employees were approved after the job was completed:

<u>Pay Period Ended</u>	<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Employee No.</u>
05/17/2003	1749	07/26/2003	1245
02/22/2003	806	11/01/2002	140
12/28/2002	75	11/30/2002	255
02/08/2003	9998	12/27/2002	771
05/17/2003	746	02/21/2003	1554

- Nine items indicated employee withholding authorizations do not correspond to deductions from gross pay and amounts recorded in the payroll register. In some cases, authorization allowing vendor deductions could not be located and/or no authorization could be found discontinuing vendor deduction from gross pay. We also observed that different withholding forms are used when initiating or discontinuing allotments.

Finding No. 2003-5 Continued

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to the review and authorization of payroll related documents.

Effect: The effect of the above condition is the possible unauthorized payment and deduction from employee pay.

Recommendation: We recommend that CUC ensure that all payroll timesheet/timecard reports, overtime and leave authorizations are properly reviewed and approved by division managers. We also recommend that CUC ensure all payroll deductions are properly supported by employee authorizations maintained in employee personnel files.

Prior Year Status: Lack of adherence to established policies and procedures relating to the review and authorization of payroll related documents was reported as a finding in the audit of CUC for fiscal year 2002.

Agency Response: CUC agrees with the finding. All timekeepers were reminded to ensure that all time cards are signed by the employee and approved by the manager prior to submission to Payroll Section. The Comptroller instructed the Payroll Section to review in detail all the allotment forms kept in the employee's personnel file to make sure that payroll deductions are properly supported by employee authorizations.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

External Financial Reporting

Finding No. 2003-6

Criteria: Without an adequate system to record receivable or payable balances from or to the grantor agency, an entity cannot accurately report on the use of funding.

Condition: CUC is not reconciling receivable or payable balances from or to the grantor agency on a timely basis. CUC's Schedule of Expenditures of Federal Awards (SFA) contains numerous adjustments with no support. Additionally, CUC is not reconciling expenditures of its Schedule of Expenditures of Federal Awards to capital contributions.

Cause: The cause of the above condition is that management has not introduced an adequate system of reconciling receivable or payable balances or capital contributions accounts.

Effect: The effect of the above condition is that amounts due from or to the grantor agency and capital contributions accounts are misstated throughout the year.

Recommendation: We recommend that CUC implement a system whereby a receivable/payable account records all cash received from the grantor agency and records all related expenditures. The account should be reconciled on a monthly basis to the SFA. Additionally, we recommend that expenditures of the Schedule of Expenditures of Federal Awards be reconciled to capital contributions accounts on a timely basis.

Prior Year Status: The non-reconciliation of receivable or payable balances from or to grantor agencies and capital contributions accounts was reported as a finding in the audits of CUC for fiscal years 1990 through 2002.

Auditor Response: CUC is reconciling its SFA to its general ledger due from grantor agencies account through adjustments made directly to the SFA and not through the general ledger.

Agency Response: CUC disagrees with the finding. CUC reconciled receivable and payable balances from or to grantor agency for fiscal year ended September 30, 2002. CUC provided the auditors copies of these reconciliation schedules including supports to adjustments. CUC implemented a system whereby the Grants Section and project manager/engineers coordinate with the Accounting Section all cash received and payment requests in order to properly monitor the receivable/payable account.

CUC prepares on a monthly basis the Schedule of Expenditures of Federal Awards and reconciles the expenditures to capital contributions accounts.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Receivables

Finding No. 2003-7

Criteria: Accounts receivable should be based on valid billings and collected in a timely manner.

Condition: At September 30, 2003, CUC has recorded \$13,090,574 in receivables from the CNMI government. The CNMI government has determined that most of these receivables are based on estimates related to water and sewer billings from previous years. As such, the CNMI is disputing these receivables. Further, the amount receivable from the CNMI at September 30, 2003 was \$181,496 more than the amount reported by the CNMI. The variance of \$181,496 was not material to warrant audit adjustment. At September 30, 2003, CUC recorded an allowance for doubtful accounts of \$10,440,508 related to these receivables.

In addition, at September 30, 2003, the primary government (CNMI) reported total utilities expense of \$11,262,850. Revenues earned from the government per CUC at September 30, 2003 amounted to approximately \$9,244,620, resulting in a variance of \$2,018,230. A reconciliation of this variance could not be provided.

Cause: The cause of the above condition is lack of reconciliation and review of individual government accounts and timely collection of outstanding balances.

Effect: The effect of the above condition is that receivables from the CNMI government may be overstated.

Recommendation: We recommend CUC review the government utility accounts in detail with the CNMI to determine proper classification of the accounts and ensure proper billing.

Agency Response: CUC agrees with the finding. CUC will initiate discussion with CNMI Department of Finance to reconcile the outstanding receivable. When completed, the general ledger and chief accountant will prepare the appropriate adjustment. The adjustment will be subject to review and approval by the Assistant Comptroller or Comptroller.

CUC has forwarded to the auditors its proposed adjustment to provide allowance for uncollectible government utility accounts.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Receivables

Finding No. 2003-8

Criteria: Disputed receivable balances should be resolved in a timely manner.

Condition: Of seventy-two receivable accounts tested, we noted the following:

- Account # 29619-4, amounting to \$225,222, was backbilled for water and sewer charges incurred from 1997 through 1999 for \$138,063. The customer is not making payments on the backbilling and had not been disconnected.
- Account # 15058-1, amounting to \$100,083, was closed in 1993 and written off in 1995 but charges were made to the account in 1996 and 1997 totaling \$100,083. This account was a master account of an apartment building for which individual accounts were established. The account appears to be a duplication of individual accounts charged. The account indicated no activity during the year.
- Account # 18802-9, amounting to \$539,762, was making payments on current meter billings, however, was not making payments on the amounts past due. The account has not been disconnected.
- Account # 35751-7, amounting to \$138,658, was not making appropriate payments on a promissory note related to raw sewage brought to CUC's waste water treatment plants. The account indicated no activity during the year.
- Account #21868-5, amounting to \$95,244, was backbilled due to an unregistered meter. The customer is not making payments on the backbilling.
- Account #s 29313-4, 32488-9, 43240-1, 49162-1, 49335-3 and 50994-3, amounting to \$12,290, \$15,526, \$41,723, \$7,088, \$11,017 and \$10,999, respectively, at September 30, 2003, were assessed erroneous meter readings resulting in over billings of \$10,890, \$15,526, \$39,886, \$7,078, \$11,000 and \$10,890, respectively.
- Sixteen accounts amounting to \$2,281,518 at September 30, 2003 made payments only sufficient to cover current billings. They did not make payments on past due balances and were not disconnected.
- Three accounts (#s 37090-8, 38005-5 and 5939-4) amounting to \$78,322 at September 30, 2003 made no payments during the year; however, they were assessed late charges. Although the power service has been disconnected, the water service for two accounts (#s 38005-5 and 5939-4) remains active.
- Two accounts (#s 29506-3 and 8267-7) amounting to \$107,864 at September 30, 2003 made no payments during the year; however, they were assessed current and late charges. One of the accounts (# 29506-3) has been disconnected.

Finding No. 2003-8 Continued

- Thirteen accounts (#s 36169-1, 10509-8, 15542-4, 2339-0, 11024-7, 2450-5, 4997-3, 7587-9, 26354-1, 27613-9, 8055-6, 34143-8 and 13263-9) amounting to \$375,653 at September 30, 2003 indicated no activity during the year. All of the accounts have been disconnected.

The accounts noted above are substantially allowed for.

Further, during our testing of other receivables balance amounting to \$974,936 at September 30, 2003, we noted an amount receivable from the Commonwealth Ports Authority (CPA) of \$325,054. Based on our review of supporting documents, we noted that CPA actually paid CUC approximately \$73,856 (check #s 18935, 24548 and 24556, dated 02/27/96, 02/27/96 and 03/21/96, respectively) of this amount. CUC is currently unable to determine where the payment was ultimately applied. The remaining balance of \$251,198 appears to relate to relocation of power poles and installation of services at CPA facilities. We have been advised by CPA that such costs should have been assessed against the independent contractors requesting for such services from CUC.

Cause: The cause of the above condition is the lack of timely review and resolution of old and/or disputed receivable balances, disconnection of customers who have not paid on time, inaccurate reading of meters, incorrect meters installed, incorrect meter multiplier used and incorrect utility schedule used to bill customers.

Effect: The effect of the above condition is the increased potential for bad debts, resulting in losses to CUC and the misstatement of revenues and receivables.

Recommendation: We recommend that CUC implement policies and procedures to ensure the timely review and resolution of disputed receivable balances. We also recommend CUC review and strengthen its existing controls over meter reading policies and procedures to ensure accurate and timely readings.

Prior Year Status: Lack of timely review and reconciliation of receivable accounts was reported as a finding in the audits of CUC for fiscal years 2000 through 2002.

Agency Response: CUC disagrees with the finding that reconciliation is necessary. However, CUC agrees that disputed balances should be resolved timely.

CUC made adjusting entries for two accounts namely #s 15058-1 and 18802-9 in FY 2004. The account balances now reflect the correct amount due. However, CUC has not yet adjusted the remaining accounts with billing disputes.

CUC currently requires monthly reviews of accounts with disputes. A monthly status report of unresolved disputes is provided to the Executive Director and Comptroller to ensure timely resolution. The Comptroller has been tasked to monitor and ensure that disputes are resolved in a timely manner and that accounts requiring collection action is initiated.

Finding No. 2003-8 Continued

Further, the Comptroller is planning to reorganize Accounting and give one manager overall responsibility for three sections: Accounts Receivable, Billing, and Credit and Collections. The manager will be tasked to ensure that all billing disputes are resolved and billing errors are corrected promptly, that all uncollectible accounts are written-off as bad debts, and that amounts due are paid or acceptable payment arrangements are made. In addition, the manager will forward all other unpaid accounts to the CUC Legal Counsel to pursue collection.

CUC is in the process of reviewing the documents related to the receivable from CPA. The Chief Accountant is tasked to discuss the matter with CPA to resolve this receivable balance.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Receivables

Finding No. 2003-9

Criteria: CUC's policy for accounts receivable allowance assessment provides for one hundred percent (100%) provision for account balances greater than seventy-five days old.

Condition: Of seventy-two accounts receivable (totaling \$4,055,613) tested, we noted balances less than seventy-five days old representing billings due to erroneous meter usage and disputed balances. Based on our review of subsequent collections, we noted that some of these billing errors were written-off. As a result, an audit adjustment of \$412,888 was proposed to increase the allowance for doubtful accounts to adequately provide for accounts less than seventy-five days old.

Cause: The cause of the above condition is the lack of specific review of accounts receivable.

Effect: The effect of the above condition is the possible overstatement of receivables and revenues.

Recommendation: We recommend CUC evaluate its current accounts receivable allowance assessment policy to consider specific review of individual accounts in the determination of the allowance for doubtful accounts.

Agency Response: CUC disagrees with the finding. CUC believes that the timeframe for the account to hit the over 75 days is minimal. Besides, CUC finds the specific review of individual accounts to determine allowance for doubtful accounts tedious and time-consuming. CUC believes that the policy of providing 100% allowance for doubtful accounts for account balances over 75 days is adequate.

COMMONWEALTH UTILITIES CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Receivables

Finding No. 2003-10

Criteria: All advances should be periodically reviewed to determine if the actual expense has been incurred.

Condition: Detailed summaries of other receivables and travel advances outstanding amounting to \$1,066,262 and \$31,636, respectively, as of September 30, 2003 were found to contain many individual items outstanding for in excess of one year. At September 30, 2003, CUC recorded an allowance for doubtful accounts of \$528,066 related to these accounts.

Cause: The cause of the above condition is the lack of periodic review of the account.

Effect: The effect of the above condition is an overstatement of CUC's assets and an understatement of expenses at September 30, 2003. Additionally, the lack of timely follow-up on travel advances reduces the chance of recovery.

Recommendation: We recommend that long outstanding balances included in the accounts as of September 30, 2003 be reviewed and expensed as necessary. We also recommend that these accounts be reviewed on a monthly basis.

Prior Year Status: The lack of timely follow-up of advances and prepayments was reported as a finding in the audits of CUC for fiscal years 1993 through 2002.

Agency Response: CUC disagrees with the finding. CUC has provided the auditors the schedule of other receivables on March 28, 2005.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Inventory

Finding No. 2003-11

Criteria: Final inventory summaries should reflect the number of items counted during inventory procedures.

Condition: During tests of inventory, the following exceptions were noted:

- Of forty-nine inventory items tested, eighteen instances were noted where the number of items physically counted varied from the final inventory listing. Additionally, two items (part #s 6012-00-15 and 1000-45-02) counted were not listed in the final inventory listing.
- Of twenty inventory items selected from the final inventory listing, we noted seven instances where the final quantity varied from the quantity on the count sheet.
- Count sheets for Tinian were not made available.

Cause: The cause of the above condition may be due to the following:

- CUC's computer system records inventory when Accounts Payable personnel post vendor invoices into the system. Receiving reports prepared and posted by CUC's warehouse are matched by the system with the corresponding vendor invoices posted. Consequently, if corresponding invoices have not been posted by Accounts Payable or cannot be identified, inventory per books is not adjusted for warehouse receipts. As a result, inventory per books may be zero even though there may physically be inventory on hand. Therefore, inventory issuances by warehouse may result in negative inventory per books.
- Inventory issuances not properly recorded including items being removed from the warehouse without proper documentation, thus resulting in balances in the system when items are not physically available in the warehouse.
- Lack of retaining and maintaining of count sheets.

Effect: The effect of the above condition is a possible misstatement of inventory balances as of September 30, 2003.

Recommendation: We recommend that final inventory listings reflect quantities of items counted. We also recommend that the subsidiary ledger be reconciled to the final inventory listing.

Prior Year Status: Inaccuracies in inventory items counted as of balance sheet date versus the final inventory listing was reported as a finding in the audits of CUC for fiscal years 1994 through 2002.

Finding No. 2003-11 Continued

Agency Response: CUC agrees with the finding. CUC has recently hired an accountant dedicated to do inventory analysis and review. He is tasked to implement procedures to ensure that physical counts match the final inventory listing and the withdrawal of inventory is properly recorded. In addition to the procedures to be implemented, the Inventory Accountant has started with the reconciliation of subsidiary ledger to the final inventory listing.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Inventory

Finding No. 2003-12

Criteria: A reconciliation of inventory balances between the general ledger and subledger should be performed regularly and differences, if any, should be investigated.

Condition: While the inventory balance per the general ledger was adjusted to agree to the inventory value report (subsidiary ledger) and the actual count, no reconciliation was performed to account for and investigate the differences between the general ledger and subsidiary ledger.

Cause: The cause of the above condition is the lack of established policies and procedures over inventory reconciliation.

Effect: The effect of the above condition is a possible misstatement of inventory balances as of September 30, 2003.

Recommendation: We recommend that CUC establish and implement policies and procedures for timely reconciliation and investigation of significant variances between inventory balances per general ledger and subsidiary ledger. CUC may consider specifically designating an employee to regularly perform the reconciliation.

Prior Year Status: Lack of established policies and procedures over inventory reconciliation was reported as a finding in the audit of CUC for fiscal year 2002.

Agency Response: CUC agrees with the finding. CUC has hired an Inventory Accountant, specifically designated to perform reconciliation procedures on a monthly basis. He is assigned to implement procedures to ensure for timely reconciliation and investigation of significant variances between inventory balances per general ledger and subsidiary ledger. All adjustments in the inventory system are reviewed by him.

COMMONWEALTH UTILITIES CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Inventory

Finding No. 2003-13

Criteria: Facilities should represent valid assets of CUC.

Condition: Monthly postings are made from inventory to a temporary facilities account, amounting to \$205,897 as of September 30, 2003, for items used in community activities. No entries are made when those facilities are removed or dismantled, and transferred back to inventory.

Cause: The cause of the above condition is the lack of accounting for temporary facilities.

Effect: The effect of the above condition is an overstatement of temporary facilities and an understatement of inventory.

Recommendation: We recommend that temporary facilities be accounted for when dismantled or removed.

Prior Year Status: Lack of accounting for temporary facilities was reported as a finding in the audits of CUC for fiscal years 2001 and 2002.

Agency Response: CUC agrees with the finding. CUC has hired an Inventory Accountant to review existing procedures to ensure that temporary facilities are accounted for when dismantled or removed. On a monthly basis, he works closely working with the Power Division's Support Services and Warehouse sections to account for installation and removal of temporary facilities.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Inventory

Finding No. 2003-14

Criteria: Inventories should be reviewed regularly for possible obsolescence.

Condition: Inventory items were not reviewed for possible obsolescence. Moreover, an inventory-aging analysis is not prepared to identify slow moving inventory items.

Cause: The cause of the above condition is the lack of established policies and procedures for the review and monitoring of obsolete and non-moving inventories.

Effect: The effect of the above condition is a possible misstatement of inventory as of September 30, 2003.

Recommendation: We recommend that CUC establish formal policies and procedures for obsolescence review and tracking of inventory movements. We also recommend that CUC establish and maintain an aging analysis to assist in determining potential obsolescence of inventory.

Prior Year Status: Lack of established policies and procedures for the review and monitoring of obsolete and non-moving inventories was reported as a finding in the audit of CUC for fiscal year 2002.

Agency Response: CUC agrees with the finding. CUC has tasked the Warehouse Manager to segregate all obsolete inventory items. A listing was prepared by warehouse staff and reviewed by the Inventory Accountant. All division managers were required to verify the listing. The Inventory accountant together with the Warehouse Manager are working on establishing policies and procedures for obsolescence review and tracking of inventory movements.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Inventory

Finding No. 2003-15

Criteria: When the moving average unit cost method of inventory costing is utilized, unit cost is updated for new purchases and issuances are valued based on the most recent average unit cost.

Condition: Certain inventory items have negative unit costs as of September 30, 2003 and, accordingly, related issuances have negative values. In addition, costs of inventory adjustments were not based on the most recent average unit costs.

Cause: The cause of the above condition may be due to the following:

- untimely posting of inventory purchases, receipts and issuances;
- lack of coordination between warehouse and accounts payable personnel for input of purchases and issuances; and
- lack of monitoring and review of inventory adjustments.

Effect: The effect of the above condition is a possible misstatement of inventory balances and corresponding expense accounts (i.e., maintenance expense) as of September 30, 2003.

Recommendation: We recommend that CUC (a) take steps to establish policies and procedures to ensure timely posting of inventory purchases, receipts and issuances; (b) establish a formal review process and monitoring procedures for inventory adjustments; (c) ensure coordination between responsible personnel; and (d) ensure that these policies and procedures are strictly adhered to.

Prior Year Status: Untimely posting of inventory purchases, receipts and issuances and the lack of coordination between warehouse and accounts payable personnel for input of purchases and issuances and monitoring and review of inventory adjustments was reported as a finding in the audit of CUC for fiscal year 2002.

Agency Response: CUC agrees with the finding. CUC has recently conducted training on the inventory module to explain the flow of transaction that affects the inventory unit cost. Employees responsible in Accounts Payable, Procurement and Supply and the Warehouse were taught how to process inventory transactions in a timely manner. The training emphasized the effects of timely and accurate encoding of data from the preparation of purchase, receiving and issuing to the encoding of vendor's invoices in the coming up with an accurate inventory unit cost. The system generates daily exception report for negative unit costs and negative quantities. The Inventory Accountant will strictly monitor the flow of information processed in the financial modules involved with inventory costing.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Utility Plant

Finding No. 2003-16

Criteria: Adequate presentation and control of fixed assets is essential in preparing accurate financial statements. Additionally, unless all fixed assets are recorded, depreciation used in rate settings could be misstated.

Condition: CUC has not taken a physical inventory of fixed assets. Additionally, CUC has no registration system in place to ensure safekeeping of fixed assets. Numerous audit adjustments were proposed to record unrecorded plant. Additionally, we noted the following:

- There is a lack of timely review and certification of projects for completion. Additionally, the lack of coordination between the departments responsible for project oversight and the accounting department relative to the transfer and capitalization of completed projects contributed to this condition.
- Completed projects are not closed and transferred to fixed assets in a timely manner and often remain in Construction Work in Progress for several years. These assets, although already in use, are not being depreciated resulting in material misstatements of depreciation expense. This condition contributed to large variances between the net book values of assets tested and net book value derived through calculation of accumulated depreciation based on estimated useful lives. Adjustments have been proposed to correct these variances.
- We were unable to complete tests of the following Power and Water assets due to a lack of adequate documentation supporting original capitalized costs:

Finding No. 2003-16, Continued

<u>Account Number</u>	<u>General Ledger Description</u>	<u>Cost Per Books</u>	<u>Useful Life</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
	Power Division:				
023-1002	Saipan Permanent Power Plant 4T	\$ 2,866,819	15	\$ 2,376,852	\$ 489,967
023-1020	Emergency Power	2,753,768	20	1,870,083	883,685
022-1020	Fuel Storage Tanks	615,897	20	368,290	247,607
033-2001	Tinian Power Plant	<u>501,752</u>	20	<u>344,921</u>	<u>156,831</u>
	Total Power Assets	\$ <u>6,738,236</u>		\$ <u>4,960,146</u>	\$ <u>1,778,090</u>
	Water Division:				
327-3001	Water Transmission Line-Rota	\$ 1,014,266	25	\$ 419,228	\$ 595,038
206-1003	Sadog Tasi Water	<u>883,189</u>	25	<u>435,705</u>	<u>447,484</u>
	Total Water Assets	\$ <u>1,897,455</u>		\$ <u>854,933</u>	\$ <u>1,042,522</u>

- Open work orders are not periodically reviewed to ensure timely closing and capitalization or write-off of the related costs recorded in construction in progress. Our tests revealed that work orders dating back to FY1992 remained open and as a result, construction in progress and depreciation or repairs and maintenance expenses in the related fiscal years was overstated and understated, respectively.
- Despite efforts by the accounting division to close out old work orders for FY2000 and prior, which resulted in approximately \$4.2 million in old work orders being closed, approximately \$1.2 million in work orders relating to fiscal year 2000 and prior remain in construction in progress. Further, work orders opened from October 1, 2000 through September 30, 2001 have yet to be analyzed to determine if such represent valid construction in progress.
- During physical presence and asset condition tests, we were unable to verify the existence of a Waste Oil Incinerator, valued at approximately \$510,000, at the Tinian Telesource Power Plant. The contract documents and the original project plan required a Waste Oil Incinerator to be built as part of the Power Plant. CUC personnel are currently determining whether a change order or subsequent agreement reached with Telesource eliminated the requirement to construct this asset.
- Portions of construction contracts, such as design and survey costs associated with the project, are not consistently capitalized. This condition resulted in numerous variances between projects costs recorded by CUC and project costs determined through attest procedures.
- A periodic inventory of CUC's fixed assets is not currently performed or has not been performed in recent years. There is no periodic verification concerning the existence and condition of fixed assets. As a result, assets that are retired and are no longer in use continue to be carried in CUC's fixed assets register.
- CUC's AS400 upgrades, which occur approximately every two years, are being depreciated over five years. This condition results in assets being depreciated for periods longer than their expected useful life.
- Currently, no process exists to ensure that retired or broken fixed assets are removed from the fixed asset listing. We noted several assets that have been retired, broken and

in some instances destroyed, that were still carried in CUC's fixed asset register.

Finding No. 2003-16, Continued

- During our review of the Rota Wastewater Project and the Rota Wastewater Outfall, we determined that both projects were completed in fiscal year 1989, but were never commissioned and remain unused to date.
- One Yanmar engine at the old Tinian Power Plant, which is no longer operational, has only seventy-eight hours of use. This engine has not been in use since the new Telesource Power Plant came on line in 1999. Discussions with CUC personnel in Tinian indicate that this engine is basically new. Additionally, we noted that numerous parts ordered for an overhaul of one of the other engines, valued in excess of \$100,000, are still in boxes in the parts warehouse.
- We noted various small dollar items (as low as \$30) being capitalized. CUC's fixed asset policy requires capitalization of assets with a value of \$300 or more, with the exception of small tools, which are to be depreciated over two years. We noted that this policy is not consistently followed.
- One of the three Caterpillar "containerized" engines at the old Isley Power Plant has not been in operation. We learned from discussions with CUC personnel that these engines currently only serve as a back up power source for the water pumps and related equipment located in and around the Isley area. Further, we learned that two of the engines are in need of repair; however, no funds have been allocated. If the engines are in fact idle, CUC should suspend depreciation and record a disposal of fixed assets.

Cause: The cause of the above condition is that no inventory of fixed assets has been taken.

Effect: The effect of the above condition is that fixed assets and depreciation expense could be misstated. Additionally, a serious weakness in control exists over the safeguarding of fixed assets.

Recommendation: We recommend that CUC perform a physical inventory of all fixed assets on hand, agree the count with its records and make necessary adjustments. Additionally, we recommend that CUC implement a system of tagging fixed assets and perform periodic counts to ensure existence.

Prior Year Status: The lack of control over fixed assets was reported as a finding in the audits of CUC for fiscal years 1988 through 2002.

Agency Response: CUC agrees with the findings. CUC has been properly capitalizing labor and material charges to its internal construction projects but has been unable to timely close completed projects. CUC has hired a fixed asset/work order accountant to address its timeliness issue.

CUC has engaged Deloitte & Touche to perform agreed-upon procedures for CUC relating to fixed asset records. Deloitte assisted us in reconciling and adjusting the fixed assets. CUC recorded adjustments proposed by Deloitte.

There is an on-going discussion between CUC and the contractor to resolve the issue on the undelivered waste oil incinerator.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Utility Plant

Finding No. 2003-17

Criteria: Insurance coverage protects an organization from potential material losses.

Condition: CUC has not obtained insurance for its fixed assets.

Cause: The cause of the above condition is the lack of an adequate policy to ensure insurance coverage.

Effect: The effect of the above condition is the possibility of material losses.

Recommendation: We recommend that CUC implement a policy with respect to required insurance coverage levels.

Prior Year Status: The lack of insurance coverage was reported as a finding in the audits of CUC for fiscal years 1989 through 2002.

Agency Response: CUC agrees with the finding. CUC will solicit insurance coverage for its fixed assets. The recommendation has been forwarded to the Procurement manager to prepare to incorporate into its procurement requirements. This change of policy will be presented to the board for adoption.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Capital Lease

Finding No. 2003-18

Criteria: Financial Accounting Standards Board (FASB) Statement No. 13, *Accounting for Leases*, requires that the lessee record a capital lease as an asset and an obligation at an amount equal to the present value of minimum lease payments during the lease term. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the asset and liability shall be fair value.

Emerging Issues Task Force (EITF) Issue No. 01-8 states that in certain circumstances energy-related contracts may represent lease transactions, and the evaluation of whether an arrangement contains a lease within the scope of FASB No. 13 should be based on the substance of the arrangement and whether the use of specific property, plant and equipment is necessary in the fulfillment of the arrangement.

Condition: CUC entered into an agreement with a contractor for the construction, maintenance and operation, and transfer of ownership of a 10 Megawatt Power Plant on the island of Tinian. The agreement is for a guaranteed price of \$9,959,000 plus interest and fees of \$11,641,000 payable over ten years. During this period, the contractor will maintain and operate the power plant and be paid operation, production and maintenance fees in addition to the guaranteed price. The power plant will be turned over to CUC at the end of the ten year period.

CUC has determined that this agreement is in fact a capital lease and that the payments made under the agreement are lease payments. As such, CUC recorded \$9,959,000 as plant and obligations under capital lease.

CUC has been unable to determine whether the guaranteed price of \$9,959,000, in fact, constitutes the fair value of the leased property.

Cause: The cause of the above condition is that CUC has not determined the actual cost of the power plant or obtained an appraisal.

Effect: The effect of the above condition is the inability to determine whether the recording of the plant and obligation under capital lease is in accordance with FASB No. 13 and EITF No. 01-8.

Recommendation: We recommend that CUC determine the actual cost of the plant, or obtain an appraisal of the plant for purposes of compliance with the EITF.

Prior Year Status: The inability to determine whether the recording of the plant and obligation under capital lease are in accordance with FASB No. 13 and EITF No. 01-8 was reported as a finding in the audits of CUC for fiscal years 2000 through 2002.

Agency Response: CUC agrees with the finding and will endeavor to determine the fair market value of the Tinian Power Plant.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Automated Data Processing

Finding No. 2003-19

Criteria: A formal Disaster Recovery Plan, written Automated Data Processing (ADP) policies and procedures and offsite storage for daily back-up files are recommended for all large organizations.

Condition: CUC currently has no formal Disaster Recovery Plan or written ADP policies and procedures. In addition, CUC does not have an offsite storage for daily back-up files.

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

Effect: The effect of the above condition is the potential inability of CUC's ADP department to recover from a disaster and resume operations in a reasonable time frame, which in turn, could result in loss of critical data, revenue and also lead to customer service and public relations concerns.

Recommendation: We recommend that CUC review the need to document in writing its ADP policies and procedures and to develop and adopt a formal Disaster Recovery Plan for its ADP department and to maintain an offsite storage for daily back-up files.

Prior Year Status: Lack of a formal Disaster Recovery Plan and written ADP policies and procedures was reported as a finding in the audits of CUC for fiscal years 2001 and 2002.

Agency Response: CUC agrees with the finding. CUC's Electronic Data Processing (EDP) Department is working on the Disaster Recovery Plan and written Automated Data Processing (ADP) policies and procedures. CUC expects to complete them by the end of FY 2005.

Currently, the daily back-up files are stored in a fire-proof vault at the EDP room. The AS/400 month end and yearend back-up tapes are kept at a local bank on Saipan (off-site storage). In case of disaster, critical software can be reloaded from these back-up tapes.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Recovery of Labor Costs

Finding No. 2003-20

Criteria: Generally, direct costs incurred internally, including labor costs, related to a federally funded projects are reimbursable or may be used for matching purposes.

Condition: Currently, CUC does not request reimbursement of direct labor costs incurred on various federally funded construction projects.

Cause: The cause of the above condition is that CUC has not pursued this matter with the grantor agencies.

Effect: The effect of the above condition is the potential loss of federal revenue and inefficient use of internal funds.

Recommendation: We recommend that the CUC review the above condition and pursue such if it is deemed to be in the best interest of CUC.

Prior Year Status: Lack of request of reimbursement of direct labor costs incurred on various federally funded construction projects was reported as a finding in the audits of CUC for fiscal years 2001 and 2002.

Agency Response: CUC agrees with the finding. CUC has tasked the Grants Section to review costs incurred by CUC on various federally funded construction projects. Requests for reimbursements from grantor agencies will be prepared to recover all CUC-funded expenditures particularly labor costs.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Collection of Notes Receivable

Finding No. 2003-21

Criteria: Promissory notes should be periodically reviewed to ensure that the customer is performing according to terms, and alternate collection options pursued if the amount is in arrears.

Condition: Of six promissory notes tested, we noted the following exceptions:

The application of payments made by one customer (# 8267) did not correspond to the actual terms of the promissory note. The promissory note provides for periodic payments inclusive of principal and 12% annual interest. However, review of the customer's account history indicated payments being applied only to principal. Moreover, documentation authorizing the current treatment was not made available. In addition, the said promissory note lacks signature of authorized CUC personnel. In January 2002, interest was calculated based on the outstanding balance of the promissory note. As a result, negative amounts were applied to the principal amount thus increasing the promissory note balance. Based on review of subsequent collections, no payments were made. We were unable to locate documentation to indicate that alternate collection procedures were pursued.

Additionally, of \$673,638 notes receivable recorded at September 30, 2003, we reviewed subsequent receipts of accounts with balances greater than \$5,000 totaling \$411,762. Based on tests, we noted the following:

Five customer accounts (#s 8267, 5374, 8263, 9086 and 45277) amounting to \$79,329 did not indicate any payments made subsequent to year end.

One customer account (# 2757) made regular payments through April 2004; however, the account was subsequently closed in May 2004 and was transferred back to accounts receivable.

An extrapolation of total items tested amounting to \$411,762 resulted in an indication of the need to provide an additional allowance of \$149,967 to adequately provide for doubtful notes receivable. The amount, however, was not material to warrant an audit adjustment.

Cause: The cause of the above condition is the lack of follow-up on delinquent notes receivable. In addition, there is a lack of timely review as to the application of payments received on promissory notes.

Effect: The effect of the above condition is the potential overstatement of notes receivable and loss of recovery on the accounts.

Recommendation: We recommend that the CUC review the above condition and consider establishing procedures requiring periodic review of notes receivable and procedures for pursuit of delinquent accounts.

Finding No. 2003-21 Continued

Prior Year Status: Lack of follow-up on delinquent notes receivable was reported as a finding in the audits of CUC for fiscal years 2001 and 2002.

Agency Response: CUC agrees with the finding. The Comptroller has tasked the Credit and Collection Section to review long-outstanding promissory notes. Demand letters are issued to customers with delinquent accounts. CUC has engaged the services of a collection agency to pursue more aggressive efforts to collect overdue accounts.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Board Minutes

Finding No. 2003-22

Criteria: All board and executive meetings should be appropriately and promptly documented and maintained.

Condition: Subsequent to December 14, 2004, the related minutes of Board of Directors meetings were not made available.

Cause: The cause of the above condition is the lack of timely transcription of the minutes of the meetings.

Effect: The effect of the above condition is incomplete and inaccurate record of management and board of directors' actions and decisions.

Recommendation: We recommend that CUC ensure that all board of directors and executive meetings are appropriately and promptly documented.

Prior Year Status: Lack of timely transcription of the minutes of the meetings was reported as a finding in the audit of CUC for fiscal year 2002.

Agency Response: CUC agrees with the finding. Changes in the format of the board minutes caused the delay in documentation. The Board of Directors has advised the staff responsible in preparing the board minutes to ensure prompt transcription. To date, all pending board minutes up to December 2004 were forwarded to the auditors for review.

COMMONWEALTH UTILITIES CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2003

Local Noncompliance

Finding No. 2003-23

Criteria: Contracts awarded under emergency procurement require written determination of the basis for the emergency and the selection of the particular contractor by the Executive Director with approval by the Board of Directors (the Board). Additionally, procurement through small purchase procedures should be supported with price quotations from at least three vendors and vendor selection should be based on competitive price and quality.

Condition: During tests of compliance with procurement regulations, we noted the following:

One contract (ref. CUC-EDP-02-C012) was selected based on the lowest bidder. However, quotes obtained from other bidders to support the selection were not made available.

One expenditure (reference no. 081803 Memo) executed under emergency procurement had no written determination made by the Executive Director for the basis of selection of the contractor. We did note a memo from the Audit & Compliance Committee Chairwoman requesting the authorization of the Board for immediate emergency procurement of the selection, in its meeting held on July 3, 2003. We were unable to confirm the Board's authorization as the minutes of the meeting for July 3, 2003 were not made available.

Cause: The cause of the above condition is lack of complete documentation supporting the selection of contractors.

Effect: The effect of the above condition is noncompliance with established procurement policies and regulations.

Recommendation: We recommend that CUC ensure strict adherence to established procurement policies and regulations and ensure that disbursements are properly approved and supported. Additionally, we recommend that CUC ensure all contracts are properly supported with complete procurement files.

Agency Response: CUC disagrees with the finding. CUC strictly adheres to procurement policies and procedures. Quotes obtained from bidders (reference Contract No. CUC-EDP-02-C012) are on file. Documents were subsequently found and available for review.

Regarding one expenditure (reference 081803), CUC's Executive Director has recused herself from the selection of contractor due to conflict of interest. On August 22, 2003, the Board of Directors unanimously voted to approve the emergency procurement of the selection. A copy of board minutes for said date was forwarded to the auditors.

MARIANAS PUBLIC LANDS AUTHORITY
(A Private-Purpose Trust Fund)

Schedule of Findings
Year Ended September 30, 2002

Fund Balance

Finding No. 2002-1

Criteria: Expenditures should be recorded in the period the fund liability is incurred.

Condition: Specific reviews of nine contracts (nos. HSTDENG 2002-06T, HSTDENG 2002-01S, HSTDENG 2002-04S, HSTDENG 2002-02, HSTDENG L002-5R, 91-OS, 157-OS, 163-OS and 174-OS) disclosed the following matters:

- Billings are not reviewed to ensure that expenditures are recorded in the proper period. An audit adjustment was proposed to record \$93,600 in expenditures related to fiscal year 2002 for a program billing received and paid subsequent to September 30, 2002.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is the misstatement of liabilities, fund balance and expenditures.

Recommendation: We recommend that transactions be recorded in the proper period.

Prior Year Status: Improper recording of transactions and encumbrances was reported as a finding in the audit of MPLA for fiscal year 2001.

Auditee Response and Corrective Action Plan: We agreed with this finding. Controls and procedures have been implemented in the accounting system to detect and prevent any unrecorded liability at the end of the fiscal year.

MARIANAS PUBLIC LANDS AUTHORITY
(A Private-Purpose Trust Fund)

Schedule of Findings, Continued
Year Ended September 30, 2002

Receivables

Finding No. 2002-2

Criteria: Receivables should be monitored on a regular basis to determine collectibility.

Condition: As of September 30, 2002, recorded receivables were as follows:

Leases	\$ 3,406,106
Late fees	7,223,174
Royalties	3,002,241
Commercial permits	251,520
Temporary	268,926
Other	<u>553,353</u>
	<u>\$ 14,705,320</u>

Our audit included an analysis of MPLA's past due receivables to determine the propriety of the allowance for doubtful accounts. MPLA's allowance account amounted to \$12,979,209 or 88% of total receivables. Based on our tests of collectibility, an audit adjustment was proposed to increase the allowance account by \$931,641. The significant increase in the allowance relates to late fees assessed for unpaid balances from terminated leases and slow to non-moving accounts.

Cause: The cause of the above condition is the lack of policies and procedures requiring the review and monitoring of overdue accounts on a monthly basis and the preparation of an aged accounts receivable report.

Effect: The effect of the above condition is the possibility of a misstatement of receivable balances.

Recommendation: We recommend that the Marianas Public Lands Authority review receivable balances and forward overdue accounts to legal counsel for collection in a timely manner, and consider a policy of not accruing late fees on terminated or non-moving account balances for external reporting purposes while continue doing so, if deemed necessary, for internal reporting purposes.

Prior Year Status: Lack of monitoring procedures requiring review and monitoring of overdue accounts was reported as a finding in the Single Audits of the CNMI for fiscal years 1998 through 2000 and in the audit of MPLA for fiscal year 2001.

Auditee Response and Corrective Action Plan: We agreed with this finding. Controls and procedures have been implemented in the accounting system to minimize the level of outstanding accounts receivable.

MARIANAS PUBLIC LANDS AUTHORITY
(A Private-Purpose Trust Fund)

Schedule of Findings, Continued
Year Ended September 30, 2002

Local Noncompliance

Finding No. 2002-3

Criteria: Public Law No. 11-64 imposes a landing fee on passengers who disembark on Managaha Island. In accordance with the enabling legislation, these funds are to be made available for appropriation by the Saipan and Northern Islands legislative delegation without limitation.

Condition: As of September 30, 2002, MPLA has recorded a liability relating to landing fees collected, totaling \$1,162,892, which have not yet been remitted to the Secretary of Finance for deposit into a special subaccount.

Cause: The cause of the above condition is unknown.

Effect: The effect of the above condition is noncompliance with Public Law No. 11-64.

Recommendation: We recommend that MPLA obtain a legal counsel opinion on the disposition of such fees.

Prior Year Status: Noncompliance as set forth in the condition was reported as a finding in the Single Audit of the CNMI for fiscal year 2000 and in the audit of MPLA for fiscal year 2001.

Auditee Response and Corrective Action Plan: We agreed with this finding. As soon as we determine the nature of the disposition of funds, the issue of ownership to the funds would immediately clear this audit finding.

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MARIANAS VISITORS AUTHORITY
(A component unit of the CNMI Government)

Schedule of Findings and Questioned Costs
September 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

Capital Asset Inventory

Finding No. 05-1

Criteria

Capital assets records should be reconciled regularly to physical count of assets to support management assertion of capital assets existence and completeness.

Condition

MVA conducts an annual count of capital assets for Tinian and Rota. However, for capital assets in Saipan, MVA last conducted physical count in FY 2003 during the transfer of its field office operations to the Department of Lands and Natural Resources.

Due to change in government after the November 2005 elections, MVA was required by the transition team to conduct a physical count of all its capital assets.

The physical count conducted resulted to the following variance in capital assets.

	Per Books	Per Count	Loss
Furniture and fixtures, Acquisition costs	\$340,305	\$203,147	\$137,158
Accumulated depreciation	(294,115)	(157,490)	(136,625)
Net Book Value	<u>\$46,190</u>	<u>\$45,657</u>	<u>\$533</u>

Context

Audit procedures performed for capital assets in accordance with generally accepted accounting principles and Government Auditing Standards.

Effect

Although MVA has already posted the necessary entries to reconcile book balance with physical count and has updated the related asset listing; and the overall effect of the difference in the financial statements of MVA is not a large amount, this finding is considered a reportable condition in internal control since MVA failed to conduct physical count of capital assets and reconcile the count with accounting records on regular basis. Additionally, the difference in acquisition cost, although mostly offset by accumulated depreciation is significant.

Failure to perform part of capital assets internal control mentioned above opens MVA to risk of misappropriation of assets. Since there are no records as to how and when these differences were incurred, there is possibility that these may have been lost due to theft or unauthorized use.

Cause

MVA overlooked the need to conduct physical count of capital assets in Saipan since most of them are already fully depreciated.

Recommendation

MVA should conduct regular physical count of all capital assets.

Furthermore, MVA should also consider adopting a formal policy on capital assets. MVA currently follows the capitalization policy of the CNMI government but has no written policy. Thus, MVA personnel are not familiar with policies regarding changes in capital assets other than acquisition and depreciation. This resulted to many zero book value assets that are actually unusable and already disposed off, that are still included in the capital assets listing.

A sound capital assets policy should include not only the capitalization and depreciation matters but also policies on how MVA should process and record retirement of capital assets (i.e. sales, transfers, scraping and obsolescence). This will enable MVA to maintain updated capital assets records and minimize material adjustments to reconcile capital asset listing to physical count.

Auditee Response and Corrective Action Plan

MVA concur. They will prepare a capital assets policy for Board approval and immediate implementation to prevent recurrence of missing capital assets and ensure that monitoring controls are in place.

NORTHERN MARIANAS COLLEGE

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

Section II - Financial Statement Findings

Fixed Assets

Finding No. 2004-1

Criteria: The College should maintain property records detailing the description, cost, acquisition date and estimated useful life of its fixed assets. Such records should agree to the balances recorded in the College's financial statements. Additionally, periodic physical inventories of all fixed assets should be performed and accounting records updated accordingly.

Condition: A physical inventory of the College's fixed assets has not been performed within the past two years. Additionally, the College was unable to produce a schedule of fixed assets as of September 30, 2004, and original cost data or alternative valuation data is not available.

Cause: The cause of the above condition is a lack of adequate fixed assets subsidiary records.

Effect: The effect of the above condition is potential misstatement of amounts recorded in the College's financial statements.

Recommendation: We recommend that the College institute procedures to substantially identify and determine the cost of its fixed assets. Once valuation and identity have been established, we recommend that the College reconcile the balance of actual fixed assets on hand to the balance of assets recorded in its financial statements.

Prior Year Status: Lack of support of recorded fixed assets and periodic inventory of fixed assets was reported as a finding in the audits of the College for fiscal years 2001 through 2003.

Agency Response: The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College in procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed assets module was requested from the College's Planning, Budget and Evaluation Council. Once again funding constraints prevented this body from making the funds available for such purposes in FY2004 and 2005. Should the necessary funding be identified for this purpose, the College expects to resolve this condition in FY2006.

NORTHERN MARIANAS COLLEGE

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

Receivables

Finding No. 2004-2

Criteria: Receivables should be periodically assessed for validity and collectibility. Additionally, through this process, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: Numerous account balances have been outstanding for several fiscal years with little or no subsequent activity.

Cause: The cause of the above condition is that supporting documents for these long outstanding balances could not be located.

Effect: The effect of the above condition is that the College's receivables are not being collected in a timely manner. Further, the interim financial statements are misstated due to a lack of adequate provision for doubtful receivables.

Recommendation: We recommend that the College implement procedures requiring periodic review of all receivable balances for validity and collectibility. Accounts determined to be uncollectible should be written-off. This process should also address the adequacy of the related allowances for doubtful accounts.

Prior Year Status: Lack of review of receivable balances for validity and collectibility was reported as a finding in the audits of the College for fiscal years 2001 through 2003.

Agency Response: The College concurs with the finding. The College has accumulated numerous large receivable balances over the years on which there has been little to no subsequent collection activity. The College feels however that it has adequately reserved for these balances. The College has already referred several of these balances to attorneys and collection agencies for further action. The College is of the opinion that there is still potential for recovery on some of these balances and as such is reluctant to write such off. The College however will increase its efforts to collect these balances and periodically review such for the adequacy of related allowances.

NORTHERN MARIANAS COLLEGE

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

Inventory - Book Store

Finding No. 2004-3

Criteria: Variances between general ledger balances and subsidiary ledgers should be investigated and reconciled in a timely manner. The subsidiary ledger should reflect accurate information such as quantity, cost and items owned by the College.

Condition: Discrepancies between inventory general ledger and subsidiary ledger balances are not being identified and resolved in a timely manner. This condition was resolved through proposed audit adjustments.

Cause: The cause of the above condition is a lack of procedures in place to ensure general ledger balances are reconciled to the subsidiary ledger.

Effect: The effect of the above condition is possible misstatement in inventory balances.

Recommendation: The College should adhere to established policies and procedures requiring monthly reconciliation of all general ledger balances to subsidiary detail.

Prior Year Status: Lack of adherence to established policies and procedures requiring monthly reconciliation of inventory general ledger balances against subsidiary detail and lack of retention of invoices to substantiate inventory costs was reported as a finding in the audit of the College for fiscal year 2003.

Agency Response: The College concurs with the finding. Proper accounting of the Book Store's inventory has always proved to be a challenge for the College historically. It is noted however that progress has been made in increasing such accountability through annual and periodic physical inventories being conducted. The College is in the process of transitioning the accounting of the Book Store transactions from the now independent accounting system to the central College wide accounting system. This transfer of the accounting functions is expected to be completed in FY2006. This is expected to resolve the accounting issues at the Book Store.

NORTHERN MARIANAS COLLEGE

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

Section III - Federal Award Findings and Questioned Costs

Allowable Costs/Cost Principles

Finding No. 2004-4

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Education / Adult Education - State Grant Program / CFDA # 84.002 / Federal Award # V002A030055 / Federal Award period 07/01/03 - 09/30/04</p>	<p><u>Criteria:</u> OMB Circular A-21, <i>Cost Principles for Educational Institution</i>, establishes principles for determining the allowable costs incurred by educational institutions under grants with the Federal Government. Specifically, costs must be necessary and reasonable for proper and efficient performance and administration of the federal awards.</p> <p><u>Condition:</u> Of \$405,202 in expenditures of the Adult Education, - State Grant Program, fourteen expenditures were tested, totaling \$41,172. One expenditure (check # 12755 for \$4,272) was for travel that did not occur (non-refundable tickets were acquired but were not used) and one expenditure (check # 12579 for \$4,000) lacked substantiating documents such as an invoice or a payment receipt. Based on our population and sample size, the condition was extrapolated to indicate amounts in excess of \$10,000.</p> <p><u>Cause:</u> The cause of the above condition is a lack of adherence to federal procurement standards.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement standards.</p> <p><u>Recommendation:</u> We recommend that the College adhere to established policies and procedures to ensure compliance with federal procurement standards.</p> <p><u>Prior Year Status:</u> Noncompliance with procurement standards was reported as a finding in the audit of the College for fiscal 2003.</p> <p><u>Agency Response:</u> The College is reviewing the condition noted and the questioned costs. The College will work with the grantor agency to resolve such on finalization of the audit report.</p>	<p>\$ 8,272</p>

NORTHERN MARIANAS COLLEGE

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

Procurement and Suspension and Debarment

Finding No. 2004-5

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
<p>U.S. Department of Education / Adult Education - State Grant Program / CFDA # 84.002 / Federal Award # V002A030055 / Federal Award period 07/01/03 - 09/30/04</p>	<p><u>Criteria:</u> The federal government requires compliance with local procurement policy when it is more stringent than the federal requirement. The College's Procurement Regulation 11-c requires programs to first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures.</p> <p><u>Condition:</u> Of \$405,202 in expenditures of the Adult Education - State Grant Program, fourteen expenditures, totaling \$41,172 were tested. Two professional service contracts (Contract #s PS-2746 and 2746A for \$6,120 and \$1,200, respectively) did not evidence that the contracted services were not available internally at the College. Based on our population and sample size, the condition was extrapolated to indicate amounts in excess of \$10,000.</p> <p><u>Cause:</u> The cause of the above condition is a lack of adherence to local procurement policy.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with local procurement policy.</p> <p><u>Recommendation:</u> We recommend that the College adhere to established policies and procedures to ensure compliance with local procurement policy.</p> <p><u>Prior Year Status:</u> Noncompliance with procurement standards was reported as a finding in the audit of the College for fiscal 2003.</p>	<p>7,320</p>
<p>Total Questioned Costs</p>		<p>\$ <u><u>15,592</u></u></p>
<p><u>Agency Response:</u> The College is reviewing the condition noted and the questioned costs. The College will work with the grantor agency to resolve such on finalization of the audit report.</p>		

NORTHERN MARIANAS COLLEGE

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

U.S. Department of Education
Eligibility - TRIO - Talent Search
CFDA # 84.044, Federal Award # P044A020234-03
Federal Award period 09/01/03 - 08/31/04

Finding No. 2004-6

Criteria: It is the College's responsibility to ensure that student awards are made only to eligible students. Various eligibility requirements concerning citizenship, prior education and similar matters are stipulated in the specific requirements of the program's compliance supplement.

Condition: Of three Talent Search student files tested for eligibility, two files (SS #s 586-31-2004 and 586-06-7548) lacked proof of citizenship and one file (SS # 586-31-2004) lacked evidence of educational background (e.g., completion of five years of elementary education, etc.)

Cause: The cause of the above condition is a lack of procedures to ensure that adequate documentation is retained by the College to support eligibility of recipients of Talent Search program.

Effect: The effect of the above condition is possible noncompliance with respect to eligibility requirements. Costs were not questioned as we were unable to determine that eligibility was not proper.

Recommendation: We recommend that the College establish procedures to ensure that files for all students under the program contain adequate documentation to support eligibility requirements.

Agency Response: The College is currently reviewing this finding and will resolve this finding through provision of this information to the grantor agency.

NORTHERN MARIANAS COLLEGE

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

Equipment and Real Property Management - All Federal Programs

Finding No. 2004-7

Criteria: Section 74.34 of 34 CFR 74, *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires grant recipients to maintain property management records and to perform a physical inventory of equipment at least once every two years.

Condition: Property management records are not maintained. Furthermore, a physical inventory of equipment has not been taken within the past two years.

Cause: The cause of the above condition is a lack of established policies and procedures related to equipment and real property management.

Effect: The effect of the above condition is noncompliance with federal property management standards.

Recommendation: We recommend that the College establish policies and procedures to ensure compliance with federal property management standards.

Prior Year Status: Noncompliance with federal property management standards was reported as a finding in the audits of the College for fiscal years 2001 through 2003.

Agency Response: The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College in procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed assets module was requested from the College's Planning, Budget and Evaluation Council. Once again funding constraints prevented this body from make the funds available for such purposes in FY2004 and 2005. Should the necessary funding be identified for this purpose, the College expects to resolve this condition in FY2006.

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PUBLIC SCHOOL SYSTEM

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Preparation of Budget

Finding No. 04-1

Criteria

Pursuant to the approved policies of PSS regarding financial management, it is the expressed intent of the Board of Education to comply with the provisions of any and all applicable laws that relate to the preparation and presentation of budgets and budgeting process.

Accordingly, the preparation of the annual budget shall follow an accounting system that provides the basis for proper budgetary control. Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which an annual budget has been adopted.

Condition

PSS maintains its books by fund type, one of which is the General fund. This fund covers the following expenditure accounts: Payroll, Housing and All Others. Such funding is based on the continuing resolution of Public Law 13-24, with an annual appropriation of \$37,209,928. A weekly monitoring of the budget versus actual expenditures is carried out on a lump-sum basis by PSS. This procedure helps PSS manage its available funds for future spending.

However, for the FY 2004, PSS failed to include a budgetary comparison of its general fund activities in the financial statements. Based on the review of the fund certification inquiry, various accounts showed negative variances. Although a direct control on the PSS' total available funds exists, the inclusion of the budget prepared in its financial statements is necessary based on the policies approved by the Board of Education.

Context

Audit procedures performed for Budget preparation in accordance with Government Auditing Standards.

Effect

The review of the financial statements showed unfavorable variances. This reflects possible unauthorized expenditures since PSS failed to monitor the budget on an account basis.

Cause

PSS monitors the general fund activities on a lump-sum basis. Since they focused more on the availability of funds rather than evaluating costs and program objectives, the main purpose of the budgeting process was eventually disregarded.

PUBLIC SCHOOL SYSTEM

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Preparation of Budget, Continued

Finding No. 04-1, Continued

Recommendation

Budgeting in the government sector is an element of fiscal policy and is much more than setting the financial goals for the coming year. A comprehensive budget process incorporates a long-term perspective and establishes linkages to broad organizational goals. It focuses budget decisions on results and outcomes. A budget must also involve and promote effective communication to ensure that incentives to government management and employees are ultimately provided.

I recommend that PSS properly monitor its budget-to-actual expenditures, analyze significant variances and recommend options for handling such. PSS should move beyond the traditional concept of expenditure control. It is not simply an exercise of balancing revenues and expenditures one year at a time. Rather, the process is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals.

Auditee Response and Corrective Action Plan

PSS will enter the original budget per business unit, any adjustment is to be made at the end of the fiscal year to analyze and compare any significant variances budget to actual expenditures.

PUBLIC SCHOOL SYSTEM

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Procurement Regulations

Finding No. 04-2

Criteria

Actual purchases of government activities for services with deliveries or performance to be scheduled and are valued above \$10,000 must be executed by a contract.

Condition

Various transactions were noted to be services performed on a regular basis by certain vendors that should have been executed by a contract but were availed through issuance of monthly purchase orders. The related amount of the various procured services found to be in noncompliance with PSS procurement rules and regulations totaled \$112,789.

Context

In relation to audit finding no. 04-8, vendors who provided services to PSS on a regular basis were identified. Reviewed the account ledgers of each vendor and computed the total services procured in FY 2004. Total purchases made to each vendor exceeding the \$10,000 scope were accounted for as non-compliance with PSS procurement rules and regulations of PSS.

Effect

The effect of the above condition is non-compliance of the PSS procurement regulation, a violation of the applicable state laws and regulations and federal requirements.

Cause

Due to the understanding that the average monthly fees of these regular services are within the small purchases limit, PSS failed to recognize the need to execute a contract on this type of purchase.

Recommendation

In order to comply with PSS procurement laws and regulations, I recommend that a contract be executed on these kinds of purchases.

Auditee Response and Corrective Action Plan

PSS concurs. This condition has been corrected by executing a contract of purchases for transactions above \$10,000.

PUBLIC SCHOOL SYSTEM

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Leave for Certified Employees

Finding No. 04-3

Criteria

Pursuant to the Employment Rules and Regulations of the PSS, any annual leave accrued or earned may be cashed-out upon separation from PSS. Separation shall mean that the employee will not work for the PSS for at least six consecutive months.

Condition

Based on the review of the time & pay history of randomly selected PSS employees, we noted two employees who received their lump sum payment for the annual leave earned but went back to PSS for employment within the separation period stated. The lump sum payment made to the identified employees totaled to \$18,067.

Context

On the conduct of test of internal control over payroll, review of the employees' time & pay history was considered as part of examination. The payroll module of the current financial management system of PSS was scanned and reviewed for unusual transactions. Based on auditor's judgment, we randomly selected employees and examined their related time & pay history ledger.

Effect

The effect of the above condition is overpayment of benefits.

Cause

There was no strict enforcement of PSS' policies and procedures on employment related matters.

Recommendation

PSS should adhere to its Employment Rules and Regulations. In this situation, PSS should make arrangements with the identified employees on the return of the lump sum payment made, such as, payroll deduction or direct application on their annual leave.

Auditee Response and Corrective Action Plan

PSS concurs. This is a management oversight. PSS will notify affected employees regarding the policy.

The lump sum payment of annual leave given to these employees will either be offset against their accumulated annual leave or deducted from their salary.

PUBLIC SCHOOL SYSTEM

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Work Assignment

Finding No. 04-4

Criteria

Pursuant to PSS Employee Regulations, an employee must attend work during the hours assigned by his or her supervisor. Generally, these hours will be from 7:30 AM to 11:30 AM and 12:30 PM to 4:30 PM, Monday through Friday. These hours may be changed in order to meet job demands. Also, an employee may be assigned by PSS to work at any school, any office, or any facility on the island assigned.

Condition

The current practice of PSS for the employees' time-in and time-out is the use of a Bundy clock. Nine out of 57, or 16% of the total timecards examined showed manual input of the hours worked.

In addition, two timecards showed hours marked with "worked at home" and were approved for payroll. Further examined, the approved hours marked with "worked at home" totaled 42 hours. The total hours computed covered the payroll periods from January 11, 2004 through September 30, 2004. Based on the review of the contract, an employee may be assigned by PSS to work at any school, any office, or any facility on the island assigned. An employee's residence is not considered a PSS facility for any work assignment.

Context

The conduct of test of internal control over payroll includes review of the source document of payroll disbursement, which is the time card.

Effect

Lack of specific policies on the time-in and time-out of employees and allowed locations of work assignment constitutes a weakness in the internal control over payroll.

Cause

The common practice of PSS on the use of Bundy clock demonstrates the existence of a control or system on payroll. However, there is no specific policy that would serve as a basic guideline for PSS to properly implement stringent controls on employee time-in and time-out procedures.

Additionally, the employment regulation does not explicitly state the allowed locations of work assignments.

Recommendation

PSS should develop written policies and procedures that would serve as basic guidelines for PSS to properly implement controls on payroll and other related matters.

PUBLIC SCHOOL SYSTEM

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Work Assignment, Continued

Finding No. 04-4, Continued

Auditee Response and Corrective Action Plan

PSS concurs. Since there is no specific policy that employees are allowed to work at home, which is not considered as PSS facility for any work assignment, PSS will not allow any employees to work at home.

PUBLIC SCHOOL SYSTEM

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Retention and access requirement of records

Finding No. 04-5

Criteria

In accordance with OMB Circular A-102, financial records, supporting documents, statistical records and all other pertinent records must be retained for a period of three years.

Condition

PSS has 26 payroll periods in every fiscal year. In relation to Finding No. 04-4, six time cards for the payroll period of October 1, 2003 to January 10, 2004 were not provided for examination and review.

Context

The conduct of test of internal control over payroll includes review of the source document of payroll disbursement, which is the time card.

Effect

The effect of the above condition is failure to verify if payroll disbursed were valid.

Cause

This cause of this condition is the timekeeper failed to keep the time cards within the required retention period.

Recommendation

PSS should adhere to the required retention period of financial records, supporting documents and all other pertinent records.

Auditee Response and Corrective Action Plan

PSS concurs. Timekeeper will take extra efforts to ensure that all time cards or a copy of time cards are kept in PSS file.

PUBLIC SCHOOL SYSTEM

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances

Finding No. 04-6

Criteria

PSS current policy requires the traveler to submit a travel request 5 working days prior to CNMI travel while ten working days prior to travel outside the CNMI. Upon liquidation, a travel voucher must be submitted within 10 working days after the completion of the travel with supporting documents required under the policy. Payroll deduction will be initiated within 15 working days if the traveler does not submit travel voucher and supporting documents.

Condition

PSS does not adequately monitor adherence to its travel policies based on the following:

- a. 5 out of 16, or 31.25% travel requests examined were not submitted within the stated period prior to the commencement of the travel.
- b. 1 out of 16 travelers traveled without an approved travel authorization. We noted that an approval was subsequently made for the reimbursement of the trip. This incident indicated a violation of the local and federal regulations as the cost was allocated under the federal account.
- c. In relation to the finding cited on Item b above, since the travel did not have a prior authorization, the documents examined did not have a justification memorandum for the travel, document of invitation or agenda, specific purpose, itinerary and estimated cost.
- d. 11 out of 16, or 68.75% travel vouchers were not submitted within the ten working days period upon completion of travel.
- e. 1 out of 16 travelers was paid with a per diem of two days in the amount of \$354. The two days were initially applied as annual leave based on the original justification memorandum submitted; however, an amended letter was subsequently prepared, with an approval of the two days leave as part of the trip.

Context

Based on the risk assessment made and the planning materiality computed, test of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. Randomly selected 15 individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Effect

Failure to make a strict implementation of the travel policies results to unauthorized travels, disallowed costs, significant bad debts and non-compliance with the applicable state laws and federal regulations.

PUBLIC SCHOOL SYSTEM

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 04-6, Continued

Cause

PSS did not adhere to its established policies and procedures on travel.

Recommendation

PSS should strictly enforce its established policies and procedures on travel. If the current policy is found to be inadequate to suit the current needs of the PSS as well as the travelers, I recommend that the policy should be updated or improved in response to the inadequacies or concerns identified, if any, in accordance with the local laws and federal requirements.

Auditee Response and Corrective Action Plan

PSS has made tremendous efforts to inform employees of the travel policies. PSS will strictly enforce its established policies and procedures.

PSS prepared a proposed administrative change in the travel policy to ensure compliance with the applicable state laws and federal regulations. Upon approval this policy shall be strictly enforced.

PUBLIC SCHOOL SYSTEM

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Inventory Management

Finding No. 04-7

Criteria

The fixed asset ledger maintained at the Central Office must match the appropriate records of all custodians of the fixed assets.

Condition

We identified several acquisitions recorded in the fixed assets ledger with no property cards. We also noted that various fixed assets tagged as PSS property were not entered in the fixed asset ledger as additions.

In addition, from the updated list of fixed assets provided by the Property and Inventory Control Officer, various assets were not included in the fixed assets ledger currently maintained by the Fiscal and Budget Office. This condition was resolved through proposed audit adjustments.

Cause

The cause of the above condition is lack of internal control system that would facilitate the property inventory and management of PSS. There was no proper coordination between the Procurement and Fiscal & Budget Office to ensure that appropriate records agree.

Context

Audit procedures performed for capital assets and capital expenditures in accordance with Government Auditing Standards.

Effect

Failure to maintain a property card of a specific fixed asset implies that such asset was not tagged and identified as PSS property. This could result in a possible unauthorized use of the asset.

For the identified and tagged property of PSS that was not recorded in the fixed assets ledger, the effect of this condition is understatement of fixed assets.

Recommendation

PSS should properly implement the approved policies and procedures on property inventory and management.

Auditee Response and Corrective Action Plan

PSS concurs. The discrepancies between the property cards and the listing were due to assets charged to wrong account. These were properly reclassified from contractual services to fixed asset account. In addition, our Property Custodian will conduct a physical count on the fixed asset at the school level respectively.

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Allowable costs or principles - Head Start Program

Finding No. 04-8

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> In accordance with the Head Start Grants Administration and Financial Management, the Parent Activity fund should be spent on the basis of project relatedness. In connection with such requirement, OMB Circular A-21 Attachment J(22) and A-87 Attachment B(21) states that the costs of certain activities, including fundraising, are not allowable as charges to Federal Awards. Based on these cost principles, agencies may not use Federal funds to provide money, space or staff assistance in order to raise fund. These items have been provided using Federal resources and are subject to the above prohibition.</p> <p><u>Condition</u> We have identified four invoices that pertained to fundraising events charged under the Head Start Program. These invoices were included in one liquidation report submitted.</p> <p><u>Context</u> Based on auditor's judgment, randomly selected 40 disbursements and performed audit procedures for compliance testing of the identified major program, as required and in accordance with OMB-Circular A-133.</p> <p><u>Effect</u> Although the related amount of the disallowed activities charged under Head Start is insignificant, PSS was still found to be not in compliance with the requirements of the federal grant.</p> <p><u>Cause</u> PSS lacks administrative oversight over the allowed and disallowed activities and programs under this federal grant.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Allowable costs or principles - Head Start Program

Finding No. 04-8, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Recommendation</u> PSS should monitor all activities and programs set-up under this grant and ensure that each related cost charged under this account comply with the applicable federal regulations.</p> <p><u>Auditee Response and Corrective Action Plan:</u> The food invoices in question were labeled Parent Fund Raising invoices by mistake. The activity was Parent Fund event, a formal and legitimate fund set up to pay for ordinary expenses. Parent Day is an educational day for all the parents of children enrolled at Headstart. PSS Director of Finance will inform Head Start Policy Council to stress that these activities are Parent Fund activities, and that fund raising is not in compliance with federal regulations.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Procurement and Suspension and Debarment - Head Start Program

Finding No. 04-9

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> Actual purchases of government activities for services with deliveries or performance to be scheduled and are valued above \$10,000, must be executed by a contract.</p> <p><u>Condition</u> In 2 or 5% of the forty (40) disbursements tested, the transactions were noted to be services performed on a regular basis by a certain vendor. This pertains to the maintenance service that PSS avails monthly for all schools. During FY 2004, the total amount paid for this specific vendor charged under the Head Start program totaled \$10,588.</p> <p><u>Context</u> Based on auditor's judgment, randomly selected 40 disbursements and performed audit procedures for compliance testing of the identified major program, as required and in accordance with OMB-Circular A-133.</p> <p><u>Effect</u> The effect of the above condition is non-compliance with the PSS procurement regulations, a violation of the applicable state laws and regulations and federal requirements.</p> <p><u>Cause</u> Due to the understanding that the average monthly fees of these regular services are within the small purchases limit, PSS failed to recognize the need to execute a contract on this kind of purchase.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Procurement and Suspension and Debarment - Head Start Program

Finding No. 04-9, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600		\$ -

Recommendation

PSS should execute a contract on this kind of purchase to comply with the local laws and federal requirements.

Auditee Response and Corrective Action Plan:

PSS concurs. As in finding 4-2 of similar condition, this condition has been subsequently corrected by executing a contract of purchases for transactions above \$10,000.

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program Income - Food and Nutrition Services

Finding No. 04-10

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555		\$ -

Criteria

Program income derived from this federal award represents proceeds from the sale of reduced price meals being served to some selected schools. One of the policies and procedures of PSS on food court collections at the school level is to submit all collections received to the PSS Treasurer on a weekly basis.

Condition

Two schools were identified to be not in compliance with the above-mentioned policy. Summarized below is the total amount collected by the schools that were not submitted on time.

Saipan Southern High

Cash Count	Total	Date	No. of
<u>Date</u>	<u>Collections</u>	<u>Submitted</u>	<u>weeks late</u>
10/06 - 10/10/03	\$ 420.50	10/21/03	1 week
12/09 - 12/18/03	1,079.50	12/22/03	1 week
04/19 - 04/23/04	477.25	05/04/04	1 week
08/09 - 08/27/04	<u>1,031.50</u>	08/30/04	3 weeks
Sub-total	<u>3,008.75</u>		

Marianas High School

Cash Count	Total	Date	No. of
<u>Date</u>	<u>Collections</u>	<u>Submitted</u>	<u>weeks late</u>
10/07 - 10/20/03	\$ 1,840.75	11/05/03	4 weeks
11/10 - 11/19/03	2,164.00	12/30/03	6 weeks
03/08 - 04/08/04	5,673.75	05/06/04	8 weeks
08/02 - 08/13/04	3,393.25	08/30/04	3 weeks
08/18 - 08/20/04	1,048.50	09/23/04	5 weeks
09/07 - 09/10/04	<u>1,374.20</u>	09/23/04	2 weeks
Sub-total	<u>15,494.45</u>		

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Program Income - Food and Nutrition Services

Finding No. 04-10, Continued

Total \$ 18,503.20

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555	<p><u>Context</u> Based on auditor's judgment, randomly selected the months of October to December 2003, March to April and August to December 2004 for the conduct of audit procedures for program income compliance requirement.</p> <p><u>Effect</u> Untimely submission of the food court collections could imply that resources were used for other purposes than what is in accordance with the program requirements, as stated in A-102 Common Rule and OMB-Circular A-110. Such condition could result in a questioned cost for PSS.</p> <p><u>Cause:</u> Despite of the continued efforts of the Fiscal & Budget Office to ensure that this policy is strictly followed, management oversight and enforcement was not strict enough to properly implement the stated policy.</p> <p><u>Recommendation:</u> PSS should strictly enforce that food court collections be submitted on time to avoid citation of non-adherence to the approved policies and procedures of PSS and federal regulations.</p> <p><u>Auditee Response and Corrective Action Plan:</u> PSS concurs. PSS will hire a Food Court Coordinator, under the supervision of the FNS Administrator, whose main responsibilities is to submit to PSS Treasurer all monies collected at the school level to ensure that policy is strictly followed.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-11

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> As indicated in the Program Description of Head Start, all service areas and child development staff must submit monthly reports to the coordinators. This will be summarized and reported to the Head Start Policy Council (HPC) monthly and will submit a copy of the report to Board of Education.</p> <p><u>Condition</u> No monthly reports were provided for examination.</p> <p><u>Context</u> Reviewed the program description of Head Start Program to identify the performance reporting requirements of PSS. Conducted audit procedures for compliance testing in accordance with OMB Circular A-133.</p> <p><u>Effect</u> The required monthly reports are some of the underlying data that are to be accumulated and summarized for the completion and submission of the Annual Self-Assessment Report. Since no reports were prepared or provided, the required annual report might be considered as incomplete and inaccurate.</p> <p><u>Cause</u> The cause of the above condition is lack of administrative oversight to ensure that all requirements were met in accordance with the State Plan and Federal laws and regulations.</p> <p><u>Recommendation</u> PSS should closely monitor the requirements of the grant and improve its current system to ensure compliance with the terms and conditions of the program are met.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-11, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600		\$ -

Auditee Response and Corrective Action Plan

Head Start Policy Council and Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly and annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 2005.

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-12

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> As stated in the Program Description, quarterly reports are prepared and submitted to the Associate Commissioner for the Curriculum and Instruction. These reports are compiled and submitted to the Board of Education.</p> <p><u>Condition</u> No quarterly reports were provided for our review and examination.</p> <p><u>Context</u> Reviewed the program description of Head Start Program to identify the performance reporting requirements of PSS. Conducted audit procedures for compliance testing in accordance with OMB Circular A-133.</p> <p><u>Effect</u> Failure to comply with the stated terms and conditions of the program demonstrates neglect on their responsibilities as a recipient of the Head Start grant.</p> <p><u>Cause</u> The cause of this condition is unknown.</p> <p><u>Recommendation</u> PSS should evaluate its current system to identify the areas for improvement, thus, address the deficiencies noted, if any, in meeting the goals and objectives of the program.</p> <p><u>Auditee Response and Corrective Action Plan</u> Head Start Policy Council and the Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly and annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 1, 2005.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-13

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Criteria</u> As part of the monitoring and evaluation of the program, an annual Self-Assessment report is prepared. This report is a compilation of the monthly ongoing monitoring of the services provided to the eligible children and their families. Such report also documents the areas of strength and areas for improvement of the Head Start activities.</p> <p><u>Condition</u> The Annual Self-Assessment report was not prepared and provided for our review and examination.</p> <p><u>Context</u> Reviewed the program description of Head Start Program to identify the performance reporting requirements of PSS. Conducted audit procedures for compliance testing in accordance with OMB Circular A-133.</p> <p><u>Effect</u> The effect of this condition is non-compliance with the terms and conditions of the grant. Failure to comply with these stated terms demonstrates neglect on their responsibilities as a recipient of the Head Start grant.</p> <p><u>Cause</u> The cause of this condition is unknown.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Head Start Program

Finding No. 04-13, Continued

Recommendation

PSS should consider evaluating its current operating system. This would help them recognize the areas of strength and areas for improvement and the strategies to address recommendations, if any, with specific timelines and evidence of completion. An improved system will assist PSS ensure grant requirements are fully met.

Auditee Response and Corrective Action Plan

Head Start Policy Council and Board of Education will jointly hire a new Director who will be responsible for the production of monthly, quarterly, annual reports. Associate Commissioner of Curriculum and Instruction will direct the production of reports in compliance with federal regulations by May 1, 2005. The Self-Assessment Report for FY2004 is currently underway and will be reported out by May 1, 2005.

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 04-14

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Criteria</u> Certain general requirements under the Comprehensive System of Personnel Development (CSPD) were enumerated in the Eligibility Document of the Special Education Program.</p> <p><u>Condition</u> PSS lacks a system that will ensure all of the general requirements under this program are being carried out as planned.</p> <p><u>Context</u> Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program.</p> <p><u>Effect</u> A lack of an effective monitoring system prevents PSS from properly carrying out its programs' goals and objectives as both the State Educational Agency (SEA) and Local Educational Agency (LEA).</p> <p><u>Cause</u> The cause of the above condition is that PSS failed to develop an effective monitoring system that would keep track all the activities under the federally funded programs and that existing policies and procedures are consistent with the requirements of the grant.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program, Continued

Finding No. 04-14, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Recommendation</u> PSS should develop an effective internal control system that would assist them in meeting the goals and objectives of the program grants as required by the Federal grant.</p> <p><u>Auditee Response and Corrective Action Plan</u> The Special Education Human Resources Officer will be directed by the Associate Commissioner for Curriculum & Instruction to generate the required Comprehensive System of Personnel Development (CSPD) plan as stated in the Eligibility document.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 04-15

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p>Criteria In accordance with the CNMI Special Education Program 2002-2003 State Plan and as required by 34 CFR §300.152, it is the policy of the Public School System to develop and implement interagency agreements between the Public School System and all other CNMI agencies that provide or pay for services required under the State Plan for children with disabilities. As stated in the State Plan, the CNMI currently has interagency agreements (sometimes referred to as Memoranda of Understanding) with the Commonwealth Health Center, the Department of Mental Health, the Office of Vocational Rehabilitation Services and the Division of Youth Services.</p> <p>Condition There was no Memorandum of Understanding (MOU) established with the Commonwealth Health Center (CHC) for the fiscal year 2004. From our 2003 audit, it was explained that no MOU with CHC is required because services performed by this agency should be with no charge. We cited PSS on the failure to update the documentation of its program activities identified in the State Plan.</p> <p>However, in 2004, we were informed that an agreement was executed for the use of the CHC facilities. The use of facilities is for the audiologist hired by the Special Education Program Office, yet no agreement was provided to confirm compliance on this specific requirement.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program, Continued

Finding No. 04-15, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Context</u> Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program.</p> <p><u>Effect</u> The effect of the above condition is non-adherence to the requirements of the grants, which is a violation of the federal regulations.</p> <p><u>Cause</u> The possible cause of this condition is lack of familiarity with the specific requirements of the grants. PSS failed to coordinate with the above-mentioned party and ensure that terms and conditions of the grants are complied with.</p> <p><u>Recommendation</u> PSS should become familiar with the terms and conditions of the grant to avoid any confusion on the requirements of the federal, thus, prevent citations of non-compliance.</p> <p><u>Auditee Response and Corrective Action Plan</u> The Memorandum of Understanding regarding the services of the audiologist is completed and will be provided to auditor no later than April 8, 2005.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program

Finding No. 04-16

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Criteria</u> As stated in the Eligibility document, interagency agreements shall include procedures for resolving interagency disputes (including procedures under which PSS may initiate proceedings) under the agreement or other mechanism to secure reimbursement from other agencies or otherwise implement the provisions of the agreement or mechanism.</p> <p><u>Condition</u> The signed interagency agreement with the Department of Community and Cultural Affairs does not include procedures for resolving interagency disputes.</p> <p>PSS made an addendum to this contract in response to the required inclusion of procedures for resolving interagency disputes. However, all responsible parties have not signed the amended contract, thus, the interagency agreement is not yet fully executed.</p> <p><u>Context</u> Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program.</p> <p><u>Effect</u> The effect of the above condition is non-adherence to the requirements of the grants, which is a violation of the federal regulations.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education Program, Continued

Finding No. 04-16, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
84.027	<p><u>Cause</u> The possible cause of this condition is lack of familiarity with the specific requirements of the grants.</p> <p><u>Recommendation</u> PSS should become familiar with the terms and conditions of the grant to avoid any confusion on the requirements of the federal, thus, prevent citations of non-compliance.</p> <p><u>Auditee Response and Corrective Action Plan</u> The interagency agreement with the Department of Community and Cultural Affairs will be concluded and submitted to the auditor no later than April 8, 2005.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 04-17

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
92.600	<p><u>Criteria</u> Pursuant to 45 CFR section 1306.30c, the facilities used by Early Head start and Head Start grantees for regularly scheduled center-based and combination program option classroom activities or home-based group socialization activities must comply with applicable State and local requirements concerning licensing.</p> <p>The local licensing requirements applicable to Headstart are:</p> <ol style="list-style-type: none">1. Fire Safety Inspection from the Department of Public Safety.2. Facilities Inspection by the Bureau of Environmental Health. <p><u>Condition</u> a. Nine of 12 or 75% Head Start centers were only inspected for fire safety. b. Four of 12 or 33.33% Head Start centers were only inspected for facilities inspection.</p> <p><u>Context</u> Reviewed the Program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program. Obtained copies of the inspections made by the Department of Public Safety and Bureau of Environmental Health.</p> <p><u>Effect</u> The effect of the above condition is that all Headstart centers may be regarded as not yet fully licensed to operate. This is a non-compliance with the federal requirements.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions – Head Start Program, Continued

Finding No. 04-17, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p><u>Cause</u> The cause of this condition is that PSS failed to follow-up and coordinate the required inspection of Headstart facilities with the concerned agencies.</p> <p><u>Recommendation</u> PSS should ensure that all Headstart centers be properly inspected to ensure that the centers are in compliance with the local and federal requirements.</p> <p><u>Prior Year Status</u> The above condition was cited as a finding in the Single Audit of fiscal year 2003.</p> <p><u>Auditee Response and Corrective Action Plan</u> Head Start Policy Council and Board of Education will jointly hire a new Director who will recommend that Head Start centers not be opened in August unless the proper health and safety inspections have been performed. Appropriate changes to the Head Start regulations are recommended. The Associate Commissioner of Curriculum and Instruction will direct these changes by May 1, 2005.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 04-18

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p>Criteria: In accordance with 45 CFR section 1306.30c, grantees must comply with applicable State and local requirements concerning licensing. One of the requirements includes an approved fire safety inspection from the Department of Public Safety.</p> <p><u>Condition:</u> The six Head Start centers inspected by the Department of Public Safety failed to meet the fire safety standards.</p> <p>Context Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program. Reviewed and examined the inspection reports to verify compliance with the local licensing requirement.</p> <p><u>Effect</u> The effect of the above condition is that Headstart centers may be hazardous for the children and expose them to possible accidents or danger. This is non-compliance with the local and federal requirements.</p> <p><u>Cause</u> The cause of this condition is unknown.</p> <p><u>Recommendation</u> PSS should ensure that all Headstart facilities meet the fire safety standard requirements of the Department of Public Safety to avoid any potential accident and liability.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program, Continued

Finding No. 04-18, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p>Prior Year Status The above condition was cited as a finding in the Single Audit of fiscal year 2003.</p> <p><u>Auditee Response and Corrective Action Plan</u> The CNMI Public Auditor acknowledged that PSS does not have authority to compel compliance and recommended a referral to the Office of the Attorney General.</p>	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 04-19

<u>CFDA No:</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600	<p>Criteria In accordance with 45 CFR section 1306.30c, grantees must comply with applicable State and local requirements concerning licensing. PSS is required to comply with the Bureau of Environmental Health minimum standards and Federal regulations.</p> <p><u>Condition</u> Two out of the four Head Start centers inspected were given a "B" rating, while one Head Start center was placed under the Public Health inspection. Findings and corrections noted in violation of the Federal regulations are as follows:</p> <ul style="list-style-type: none">a. No proof was presented to inspectors that the teachers and staffs' health examination were updated.b. Water reservoirs were cleaned and sanitize last school year. Water reservoir needs to be washed and sanitized every three months.c. Staffs were not practicing proper sanitizing procedures for water dispensers. Water dispensers need to be sanitized daily.d. There were no paper towel and soap for hand washing.e. There was not enough lighting in classroom.	\$ -

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program, Continued

Finding No. 04-19, Continued

<u>CFDA No:</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.600		\$ -

Context

Reviewed the program's contract and grant agreements and referenced laws and regulations. Identified additional compliance requirements and developed specific audit objective and audit procedures for the special test and provision compliance requirement, which could be material to the program. Reviewed and examined the inspection reports to verify compliance with the local licensing requirement.

Effect

The effect of the above condition is that PSS may not be providing a clean and orderly environment conducive to learning for the children. This is non-compliance with the local and federal requirements concerning licensing.

Cause

The cause of this condition is that PSS has no written policies and procedures on cleaning, sanitizing, and general maintenance of the Headstart centers. Also, PSS failed to adequately monitor the centers to ensure that they comply with the local and federal requirements.

Recommendation

PSS should take an immediate corrective action for the cited violations and ensure that all Headstart facilities meet the standard requirements of the Bureau of Health and Environmental Health and that they comply with the Federal regulations.

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2003.

Auditee Response and Corrective Action Plan:

Monitor will ensure that appropriate referrals are made to the Office of the Attorney General to ensure compliance.

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Equipment and Real Property Management - All major programs

Finding No. 04-20

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
	<p>Criteria</p> <p>OMB Circular A-102 requires grantees to comply with the following terms for equipment purchased with federal funds:</p> <ol style="list-style-type: none">1. Maintain property records that include a description of the property; a serial number of other identification number; the source of the property, who holds title; the acquisition date; cost of the property; percentage of federal participation in the cost of the property; the location; use and condition of the property; and any ultimate disposition data including the date of disposal and sale price of the property.2. Conduct a physical inventory of the property and reconcile that with the property records at least once every two years.3. Develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the property, and investigate any loss, damage, or theft.4. Develop adequate maintenance procedures to keep the property in good condition.	\$ -
	<p><u>Condition</u></p> <p>In FY 2004, PSS failed to reconcile the property records with the fixed assets ledger maintained in the Central Office.</p> <p>PSS failed to maintain a documentation that would prove that adequate safeguards and maintenance procedures on PSS' federally funded assets were carried out in compliance with the federal property management standards.</p>	

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program, Continued

Finding No. 04-20, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
		\$ -
	<p><u>Context</u> The conduct of audit procedures for compliance testing requirement of Equipment and Real Property Management in accordance with OMB Circular A-133 includes the following:</p> <ol style="list-style-type: none">1. Inquired if a required physical inventory of fixed assets acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.2. Selected assets acquired during the audit period and traced them to property records. Verified that property records contain the required information or description about the equipment.3. Selected a number of assets identified and made physically inspection.	
	<p><u>Effect</u> The effect of the above condition is that PSS is not in compliance with the terms for equipment purchased with federal funds as stated in the OMB circular A-102.</p>	
	<p><u>Cause</u> The cause of the above condition is failure to strictly enforce the existing internal control system over fixed assets.</p>	
	<p><u>Recommendation</u> We recommend that PSS comply with the federal property management standards.</p>	

PUBLIC SCHOOL SYSTEM

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Equipment and Real Property Management - All major programs, Continued

Finding No. 04-20, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
	<u>Auditee Response and Corrective Action Plan</u> PSS concurs. This condition is same as finding no.4-7. PSS hired a Property Custodian whose main duties & responsibilities is to monitor fixed asset, thus, his agenda is to conduct a physical inventory of all fixed asset valued at \$5,000 above in all schools public and private. The Property Custodian will update list of fixed assets and to be submitted to Fiscal & Budget Office, fixed assets register and property cards reconciles.	\$ -
	Total Questioned Costs	<u>\$ -</u>

APPENDIX A

Acronyms Used

APV	Accounts Payable Voucher
AGIU	Attorney General's Investigative Unit
AGO	Office of the Attorney General
AR	Audit Report
BMPLA	Board of Marianas Public Lands Authority
BOE	Board of Education
BOELEC	Board of Election
BOT	Board of Trustees
BPL	Board of Public Lands
CALEA	Commission on Accreditation for Law Enforcement Agencies, Incorporated
CDA	Commonwealth Development Authority
CDBG	Commonwealth Development Block Grant
CFDA	Catalog of Federal Domestic Assistance
CGECU	Commonwealth Government Employees Credit Union
CHC	Commonwealth Health Center
CI Fund	Confidential Informant Fund
CIB	Criminal Investigations Bureau
CIP	Capital Improvement Projects
CMC	Commonwealth Code
CMIA	Cash Management Improvement Act
CMS-64	Quarterly Statement of Expenditures for the Medical Assistance Program
CNMI	Commonwealth of the Northern Mariana Islands
CNMI-PR	Commonwealth of the Northern Mariana Islands Procurement Regulations
COC	Chain of Custody
CPA	Certified Public Accountant
CPA	Commonwealth Ports Authority
CSC	Civil Service Commission
CSI	Crime Scene Investigation
CSPD	Comprehensive System of Personnel Development
CST	Crime Scene Technician
CU	Certification Unit
CUC	Commonwealth Utilities Corporation
DCCA	Department of Community and Cultural Affairs
DEQ	Division of Environmental Quality
DFW	Division of Fish and Wildlife
DLI	Department of Labor and Immigration
DLNR	Department of Lands & Natural Resources
DOC	Department of Commerce
DOF	Department of Finance
DOI	Department of the Interior
DOL	Department of Labor
DOLI	Department of Labor and Immigration
DPH	Department of Public Health
DPL	Division of Public Lands

DPS	Department of Public Safety
DPW	Department of Public Works
EDP	Electronic Data Processing
EMO	Emergency Management Office
FAA	Federal Aviation Administration
FBI	Federal Bureau of Investigations
FDIC	Federal Deposit Insurance Corporation
FASB	Financial Accounting Standards Board
FEMA	Federal Emergency Management Agency
FLSA	Fair Labor Standards Act
FMS	Financial Management System
FTE	Full Time Employment
FY	Fiscal Year
GASB	Government Accounting Standards Board
GHI	Government Health Insurance
GPD	Guam Police Department
GOV	Office of the Governor
HOUSEREP	House of Representatives
HPD	Honolulu Police Department
HRPP	Human Resources Policies and Procedures
HUD	U.S. Department of Housing and Urban Development
LEG	Legislature
LEGBUREAU	Legislative Bureau
LT	Letter Report
MAN	Medical Assistance for the Needy
MEU	Management Evaluation Unit
MHLO	Marianas Hawaii Liaison Office
MOU	Memorandum of Understanding
MPLA	Marianas Public Lands Authority
MPLC	Marianas Public Land Corporation
MPLT	Marianas Public Land Trust
MRO	Marianas Referral Office
MRPRR	Medical Referral Program Rules and Regulations
MVA	Marianas Visitors Authority
MVB	Marianas Visitors Bureau
NAP	Nutrition Assistance Program
NIMO	Northern Islands Mayor's Office
NMC	Northern Marianas College
NMHC	Northern Marianas Housing Corporation
NMIRF	Northern Mariana Islands Retirement Fund
OMB	Office of Management and Budget
OPA	Office of the Public Auditor
OPL	Office of Public Lands
OPM	Office of Personnel Management
P&S	Procurement & Supply
PDO	Public Defender's Office
PIEI	Pacific Islands Education Initiative
PMS-272	Report of Federal Cash Transactions
PSS	Public School System
PSSRR	Personnel Service System Rules and Regulations

R&R	Retailer & Redemption
RIF	Reductions-in-force
RFP	Request for Proposals
RHC	Rota Health Center
RMC	Rota Municipal Council
RMO	Rota Mayor's Office
SAA	Special Assistant for Administration
SF	Standard Form
SFA	Student Financial Aid
SMO	Saipan Mayor's Office
SOF	Secretary of Finance
SOP	Standard Operating Procedures
SPMC	Supreme Court
SPRC	Superior Court
SSI	Supplemental Security Income
TA	Travel Authorization
TCD	Time Certificate of Deposit
TCGCC	Tinian Casino Gaming Control Commission
TMC	Tinian Municipal Council
TMO	Tinian Mayor's Office
TRIO	Educational Opportunity for Low-Income and Disabled Americans
TV	Travel Voucher
US	United States
USDA CSREES	U.S. Department of Agriculture, Cooperative State Research and Extension Service
WASC	Western Association for Schools and Colleges
WRO	Washington Representative's Office
ZIQ	Zero Income Questionnaires

