

Report on CNMI Agencies' Implementation of
Audit Recommendations
As of December 31, 2009

Office of the Public Auditor
Commonwealth of the Northern Mariana Islands



EXECUTIVE SUMMARY

Report on CNMI Agencies' Implementation of Audit Recommendations, as of December 31, 2009
Report No. TR-09-02, June 30, 2010

Summary

Background

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

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.

The Coordinating Group has not met since 2000. However, OPA continues to send follow-up letters and/or contact agencies with outstanding recommendations to request for information on corrective actions taken to implement OPA's audit recommendations. OPA also meets with agencies when requested to discuss and clarify actions necessary to implement OPA's audit recommendations. This report incorporates agency responses to OPA's follow-up letters or documents obtained by OPA on or before June 24, 2010. In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals and entities are not disclosed in OPA's Audit Recommendation Tracking Report.

Classification of OPA Audit Recommendations

OPA recommendations are classified as either *open*, *resolved*, or *closed*. Open and resolved recommendations are included in OPA's Audit Recommendation Tracking Report.

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 OPA has withdrawn it. Also, OPA classifies open and resolved recommendations as *delinquent* if the recommendation has been outstanding for at least 180 days and OPA has not been informed by the concerned agency or department of any action being taken to close the recommendations.

Status of OPA Audit Recommendations

OPA tracked a total of 48 audit recommendations in 2009. Of the 48 audit recommendations, two was closed and 46 remained either open or resolved. Of the 46 open or resolved recommendations, 30 were considered delinquent.



The table below presents the status of OPA's audit recommendations as of December 31, 2009.

Status of Audit Recommendations	2009
Total Recommendations Tracked as of December 31, 2009	48
Less: Closed Recommendation(s)	2
Outstanding Recommendations as of June 30, 2009 (Open or Resolved)	46
Number of Delinquent Recommendations	30

Closed Recommendations

OPA closed two audit recommendations it tracked in 2009.

Delinquent Recommendations

The number of delinquent recommendations decreased by 12 (29%) from 42 in 2008 to 30 in 2009. Agencies with delinquent recommendations as of December 31, 2009 include the Commonwealth Ports Authority, Commonwealth Utilities Corporation, Department of Finance, Department of Public Lands, Department of Public Safety, Northern Marianas College, Northern Mariana Islands Retirement Fund, and the Public School System. The recommendations addressed to these agencies were classified as delinquent as OPA was not informed by these agencies within the last 180 days of any corrective action taken to implement OPA's recommendations.

Potential Recovery of \$2.6 Million Referred to the AGO

As of December 31, 2009, audit recommendations in 7 audit reports were referred to the Attorney General's Office for legal action to recover monies improperly expended. According to these 7 audit reports, approximately \$2.6 million is potentially recoverable. On December 1, 2009, OPA met with the Attorney General to discuss the status of these referrals. The Attorney General advised OPA that AGO will conduct further review of these referrals and will provide OPA the results of its review. As such, the status of these referrals remains unchanged.

Potential Recovery of \$3.7 Million Depend on Agencies' Action

OPA identified potential recoveries of approximately \$3.7 million in 8 audit reports addressed to various agencies. During its semi-annual follow-up process for the period July 1, 2009 through December 31, 2009, OPA has not received any update on the status of recovery of funds from the responsible agencies. Therefore, approximately \$3.7 million remains potentially recoverable from the previous report as of June 30, 2009.

Independent Auditor's Recommendations

OPA also includes in its Audit Recommendation Tracking Report a total of 147 recommendations from 12 recent audit reports issued by private CPA firms.



A copy of the full 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, 2009
(with agency responses up through June 24, 2010 incorporated)

June 30, 2010

Interagency Audit Coordinating Advisory Group
Saipan, MP 96950

Enclosed is a copy of the report on CNMI agencies' implementation of audit recommendations included in audit reports issued by the Office of the Public Auditor (OPA) as of December 31, 2009. OPA tracked a total of 48 audit recommendations in 2009.

We have also included in this report recommendations issued by private Certified Public Accounting (CPA) firms. OPA is not responsible for tracking the implementation of these recommendations, however, they are included in the audit recommendations tracking report for information purposes. As of December 31, 2009, there were a total of 147 recommendations from 12 recent audit reports issued by private CPA firms.

Although the Coordinating Group members did not meet in 2009, OPA again issued follow-up letters and/or called various government agencies with outstanding audit recommendations as of December 31, 2009. This report incorporates agency responses to follow-up letters received or documents obtained by OPA on or before June 24, 2010. The number of delinquent recommendations decreased by 29% as of December 31, 2009.

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.

Sincerely,

Michael Pai, CPA
Public Auditor

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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.

The Coordinating Group has not met since 2000, however, OPA continues to issue follow-up letters semi-annually to agencies with outstanding recommendations requesting for information on actions taken to address its recommendations. Additionally, telephone follow-up procedures were also conducted to encourage agencies to respond to OPA's follow-up letters. Moreover, meetings are held when requested by agencies to discuss and clarify actions required to address OPA's 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.

This report incorporates agency responses to follow-up letters which OPA received or documents obtained by OPA on or before June 24, 2010. The response letters received resulted in the closure of two audit recommendation. 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 CPA firms that 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



audit recommendations tracked in 2009 totaled 48. Of the 48 audit recommendations, 2 was closed and 46 remained either open or resolved. Of the 46 open or resolved recommendations, 30 were considered delinquent.

The following table presents a comparative schedule of the status of all our audit recommendations for calendar years 2007, 2008, and 2009.

Status of Audit Recommendations	2007	2008	2009
Total Recommendations Tracked for the Year	60	49	48
Less: Closed Recommendations	(11)	(1)	(2)
Outstanding Recommendations, End of Year (Open or Resolved)	49	48	46
Number of Delinquent Recommendations	30	42	30

Closed Recommendation

OPA closed two of the 48 audit recommendations it tracked in 2009. An analysis of the recommendation closed showed that the Office of the Attorney General and the Marianas Visitors Authority implemented OPA's recommendations.

Delinquent Recommendations

Delinquent recommendations decreased by 12 (29%) from 42 in 2008 to 30 in 2009.

Year	2007	2008	2009
1995	2	2	2
1996	1	1	1
1997	1	3	2
1998	1	3	1
1999	0	3	0
2000	4	6	4
2001	2	0	1
2002	2	3	2
2003	4	6	4
2005	13	15	13
Total	30	42	30

Table 1 - Delinquent Recommendations

Below is an aging of the 30 delinquent recommendations issued in years 1995 to 2005:

Agency to Act	1995	1996	1997	1998	1999	2000	2001	2002	2003	2005	Total
1. Commonwealth Ports Authority										1	1
2. Commonwealth Utilities Corporation								2	2	1	5
3. Department of Finance	1	1	2	1						5	10
4. Department of Public Lands	1					2				1	4
5. Department of Public Safety										2	2
6. Northern Marianas College									2	1	3
7. Northern Mariana Islands Retirement Fund						2	1			1	4
8. Public School System										1	1
Number of Delinquent Recommendations	2	1	2	1	0	4	1	2	4	13	30

Independent Auditor's Report

OPA has included in the tracking report a total of 147 recommendations from 12 recent audit reports released by private CPA firms.

OPA would like to recognize the Marianas Visitors Authority (MVA) for having no reportable audit finding in its Annual Financial and Compliance audit report for fiscal year ended September 30, 2008 conducted by a private CPA firm. This is a noteworthy accomplishment for MVA and OPA appreciates the dedication and hard work carried out by MVA in improving its operation and eliminating the repetition of prior year audit findings.

Other OPA Reports

OPA also issued three procurement appeals decisions in 2009 as follows:

- OPA issued a decision on the Appeal (BP-A057) filed by Island Business Systems & Supplies (IBSS) from the denial of its protest of NMC RFP 08-007 (procurement of copiers) by the Northern Marianas College (NMC). OPA found that IBSS failed to file its original protest in a timely manner, and thus NMC was correct in its determination to essentially deny the protest.
- OPA issued a decision on the Appeal (BP-A058) filed by Henry K. Pangelinan & Associates from the denial of its protest of DPW-07-RFP-016 (Construction Management Services for the Cross Island Road Improvements, Phase I) by the Division of Procurement and Supply (P & S), Department of Finance. OPA found that Henry K. Pangelinan & Associates failed to file its original protest in a timely manner, and thus P & S was correct in its decision to deny the protest.

- OPA issued a dismissal order on the Appeal (BP-A059) filed by North Pacific Enterprises, Inc. from the denial of its protest of DPW-09-IFB-24 (Supply, Delivery, and Installation of Emergency Generators for the WIC Clinic and Administration Building) by the Division of Procurement and Supply (P&S), Department of Finance. OPA was notified by P&S that the IFB had been cancelled since obligation of funds expired on September 30, 2009. Thus, the appeal is moot, and North Pacific Enterprises, Inc.'s appeal is dismissed.

AGO Action Needed for Recovery of Approximately \$2,620,000

As of December 31, 2009, recommendations in 7 audit reports were referred to the Attorney General's Office (AGO) for legal action to recover monies improperly expended. On December 1, 2009, OPA met with the Attorney General to discuss the status of these referrals. The Attorney General advised OPA that AGO will conduct further review of these referrals and will provide OPA the results of its review. As such, the status of these referrals remains unchanged.

The following table presents a listing of AGO referral recommendations involving recovery of funds in which approximately \$2,628,808 is potentially recoverable.

	Report No. (Issue Date)	Particulars	Amount Recoverable	Status per AGO
1	AR-97-06 (4/23/97)	DPH - Rota Health Center (RHC) - Recovery from the 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.	\$4,982	AGO will conduct further review and will provide OPA the results of its review.
2	AR-98-06 (12/14/98)	DOF - Funds misused by the former Secretary of Finance during fiscal years 1995 to 1997.	75,000	AGO will conduct further review and will provide OPA the results of its review.
3	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 follow-up with the Secretary of Finance to see if payments have been made.
4	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.	739,346	AGO will conduct further review and will provide OPA the results of its review.
5	AR-99-04	CNMI - Overpayments of	1,315,102	AGO will conduct further

Report No. (Issue Date)	Particulars	Amount Recoverable	Status per AGO
(10-28-99)	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 if adequately supported.		review and will provide OPA the results of its review.
6 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. A decision issued by the United States District Court, reduced the amount for restitution.	100,000	AGO will follow-up with the federal court regarding the payment of the restitution and will provide OPA with the results of their follow-up.
7 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 \$14,747.	392,178	AGO will conduct further review and will provide OPA the results of its review.
Total Amount Recoverable		\$2,628,808	

OPA Referrals to AGO for Legal Determinations

OPA also referred to the AGO recommendations in 3 audit reports requesting legal determinations as follows:

- *Audit of the Compensatory Time Claimed and Retirement Benefits Paid to Two Former Officials of the Commonwealth Ports Authority* [Report No. AR-00-03 issued on July 20, 2000] - On December 24, 2002, OPA referred recommendation 1 of this audit report to the AGO requesting for a determination on 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, the AGO was requested to review OPA’s opinion regarding granting six designated officials 14 annual leave hours per pay period.
- *Audit of the Monthly Subsistence Allowance Provided to Members of the Senate* [Report No. AR-03-05 issued on August 6, 2003] - The AGO was requested to review and determine whether legislation should be introduced to grant the Senate authority for the subsistence allowance, to set the amount of the allowance, and to certify the allowance as a public purpose. OPA referred its concerns

regarding the allowance to the AGO as OPA and the Senate are unable to reach an agreement to address the recommendation.

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

Recommendations in 8 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.

During its semi-annual follow-up process for the period covering July 2009 through December 2009, OPA has not received an update on the status of recovery of funds by agencies included in the table below. As such, the status of these referrals remains unchanged from the previous report as of June 30, 2009.

Of the \$4,662,816 identified as potentially recoverable, \$950,289 has been partially recovered leaving a balance of \$3,712,527 still recoverable as of December 31, 2009 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. Amount recoverable consists of uncollected fees of \$330,835 from Company A and \$181,575 from Company B.	512,410	The on-going investigation is nearly complete. The Secretary of Labor will keep OPA apprised of any new developments.
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	Recoupment of one former CPA official's benefits will commence if and when re-employed by the government. For the other former CPA official, pursuant to a stipulation, the case will be returned to the administrative hearing process and a new Notice of Administrative Hearing will be issued.
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.	110,690	\$20,400 partially recovered from the former Rota Board member and \$5,825 partially recovered from the former Board Chairman. On 9/29/06, OPA was provided a copy of the former Tinian

Report No. (Issue Date)	Particulars	Amount Recoverable	Status per Agency
	<p>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). Amount recoverable for the former Tinian Board Member was reduced to \$11,657 pursuant to a court order.</p> <p>Total amount recoverable from the three former board members is \$115,862.33.</p>		<p>Board member's account ledger showing that the Court Order in the amount of \$11,657 was fully paid as of 10/28/04.</p> <p>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 two board members.</p>
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.	56,462	\$1,125 partially recovered from the former Secretary of Finance.
	On 2/22/01, the Federal Court ordered the Secretary of Finance to pay \$56,462 in restitution.		
7	AR-97-05 (3/20/97) CNMI - Overpayment to contractors on four professional services contracts (Contract nos. C40276, C50083, C50132 & C50208) audited covering the period October 1, 1991 to July 20, 1995.	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 claims.
	Overpayments on C40276 totaling \$10,000 was fully recovered by OMB. Therefore, recovery of \$25,079 is reduced to \$15,079.		
8	AR-03-04 (3/10/03) AGIU - Recovery of overpayments of per diem from three travelers involved.	1,605	Partial recovery of \$535.
	Total Amount Recoverable	4,662,816	
	Less: Partial Recoveries	(950,289)	
	Balance of Amount Recoverable as of 12/31/09	<u>\$3,712,527</u>	

Executive Branch Offices

Office of the Attorney General
Department of Finance
Department of Public Lands
Department of Public Safety

Office of the Attorney General

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, 2/2/98, 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 (Re-directed to 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, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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), 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 - Active

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.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that AGO Civil Division will review the file and decide whether this is an appropriate case to test neverending statute of limitation for the sovereignty.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required**

: AGO should inform OPA whether it will pursue legal action for recovery.

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 - Active

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.

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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.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised

OPA that AGO Civil Division will review the file and decide whether this is an appropriate case to test neverending statute of limitation for the sovereignty.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

Additional Information or Action Required : AGO should inform OPA whether it will pursue legal action for recovery.

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, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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), 4/18/06 (DOF), 9/11/06 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 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 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.

In her response dated 9/11/06, the Assistant Attorney General informed OPA that the former Secretary of Finance has paid \$1,125 towards his restitution obligation as of August 2006. Therefore, a balance of \$55,336.98 is still recoverable from the former Secretary of Finance.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO Civil Division will conduct a review on the status of the civil case against the former Secretary of Finance. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**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 (DOF), 7/11/00, 1/24/01, 8/22/01, 3/4/02, 8/9/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/13/06, 4/28/06 (Redirected to AGO), 9/26/06 (AGO), 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 12/10/09, 5/12/10

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), 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

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.
- On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO will follow-up with the Secretary of Finance to see if payments have been made.
- On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will send a letter to the former Washington Representative concerning the outstanding balance. On 12/10/09, OPA provided AGO a copy of OPA's Audit Report AR-99-05, a copy of the promissory note for the \$2,500 loan, and copies of correspondences received pertaining to 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.

**Audit of Consultant's Contract
Fiscal Year 1997**

Date(s) of followup letter(s) sent : 1/5/00 (AGO), 7/12/00, 1/17/01, 8/21/01, 8/12/02, 10/3/02, 2/14/03, 8/4/03, 10/27/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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, 4/30/04, 10/25/04, 9/1/05, 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 - Active

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.

On 6/2/08 OPA met with the Attorney General. The Attorney General advised OPA that the AGO Civil Division will check to see if a civil case has been filed against the consultant to recover the overpayment and the three other individuals for breach of fiduciary trust.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised

OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required**

: The AGO should inform OPA the results of its review.

**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 (Re-directed to AGO), 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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), 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 - Active

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.

On 6/2/08 OPA met with the Attorney General. The Attorney General to confirm an existing 99' accord and settlement he discovered in 2006. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**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 (Re-directed to AGO), 8/21/01, 2/14/02, 8/12/02, 10/3/02, 2/14/03, 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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, 10/25/04, 9/1/05, 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 - Active

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.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO will review its internal file to confirm the request made to the US Attorney to enforce the federal court order of restitution.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will follow-up with the federal court regarding the payment of the restitution and will provide OPA with the results of their follow-up.

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.

**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), 9/26/06 (AGO), 2/7/07 (AGO), 9/4/07 (AGO), 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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), 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 pay period and take legal action if determined necessary.

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

Status : Open - Active

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.

In a meeting with the Attorney General on 6/2/08, OPA was advised that the AGO will conduct further review of the matter. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**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 - Active

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.

In a meeting with the Attorney General on 6/2/08, OPA was advised that the AGO will conduct further review of the matter. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will not pursue this issue and will provide a letter documenting AGO's decision on the matter.

Additional Information or Action Required : AGO should provide OPA the results of its review on the matter.

**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 (Re-directed to AGO), 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 7/22/03, 6/17/04 (TCGCC), 10/25/04 (AGO), 9/1/05 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 - Active

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.

On 6/2/08 OPA met with the Attorney General. The Attorney General advised OPA to re-direct this recommendation to the Tinian Mayor's Office. Therefore, OPA will re-direct this referral to the Tinian Mayor's Office for review and determination of appropriate actions to be taken to address this recommendation.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA not to re-direct this recommendation to the Tinian Mayor's Office. AGO will conduct further review and will provide OPA a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required**

: AGO should provide OPA the results of its review.

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), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/06 (AGO), 9/26/06 (AGO), 2/7/07 (AGO), 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 9/1/05 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 : 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 AGO-Division of Immigration - Tinian.

Status : Resolved - Active

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.

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.

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

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA to follow-up on this recommendation with the Division of Immigration-Tinian. Therefore, based on AGO's response this recommendation will be re-directed to the Division of Immigration - Tinian.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA not re-direct this recommendation to the Division of Immigration - Tinian and to consider this recommendation moot due to the federalization of the Division. AGO will provide a written response to document their decision on the matter.

Additional Information or Action Required : AGO should provide OPA with a written response to document their decision on the matter.

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, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 5/12/03, 9/15/03, 4/30/04, 10/25/04, 9/1/05, 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

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 - Active

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: 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.

On 6/2/08, OPA met with the Attorney General. The Attorney General requests that OPA provide additional information pertaining to this recommendation for further review. OPA will provide AGO with a copy of the audit report and the additional information requested.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct an internal review and will provide OPA the results of its review.

**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-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 (Senate), 9/27/04, 2/15/05, 8/9/05, 9/22/05, 3/8/06, 2/7/07 (Re-directed to AGO), 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 5/12/04 (request for extension to respond), 10/13/04, 3/8/05 (telephone follow-up), 3/14/05, 8/17/05 (meeting with Senate Legal Counsel), 8/29/05, 6/2/08, 12/1/09 (meeting with AGO)

Recommendation I : *Original:* 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.

As Revised and Re-directed to the AGO: AGO should inform OPA of the results of its review and legal determination on whether the Senate should 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 - Redirected to the Attorney General's Office

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.

OPA is redirecting this recommendation to the Attorney General's Office for review as OPA and the Senate were unable to reach an agreement to address OPA's concern.

Although OPA respects the Senate's position on this matter, OPA still disagrees that the Senate may impliedly grant itself the authority to create an allowance for expenses through its internal rules. As the potential for legal challenges to the constitutionality of the authority for the monthly allowance exists, OPA feels it is in the best interest to refer the legal issues identified to the Attorney General's Office for its legal review and determination.

On 6/2/08, OPA met with the Attorney General. The Attorney General requested for a copy of the audit report and prior communications between the Senate and OPA so that the AGO can conduct its review. AGO will issue an opinion on the legality of the issue.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required :**

The AGO should review the legal issues identified in OPA's audit report and inform OPA of its determination.

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

Date(s) of followup letter(s) sent : 3/13/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09

Date(s) of response letter(s) received : 6/2/08 (meeting with AGO), 12/1/09 (meeting with AGO)

Recommendation 3 : *Original:* 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.

As Revised and Redirected to the AGO: 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 : Closed

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.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that AGO will provide a legal opinion on recovering improperly paid housing allowances.

On 12/1/09, OPA met with the Attorney General and was provided a copy of A.G. Opinion No. 2009-02 regarding housing benefits to government employees recruited from off-island. The copy of the A.G. Opinion No. 2009-02 is sufficient to close this 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), 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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, 9/11/06 (AGO), 6/2/08 (meeting with AGO), 12/1/09 (meeting with 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 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.

In her response dated 9/11/06, the Assistant Attorney General informed OPA that the former Secretary of Finance has paid \$1,125 towards his restitution obligation as of August 2006. Therefore, a balance of \$55,336.98 is still recoverable from the former Secretary of Finance.

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO Civil Division will conduct a review on the status of the civil case against the former Secretary of Finance. OPA will provide AGO a copy of the audit report.

On 12/1/09, OPA met with the Attorney General. The Attorney General advised OPA that AGO will conduct further review and will provide a letter documenting AGO's decision on the matter.

**Additional Information
or Action Required** :

DOF should continue to update OPA on the collection of the \$56,461.98 restitution in the federal case until the entire amount is fully recovered. In addition, AGO should update OPA on the status of its earlier plan to make a motion for Summary Judgement of approximately \$75,000 against the former Secretary of Finance or provide OPA with a copy of any judgement issued if already filed.

**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, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 5/12/10

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 - Delinquent

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, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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 - Delinquent

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, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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, 6/2/08 (meeting with AGO)

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 - Delinquent

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.

In a meeting with the Attorney General on 6/2/08, OPA was advised that AGO will follow-up with DOF on the \$96,100 promissory note signed by the contractor.

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 - Delinquent

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 : 9/17/98 (DOF), 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, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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

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, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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

Recommendation 1 : 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 - Delinquent

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, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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

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 - Delinquent

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 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 - Delinquent

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 - Delinquent

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.

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 : 9/18/98 (DLNR), 11/23/99, 1/26/99, 7/6/00 (DPL), 1/24/01 (DLNR), 8/23/01 (OPL), 8/12/02 (MPLA), 2/14/03, 8/4/03, 4/23/04, 9/21/04, 2/15/05, 8/9/05, 3/13/06, 9/29/06, 2/6/07, 8/28/07, 3/17/08, 8/25/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10

Date(s) of response letter(s) received : 10/21/99 (DPL), 10/31/00 (meeting with Coordinating Group on DLNR), 2/8/01 (DPL), 2/22/01, 8/30/01 (OPL), 9/28/01, 3/6/02 (MPLA), 8/19/02, 3/10/03, 6/7/04, 4/3/06 (request for extension), 4/11/06, 9/29/06

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 - Delinquent

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 - Based on the stipulation to judgement and order in the civil case against the former Tinian Board member, a settlement agreement was entered for the Tinian Board member to pay the sum of \$11,657 in monthly installments of \$250 beginning January 15, 2000. On 9/29/06, OPA was provided a copy of the former Tinian Board member's account ledger showing that the Court Order in the amount of \$11,657 was fully paid as of October 28, 2004. Based on the account ledger provided to OPA, the part of the recommendation pertaining to the former Tinian Board member is considered closed.

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 Chairman of the Board and former Rota Board member. 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.

**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 : 9/18/98 (DLNR), 11/23/99, 1/26/99, 7/6/00 (DPL), 1/24/01 (DLNR), 8/23/01 (OPL), 8/12/02 (MPLA), 2/14/03, 8/4/03, 4/23/04 (BMPLA), 9/21/04, 2/15/05, 8/9/05, 3/13/06 (DPL), 9/29/06, 2/6/07, 8/28/07, 3/17/08, 8/25/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10

Date(s) of response letter(s) received : 10/21/99 (DPL), 10/31/00 (meeting with Coordinating Group on DLNR), 2/8/01 (DPL), 2/22/01, 8/30/01 (OPL), 9/28/01, 3/6/02 (MPLA), 8/19/02, 3/10/03, 6/8/04, 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 - Delinquent

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 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 - Delinquent

Agency Response

: 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.

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.

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, 9/29/06, 2/6/07, 8/28/07, 3/17/08, 8/25/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10

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 - Delinquent

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, 9/25/06, 2/7/07, 3/27/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 3/30/06, 11/8/06, 8/1/07

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 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 include, 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 : Resolved - Delinquent

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.

The response letter from the Sergeant/Evidence Custodial Unit Supervisor dated 11/8/06 did not separately address this recommendation.

OPA Response: There was no follow-up reply to what DPS stated as its course of action in 3/30/06. As for the inventory of items gathered prior to 2006 the process still has not been completed. Thus, DPS has still to inform us about the target completion date.

In his letter dated 8/1/07, the CSI/ECU Supervisor informed OPA that the physical inventory, sorting, identifying, and tagging of evidence and/or properties is still in progress. Segregation of evidence for disposal is done by documenting evidence or property to be disposed on the Evidence List for Disposal Authorization form, which is then forwarded to the Attorney General's Office, Criminal Section for review and authorization to dispose evidence or property.

The CSI/ECU Supervisor also stated that an evidence log book has been implemented to document and register all evidence submitted into the evidence/property facility. He further stated that the present condition of the evidence facility does not affect any operation being performed. ECU is consistently receiving, storing, and releasing evidence or property with no difficulties.

OPA Response: OPA will continue to follow-up on this recommendation until provided with documentation evidencing implementation of the recommended actions outlined in recommendation 1 (a-d)

**Additional Information
or Action Required :**

DPS should continue to update OPA on the status of implementation of the recommended actions outlined in recommendation 1 (a-d) until completed. Once the recommended actions have been implemented or completed, DPS should provide OPA documentation evidencing implementation to formally close the recommendation.

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 - Delinquent

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.

The response letter from the Sergeant/Evidence Custodial Unit Supervisor dated 11/8/06 did not separately address this recommendation.

OPA Response: The Evidence Custodial Unit Supervisor stated what they are doing at present but there is not mention of a comprehensive written manual.

In his letter dated 8/1/07, the CSI/ECU Supervisor stated that ECU does not have a deadline for evidence submission and that each departmental employee in possession of evidence should be responsible for its safekeeping until submitted into the evidence facility. The supervisor also stated that the ECU does not deal with Temporary Storage of evidence. Required documentation for the collection, transfer, and storage of evidence is documented on the Evidence/Property Custody Receipt form. A copy of the form was provided to OPA.

With regards to the classification and segregation of evidence/property, the Supervisor informed OPA of its evidence classification type and a diagram of the facility indicating the segregation of evidence. In addition, ECU's facility is now equipped with an electronic security system. An Electro magnetic locking mechanism was installed on the doors of the facility, from the main entrance to all evidence/property storage. OPA was also informed of the duties and responsibilities of the evidence custodian and any alternates. However, he stated that there is no prohibition of incompatible duties for evidence room personnel and that the supervisor should be able to determine if other tasks assigned to evidence personnel conflicts or interrupts with the operation of the evidence facility. ECU is consistent in receiving and releasing evidence and that their only obstacle as far as evidence is the sorting and documentation of evidence that were submitted dating back to the 1980's.

OPA Response: OPA recognizes the written response provided by the CSI/ECU Supervisor which provides a narrative of what actions have been done. However, the response still fails to provide written and duly adopted policies. At the minimum, there should be a written order by the Commissioner to implement such policies.

**Additional Information
or Action Required :**

DPS should continue to update OPA on the status of the development of written policies and procedures to address the receipt, storage, and management of evidence outlined in recommendation 2 (a-h). DPS should provide OPA a copy of the written policies and procedures once they are officially adopted and a copy of the Commissioner's memo or order implementing such policies and procedures to formally close the recommendation.

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Autonomous Agencies

Commonwealth Ports Authority
Commonwealth Utilities Corporation
Marianas Visitors Authority
Northern Marianas College
Northern Mariana Islands Retirement Fund
Public School System

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, 9/25/06, 2/14/07, 8/23/07, 12/6/07 (Deloitte re: CPA response), 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 9/6/07 (Request for extension), 10/4/07 (Request for extension), 10/29/07, 4/7/08 (Request for extension), 4/17/08

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 : In his letter dated 10/29/07, the acting Executive Director informed OPA that all of CPA's funds and investment accounts are in FDIC banks.

OPA Response: OPA recognizes the written response provided by the CPA acting Executive Director which provides a narrative of what actions have been done. However, the response still fails to provide written and duly adopted policies and/or procedures to address the issue of the security of public funds.

On 4/17/08, the CPA Acting Director resubmitted his 10/29/07 response which still fails to provide written and duly adopted policies and/or procedures to address the issue of the security of public funds.

Additional Information or Action Required : The CPA 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, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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, 11/9/06

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 - Delinquent

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.

In his response dated 11/9/06, the Executive Director informed OPA that after careful review of the former Board's approved changes to the Procurement and Personnel Regulations (PPR), CUC found that they are unable to submit the approved changes to the PPR in its current form to the Attorney General's Office for promulgation. Specifically, CUC needs to ensure that the Board approved PPR conforms to the Executive Order issued by the Governor. He also stated in his letter that CUC and its Legal Counsel are reviewing if the Executive Order allows for the involvement of the Advisory Board created by the Executive Order. Once these matters are resolved, CUC will promptly act to promulgate the regulations to address OPA's recommendation.

**Additional Information
or Action Required :**

CUC should continue to update OPA on its efforts in promulgating amendments to the PPR. Once promulgated, CUC should provide OPA with 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 - Delinquent

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.

In his response dated 11/9/06, the Executive Director informed OPA that after careful review of the former Board's approved changes to the Procurement and Personnel Regulations (PPR), CUC found that they are unable to submit the approved changes to the PPR in its current form to the Attorney General's Office for promulgation. Specifically, CUC needs to ensure that the Board approved PPR conforms to the Executive Order issued by the Governor. He also stated in his letter that CUC and its Legal Counsel are reviewing if the Executive Order allows for the involvement of the Advisory Board created by the Executive Order. Once these matters are resolved, CUC will promptly act to promulgate the regulations to address OPA's recommendation.

**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, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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, 11/9/06

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 - Delinquent

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.

In his response dated 11/9/06, the Executive Director informed OPA that after careful review of the former Board's approved changes to the Procurement and Personnel Regulations (PPR), CUC found that they are unable to submit the approved changes to the PPR in its current form to the Attorney General's Office for promulgation. Specifically, CUC needs to ensure that the Board approved PPR conforms to the Executive Order issued by the Governor. He also stated in his letter that CUC and its Legal Counsel are reviewing if the Executive Order allows for the involvement of the Advisory Board created by the Executive Order. Once these matters are resolved, CUC will promptly act to promulgate the regulations to address OPA's recommendation.

**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, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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, 11/9/06

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 - Delinquent

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.

In his response dated 11/9/06, the Executive Director informed OPA that after careful review of the former Board's approved changes to the Procurement and Personnel Regulations (PPR), CUC found that they are unable to submit the approved changes to the PPR in its current form to the Attorney General's Office for promulgation. Specifically, CUC needs to ensure that the Board approved PPR conforms to the Executive Order issued by the Governor. He also stated in his letter that CUC and its Legal Counsel are reviewing if the Executive Order allows for the involvement of the Advisory Board created by the Executive Order. Once these matters are resolved, CUC will promptly act to promulgate the regulations to address OPA's recommendation.

**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, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09,
11/25/09, 5/12/10

Date(s) of response letter(s) received : 3/27/06 (request for extension), 4/11/06, 11/9/06

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 - Delinquent

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.

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, 7/28/06 (issued by Governor's Office), 9/11/06 (letter approving extension by Governor's Office), 9/29/06, 2/7/07, 4/12/07 (telephone follow-up), 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 8/28/06 (request to Governor's Office for extension), 3/6/07, 11/2/07, 2/17/10

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 : Closed

Agency Response : In his letter to the Acting Managing Director dated 7/28/06, the Special Legal Counsel for the Governor's Office requested a report from MVA regarding steps taken, or to be taken, to resolve this recommendation which was cited as delinquent in OPA's Audit Recommendation Tracking Report as of December 31, 2005. On 8/28/06, the Managing Director requested for an extension to respond in order to allow them to write up recommended policies and procedures. MVA's request for an extension was granted until the end of FY 2006 by the Special Legal Counsel. To date, OPA has not received a response from MVA.

In his response letter dated 3/16/07, the Managing Director of MVA informed OPA of its procedures when securing MVA's funds at a financial institution which include approval by the Board of Directors, monitoring of account balances to insure FDIC insurance compliance, and requests which must be made to banking institutions for a pledge security valued at 110% for balances exceeding \$100,000 in a given month. In a follow-up telephone conversation with the Chief Accountant, OPA was informed that such procedures have not yet been formalized in writing or officially adopted by the Board. OPA informed the Chief Accountant that to fully address the recommendation, MVA should provide OPA a copy of all current policies and procedures addressing the security of public funds formalized in writing and adopted by Board to ensure consistent application of such policies.

In his letter dated 11/2/07, the Managing Director of MVA informed OPA that the Board of Directors has adopted policies and procedures to address the issue of the security of public funds. MVA will provide OPA a copy of the minutes of the Board meeting once approved and adopted by the Board of Directors.

On 02/17/10, the Managing Director of MVA provided OPA a copy of its adopted policies and procedures addressing the issue of the security of public funds. The copy of the policies and procedures is sufficient to close this recommendation.

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, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 4/1/03, 8/5/03, 6/7/04, 9/15/06 (Response to Governor's Office)

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.

In his response letter to the Special Legal Counsel for the Governor's Office dated 9/15/06, the Acting President stated that NMC has been working to ensure that all its revised policies and procedures are published in the Commonwealth Register. He also stated that NMC's lack of adequate personnel has hampered their ability to comply fully with this recommendation, but will continue to work towards full compliance with this recommendation.

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

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.

In his response letter to the Special Legal Counsel for the Governor's Office dated 9/15/06, the Acting President stated that the College continues to review this finding through its counsel as a recent court ruling concluded that NMC employees may be subject to the Civil Service Commission. NMC is appealing this ruling as WASC requires the College be autonomous in this regard. Additional information on this issue will be provided to OPA as it becomes available.

Additional Information or Action Required : NMC should provide OPA with the results of its appeal.

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, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 9/15/06 (Response to Governor's Office)

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 : In his response letter to the Special Legal Counsel for the Governor's Office dated 9/15/06, the Acting President stated that the College's policy is to maintain its funds in FDIC insured banks. The College currently does not have insurance coverage on deposits in excess of the \$100,000 FDIC coverage, but will explore additional insurance options available for amounts in excess of the FDIC coverage. Additional information will be provided to OPA as they become available.

OPA Response: OPA is unsure whether the College's policy for maintaining its funds in FDIC insured banks is a practice or a written policy adopted by the Board of Regents. If it is only a practice, NMC should document and adopt the policy in order to address OPA's recommendation. If the policy has already been documented and adopted, NMC should provide OPA a copy of the written policy for its review to formally close the recommendation.

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, 10/17/06, 2/7/07, 8/27/07, 3/17/08, 9/16/08, 8/12/09,
11/25/09, 5/12/10

Date(s) of response letter(s) received : 7/22/03, 3/22/05, 8/14/06, 10/26/06, 1/4/08, 8/31/09, 9/3/09

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.

On 8/14/06, the then NMIRF Administrator stated that no collection attempts have been initiated.

On 10/26/06, the NMIRF Administrator stated that a meeting was held with representatives from OPA, AGO, NMIRF, and CPA to discuss various options to recoup funds expended by the NMIRF Board of Trustees such as civil collection efforts, criminal prosecutions, and statutory revisions potentially allowing retiree pay garnishment. Concerning these options, the issue of statute of limitations and any applicable exceptions to this rule was also discussed. The group discussed with a consensus that the Attorney General had previously prioritized some recoupment actions and will make a test case for the exception to the statute of limitations. In the meantime, NMIRF will issue dunning letters to its previous Trustees.

On 1/4/08, the NMIRF Administrator stated in its response for OPA to revisit the 10/26/06 meeting with the representatives from OPA, AGO, NMIRF, and CPA. No additional updates were provided to OPA.

On 8/31/09, the NMIRF Administrator stated in its response to refer to NMIRF's

previous correspondences dated 10/26/06 and 1/4/08. Additionally, in a phone conversation with the NMIRF Administrator on 9/3/09, OPA was informed that NMIRF will forward any updated information pertaining to this recommendation once it becomes available.

**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.

**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), 10/17/06 (NMIRF), 2/7/07, 8/27/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

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), 8/14/06 (NMIRF), 1/4/08 (NMIRF), 8/31/09 (NMIRF)

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.

On 8/14/06, the then NMIRF Administrator stated that the recalculation of pension benefits is ongoing, yet is subject to certain due process applications of the Administrative Procedure Act prior to recoupment.

**Additional Information
or Action Required**

: NMIRF should inform OPA of a target date when their recalculation of pension benefits for all other fund members will be completed. Once completed, NMIRF should provide OPA 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 comp-time 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.

In his 8/14/06 response, the then NMIRF Administrator informed OPA that recoupment from his benefits from one of the former CPA officials will commence if and when re-employed with the government. For the other former CPA official, pursuant to a stipulation the case will be returned to the administrative hearing process and a new Notice of Administrative Hearing will be issued forthwith.

In his 1/4/08 response, the NMIRF Administrator stated that one individual is unemployed and currently seeking employment, has approximately 20 months before retirement eligibility; and, upon re-employment or retirement recoupment will be sought. For the other individual, his case has been submitted and is under advisement with the court.

On 8/31/09, the NMIRF Administrator stated in its response to refer to NMIRF's previous correspondences dated 10/26/06 and 1/4/08. Additionally, in a phone conversation with the NMIRF Administrator on 9/3/09, OPA was informed that NMIRF will forward any updated information pertaining to this recommendation once it becomes available.

Additional Information or Action Required : NMIRF should provide OPA (1) evidence of a written settlement agreement with the former CPA Security Chief requiring repayment to the Retirement Fund and (2) the Superior Court's Order in 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, 10/17/06, 2/7/07, 8/27/07, 3/17/08, 9/16/08, 8/12/09, 11/25/09, 5/12/10

Date(s) of response letter(s) received : 8/14/06

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 : In his letter dated 8/14/06, the then NMIRF Administrator stated that they are currently in compliance with law as evident by their receipt of monthly Collateral Security Agreements from its banking institution.

OPA Response -The receipt of the monthly Collateral Security Agreement between NMIRF and the bank is insufficient to close the recommendation. This agreement does not state how NMIRF is to manage its operational funds.

Additional Information or Action Required : The NMIRF should provide OPA with a copy of their formally adopted 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, 9/28/06, 2/7/07, 8/23/07, 3/17/08, 9/16/08, 8/12/09,
11/25/09, 5/12/10

Date(s) of response letter(s) received : 3/28/06, 8/22/07

Recommendation 12 : 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 - Delinquent

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.

In his letter dated 8/22/07, the Commissioner of Education informed OPA that PSS has successfully obtained collateralization beyond the FDIC insured limits for PSS deposits from a banking institution. OPA was also provided a copy of the certification of compliance letter from the banking institute which states its compliance with Public Law 12-61. The certification of compliance letter also states that it will monitor the deposits on a quarterly basis and collateral will be adjusted as needed.

OPA Response: OPA recognizes the written response and documents provided by PSS. OPA will continue to follow-up on this recommendation until provided with written policies and procedures.

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.

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, 2/7/07, 8/23/07, 3/20/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10

Date(s) of response letter(s) received : 5/12/04 (request for extension to respond), 10/13/04, 3/8/05 (telephone follow-up), 3/14/05, 8/17/05 (meeting with Senate Legal Counsel), 8/29/05, 9/11/08

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.

In his response dated 9/11/08, the Senate President informed OPA that he has instructed the Senior Legal Counsel to write an opinion regarding the subsistence allowance. OPA acknowledges that and has instructed the Legal Counsel to meet with OPA Legal Counsel to discuss a final resolution.

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.

In his response dated 9/11/08, the Senate President informed OPA that he has instructed the Senior Legal Counsel to write an opinion regarding the subsistence allowance and has instructed the Legal Counsel to meet with OPA Legal Counsel to discuss a final resolution.

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.

In his response dated 9/11/08, the Senate President informed OPA that he has instructed the Senior Legal Counsel to write an opinion regarding the subsistence allowance and has instructed the Legal Counsel to meet with OPA Legal Counsel to discuss a final resolution.

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.

Independent Auditor's Recommendations

CNMI
Commonwealth Development Authority
Commonwealth Government Employees' Credit Union
Commonwealth Ports Authority
Commonwealth Utilities Corporation
Department of Public Lands
Marianas Public Land Trust
Northern Marianas College
Northern Mariana Islands Retirement Fund
Public School System
Workers' Compensation Commission

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 reports.

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2008
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/12/09 (DEQ, DOF, DPH, DPW, GOV-CIP, Medicaid, WIC), 8/13/09 (NAP) 9/3/09 (Deloitte re: DEQ, NAP Response), 5/12/10 (DEQ, DOF, DPH, DPH-WIC, DPW, GOV-CIP, Medicaid, NAP), 5/17/10 (DPL, NAP)

Date(s) of response letter(s) received: 8/21/09 (DEQ), 8/28/09 (NAP), 8/31/09 (NAP), 5/25/10 (NAP), 6/24/10 (Medicaid)

See pages 60 to 160 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

External Financial Reporting

Finding No. 2008-1

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Flows

Finding No. 2008-2

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Purchases/Disbursements

Finding No. 2008-3

Criteria: Expenditures should be recorded when incurred.

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

Proposed Completion Date: Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Disbursements - Land Compensation

Finding No. 2008-4

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

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

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

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-4, Continued

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash and Cash Equivalents

Finding No. 2008-5

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-5, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash and Cash Equivalents

Finding No. 2008-6

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-6, Continued

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

Corrective Action:

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

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2008-7

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-7, Continued

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

Auditee Response and Corrective Action Plan:

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

Corrective Action:

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2008-8

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

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

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Travel Advances

Finding No. 2008-9

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-9, Continued

Auditee Response and Corrective Action Plan, Continued:

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Advances

Finding No. 2008-10

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

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

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

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

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

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

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

The above conditions were corrected through a proposed audit adjustment.

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-10, Continued

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Retirement Contributions - General Fund

Finding No. 2008-11

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

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

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-11, Continued

Auditee Response and Corrective Action Plan, Continued:

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

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

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Tax Rebates Payable

Finding No. 2008-12

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

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

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

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

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

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

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
I7	2003	\$ 41,651	\$ 42,098	\$ (447)
I13	2005	23,992	22,173	1,819
I15	2006	<u>18,660</u>	<u>6,792</u>	<u>11,868</u>
		<u>\$ 84,303</u>	<u>\$ 71,063</u>	<u>\$ 13,240</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
I41	2006	\$ 26,662	\$ 26,717	\$ (55)
I42	2006	<u>20,630</u>	<u>16,376</u>	<u>4,254</u>
		\$ <u>47,292</u>	\$ <u>43,093</u>	\$ <u>4,199</u>

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

<u>Assigned #</u>	<u>Tax Year</u>	<u>Per Detailed Reports</u>	<u>Per Tax Returns</u>	<u>Variance</u>
I39	2005	\$ 13,187	\$ 12,447	\$ 740
I40	2006	<u>31,523</u>	<u>23,793</u>	<u>7,730</u>
		\$ <u>44,710</u>	\$ <u>36,240</u>	\$ <u>8,470</u>

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

4. Of seventeen matched filings tested relating to corporate tax rebate payables of \$2,060,144, the following were noted:

a. Four items totaling \$604,793 did not agree to the returns by \$156,180 and requires further review by Revenue and Taxation. Details are as follows

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

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

c. For one \$44,576 item, (ref. C62 for tax year 2006), the tax return was not provided.

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Condition, Continued:

<u>Taxpayer #</u>	<u>09/30/08 Details</u>	<u>02/17/09 Details</u>	<u>Variance</u>
I10	\$ 16,629	\$ -	\$ 16,629
I41	26,662	-	26,662
I42	<u>20,630</u>	<u>-</u>	<u>20,630</u>
	\$ <u>63,921</u>	\$ <u>-</u>	\$ <u>63,921</u>

Further, no interest is calculated or paid on overpayments.

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

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

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

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

Auditee Response and Corrective Action Plan:

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

Corrective Action:

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

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

Item 2.a. assigned # I26

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Item 2.b. assigned #s I41 and I42

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

Item 2.c. assigned # I39

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

Item 2.c. assigned # I40

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

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-12, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

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

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

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

#C61 - Under review.

Item 4.b. assigned # C65

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

Item 4.c. assigned # C62

The compliance section cannot locate the tax return.

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Other Liabilities and Accruals

Finding No. 2008-13

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

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

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

The above condition was corrected through a proposed audit adjustment.

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Due to Component Units

Finding No. 2008-14

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Compensated Absences

Finding No. 2008-15

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

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

The above condition was corrected through a proposed audit adjustment.

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

CNMI Local Noncompliance

Finding No. 2008-16

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-16, Continued

Condition, Continued:

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-16, Continued

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: Ongoing 2009

Auditor Response:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2008-17

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-17, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan, Continued:</u>		
Proposed Completion Date: None		
<u>Auditor Response:</u> Federal regulations require that costs charged to federal awards should be consistent with policies, regulations and procedures that apply uniformly to both federal awards and other activities of the governmental unit. The difference in retirement contributions paid from federal grants and local funds represents inequality and thus, noncompliance with federal requirements exists.		

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-18

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-19

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-19, Continued

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-19, Continued

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-20

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-20, Continued

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-21

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-22

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-22, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p data-bbox="505 428 987 457"><u>Auditee Response and Corrective Action Plan:</u></p> <p data-bbox="505 478 1318 531">Name of Contact Persons: Bernadita C. Palacios, Acting Director, Finance & Accounting and Antoinette Calvo, CNMI Treasurer</p> <p data-bbox="505 554 1318 606">Corrective Action: We will continue follow up on locating documents and provide to auditors.</p> <p data-bbox="505 630 1318 709">1.a. - JE 6093 distributed utility charges paid to CUC in a lump sum. We will locate DEQ's billing supporting this amount. JE 6705 recorded receipt of items paid in advance. We will provide receiving information.</p> <p data-bbox="505 732 1003 762">1.b. - We will locate specified travel documents.</p> <p data-bbox="505 785 1318 837">1.c. - Inquiry on the PO would show total payments vs. PO amount. Documentation provided to auditors.</p> <p data-bbox="505 861 870 890">Proposed Completion Date: 2009</p> <p data-bbox="505 913 1318 1008"><u>Auditor Response:</u> The Department of Finance provided the supporting invoice and purchase order for condition 1.c., however, documents supporting that actual expenditures did not exceed amount authorized were not made available.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-23

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles

Finding No. 2008-24

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-24, Continued

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

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

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

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

3,844

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

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

23,879

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

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

99

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-24, Continued

Program	Reason for Questioned Costs					Questioned Costs
<u>Condition, Continued:</u>						
d. For three expenditures totaling \$39,933, the rate charged and paid by Medicaid was higher than the established Medicare rate for similar service. Details are as follows:						
	General Ledger Date	General Ledger Account	Reference No.	Amount	Excess	
	12/04/07	62060	650550	\$ 15,350	\$ 518	
	12/04/07	62060	650552	\$ 22,645	341	
	03/19/08	62060	677979	\$ 1,939	<u>25</u>	
					\$ <u>884</u>	884
e. For eleven expenditures totaling \$171,067, rates could not be verified as the optometrist services were specifically agreed in the service agreements and were not included in the established Medicare rates. We were informed that payment is based upon whatever rates are charged the program. Details are as follow:						
	General Ledger Date	General Ledger Account	Reference No.	General Ledger Amount	Amount Tested	
	11/09/07	62060	649041	\$ 14,949	\$ 223	
	11/09/07	62060	649065	\$ 3,954	153	
	12/04/07	62060	650545	\$ 19,354	230	
	01/23/08	62060	671697	\$ 5,224	284	
	02/25/08	62060	675484	\$ 23,421	238	
	02/25/08	62060	675487	\$ 21,636	223	
	03/25/08	62060	678271	\$ 8,597	232	
	03/25/08	62060	678277	\$ 14,442	176	
	08/25/08	62060	754049	\$ 13,656	165	
	08/26/08	62060	754148	\$ 18,013	284	
	09/22/08	62060	759225	\$ 27,821	<u>175</u>	
					\$ <u>2,383</u>	2,383

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 and possible misuse of federal expenditures and questioned costs of \$31,089.

Recommendation: We recommend that control procedures be clearly defined and communicated over verification of services charged the Program and review of accuracy of billings shall occur prior to payment.

Prior Year Status: The lack of clearly defined and communicated procedures for verification of billings prior to reimbursement was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2007.

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, 2008

Finding No. 2008-24, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	Corrective Action:	
	<p>a. We will check this finding and will request the provider for a refund.</p> <p>b. We have requested for a refund from the provider on January 16, 2009. The refund check of \$47,759 was deposited back to the CNMI Treasury on March 18, 2009.</p> <p>c. We disagree with the finding. The Estimated Acquisition Cost (EAC) as agreed in the service provider agreement usually changes every month and it will have some changes on the rate. PHI Pharmacy is basing their rate charged online.</p> <p>d. We disagree with the finding. We have a listing of the Medicare rates that the staff use when verifying the claims.</p> <p>e. We disagree with the finding. We have a listing of the Medicare rate that the staff use when verifying the claims.</p>	
	<p>Due to high volume of claims and limited resources, the staff randomly reviews the claims. I have instructed the staff to initial the claims once they have review rates and eligibility date. If the drugs were not included in the list of Average wholesale Price list that we maintained to compute EAC or any CPT codes for other services that are not available as per what our negotiated rate on our contract that we will only pay 50% of charges. This was the instruction of the Hawaii Medicaid Program, Dr. Lynette Hombo and our former legal counsel, Ms. Debra Knapp that in case there is no rate available either Hawaii Medicaid rate or Medicare rate that we should only pay 50% of charges. For the optometrist expenses, there are some CPT codes that we pay at the negotiated rate based on our contract agreement and not Medicare rate. For the duplicate payments, we will adjust on the current claims and we also request the provider for a refund of the duplicate/overpayment amount.</p>	
	Proposed Completion Date: Ongoing	
	<p><u>Auditor Response:</u> The 50% federal share for the \$47,759 refund received in fiscal year 2009 was still recorded as a program expenditure and included in the amount requested for reimbursement as of September 30, 2008. The Medicaid Office was able to provide a list of pharmacy rates used to calculate EAC only upon requesting a copy from the service provider. Further, our EAC and Medicare rate calculations for pharmacy claims and optometrist services, respectively, based on the list of rates provided were lower than actual rates paid.</p>	
	<p>Evidence of review of billings accuracy and completeness was not evident in the claims tested and noted in the finding. The Medicaid Revised Operational Plan requires that Medicaid reimbursements are claimed based on established CHC rates or should not exceed combined payments the provider receives from beneficiaries and carriers or intermediaries for providing comparable services under comparable circumstances under Medicare. Complete rate verifications should be performed on claims to ensure that rates paid are in accordance with CHC or Medicare rates.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles/Activities Allowed or Unallowed

Finding No. 2008-25

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-25, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	Proposed Completion Date: 2009	
	<u>Auditor Response:</u> The requested supporting documents evidencing approval and validity of expenditures noted in the finding could not be provided by either the Medicaid Office or the CNMI Finance Office.	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Management

Finding No. 2008-26

Program	Reason for Questioned Costs						Questioned Costs
U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2008 Compact Impact / CFDA #15.875 / Federal Award #s Fiscal Years 1996 - 2008 Appropriations Act and CNMI-CI-2008-1 / Federal Award Periods Available Until Expended and 12/17/07 through 09/30/12	<p>Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee for selected major programs. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The approved clearance pattern is three days.</p> <p>Condition: Of eighty-four CIP samples tested, sixty one items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's Account. Details are as follows:</p>						
	<u>APV #</u>	<u>Amount</u>	<u>Business Unit</u>	<u>CR Date</u>	<u>Date Check Cleared</u>	<u>Elapsed</u>	
	645734	\$ 75,911	5222	10/22/07	10/29/07	4	
	646361	\$ 4,273	5605	10/15/07	12/18/07	61	
	646775	\$ 7,500	5222	10/26/07	11/13/07	15	
	647224	\$ 76,270	5222	10/26/07	11/07/07	9	
	647758	\$ 21,429	5175	11/06/07	12/14/07	35	
	647754	\$ 341,408	5222	11/06/07	12/05/07	26	
	648795	\$ 158,592	5222	11/15/07	12/20/07	32	
	648795	\$ 181,553	5617	11/15/07	12/20/07	32	
	648750	\$ 70,341	5615	11/19/07	02/25/08	95	
	649016	\$ 53,520	5615	01/18/08	06/13/08	144	
	649016	\$ 22,841	5615	08/28/08	09/30/08	30	
	649031	\$ 118,775	5615	01/18/08	02/25/08	35	
	649096	\$ 16,594	5615	11/27/07	12/17/07	17	
	649096	\$ 532	5615	11/27/07	12/17/07	17	
	649096	\$ 112,307	5615	11/27/07	12/17/07	17	
	649685	\$ 113,976	5615	11/27/07	02/25/08	87	
	649925	\$ 21,928	5233	11/27/07	12/20/07	20	
	649989	\$ 288,691	5617	12/04/07	12/13/07	6	
	650503	\$ 66,084	4897	12/11/07	02/01/08	49	
	651871	\$ 37,991	5158	12/28/07	01/23/08	23	
	670070	\$ 331,266	5617	01/18/08	01/24/08	3	
	670070	\$ 88,790	5618	01/18/08	01/24/08	3	
	671695	\$ 183,991	5618	02/12/08	02/27/08	12	
	671695	\$ 160,016	5617	02/12/08	02/27/08	12	
	672665	\$ 127,073	5433	02/21/08	04/07/08	43	
	674671	\$ 360,446	5222	02/26/08	03/12/08	12	
	674709	\$ 47,531	5154	02/26/08	04/04/08	35	
	675015	\$ 76,414	5222	02/26/08	03/10/08	10	
	675606	\$ 56,988	5615	11/27/07	03/14/08	105	
	678042	\$ 168,912	5222	03/26/08	04/14/08	16	
	679772	\$ 302,491	5222	04/17/08	05/01/08	11	
	680335	\$ 6,460	5138	04/25/08	06/13/08	46	
	681390	\$ 64,153	5178	05/05/08	05/20/08	12	
	682602	\$ 59,337	5222	05/22/08	05/30/08	5	
	682607	\$ 69,637	5154	05/15/08	09/30/08	135	
	683471	\$ 59,057	5222	06/06/08	06/16/08	7	
	683475	\$ 206,430	5222	06/06/08	06/26/08	17	
	684417	\$ 19,925	5222	06/06/08	06/17/08	8	
	695922	\$ 42,350	5615	02/26/08	06/13/08	105	
	695926	\$ 162,987	5615	11/30/07	06/13/08	193	
	695927	\$ 49,605	5615	11/30/07	06/13/08	193	
	696148	\$ 102,522	5615	06/10/08	07/14/08	31	
	696148	\$ 57,152	5615	06/10/08	07/14/08	31	
	698654	\$ 36,374	5222	06/12/08	06/26/08	11	
	700217	\$ 91,640	5618	06/23/08	8/6/2008	41	
	700217	\$ 55,642	5222	06/23/08	8/6/2008	41	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-26, Continued

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-26, Continued

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2008-27

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-27, Continued

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2008-28

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Matching, Level of Effort, Earmarking

Finding No. 2008-29

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Period of Availability

Finding No. 2008-30

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

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

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

133,537

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator

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

Grant Title	GR Number	Agency	Project Title	Grant Award	Balance	Expires
CNMI Water-Add-On-2004-1	GR470115	WTF	Well Drilling	\$ 1,000,000	\$ 35,058	06/30/08
CNMI-CIP-2005-2	GR570113	CUC	Beach Rd Sewer Transmission Line	\$ 3,039,279	\$ 330,519	06/30/08
CNMI-CIP-2006-2	GR670133	DPW	CK Susupe Rds & Drainage (Prec. II)	\$ 116,490	\$ -	10/30/07

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

Proposed Completion Date: May 1, 2009

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-31

Program	Reason for Questioned Costs	Questioned Costs																								
U.S. Department of Agriculture / Special Supplemental Nutrition Program for Women, Infants, and Children / CFDA #10.557 / Federal Award # 7NM700NM7 / Federal Award Period 10/01/07 through 09/30/08	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of seventeen non-payroll Nutrition Services and Administration costs tested aggregating \$153,171, there is no indication that price or rate quotations were obtained from an adequate number of qualified sources for four items which qualify under small purchase procedures. Details are as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">APV Document No.</th> <th style="text-align: center;">Obligating Document</th> <th style="text-align: center;">Check No.</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">651605</td> <td style="text-align: center;">TA #271974</td> <td style="text-align: center;">318531</td> <td style="text-align: right;">\$ 2,810</td> </tr> <tr> <td style="text-align: center;">684037</td> <td style="text-align: center;">TA #273928</td> <td style="text-align: center;">326224</td> <td style="text-align: right;">2,904</td> </tr> <tr> <td style="text-align: center;">709749</td> <td style="text-align: center;">TA #274755</td> <td style="text-align: center;">328013</td> <td style="text-align: right;">2,361</td> </tr> <tr> <td style="text-align: center;">752564</td> <td style="text-align: center;">TA #275308</td> <td style="text-align: center;">330722</td> <td style="text-align: right;"><u>3,067</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 11,142</u></td> </tr> </tbody> </table>	APV Document No.	Obligating Document	Check No.	General Ledger Amount	651605	TA #271974	318531	\$ 2,810	684037	TA #273928	326224	2,904	709749	TA #274755	328013	2,361	752564	TA #275308	330722	<u>3,067</u>				<u>\$ 11,142</u>	11,142
APV Document No.	Obligating Document	Check No.	General Ledger Amount																							
651605	TA #271974	318531	\$ 2,810																							
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709749	TA #274755	328013	2,361																							
752564	TA #275308	330722	<u>3,067</u>																							
			<u>\$ 11,142</u>																							

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-31, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<u>Auditee Response and Corrective Action Plan, Continued:</u>	
	Corrective Action, Continued:	
	In October of 2008 the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government.	
	Proposed Completion Date: May 2009 ongoing	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-32

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-32, Continued

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-33

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-34

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-34, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Diego Songsong, Secretary of Public Works, Pedro Sasamoto, WTF Program Manager and Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: We will verify documents related to 381 OS and 440 OS to confirm the type of procurement method used and also make it available to the auditors for review.</p> <p>For Contract 448 OS, we noted that finding contains an incorrect reference to the CNMI Procurement Regulations which was amended in 2004. The standard was changed and finding must be revised.</p> <p>The justification submitted contained the necessary elements to warrant a sole source contract under the revised regulation. The letter of justification explains Mr. Sasamoto's unique qualifications as a P.E. with utility and management experience, knowledge of the Saipan water system and explains the benefit continuity of management would have for the program. It explains the past efforts to fill the position, the lack of Professional Engineer applicants during the last solicitation.</p> <p>The responsible agencies are required to comply with Part 300 of the CNMI Procurement Regulations. A memorandum issued by the CIP Administrator on May 12, 1999 reminding all expenditure authorities to adhere to the CNMI Procurement Regulations concerning changes in project scope, timetable, quantities, or dollar values. It is recommended that the CNMI Director of Procurement and Supply issue a reminder to all responsible agencies that they must adhere to the CNMI Procurement Regulations pursuant to Part 300 (Procurement of Construction and Architect-Engineer Services, Professional Services and Vehicles).</p> <p>Proposed Completion Date: Immediately</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-35

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-35, Continued

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

Corrective Action: We will verify documents related to 372 OS if costs were to be considered as part of the evaluation factor. The documents will be made available to the auditors for review.

The WTF utilized A&E procurement method for 436 OS since the nature of the work requires engineering expertise. The WTF will not use the A&E procurement method in the future where the work is not exclusively A&E.

The Director of Procurement and Supply will verify with the expenditure/contracting authority of the type of procurement method used for the proposed solicitation to ensure that the required evaluation factors are considered prior to publication of solicitations.

Proposed Completion Date: July 1, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-36

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories - Capital Improvement Projects / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2008 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><u>Criteria:</u> In accordance with Section 5-103 (2) of the CNMI Procurement Regulations, before adding significant new work to existing contracts, the agency shall thoroughly assess whether or not it would be more prudent to seek competition. Change orders on construction and A&E contracts, which exceed 25 percent of the cumulative contract price, shall automatically be procured through competitive procedures pursuant to Section 3-101, except when the procurement of the additional work is authorized without using full and open competition under Section 3-104.</p> <p><u>Condition:</u> Of twenty-five contracts tested, we noted change orders (CO) related to one contract (contract # 311-OS, CO #2 for \$525,000) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement. The fiscal year 2008 expenditures tested relating to these change orders are \$63,067 (BU 5238).</p> <p><u>Cause:</u> The cause of the above condition is the failure to justify sole source procurement.</p> <p><u>Effect:</u> The effect of the above condition is the lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation and questioned costs of \$63,067.</p> <p><u>Recommendation:</u> We recommend that the Division of Procurement and Supply review contract change orders to ensure justifications are properly documented, filed and maintained.</p> <p><u>Prior Year Status:</u> The lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Diego Songsong, Secretary of Public Works and Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: We will verify documents related to 311 OS, Change Order No. 2, if the additional work was sole sourced. The original bid will also be verified as it included an additive alternate during solicitation. When the original contract was executed, only the base bid was considered due to funding being insufficient to include the additive portion of the bid until such time that full funding becomes available. Documents will be made available for review by the auditors.</p> <p>The responsible agencies are required to comply with Part 300 of the CNMI Procurement Regulations. A memorandum issued by the CIP Administrator on May 12, 2009 reminded all expenditure authorities to adhere to the CNMI Procurement Regulations concerning changes in project scope, timetable, quantities, or dollar values. It is recommended that the CNMI Director of Procurement and Supply issue a reminder to all responsible agencies that they must adhere to the CNMI Procurement Regulations pursuant to Part 300 (Procurement of Construction and Architect-Engineer Services, Professional Services and Vehicles).</p> <p>Proposed Completion Date: May 12, 2009</p>	<p>63,067</p>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2008-37

Program	Reason for Questioned Costs	Questioned Costs																																																
U.S. Environmental Protection Agency / Environmental Protection Consolidated Grants - Program Support / CFDA #66.600 / Federal Award #s M-00915604-9, M-00915604-A and M-00915604-B / Federal Award Period 10/01/03 - 09/30/08	<p><u>Criteria:</u> In accordance with 40 CFR Section 31.36 (d)(1), small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of seventeen non-payroll expenditures tested aggregating \$118,245, the following were noted:</p> <p>1. There was no evidence that price quotations were obtained from an adequate number of qualified sources which qualifies under small purchase procedures for the following:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Document Type</th> <th style="text-align: center;">Document No.</th> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">670991</td> <td style="text-align: center;">01/16/08</td> <td style="text-align: right;">\$ 2,909</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">673483</td> <td style="text-align: center;">02/06/08</td> <td style="text-align: right;">1,820</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">672375</td> <td style="text-align: center;">01/29/08</td> <td style="text-align: right;">2,948</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">721914</td> <td style="text-align: center;">07/28/08</td> <td style="text-align: right;">3,750</td> </tr> <tr> <td style="text-align: center;">PV</td> <td style="text-align: center;">681060</td> <td style="text-align: center;">04/23/08</td> <td style="text-align: right;"><u>1,962</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 13,389</u></td> </tr> </tbody> </table> <p>2. There was no written sole source justification memo on file for the following. Further, there was no documentation evidencing that efforts were exerted to contact other possible vendors that may be supplying the same items purchased.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Document Type</th> <th style="text-align: center;">Document No.</th> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">OP</td> <td style="text-align: center;">480868</td> <td style="text-align: center;">01/07/08</td> <td style="text-align: right;">\$ 26,200</td> </tr> <tr> <td style="text-align: center;">OV</td> <td style="text-align: center;">223596</td> <td style="text-align: center;">11/06/07</td> <td style="text-align: right;">9,500</td> </tr> <tr> <td style="text-align: center;">OV</td> <td style="text-align: center;">224609</td> <td style="text-align: center;">07/10/08</td> <td style="text-align: right;"><u>7,880</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 43,580</u></td> </tr> </tbody> </table> <p>3. For one \$4,200 item (voucher no. 675437), the purchase order date precedes the invoice and service date, thus, the expenditure was incurred prior to approval. No questioned costs result since the related expenditure was approved and is allowable under the program.</p> <p><u>Cause:</u> The cause of the above condition is the lack of policies and procedures in place within the requesting departments to ensure compliance with federal procurement regulations for small purchases.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$56,969.</p> <p><u>Recommendation:</u> We recommend that the Program comply with federal procurement regulations related to small purchase procedures.</p>	Document Type	Document No.	General Ledger Date	General Ledger Amount	PV	670991	01/16/08	\$ 2,909	PV	673483	02/06/08	1,820	PV	672375	01/29/08	2,948	PV	721914	07/28/08	3,750	PV	681060	04/23/08	<u>1,962</u>				<u>\$ 13,389</u>	Document Type	Document No.	General Ledger Date	General Ledger Amount	OP	480868	01/07/08	\$ 26,200	OV	223596	11/06/07	9,500	OV	224609	07/10/08	<u>7,880</u>				<u>\$ 43,580</u>	<p>13,389</p> <p>43,580</p>
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COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-37, Continued

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - Nonmajor Programs

Finding No. 2008-38

Program	Reason for Questioned Costs					Questioned Costs																
	<p><u>Criteria:</u> Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.</p> <p><u>Condition:</u> Of forty-six nonmajor program nonpayroll expenditures tested aggregating \$2,489,586, the following were noted:</p>																					
	<p>1. The relevant procurement documents (i.e., bid invitations, bid summary, bids received, evidence of public notice) supporting the procurement for the following contracts procured through competitive sealed bids were not provided:</p>																					
	<table border="1"> <thead> <tr> <th style="text-align: center;"><u>CFDA No.</u></th> <th style="text-align: center;"><u>Business Unit No.</u></th> <th style="text-align: center;"><u>Contract No.</u></th> <th style="text-align: center;"><u>Document Ref. No.</u></th> <th style="text-align: center;"><u>General Ledger Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">97.036</td> <td style="text-align: center;">M6036F</td> <td style="text-align: center;">443630 OC</td> <td style="text-align: center;">670144 PV</td> <td style="text-align: right;">\$ 31,388</td> </tr> <tr> <td style="text-align: center;">97.044</td> <td style="text-align: center;">J7044F</td> <td style="text-align: center;">470164 OC</td> <td style="text-align: center;">673536 PV</td> <td style="text-align: right;">51,121</td> </tr> <tr> <td colspan="4"></td> <td style="text-align: right;">\$ 82,509</td> </tr> </tbody> </table>	<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>	97.036	M6036F	443630 OC	670144 PV	\$ 31,388	97.044	J7044F	470164 OC	673536 PV	51,121					\$ 82,509	82,509
<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>																		
97.036	M6036F	443630 OC	670144 PV	\$ 31,388																		
97.044	J7044F	470164 OC	673536 PV	51,121																		
				\$ 82,509																		
	<p>2. The relevant quotations from other vendors were not available for the following contracts procured through expedited procedures:</p>																					
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<u>CFDA No.</u>	<u>Business Unit No.</u>	<u>Contract No.</u>	<u>Document Ref. No.</u>	<u>General Ledger Amount</u>																		
97.067	J5067S	470023 OC	673718 PV	\$ 43,059																		
	<p><u>Cause:</u> The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.</p> <p><u>Effect:</u> The effect of the above condition is incomplete procurement files and questioned costs of \$125,568.</p> <p><u>Recommendation:</u> We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Herman S. Sablan, Director of Procurement and Supply</p> <p>Corrective Action: Consolidated filing of contract and relevant procurement documents has been a continuing problem due to the multiple locations contract and procurement information is filed. Procurement should have all pertinent documents in file. We are in the process of developing a checklist to be reviewed on contract completion to insure all related documents are included. Further, we will continue follow up on locating documents and provide to auditors.</p> <p>Proposed Completion Date: Ongoing</p>																					

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Program Income

Finding No. 2008-39

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-40

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

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

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

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

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

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

<u>PPE No.</u>	<u>Amount</u>	<u>Check Number</u>	<u>Average Clearance Date</u>	<u>Average Cash Receipt Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
10/13/07	\$ 8,084	317762	12/04/07	11/08/07	7
10/27/07	\$ 7,381	317763	12/04/07	11/08/07	6
11/24/07	\$ 7,999	319425	01/15/08	12/06/07	14
01/05/08	\$ 7,705	323757	04/16/08	01/24/08	26
01/19/08	\$ 7,661	323757	04/16/08	02/07/08	19
02/02/08	\$ 7,705	323757	04/16/08	02/11/08	20
02/16/08	\$ 8,801	330787	08/22/08	03/06/08	38

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-40, Continued

Condition, Continued:

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-40, Continued

Auditee Response and Corrective Action Plan:

Corrective Action, Continued:

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

Proposed Completion Date: Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-41

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-41, Continued

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-42

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-42, Continued

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-43

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-43, Continued

Condition, Continued:

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Antoinette Calvo, CNMI Treasurer

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-44

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-44, Continued

Auditee Response and Corrective Action Plan:

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

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

This was resolved on June 06, 2009.

Proposed Completion Date: Completed

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-45

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-45, Continued

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

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

Auditee Response and Corrective Action Plan:

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

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

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

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

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

Proposed Completion Date:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-46

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-46, Continued

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2008-47

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-47, Continued

Auditee Response and Corrective Action Plan:

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

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

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

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

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

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

Proposed Completion Date: Not applicable

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2008-48

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-48, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

Proposed Completion Date: Not applicable

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-49

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

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

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

Federal Award Period Available Until Expended

Finding No. 2008-50

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-50, Continued

Auditee Response and Correction Action Plan:

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-51

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-52

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

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

Proposed Completion Date: July 15, 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-53

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

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-54

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-55

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Josephine Tudela, Program Administrator

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2008-55, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

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

Proposed Completion Date:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-56

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

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

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Quality Assurance Coordinator and Program Managers

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

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2008-57

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

Proposed Completion Date:

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

Commonwealth Development Authority

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2007
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/12/09 (CDA, NMHC), 11/25/09 (CDA, NMHC), 5/12/10 (CDA, NMHC)

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

See pages 162 to 198 for recommendations issued by the Independent Auditor and page 156 for CDA's and NMHC's Corrective Action Plans to Questioned Costs and Findings. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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

DCD Loans Receivable

Finding No. 2007-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis. Further, all receivables should be assessed and monitored for collectability. Balances deemed not collectible should be adequately allowed for. Additionally, calculation of allowance for loan losses and other related receivables should be regularly reviewed for accuracy, completeness and reasonableness. Further, for restructured loans, the allowance should be determined in the same manner as prior to the restructuring until a sufficient time has passed that the borrower can meet the revised debt service requirements.

Condition: Our tests of DCD's loans receivable noted the following:

- An analysis of DCD's past due loans was performed to determine the propriety of the allowance for doubtful loans as of September 30, 2007. This analysis revealed that loans which are six months or more in arrears had increased from \$27,682,659 at September 30, 2006 to \$29,712,801 as of September 30, 2007. The related accrued interest on loans that are six months or more in arrears has also increased from \$13,946,053 at September 30, 2006 to \$14,362,485 as of September 30, 2007. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio.
- For one delinquent account (# SB 70154), the final notice of delinquency was sent on April 8, 2003. No written evidence was noted in the loan file that subsequent action was taken to address the delinquency status of the loan.
- For three restructured loans (#s RE 70260, RE 70265 and CD 70257), which were past due for more than six months in arrears prior to the restructuring were classified as less than six months in arrears in the receivables aging report since the original due dates and past due balances were revised. As such, the related allowance was calculated based on the revised terms. An audit adjustment was proposed to record an additional allowance of \$900,292 relating to these three loans.
- As of September 30, 2007, CDA has recorded loans receivables miscellaneous charges (GL # 1208-00) of \$426,456 with a related allowance of \$228,970. This receivable account was excluded in CDA's calculation of the loan loss reserve at September 30, 2007. Further, CDA did not perform a separate assessment of the collectability of the account balance. This condition was corrected through a proposed audit adjustment for an additional allowance of \$195,321.

Cause: The cause of the above condition is the increase in past due loans and lack of adequate review of the reasonableness of the calculation of allowance for loan losses and other related receivables.

Effect: The effect of the above condition is an increased possibility of loan losses due to non-payment by borrowers and potential misstatement of loans receivable and related accounts.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-1, Continued

Recommendation: We recommend that CDA continue to follow-up on past due loans, continue to evaluate these loans and develop corrective action plans. We recommend that corrective action plans be documented accordingly. 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. We further recommend CDA review the aging of restructured loans and revisit allowance calculation for these loans. In addition, we recommend CDA perform periodic review of the calculation of allowance for loan losses and other related receivables for accuracy, completeness and reasonableness.

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Oscar C. Camacho, CDA Acting Chief Executive Officer

Corrective Action: Responses provided for audit year 2006 are hereby incorporated and extended as our 2007 response to the same general findings. As of October 2006, CDA adopted a Strategic Mission Plan which became the working document on which to address the identified deficiencies. The Board adopted a debt relief program which has only recently passed legal muster, thus allowing for a realistic approach on working with clients. The program has the following features: interest rates are to be reduced to as low as two percent (2%); terms are to be extended for an additional 30 years for purposes of amortization only with a mandated three (3) year callable (balloon payment) provision where warranted and justified; and the accrued interest will be deferred and set aside and will not be capitalized. The current principal balance will remain as is where the two percent (2%) will be applied.

In addition, we are making recommendations to the CDA Board to adopt a policy and rule that interest will stop accruing after 120 days of being delinquent for all new loans extended since the lifting of the moratorium and all future loans. This will prompt CDA to work with the borrower more closely since interest after the 120th day will not be counted as revenue. CDA and the borrower must reach a workable arrangement on how to treat the account. If an arrangement is reached, interest may accrue. Otherwise, any payments received will be applied to principal and the loan will be referred to the Legal Counsel for collection and/or foreclosure.

- For loan # SB 70154, Gung Ho, Inc., attempts were made by the Loan Manager in 2005 and 2006 to prompt the borrower, Ambrosio Ogumoro, to make payments. Payments were made in 2004 and 2005. Further attempts were made to convince the borrower to avail of the 2% debt relief but were unsuccessful. We will attempt again and take a more drastic approach by referring the account to our Legal Counsel for collection and/or foreclosure should our attempts fail. This should be done within the next couple of weeks.
- For loan #s 70260, 07265 and 70257, the allowances as suggested by the auditor are accepted.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-1, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The total loan portfolio decreased in 2007 from 2006. In 2007, 86% of total outstanding loans were six months or more in arrears while in 2006, the rate was 75%. Between 2004 and 2005, the rate was 61%. We need to do more to improve the conditions of the loans. However, increases in accrued interest between 2006, 2005 and 2004 remained relatively the same at 16%. In 2007, accrued interest increased by only by 3%. The objective of the debt relief program is to arrest this increase to an acceptable rate of 5% to 7% while aggressively collecting on the delinquent accounts. Our primary objective is to reduce the delinquency through this debt relief program while protecting CDA's interest in the collaterals posted to secure these accounts. CDA recognizes that the collateral values relative to the size of the loan accounts have been diminished or reduced due to the mounting accrued interest and will not improve if the objectives mentioned above are not met.

Proposed Completion Date: A new bank or classification has been created in 2007 dedicated only to accounts under this debt relief program. Under this bank, the arrested accrued interest is identified and removed and will be presented to the Board to be written-off only when warranted. Currently, CDA dumps all arrested accrued interest into the "write-off" bank classification. This allows CDA to identify how much has accrued, should be written-off and/or expended as loss. However, this classification does not necessarily absolve or forgive the borrower. The amounts are still legally required to be paid and collected.

A Rights to Possession Agreement as prelude to either a DILOF or actual judicial foreclosure proceeding will be a requisite to this debt relief program. This agreement entitles CDA to take possession and control of the RE collateral and business operations while foreclosure proceedings or DILOF are pursued. Since this program is a last ditch effort to assist borrowers, loans that become 60 days delinquent will be foreclosed.

Should borrowers adhere to the program, there will be no need to foreclose and the loan will continue to be serviced until conditions improve. At such time that principal portions are substantially reduced and the loan becomes manageable and serviceable at a higher interest rate, CDA may negotiate to increase the interest rate at the third year when the loan is due in its entirety in the form of a balloon payment. Should conditions remain the same, terms may be extended for another three years with the same amortization schedules.

All CDA borrowers are given this opportunity but not all will qualify since individual conditions are requirements are different. The goal of this plan is to increase cash collections by enticing delinquent borrowers to realize that there is still hope in escaping foreclosure and losing their collateral.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

DCD Loans Receivable

Finding No. 2007-2

Criteria: Identified adjustments to loan balances arising from loan reclassifications should be recorded in the general ledger in a timely manner.

Condition: During tests of loans receivables, we noted CDA adjustments in the current fiscal year to reclassify interest receivable, late and miscellaneous charges receivable to principal balance relating to six judgment loans. The related judgment, however, was ordered prior to the current fiscal year. As such, the reclassification should have been recorded in the fiscal year the judgment was ordered. An audit adjustment is not necessary as judgment loans are 100% allowed for. Details are as follows:

<u>New Loan #</u>	<u>Old Loan #</u>	<u>Interest Receivables</u>	<u>Late Charges Receivables</u>	<u>Miscellaneous Charges Receivables</u>	<u>Total</u>
CD 70273	CD 31857	\$ 896,443	\$ 36,812	\$ 9,887	\$ 943,142
CD 70270	CD 33302	471,324	24,537	-	495,861
RE 70268	RE 70014	220,140	12,086	28,467	260,693
CD 70275	CD 33940	137,729	7,496	28,700	173,925
CD 70271	CD 70064	103,127	9,302	15,978	128,407
CD 70274	CD 3315	<u>218,134</u>	<u>9,216</u>	<u>-</u>	<u>227,350</u>
		<u>\$ 2,046,897</u>	<u>\$ 99,449</u>	<u>\$ 83,032</u>	<u>\$ 2,229,378</u>

Cause: The cause of the above condition is the lack of monitoring procedures to ensure that all loan reclassification adjustments are recorded timely in the general ledger.

Effect: The effect of the above condition is incorrect classification of receivables and a potential misstatement of interest income from loans.

Recommendation: We recommend that CDA ensure that adjustments resulting from loan reclassifications are recorded in the general ledger in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Oscar C. Camacho, CDA Acting Chief Executive Officer, Elaine Benjamin, CDA Accounting Manager and Christy Kintol, CDA Office Manager

Corrective Action: Timely submission to Accounting will be emphasized and a process will be instituted. The Acting Chief Executive Officer will forward all judgments to Accounting, Administration and the Loan Manager. The Loan Manager and Administration will follow-up with Accounting if adjustments and reclassifications have been recorded 30 days after the submission to Accounting.

Proposed Completion Date: Particular findings were resolved via adjustments by the auditor learned in the discussions.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

NMHC Loans Receivable

Finding No. 2007-3

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis. Further, all receivables should be assessed and monitored for collectability. Balances deemed uncollectible should be adequately allowed for. Additionally, calculations of the allowance for loan losses should be regularly reviewed for accuracy, completeness and reasonableness.

Condition: An analysis of NMHC's allowance for delinquent loans revealed that loans which are over one hundred twenty days past due has increased from \$6,588,611 at September 30, 2006 to \$7,813,636 as of September 30, 2007. The related accrued interest on loans that are over one hundred twenty days past due has also increased from \$1,488,643 at September 30, 2006 to \$1,837,541 as of September 30, 2007. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio. Further, as of September 30, 2007, a total of fifty-seven loans amounting to \$2,908,660 are inactive. The accrued interest on these inactive loans amounted to \$882,734.

Cause: The cause of the above condition is the increase in past due loans.

Effect: The effect of the above condition is the increased possibility of loan losses due to nonpayment of borrowers.

Recommendation: We recommend that follow-up procedures be adhered to. We recommend that evaluations be performed on these loans and a corrective action 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: NMHC's increase in past due loans was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, NMHC Chief Accountant

Corrective Action: NMHC will perform a detailed review of the adequacy of its reserve for seriously defaulted loans and guaranteed loans for these financial institutions and assess the need to provide additional reserves for defaulted loans which is based on the appraisal value of the property and establish a policy that support reasonable allowances calculation.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

NMHC Land

Finding No. 2007-4

Criteria: Long-lived assets should be reported at the lower of carrying amount or fair value. A review of the valuations of real property should be periodically performed by management and adjustments should be made to reflect the lower of the carrying amount or fair market value.

Condition: As of September 30, 2007, NMHC has land with recorded values of \$10,409,602. The last appraisal of the land occurred during fiscal year 2003. However, a November 2008 appraisal of two lots with a carrying value of \$256,000 resulted in an \$84,000 decrease in recorded values. Currently, the land is not for sale and is recorded by NMHC based on the most recent appraised values. In the event that the land will be marketed, NMHC will adjust to reflect the carrying amount or fair market value, whichever is lower.

Cause: The cause of the above condition is the lack of established policies and procedures to periodically review the recorded values of real property and the high cost of obtaining appraisal services.

Effect: The effect of the above condition is a potential misstatement of land.

Recommendation: We recommend that NMHC ensure that long-lived assets are reported at the lower of carrying amount or fair value. Additionally, we recommend that NMHC establish policies and procedures to periodically evaluate the carrying values of long-lived assets.

Prior Year Status: The lack of established policies and procedures of periodic review of recorded values of real property and the high cost of obtaining appraisal services was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesse S. Palacios, NMHC Manager, Mortgage Credit Division

Corrective Action: NMHC will take corrective measures to ensure that long-lived assets are reported at the lower of carrying amount or fair values. To determine the fair market value of these assets, NMHC will publish an RFP for the performance of an appraisal of each individual long-lived asset. The entities submitting the proposals must be licensed by the CNMI Board of Professional Licensing. The winning entity will then be contracted to perform the appraisals to determine each asset's fair market value. This process will be repeated every other year so that the most current fair market value is readily available.

Proposed Completion Date: From RFP announcement in the newspapers to selection of winning entity to the completion of appraisal reports, NMHC proposes a completion date of February 27, 2009.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

DCD Foreclosed Real Estate

Finding No. 2007-5

Criteria: Valuations of real estate property acquired through, or in lieu of, loan foreclosures should be periodically performed by management and adjustments should be made to reflect real estate at the lower of the carrying amount or fair value less estimated costs to sell.

Condition: During tests of foreclosed real estate, we noted the following:

- At September 30, 2007, CDA has recorded six (reference lot #s 001 T 38, 1691-11-1, 1625 NEW-9-R1, TR22845-11, TR22845-13 and 016 H 47) foreclosed properties held for lease in which a long term leasehold interest was purchased by individuals or companies that are not of Northern Marianas decent; thus CDA still holds title to the properties. These properties were not valued at the lower of carrying amount or fair value less estimated costs to sell. This condition was corrected through a proposed audit adjustment.
- For one property (reference lot # 024 L 02), consisting of land and a building, CDA estimated a total market value of \$331,400 as of September 30, 2007. CDA valued the land and building at 100% and 30%, respectively, of the appraised values indicated in the latest independent appraisal report dated December 28, 2005. However, assumptions used and the basis of determination of the rates to estimated market values were not adequately documented or justified.

Cause: The cause of the above condition is the improper valuation of real estate properties held for lease and failure to maintain adequate documentation of assumptions used for in-house appraisals performed.

Effect: The effect of the above condition is the potential misstatement of foreclosed real estate properties.

Recommendation: We recommend that CDA management ensure that foreclosed properties, whether held for sale or lease, are valued at the lower of carrying amount or fair value less estimated costs to sell. Further, we recommend that CDA management perform periodic valuations of foreclosed properties, by obtaining independent appraisals or through the performance of in-house appraisals. Additionally, where in-house appraisals are performed, we recommend that CDA ensure that assumptions and the basis used are adequately documented and supported.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Oscar C. Camacho, CDA Acting Chief Executive Officer and Christy Kintol, CDA Office Manager

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-5, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: CDA adopted a Schedule of Real Estate Evaluation using the lower market valuations of appraisals and agrees with the auditor's recommendation to provide for a 50% allowance. Should an in-house valuation be performed, it will be documented in memo form describing the approach to derive at a value. Otherwise, restricted appraisals will be obtained from appraisal companies every two years for properties needing valuation. Administration has supervision over CDA's assets, thus administering a process to obtain appraisals and valuations will come from this department. Accounting will be informed of periodic valuations and a similar process as above will be instituted.

Proposed Completion Date: A cut-off date of no later than June 30 of every year, should be established for appraisals and valuations to be completed.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

DCD Lease Transactions

Finding No. 2007-6

Criteria: Lease arrangements and related transactions should be evaluated for proper accounting.

Condition: During tests of existing lease agreements, the following were noted:

- CDA maintains foreclosed property in which long term leasehold interests were purchased by individuals or companies that are not of Northern Marianas decent, thus CDA still holds title to the property. CDA recorded full payments received at the date of sale as reductions of the foreclosed real estate account (for property initially purchased by CDA). For such arrangements, CDA should have recorded the advance payments as deferred lease revenues and should have recognized lease revenues over the term of the lease. This condition was corrected through a proposed audit adjustment. As of September 30, 2007 deferred lease revenues relating to these transactions amounted to \$721,555.
- Subsequent to September 30, 2007, CDA entered into a ground lease and option to purchase agreement for one foreclosed property (ref. lot # 024 L 02). CDA has not evaluated whether the arrangement qualifies as a capital lease.
- CDA leases one foreclosed property at \$1,500 per month. The lease agreement, however, does not specify the term of the lease. Further, the lease agreement was an assignment pursuant to the buy back of the original loan from a financial institution. The agreement has not been updated from the time it was assigned to CDA.

Cause: The cause of the above condition is failure to evaluate underlying lease arrangements.

Effect: The effect of the above condition is the potential misstatement of lease revenues and related accounts.

Recommendation: We recommend that CDA management ensure that lease arrangements are evaluated as to whether they constitute capital or operating leases.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Oscar C. Camacho, CDA Acting Chief Executive Officer and Christy Kintol, CDA Office Manager

Corrective Action:

- Initially, the Acting Chief Executive Officer disagreed with the auditor's suggestion to treat payments received from prepaid leases as deferred revenues. This is because prepaid lease was believed to be similar to how payments are treated when REs are sold fee simple. The auditor clarified that with such prepaid leases, CDA will still record the underlying fee simple residual interest as assets, thus treatment of payments received should be deferred. As such, CDA will start treating such leases as recommended.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-6, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

- On the finding with regards to a ground lease agreement qualifying as a capital lease for purposes of recording or accounting for lease revenues, CDA hereby agrees with auditor and has made the evaluation of the lease agreement. This particular lease meets the criteria set forth to qualify as a capital lease rather than as an operating lease. This ground lease is the current arrangement with Covenant Church on the former Pacific Islands Castle building in Koblerville near Coral Ocean Point.
- On the particular lease assignment where it does not specify the terms of the lease agreement, CDA opted to continue the month to month rental arrangement. CDA management at the time believed that with such a short-term rental arrangement, CDA could easily notify the tenant that it is terminating the lease. The tenant happens to be the same person with whom CDA and the bank foreclosed on and entered into the house rental arrangement in Rota. The arrangement proved difficult and the tenant was offered the option for a lease to own at a set price, but the offer was not immediately accepted. Therefore, CDA management took a strong position to terminate the rental arrangement, demand full payment on all back rents due and evict the tenant. However, the CDA Board continues to extend options to the tenant.

Proposed Completion Date: Evaluations to classify leases will be performed when executing new leases and Accounting will be notified of such classification. At the next CDA Board meeting, the CDA Board will make its final decision on the lease to own arrangement with the tenant in Rota.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

NMHC Loan Guarantee Agreements

Finding No. 2007-7

Criteria: An effective system of internal control includes procedures to ensure that contingent liabilities are assessed and reviewed for probable losses.

Condition: NMHC has existing loan guarantee and purchase agreements with certain financial institutions. As of September 30, 2007, NMHC's related loan guarantees amounted to \$18,657,558. Of the total, approximately \$5,178,510 is delinquent and past due. Further, of the \$5,178,510, approximately \$3,285,260 is more than one hundred twenty days past due. NMHC has received demand notices of \$667,045. NMHC has recorded a reserve for loan guaranty for the \$667,045. However, NMHC is unable to determine if any additional reserve should be established for the remaining defaulted loans of \$4,511,465 and has no basis for an additional reserve due to limitations in existing information provided by the financial institutions. NMHC is currently working with related financial institutions to obtain sufficient information to determine a better estimate of the reserve for loan guarantees.

Cause: The cause of the above condition is the lack of established policies and procedures in assessing and reviewing the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses.

Effect: The effect of the above condition is the possible misstatement of the reserve for loan guaranty and related accounts.

Recommendation: We recommend that NMHC ensure that the reserve for guaranteed loans is assessed and reviewed for adequacy. Further, we recommend that NMHC establish policies and procedures to assess the adequacy of the reserve for guaranteed loans, both past due and current. Additionally, we recommend that NMHC continue to obtain sufficient information from financial institutions about the status of defaulted loans and determine which of the defaulted loans will likely result in being paid or settled by NMHC.

Prior Year Status: The lack of established policies and procedures to assess and review the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, NMHC Chief Accountant and Jesse S. Palacios, NMHC Manager, Mortgage Credit Division

Corrective Action: NMHC will ensure that reserve for guaranteed loans is assessed and reviewed for adequacy. NMHC will establish policies and procedures to obtain an appraisal once every two years. The Accounting and Loan Divisions of NMHC will coordinate to obtain an appraisal once every two years. NMHC will review the existing agreements with banking institutions to determine if the reserve requirements are adequate. In addition, the MCD and FD will work closely to assess and review potential loan losses by taking into account changes in local economic and business conditions as well as future developments. MCD will also continue to monitor the delinquency reports provided by the banks so that we can contact those borrowers who are on the list, especially, those who are on the 60-day and above delinquency categories in order to prevent banks from debiting our guarantee accounts or to discourage the banks from calling on the loans.

Proposed Completion Date: Beginning of FY 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Local Noncompliance

Finding No. 2007-8

Criteria: Public Law (P.L.) 12-27 and the loan agreement with the Marianas Public Land Trust (MPLT) specifically restrict the use of the \$10,000,000 loan and any interest earned for future housing loans.

Condition: Interest earned from housing loans funded by the \$10,000,000 loan from MPLT was included in NMHC's operations budget and was expended for operations.

Cause: The cause of the above condition is the lack of control to ensure interest earned from housing loans funded by the \$10,000,000 loan from MPLT is solely used for future housing loans.

Effect: The effect of the above condition is noncompliance with P.L. 12-27 and the loan agreement with MPLT.

Recommendation: We recommend that NMHC ensure compliance with Public Law 12-27 and the loan agreement with MPLT.

Prior Year Status: Noncompliance with P.L. 12-27 and the loan agreement with MPLT were reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, NMHC Chief Accountant

Corrective Action: NMHC will ensure strict compliance with Public Law 12-27 and the loan agreement with MPLT. NMHC and its legal counsel are in the process of resolving the issues with MPLT's legal counsel.

Proposed Completion Date: Fiscal Year 2008 will resolve the issue due to the final transfer of the portfolio to MPLT.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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

Allowable Costs/Cost Principles

Finding No. 2007-9

Program	Reason for Questioned Costs	Questioned Costs
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U.S. Department of Housing and Urban Development / Section 8 Housing Choice Vouchers / CFDA #14.871 / Federal Award # TQ901 / Federal Award Period 10/01/06 - 09/30/07

Criteria: In accordance with 24 CFR Section 982.158 and 982 subpart K, the PHA must pay monthly housing assistance payments (HAP) on behalf of the family that corresponds with the amount on line 12u of the HUD-50058. This HAP amount must be reflected on the HAP contract and HAP register.

Condition: Of thirty HAP rental disbursements and six utility reimbursements tested, we noted the following:

- The HAP disbursement relating to three participants did not correspond with the required HAP indicated in form HUD-50058 and HAP contract. Details are as follow:

GL Date	Tenant	Landlord	HAP Disbursement	HAP per HUD 50058 and HAP Contract	Variance
12/05/06	John, Benri S.	Soo San Corporation	\$ 698	\$ 642	\$ 56
01/05/07	Masga, Rosemarie B.	Mary Faith G. Villanueva	\$ 2,200	\$ 1,100	1,100
09/04/07	Cruz, Erwin C.	Guillermina C. Cepeda	\$ 950	\$ 940	10
					<u>\$ 1,166</u>

- The actual utility reimbursement made to one participant did not agree to the utility allowance indicated in form HUD-50058. Details are as follow:

Reference No.	Name of Participant	Actual Reimbursement	Utility Allowance Per HUD 50058	Variance	
Check # 2803	Ogo, Ignacio S.	\$ 315	\$ 270	\$ 45	\$ 1,211

Cause: The cause of the above condition is the lack of adequate monitoring procedures to ensure that HAP amounts are updated and adjusted to the system for any changes resulting from annual and/or interim reexaminations or other related actions taken.

Effect: The effect of the above condition is the misstatement of HAP payments and questioned costs of \$1,211. This matter is reportable as the projected questioned costs exceed the threshold.

Recommendation: We recommend NMHC establish adequate monitoring procedures to ensure that changes to HAP amounts are updated and adjusted in the system. Additionally, we recommend NMHC establish policies and procedures for the timely identification and reconciliation of variances between actual HAP disbursements and HAP per HUD 50058 and HAP contract.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kimo M. Rosario, NMHC Manager, Program & Housing

Corrective Action:

- John, Benri S.:** No HAP check was issued to the landlord on 12/05/06. The landlord was owed \$3,210 in HAP checks representing five (5) months of payment at \$642 per month in HAPs.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-9, Continued

Program	Reason for Questioned Costs	Questioned Costs
<u>Auditee Response and Corrective Action Plan, Continued:</u>		
Corrective Action, Continued:		
	2. Masga, Rosemarie B.: The HAP check in the amount of \$2,200 for landlord Mary Faith G. Villanueva was voided twice on January 5, 2007 and check # 2803 is nowhere to be found in the system.	
	3. Cruz, Erwin C.: The tenant was holding a disaster voucher that expired on September 30, 2007. The tenant underwent an interim reexamination on August 2007 after reporting to us that he was recently employed on July 25, 2007; however, since his voucher was set to expire a month later, NMHC could not change the contract to reflect the change of payment.	
	4. Ogo, Ignacio S.: On April 16, 2007 after transferring a unit from Rota to Saipan, this tenant was owed a prorated amount of \$45 in URP (half of the \$90 URP amount due to tenant). This amount was disbursed on July 3, 2007. Moreover, the tenant was not paid \$90 for the subsequent months of May, June and July. As a result, on July 3, 2007, NMHC issued a check in the amount of \$315 ($\$90 \times 3 + \$45 = \315.00).	
Proposed Completion Date: Fiscal year 2009		

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2007-10

Criteria: OMB Circular A-87, Cost Principles for State and Local Government, Attachment B, Section 11.h (4) states that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary report will be required where employees work on more than one Federal award or a Federal award and a non-Federal award.

Condition: Payroll expenses charged to the CDBG, HOME and Section 8 voucher programs amounting to \$150,335, \$89,986 and \$147,672, respectively for the fiscal year ended September 30, 2007 were determined by NMHC's Chief Accountant through an estimated percentage of work spent by employees working on these programs. Of thirteen, ten, and eleven employees tested under the CDBG, HOME and Section 8 voucher programs, respectively, we noted that all employees worked on more than one federal program. However, we did not note any personnel activity report supporting the distribution of time spent on each federal program. Further, we noted that NMHC employees only started maintaining payroll activity reports subsequent to fiscal year 2007 and thus, we are unable to quantify any questioned costs that may result from this condition.

Cause: The cause of the above condition is the lack awareness by NMHC of the requirements of OMB Circular A-87, attachment B, Section 11.h (4).

Effect: The effect of the above condition is noncompliance with the allowable costs/cost principle requirements.

Recommendation: We recommend NMHC ensure that personnel activity reports or equivalent documentation to reflect after-the-fact distributions of the actual activity of each employee are prepared and maintained for all employees who work on more than one federal award or a federal award and a non-federal award.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, NMHC Chief Accountant

Corrective Action: NMHC will ensure that personnel activity reports or equivalent documentation to reflect after-the-fact distributions of the actual activity of employee are prepared and maintained for all employees who work on more than one federal award or a federal award and a non-federal award. Corrective action been applied by requiring all employees to submit a timesheet once every quarter as per HUD's recommendation.

Proposed Completion Date:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Cash Management - Community Development Block Grants/Special Purpose Grants/Insular Areas
CFDA #14.225, Federal Award # B-05-ST-69-0001
Federal Award Period 10/01/05 - 09/30/10

Finding No. 2007-11

Criteria: In accordance with applicable cash management requirements, when funds are advanced, recipients must use and follow procedures to minimize the time elapsing between the transfer of grant funds from the U.S. Treasury and disbursement for program activities. The allowable clearance pattern is three days. The recipient shall be liable for interest on federal funds from the date the federal funds are credited to the recipient's bank account until those funds are paid out and are deducted from that bank account for program purposes.

Condition: For four of seventeen disbursements tested relating to the CDBG program, the following were cleared between two to twelve days after the allowable clearance pattern from the date federal funds were credited to NMHC's account. Details are as follows:

<u>Check #</u>	<u>Check Amount</u>	<u>Check Clearance Date</u>	<u>Cash Receipts Date</u>	<u>Days Elapsed After the Allowable Clearance Pattern</u>
122	\$ 6,505	06/15/07	06/08/07	2
23858	\$ 56,168	05/15/07	05/04/07	6
13	\$ 68,366	06/04/07	05/25/07	5
22547	\$ 30,339	11/14/06	10/26/06	12

Cause: The cause of the above condition is the failure of payees to present the checks to the bank within the allowable three day clearance pattern.

Effect: The effect of the above condition is a possible interest liability of \$144. However, no questioned costs resulted from the condition, as the estimated interest liability to the U.S. Department of Housing and Urban Development is less than \$10,000.

Recommendation: We recommend that NMHC review existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger A. Dris, NMHC Chief Accountant and Edith C. Fejeran, NMHC Office Manager

Corrective Action: NMHC has reviewed existing cash management procedures to ensure that cash advances are disbursed and cleared within the allowable clearance pattern. Corrective action will be applied by mailing all checks issued from CDBG, HOME and ESG funds via certified mail and recording them in a certified mail log documenting compliance regarding checks for these programs. Vendors will be informed that checks can no longer be picked-up at the NMHC payment window.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Davis-Bacon Act - Community Development Block Grants/Special Purpose Grants/Insular Areas
CFDA #14.225, Federal Award # B-04-ST-69-0001
Federal Award Period 10/01/04 - 09/30/09

Finding No. 2007-12

Criteria: As part of NMHC's control procedures in monitoring compliance with the requirements of the Davis-Bacon Act, interviews of contractor workers at job sites are performed.

Condition: During tests of NMHC's controls over compliance with the Davis-Bacon Act, the records of employee interviews to support job site interviews of contractor employees were not made available for the following CDBG funded projects:

<u>Project Name</u>	<u>Contract Number</u>	<u>Contract Amount</u>
Sugar King Cultural Center	NMHC 2006-004	\$ 119,500
Tinian Outdoor Stage	NMHC 2005-008	\$ 165,559
Independent Living Model Home	NMHC 2006-003	\$ 90,000

Cause: The cause of the above condition is the lack of established monitoring procedures to ensure the job site interviews are performed and are properly documented.

Effect: The effect of the above condition is noncompliance with NMHC's control procedures to ensure that the requirements of the Davis-Bacon Act are complied with.

Recommendation: We recommend NMHC establish monitoring controls to ensure that required procedures relating to job site interviews are strictly performed and are properly documented.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Zenie P. Mafnas, NMHC Grant Writer/Planner and Clemente Sablan, NMHC CDBG Technical Coordinator

Corrective Action: Though job site interviews were performed for these projects by its retired employee, NMHC could not locate the files that were under his custody, which were turned over to the Administration for file and maintenance. With the hiring of a CDBG Technical Coordinator, who currently interviews workers at each job site and ensures compliance to Davis-Bacon Act, job interview reports will now be adequately maintained.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Eligibility - HOME Investment Partnerships Program
CFDA #14.239, Federal Award # M-05-ST-69-0001
Federal Award Period 10/01/04 - 09/30/09

Finding No. 2007-13

Criteria: Under NMHC's Policies and Procedures for Home Rehabilitation, one of the requirements to be eligible for Home Program Financial assistance is that the "after-rehabilitation" value of the property must not exceed 95% of the HUD prescribed median purchase price for the type of unit. Additionally, the 95% after-rehabilitation value is described under CFR 92.254 as affordable housing for rehabilitation of property not involving acquisition.

Condition: Of fourteen individuals tested for compliance with eligibility requirements, we were not provided any documentation that the after rehabilitation value of the property for two (ref. loan #s DHL-235 and HL- 237) individuals was determined.

Cause: The cause of the above condition is failure to ensure that all eligibility documentation are properly maintained.

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

Recommendation: We recommend NMHC ensure that relevant eligibility documentation are properly maintained in the files.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesse S. Palacios, NMHC Manager, Mortgage Credit Division

Corrective Action: For loan # DHL-235, a drive-by property appraisal was not completed. A completed appraisal will be included in this response. In regard to loan # HL-237, a drive-by property appraisal was completed and is included in this response. MCD will ensure that all after-rehabilitated homes are valued and be less than 95% of the HUD prescribed median purchase price.

Proposed Completion Date: Immediately

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Matching, Level of Effort, Earmarking - Community Development Block Grants/Special Purpose
Grants/Insular Areas
CFDA #14.225, Federal Award # B-04-ST-69-0001
Federal Award Period 10/01/04 - 09/30/09

Finding No. 2007-14

Criteria: In accordance with 24 CFR Section 570.200 (a)(3), not less than 70 percent of the funds must be used over a period of up to three years, as specified by the grantee in its certification, for activities that benefit low- and moderate-income persons.

Condition: For program year 2004, NMHC was approved CDBG grant funds of \$1,235,000. As of September 30, 2007, the cumulative total expenditures relating to program year 2004 amounted to \$792,898 equivalent only to 64% of the grant funds.

Cause: The cause of the above condition is the lack of adequate controls to ensure that the 70% earmarking requirement is strictly adhered to.

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

Recommendation: We recommend NMHC strengthen controls to ensure that grant funds are expended within the required period.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zenie P. Mafnas, NMHC Grant Writer/Planner

Corrective Action: The above regulation, cited by the auditors, states that not less than 70% of the aggregate of CDBG fund expenditures shall be for activities meeting the criteria under Section 570.208(a) or under Section 570.208(d)(5) or (6) for benefiting low and moderate income persons. The citation does not specify that not less than 70% of the total grant amount should be expended over a period of three years, as stated by the auditors under "Condition". Therefore, 2007-19 should not be a finding.

Proposed Completion Date:

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Procurement and Suspension and Debarment - Community Development Block Grants/Special Purpose Grants/Insular Areas
CFDA #14.225, Federal Award # B-04-ST-69-0001
Federal Award Period 10/01/04 - 09/30/09

Finding No. 2007-15

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: During tests of compliance with procurement regulations, we noted that for one item, relating to the purchase of airline ticket, (ref. CV23720), there were no relevant documentation in the file to support that competitive procurement procedures were utilized.

Cause: The cause of the above condition is the lack of a written procurement policy concerning travel and related expenditures. Existing procurement regulations followed by NMHC do not include procurement procedures relating to airfare.

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

Recommendation: We recommend NMHC 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: Roger A. Dris, NMHC Chief Accountant and Edith C. Fejeran, NMHC Office Manager

Corrective Action: NMHC is following the CNMI Government Travel Policies. NMHC does provide equal opportunity to and utilizes several travel agencies to book reservations and procure airline tickets for the Board and staff. Some travel agencies have their respective policies to 1) prefer upfront payment before actually issuing airline tickets; 2) process and issue ticketed reservations upon request with subsequent billing; or 3) accept a purchase order for each ticketed transaction. NMHC's request for inspections on projects are not foreseen in advance as it depends on the progress of the project for example, when cement pouring schedules are made and NMHC is notified by the contractor within several days notice to fly to Rota or Tinian. Immediate corrective action will be taken to solicit quotations directly from airlines and/or travel agencies and document such contacts in the file for audit and inspection.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Program Income - HOME Investment Partnerships Program
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-16

Criteria: Revenues should be recognized in the period earned. Unearned revenues should be deferred and presented as deferred revenues in the financial statements. Further, HOME program income should be recognized in the general ledger for repayments of principal and interest on loans made with HOME funds.

Condition: NMHC records HOME loan disbursements as contributed capital which NMHC presents as revenues in its financial statements. Further, repayments of principal and interest on loans made using HOME funds are not recorded as program income in the general ledger. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is management's oversight of the proper accounting of HOME loan disbursements and program income generated from HOME funds.

Effect: The effect of the above condition is the misstatement of revenues and related liabilities.

Recommendation: We recommend that NMHC ensure that HOME loan disbursements and repayments from participants are properly recorded in the general ledger. Further, NMHC should ensure that program income is recognized in the general ledger for repayments of principal and interest on loans made using HOME funds.

Prior Year Status: Improper accounting of HOME loan disbursements and program income generated from HOME funds was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, NMHC Chief Accountant

Corrective Action: NMHC will ensure that HOME loan disbursements and repayments from participants are properly recorded in the general ledger. NMHC will ensure that program income is recognized in the general ledger for repayment of principal and interest on loans made using HOME funds. NMHC agreed with the grantor agency in recording program income by drawing down first the program income before entitlement funds.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Program Income - HOME Investment Partnerships Program
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-17

Criteria: Under the Code of Federal Regulations (CFR) Title 24 Part 92.502 (c) (3), HOME funds in the local account of the HOME Investment Trust Fund must be disbursed before requests are made for HOME funds in the United States Treasury account. Further, under CFR Title 24 Part 92.2, HOME funds include program income.

Condition: NMHC receives payments of principal and interest on loans made with HOME funds and deposits these into its local account and reports these receipts in the Integrated Disbursement and Information System as program income. During fiscal year 2007, NMHC's drawdown from the U.S. Treasury of Home funds amounted to \$659,442. Further, during fiscal year 2007, NMHC reported total program income of \$249,856 and reported disbursements from the program income of \$203,811. As of September 30, 2007, NMHC has \$46,045 of undisbursed program income in its local account.

Cause: The cause of the above condition is the earmarking of program income received for loan assistance to eligible applicants. NMHC's records shows that no program income is available for drawdown.

Effect: The effect of the above condition is noncompliance with program income compliance requirements.

Recommendation: We recommend that NMHC ensure that program income is disbursed before requests are made for HOME funds in the U.S. Treasury account. Additionally, we recommend that NMHC review existing procedures of earmarking program income and ensure that procedures are designed to support compliance of the program requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, NMHC Chief Accountant

Corrective Acton: NMHC will ensure that program income is disbursed before requests are made for HOME funds in the U.S. Treasury account. NMHC will review existing procedures of earmarking program income and ensure that procedures are designed to support compliance of the program requirements. NMHC agreed with the grantor agency in recording program income by drawing down the program income before entitlement funds.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Program Income - HOME Investment Partnerships Program
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-18

Criteria: Under 24 CFR Section 85.20(b)(1), accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant.

Condition: During fiscal year 2007, NMHC reported program income receipts and drawdowns of \$249,856 and \$300,435, respectively, in the IDIS. However, these amounts did not agree with NMHC's accounting records which reflected program income received and expended during fiscal year 2007 of \$220,093 and \$299,808, respectively.

Cause: The cause of the above condition is the lack of timely reporting in the IDIS of program income received and the lack of reconciliation of program income and drawdowns reported in the IDIS and amounts recorded in the general ledger.

Effect: The effect of the above condition is inaccurate reporting of program income and drawdowns.

Recommendation: We recommend that NMHC strengthen controls in monitoring and ensuring that program income receipts and drawdowns are identified on a timely manner and are accurately reported to the IDIS.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, NMHC Chief Accountant

Corrective Action: NMHC will strengthen controls in monitoring and will ensure that program income receipts and drawdown are identified in a timely manner and are accurately reported in IDIS. NMHC will record program income on a spreadsheet for tracking purposes and input on IDIS every first week of the following month.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Reporting - Community Development Block Grants/Special Purpose Grants/Insular Areas
CFDA #14.225, Federal Award # B-04-ST-69-0001
Federal Award Period 10/01/04 - 09/30/09

U.S. Department of Housing and Urban Development
Reporting - HOME Investment Partnerships Program
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-19

Criteria: In accordance with 24 CFR 135.3(a) and 135.90, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002, "*Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons*". Where the program providing Section 3 covered assistance requires submission of an annual performance report, the Section 3 report will be submitted with the annual performance report.

Condition: The annual performance report submitted by NMHC for fiscal year 2007 did not include form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons.

Cause: The cause of the above condition is management's oversight of the reporting requirements specified under 24 CFR Section 135.90.

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesse S. Palacios, NMHC Manager, Mortgage Credit Division (HOME) and Clemente S. Sablan, NMHC CDBG Technical Coordinator

Corrective Action: In regard to the HOME Program, NMHC is not required to submit the Section 3 Summary Report since the maximum loan amount for this program is \$50,000. With respect to Section 3 compliance called for under the Community Development Block Grant (CDBG) Program, bid packages do include the Section 3 Summary Report for compliance "to the maximum extent possible", "to the greatest extent feasible" for contractors awarded CDBG projects to provide employment and training opportunities to low-income persons. In projects inspected for compliance, actual job sites do include a Job Information Poster that contractors are required to post for interested job seekers to apply. With the CNMI's limited labor pool, and particularly, the absence of a qualified, skilled and available journey-level workforce (carpenters, cement masons, electricians, steel workers, etc.) contractors have reported to NMHC that the Department of Labor has no local applicants to refer for these occupations. With the recent hiring of a CDBG Technical Coordinator to monitor field compliance, NMHC will move towards collaboration with the Work Investment Partnership (WIA) and Food Stamp Programs including the Department of Labor.

Proposed Completion Date: Ongoing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Reporting - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-20

Criteria: In accordance with 24 CFR part 908 and 24 CFR section 982.158, the PHA is required to submit form HUD-50058, Family Report (OMB No. 2577-0083) electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, portability move-in, or other change of unit for a family. The PHA must also submit the Family Report when a family ends participation in the program or moves out of the PHA's jurisdiction under portability.

Condition: Of thirty participants tested, we noted the following:

- The submission transaction lists supporting online submission of form HUD-50058 for three participants were not made available for review. As such, we were unable to verify if the form HUD-50058 was indeed submitted. Details are as follow:

<u>Participant's Name</u>	<u>Type of Change</u>	<u>Effective Date</u>
Delos Santos, Joaquin S.	Interim reexamination	09/01/07
Kenio, Inos K.	Interim reexamination	12/01/06
Teregeyo, Loyola R.	Annual reexamination	09/01/07

- The submission transaction list made available for one item did not reflect the name of the following participant:

<u>Ticket #</u>	<u>Participant's Name</u>	<u>Type of Change</u>	<u>Effective Date</u>
2206094	Cruz, Erwin D.	Annual reexamination	09/01/07

Cause: The cause of the above condition is the lack of adequate review procedures to ensure that all grant reporting requirements are submitted completely.

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

Recommendation: We recommend that NMHC establish and implement review procedures to ensure that all grant reporting requirements are completely submitted and properly supported and documented.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kimo M. Rosario, NMHC Manager, Program & Housing

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-20, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action:

1. **Delos Santos, Joaquin S.:** An Interim Reexamination Certification with an effective date of 09/01/07 does not exist. The only record NMHC has on Interim Reexaminations for this family is dated on 02/01/08 and 05/01/08, both of which were submitted on the same dates, respectively.
2. **Kenio, Inos K.:** This tenant's Interim Reexamination with an effective date of 12/01/06 was not submitted.
3. **Teregeyo, Loyola R.:** This tenant's Annual Reexamination with an effective date of 09/01/07 was not submitted.
4. **Cruz, Erwin D.:** This tenant's Annual Reexamination with an effective date of 09/01/07 was submitted on 10/05/07.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Special Tests and Provisions - HOME Investment Partnerships Program
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-21

Criteria: HOME loans extended to eligible participants should be properly monitored and accounted for.

Condition: Beginning in fiscal year 2006, NMHC has recorded, in its general ledger, loans receivable for HOME loans under a deferment agreement. Prior to fiscal year 2006, NMHC had not recorded loans receivables in its general ledger for loans extended to borrowers under a deferment agreement. At September 30, 2007, NMHC is in the process of determining the cumulative amount of loans under deferment agreement prior to fiscal year 2006.

Cause: The cause of the above condition is the NMHC understanding that loans under deferment agreements should not be recorded in the general ledger since repayments from these deferred loans are not expected.

Effect: The effect of the above condition is the possibility that loans under deferment agreements are not properly accounted for and presented in the financial reports.

Recommendation: We recommend that NMHC determine with the grantor agency whether NMHC should record deferred HOME loans receivable and monitor HOME loans under a deferment agreement.

Prior Year Status: Lack of monitoring of loans under deferment agreement was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, NMHC Chief Accountant

Correction Action: NMHC has confirmed with the grantor agency that all deferred loans should be recorded. NMHC is working with the NMHC legal counsel on revising HOME loans under a deferment agreement. NMHC is implementing and recording deferred HOME loan receivable.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Special Tests and Provisions - HOME Investment Partnerships Program
CFDA #14.239, Federal Award # M-07-ST-69-0203
Federal Award Period 10/01/06 - 09/30/11

Finding No. 2007-22

Criteria: Under NMHC's policies and procedures for Homeowner Rehabilitation, HOME loan applicants that have been determined eligible for financial assistance and have proven lack of financial resources for repayment of their direct loan may have their monthly loan payments deferred for a period of up to fifteen years. Further, borrowers with a deferment agreement shall be required to be annually re-certified as eligible to continue receiving a deferment during any potential deferment period.

Condition: NMHC did not perform the required annual re-certification for borrowers with deferment agreements.

Cause: The cause of the above condition is an oversight by NMHC management in ensuring compliance with established policies and procedures for Homeowner Rehabilitation.

Effect: The effect of the above condition is noncompliance with established policies and procedures for Homeowner Rehabilitation.

Recommendation: We recommend NMHC management ensure that the annual recertification of borrowers with deferment agreements is strictly performed.

Prior Year Status: Failure to perform annual re-certifications of borrowers with deferment agreements was reported as a finding in the Single Audit of CDA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesse S. Palacios, NMHC Manager, Mortgage Credit Division and Roger A. Dris, NMHC Chief Accountant

Corrective Action: NMHC will ensure that the annual recertification of borrowers with deferment agreements is strictly performed. The Accounting Division will work closely with Loan Division in compliance with established policies and procedures on Homeowner Rehabilitation.

NMHC will ensure that the annual re-certification requirement wherein borrowers who have their monthly loan payments deferred will be adhered to. Should the borrower's financial situation remain the same then MCD will recommend to the Board to allow the borrower to continue his/her deferment status for another year. NMHC is also in the process of revising the Homeowner Rehabilitation Policies and Procedures. In the loan deferment section, it will have documentation requirements (e.g., affidavit, NAP certification) to show proof that the borrower is for example, unemployed.

Proposed Completion Date: Strict compliance of the re-certification requirement will be exercised immediately.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-23

Criteria: In accordance with CFR Part 24 Section 982.503(a)(1), the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each fair market rent (FMR) area in the PHA jurisdiction. Under NMHC's Section 8 Administrative Plan for Rental Assistance Program Section 10.1, NMHC currently administers a payment standard that is at 90% of the published FMR set for Guam and the Pacific Islands.

Condition: During fiscal year 2007, NMHC's payment standard schedule was based on 90% of published 2006 FMR instead of the 2007 FMR which is effective October 1, 2006.

Cause: The cause of the above condition is the lack of strict monitoring procedures to ensure that payment standard schedules are updated.

Effect: The effect of the above condition is the potential misstatement of payment standard amounts used to calculate the monthly housing assistance payment.

Recommendation: We recommend NMHC ensure that payment standard schedules are updated to reflect current fair market rents published by HUD.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kimo M. Rosario, NMHC Manager, Program & Housing

Corrective Action: NMHC based its 2007 payment standard schedule on the published 2007 FMR and the same has been inputted into the system.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-24

Criteria: Under 24 CFR 982.405(a), the Public Housing Agency (PHA) must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards (HQS). Further, under CFR Part 24 sections 982.158(d), the PHA must prepare a unit inspection report.

Condition: Of thirty items tested for HQS inspections, the annual HQS inspection reports for three items were not made available. Details are as follow:

<u>Participant's Name</u>	<u>Date of HQS Inspection per HUD 50058</u>
Delos Santos, Joaquin S.	07/26/07
John, Benri S.	07/19/07
Pangelinan, Livia Mae T.	07/26/07

Additionally, the annual HQS inspection for one item was performed more than 12 months after the previous HQS inspection performed on 08/25/06. Details follow:

<u>Participant's Name</u>	<u>Date of HQS Inspection per HUD 50058</u>
Cruz, Erwin D.	10/03/07

Cause: The cause of the above condition is the lack of systematic filing of HQS inspection reports and the lack of strict monitoring to ensure that all HQS inspections are performed on a timely manner.

Effect: The effect of the above condition is possible noncompliance with the HQS inspections requirement under the federal regulations.

Recommendation: We recommend that NMHC ensure that all HQS inspections are supported with HQS inspection reports and are performed at least annually. Additionally, we recommend that NMHC ensure that all HQS inspection reports are maintained in participant files.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kimo M. Rosario, NMHC Manager, Program & Housing

Corrective Action:

1. **Delos Santos, Joaquin:** This tenant's Annual Reexamination date is May 1, 2007 and his Annual HQS inspection was performed on April 23, 2007.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-24, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

2. **John, Benri S.:** This tenant's Annual Reexamination date is December 31, 2007 and his Annual HQS Inspection was performed on October 24, 2007.
3. **Pangelinan, Livia Mae T.:** This tenant's Annual HQS Inspection was not timely completed since she requested to transfer to another unit.
4. **Cruz, Erwin D.:** This tenant's Admission Date was September 14, 2006; hence, the HQS inspection date of August 25, 2006 could not possibly be late since admission was just a month away.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-25

Criteria: Under CFR Part 24 section 982.405(b), the PHA must conduct supervisory quality control Housing Quality Standards (HQS) inspections. Further, NMHC's Section 8 Administrative Plan for Rental Assistance Program Section 6.3 states that NMHC's manager for the program and housing manager division must re-inspect a sample of units under contract during the last fiscal year. Additionally, completed HQS inspections included in the sample must be no older than three months at the time of the re-inspection. The sample must represent a cross section of neighborhoods where the program units are located and inspections completed by all HQS inspectors.

Condition: During fiscal year 2007, NMHC performed the required supervisory quality control HQS inspections only for "failed" unit inspections and was not based on the required sample of all completed HQS inspections.

Cause: The cause of the above condition is the lack of adequate NMHC personnel to independently perform the required unit inspections and quality control re-inspections.

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

Recommendation: We recommend that NMHC ensure that adequate personnel are available to perform the unit inspections and quality control re-inspections and ensure that compliance requirement on supervisory control HQS inspection is strictly adhered to.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kimo M. Rosario, NMHC Manager, Program & Housing

Corrective Action: Since February 2007 to the end of FY 2007, the Program and Housing Division Manager has been performing HQS inspections on all units especially after the agency's HQS inspector resigned in late July 2007.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-26

Criteria: In accordance with 24 CFR 982.204(a), except for special admissions, participants must be selected from the Public Housing Agency (PHA) waiting list. The PHA must select participants from the waiting list in accordance with admission policies in the PHA administrative plan.

Condition: During tests of compliance with the selection from the waiting list requirement, we noted the following:

- Of two new admissions during fiscal year 2007 tested, the waiting list relating to one admission (ref. Participant: Lorna Alcala admitted to the program on 10/23/06) was not made available. We are unable to determine if the participant was selected from the waiting list.
- The files for three applicants, reaching the top of the waiting list but not admitted to the program, were not made available. We are unable to determine whether these applicants were provided the opportunity to be admitted to the program and whether the non-admission was properly documented. Details are as follow:

<u>Application #</u>	<u>Applicant's Name</u>
RV06-03	Apatang, Bernard
RV06-04	Hocog, Barbara Ogo
RV06-05	Atalig, Lisa Jeannette

Cause: The cause of the above condition is lack of adherence to established policies and procedures to ensure that the selection of participants is completely documented.

Effect: The effect of the above condition is noncompliance with the waiting list requirements under federal regulations.

Recommendation: We recommend that NMHC ensure that selections of applicants from the waiting list are properly documented and maintained in the files.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kimo M. Rosario, NMHC Manager, Program & Housing

Corrective Action:

1. **Lorna Alcala:** This participant was improperly selected and admitted to the program.
2. **Apatang, Bernard:** This applicant cancelled his application on May 30, 2006. This report is in the SEMAP Indicator No. 1 Folder.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-26, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

3. **Hocog, Barbara:** This applicant was transferred to the New Construction Program on March 8, 2006.
4. **Atalig, Lisa:** This applicant cancelled her application on April 15, 2006.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-27

Criteria: As provided under 24 CFR section 982.404, for units under Housing Assistance Payment (HAP) contracts that fail to meet Housing Quality Standards (HQS), the PHA must require the owner to correct any life threatening HQS deficiencies within 24 hours after the inspections and all other HQS deficiencies within 30 calendar days or within a specified PHA-approved extension. If the owner does not correct the cited HQS deficiencies within the specified correction period, the PHA must stop (abate) HAPs beginning no later than the first of the month following the specified correction period or must terminate the HAP contract.

Condition: Of ten unit re-inspections tested, we noted the following:

- For two items, the information on the deficiency report does not clearly indicate whether the corrective action has been addressed by the owner within the prescribed period:

<u>Participant's Name</u>	<u>Inspection Date</u>
Takao, Theresita	03/19/07
Mangatinag, Rosemary	04/24/07

- For one item (ref. Participant name: Theresita Takao), the re-inspection was re-scheduled from 04/04/07 to 05/17/07 which is 59 days from the annual inspection date of 03/19/07.

Cause: The cause of the above condition is the lack of proper documentation of the results of re-inspections performed and the lack of monitoring to ensure that deficiencies are timely addressed.

Effect: The effect of the above condition is noncompliance with the HQS enforcement requirement under the federal regulations.

Recommendation: We recommend NMHC ensure that results of HQS enforcements are properly documented in the deficiency reports and re-inspections are performed on a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kimo M. Rosario, NMHC Manager, Program & Housing

Corrective Action:

1. **Takao, Therisita:** The unit for this tenant was re-inspected on May 17, 2007 and it passed the re-inspection; however, the HQS inspector failed to fill in the deficiency report indicating that the deficiencies found on the unit were addressed and cured.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-27, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

2. **Mangatinag, Rosemary:** The unit for this tenant was reinspected on May 11, 2007 and it passed the HQS inspection; however, the HQS inspector failed to fill in the deficiency report indicating that the deficiencies found on the unit were addressed and cured.

Proposed Completion Date: Fiscal year 2009

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Housing and Urban Development
Special Tests and Provisions - Section 8 Housing Choice Vouchers
CFDA #14.871, Federal Award # TQ901
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-28

Criteria: In accordance with CFR Part 24 Section 982.517 (c)(1), a PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. The PHA must maintain information supporting its annual review of utility allowances and any revisions made in its utility allowance schedule.

Condition: During fiscal year 2007, the utility allowance was based on the fiscal year 2005 utility schedule. The utility allowance schedule was only revised subsequent to fiscal year 2007. However, we did not note any documentation of the annual review of the utility allowance schedule subsequent to fiscal year 2005 through fiscal year 2007.

Cause: The cause of the above condition is the lack of monitoring to ensure that the required annual review of the utility allowance schedule is performed.

Effect: The effect of the above condition is noncompliance with the provisions of CFR Part 24 Section 982.517(c)(1).

Recommendation: We recommend that NMHC implement monitoring procedures to ensure that the required annual review of the utility allowance schedule is being performed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Kimo M. Rosario, NMHC Manager, Program & Housing

Corrective Action: At the time, the CUC surcharge, according to HUD Field Office Representative (Darlene Kaholokula), was not considered as a "rate increase." Nonetheless, NMHC has since provided a utility allowance schedule for fiscal year 2007.

Proposed Completion Date: Fiscal year 2009

Commonwealth Government Employees' Credit Union

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Year Ended December 31, 2007 and 2008
Conducted By: Burger & Comer, P.C.**

Date(s) of follow-up letter(s) sent : 11/25/09, 5/12/10

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

See pages 200 to 206 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-1

Reconciliation of subsidiary ledgers to general ledger

Criteria – In a depository and lending institution, with hundreds or thousands of customers, subsidiary ledgers are maintained for borrowers and depositors. In an accounting system, it is imperative that the details that are posted to the subsidiary ledgers are reconciled with the totals that are posted to the general ledger, usually monthly.

Condition – There were differences between the balances of loans and deposits per the subsidiary ledgers with the balances in the general ledger. Reconciliations of the subsidiaries to the general ledger are performed, but are not reviewed by management.

Cause – Lack of clearly defined procedures and responsibilities.

Effect – The general ledger had to be adjusted in both 2007 and 2008 for unreconciled differences between the subsidiary ledger and the general ledger.

Recommendation – The subsidiary ledgers should be reconciled to the general ledger on a monthly basis. These reconciliations should be reviewed by the General Manager. If the General Manager is not available (for example, off-island), the reconciliations should be reviewed by a Board member.

Auditee Response/Corrective Action Plan – The differences in the Credit Union subsidiary ledgers and general ledger balances were due to a minor glitch in the new system in processing the monthly reports. As a corrective plan, Credit Union will implement a control procedure to ensure that reconciliation of the general and subsidiary ledger is done on a monthly basis. The reconciliation will be reviewed and approved by the General Manager or Acting General Manager.

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-2

Review of bank reconciliations

Criteria – Bank accounts should be reconciled on a monthly basis. The reconciliations should be reviewed by a person other than by the preparer of the reconciliation.

Condition – Bank accounts are prepared on a monthly basis, but they are not reviewed.

Cause – Lack of clearly defined procedures and responsibilities.

Effect – We did not note any financial statement impacts for 2008 or 2007.

Recommendation – Bank accounts should be reconciled to the general ledger on a monthly basis. These reconciliations should be reviewed by the General Manager. If the General Manager is not available (for example, off-island), the reconciliations should be reviewed by a Board member.

Auditee Response/Corrective Action Plan – As a corrective plan, Credit Union will implement as a requirement in its accounting procedures the preparation of monthly bank reconciliations by the Accountant will be reviewed and approved by the General Manager or Acting General Manager.

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-3

Processing Cash Receipts

Criteria – Individuals who collect receivables should not be able to post cash receipts to the receivables subsidiary ledger, review the receivables aging trial balance, or process customer service calls and complaints.

Individuals who post cash receipts to the receivables subsidiary ledger should not be able to review the receivables aging trial balance, maintain or authorize receivables adjustments, open mail or copy checks received, prepare deposits, deposit cash receipts or reconcile bank accounts.

Individuals who open mail or copy checks should not be able to prepare deposits, deposit cash receipts, reconcile bank accounts, maintain the cash receipts journal, or post journal entries to the general ledger.

Individual who deposit cash receipts should not be able to reconcile bank accounts, investigate discrepancies related to cash, maintain the cash receipts journal, or post journal entries to the general ledger.

Condition – We found that employees are able to perform incompatible duties as listed above.

Cause – Primarily due to the small number of employees, which can sometimes be only two people on a given day.

Effect – The Credit Union is susceptible to misappropriation of cash.

Recommendation – To the greatest extent possible given the size of the Credit Union, incompatible duties should be assigned to different people. More detailed review by management or the Board will help to reduce exposure to risk.

Auditee Response/Corrective Action Plan – The new CGECU system has in place security features that restrict certain processing of transactions to the GM or the Office Manager only. In addition, a daily report of activities is printed and reviewed by the GM for any discrepancies or suspicious activities. Furthermore, the processing of adjustments, transfers and allotments to members accounts is restricted to only the GM and the Office Manager. The design of CGECU's system requires that a direct deposit transaction be posted before a receipt can be printed. (As a corrective plan, a CGECU staff who receives cash deposits will not be permitted to post the transaction to the ledger. It will be a requirement for another staff to post such deposit.)

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-4

Review of Cashier Fund Reconciliations

Criteria – It is necessary to reconcile cashier funds at the end of each shift to promptly identify overages or shortages.

Condition – Although cashier funds are counted and reconciled, they are not reviewed by a supervisor or management.

Cause – Lack of clearly defined controls and responsibilities

Effect – We did not note any financial statement impacts for 2008 or 2007.

Recommendation - At the end of each shift, cashier funds should be counted and reconciled. These reconciliations should be reviewed by a Supervisor.

Auditee Response/Corrective Action Plan – As a corrective plan, Credit Union will implement and enforce in its accounting procedure the need for daily counting and reconciliation of cashier funds. A teller form will be created which shall be reviewed and approved by the Supervisor.

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses Years Ended December 31, 2008 and 2007

Finding No. 2008-5

Adjustment of Cash Accounts

Criteria – Cash is highly susceptible to misappropriation. Without adequate oversight, such misappropriations can go undiscovered. Adjustments to general ledger cash balances must be reviewed and approved by an appropriate member of management.

Condition – Adjustments to cash accounts are prepared and entered into the general ledger, but the adjustments are not reviewed by management or another appropriate person.

Cause – Lack of clearly defined controls and responsibilities.

Effect – We did not note any financial statement impact for 2008 and 2007.

Recommendation – All adjustments to cash balances should be reviewed and approved by an appropriate member of management.

Auditee Response/Corrective Action Plan – The only adjustments thus far posted into the general ledger cash balances by the Credit Union's Accountant is the adjustment in entry of monthly bank charges for online cash management and bank monthly savings interest earned. As an internal control procedure the Credit Union's Accountant will have the General Manager or the Acting General Manager (in case the General Manager is off-island) review and approve all adjusting entries.

Proposed Completion Date – September 2009

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses
Years Ended December 31, 2008 and 2007

Finding No. 2008-6

NMIRF Loan Conditions

Criteria – The Agreement among the Government of the Commonwealth of the Northern Mariana Islands and the Commonwealth Government Employees' Credit Union and the Northern Mariana Islands Retirement Fund to provide Financing and Guarantee of Financing for the Commonwealth Government Employees states that the Credit Union shall charge no less than twelve percent (12%) interest per annum on all loans made to qualified loan applicants (Section 5.6), and that the Credit Union shall submit all proposed rules and regulations, policies, and amendments thereto to the Fund for its approval prior to publication (Section 5.17).

Condition – Our tests of the Credit Union's compliance with the Fund's loan conditions noted the following:

- The revised loan policy dated November 28, 2007 states that a fully secured loan can be made to a qualified loan applicant with an interest rate of 10%.
- The Fund's approval for changes to existing regulations, policies, and related amendments was not available.

Cause – The cause of the above condition is lack of procedures in place to monitor compliance with borrower obligations stipulated in the loan agreement.

Effect – The effect of the above condition is noncompliance with loan conditions.

Recommendation – We recommend that the Credit Union establish procedures to monitor compliance with loan conditions or obtain a waiver of those conditions that are no longer in effect or which are no longer enforced by the lender.

Auditee Response and Corrective Action Plan – As a corrective plan, the General Manager will ask the board to recall the board resolution making the fully secured loan interest rate 10%, therefore, bringing back the original rate of 12% as stipulated in the NMIRF Loan Agreement.

Since the creation of the Credit Union, there have been no amendments to the CGECU Regulations or Bylaws. Throughout the years, changes to internal policies were done and implemented through Board Resolutions. A review of CGECU's records dating back to the time of creation did not show that any of the internal policies such as Loan, Travel, Personnel, or Procurement Policies were ever reviewed and approved by the NMIRF. The CGECU will write to the NMIRF requesting if it is required for such internal policies to be reviewed and approved by them. If so, future changes will definitely be forwarded to the Fund for review and approval. If not, the CGECU will obtain a letter in writing.

Proposed Completion Date – Ongoing

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings and Responses Years Ended December 31, 2008 and 2007

Finding No. 2008-7

Loan Policy

Criteria – Revised loan policy dated November 28, 2007 states that the Credit Union has established a generous debt to income ratio of 50% and at no time will credit be granted to members if the debt to income ratio exceeds 50%.

Condition – Loans were given to members without calculating the debt to income ratio when the loan amount is fully or partially secured.

Cause – The cause of the above condition is lack of procedures in place to monitor compliance with the loan policy.

Effect – The effect of the above condition is noncompliance with loan policy.

Recommendation – We recommend that compliance with loan policy be monitored.

Auditee Response and Corrective Action Plan – The GM will ask the board to review and amend the Loan Policy to specify that any loans fully or partially secured will not be processed in the same manner as an unsecured loan, therefore, eliminating the need for credit checks and a financial statement indicating a debt to income ratio of no more than 50%.

Proposed Completion Date – Ongoing

Commonwealth Ports Authority

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2008
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/12/09, 11/25/09, 5/12/10

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

See pages 208 to 220 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditor's Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH PORTS AUTHORITY

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

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

Internal Controls

Finding No. 2008-1

Criteria: Proper internal controls are established to mitigate risks associated with the processing and recording of information in the general ledger.

Condition: During the year ended September 30, 2008, the following were noted:

Cash

During the year ended September 30, 2008, the payroll checking accounts (1020-00 and 1040-00 for the Airport and Seaport, respectively) were not reconciled on a regular basis.

Receivables from Grantor Agencies

The Airport and Seaport Divisions recorded receivables from grantor agencies of \$1,441,123 and \$81,278, respectively, as of September 30, 2008. Our preliminary examination of the account balances noted that the accounts were not reconciled, monitored or maintained during the fiscal year. A reconciliation was subsequently provided.

Prepaid Expenses

At September 30, 2008, CPA recorded prepaid expenses (account #1210-100) of \$243,668 for items and/or services that had already been received or provided. The account was subsequently reconciled and a proposed audit adjustment decreased the account balance to \$75,723.

Capital Assets

During the year ended September 30, 2008, the fixed asset subledger was not properly maintained and reconciled to the general ledger. Numerous asset items were not recorded in the subledger but were recorded in the general ledger and vice versa. In addition, depreciation expense and related accumulated depreciation did not agree to the general ledger. Although the fixed asset subledger was subsequently updated and reconciled to the general ledger, the reconciliation resulted in a proposed audit adjustment.

Construction in Progress

Construction in progress accounts (CIP) for the Airport and Seaport divisions were not maintained and reconciled during the year. As a result, numerous audit adjustments were proposed to reconcile the subledger to the general ledger. The reconciled CIP schedules were subsequently provided.

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2008-1, Continued

Condition, Continued:

Contracts Payable

The Airport and Seaport Divisions recorded contracts payable of \$3,211,212 and \$338,461, respectively, as of September 30, 2008. Our preliminary examination of the account balances noted that the accounts were not reconciled, monitored or maintained during the fiscal year. A reconciliation was subsequently provided.

Accrued Vacation

- During the year ended September 30, 2008, accrued vacation payable for both the Airport and Seaport Divisions was not adjusted or reconciled. Upon auditor request, the accounts were subsequently reconciled and adjustments were proposed to reflect actual balances at September 30, 2008. The accrued annual leave schedule is manually maintained and requires an update each payperiod.
- Of five items tested, the vacation earned for one employee was understated by 26.5 hours amounting to \$273.

Purchases/Disbursements

- Of twenty-eight non-payroll disbursements tested, we noted the following:
 1. Invoices and related supporting documents for three items (AP-000154 - invoice # 7786-7 for Dec 07 for \$7,659; MC-000211 - utilities for Dec 07 for \$18,075; JE-000261 - utilities for Aug 07 Acct 22524-3 S-Building EC for \$5,247) were not made available.
 2. A journal voucher for one item (JE-000279 for \$41,233) was not made available.
 3. The reconciliation between the manual check register and the general ledger for two items (MC-000165 for \$27,609 and MC-000293 for \$122,781) was not made available
 4. A reconciliation of a general ledger amount in relation to the travel advance reconciliation provided for one item (JE-000131 for \$3,607) was not made available.

Payroll

Of twenty-eight payroll items tested, eleven items had an un-reconciled variance between the payroll register and G/L account. Details are as follows:

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2008-1, Continued

Condition, Continued:

Payroll, Continued

<u>PP #</u>	<u>PPE</u>	<u>Location</u>	<u>Department</u>	<u>Per G/L (Date Posted)</u>	<u>G/L Account No.</u>	<u>Per Register</u>	<u>Per G/L (Amount)</u>	<u>Variance</u>
11	02/16/08	Saipan	Operations	02/26/08	6151-100	\$ 19,483	\$ 21,099	\$ (1,616)
01	09/29/07	Saipan	Operations	10/09/07	6151-100	\$ 15,446	\$ 19,224	(3,778)
18	05/24/08	Saipan	Custodial	06/03/08	6451-100	\$ 12,314	\$ 10,635	1,679
24	08/16/08	Saipan	Custodial	08/26/08	6451-100	\$ 10,232	\$ 8,721	1,511
08	01/05/08	Saipan	Custodial	01/14/08	6451-100	\$ 10,385	\$ 11,477	(1,092)
17	05/10/08	Saipan	ARFF	05/20/08	6751-100	\$ 38,298	\$ 39,935	(1,637)
26	09/13/08	Saipan	ARFF	09/23/08	6751-100	\$ 35,613	\$ 37,250	(1,637)
26	09/13/08	Saipan	ARFF	09/23/08	6751-100	\$ 35,613	\$ 37,250	(1,637)
16	04/26/08	Saipan	Administration	05/05/08	6851-101	\$ 7,547	\$ 7,020	527
23	08/02/08	Saipan	Personnel	08/12/08	6851-107	\$ 6,927	\$ 2,398	4,529
26	09/13/08	Tinian	Flight Service	09/23/08	7151-300	\$ 2,020	\$ 2,661	_(641)
								\$ <u>(3,792)</u>

Subsequent Disbursement FY 2009

During our examination of subsequent disbursements, the related invoices for fifteen items were not available.

Journal Entries

During our examination of journal entries for the Airport and Seaport Divisions, we noted that there were a significant number of journal entries posted during the year, some of which relate to reclassifications and reversals of posting errors. Further, we noted that voided journal entries are not properly accounted for.

Grant Expenditures

- During our examination of projects, one progress billing related to the Tinian International Airport project funded by the CNMI government totaling \$104,780 of which \$73,653 was not recorded in the general ledger. In addition, the accounts receivable and payable for the related project were not reconciled with the CNMI government. An audit adjustment was proposed to record payments made by the CNMI government.
- Variances were noted between expenses reported on the preliminary schedule of expenditures of federal awards (SEFA) and supporting detailed schedules. The SEFA was subsequently updated to reflect actual expenditures and adjustments.
- During our examination of subsequent cash receipts from a grantor, we noted a request for reimbursement of expenditures, amounting to \$150,500, for which no receivable was recorded at September 30, 2008. The receivable and related expenditures were subsequently recorded in the general ledger through a proposed audit adjustment.
- Truck parts and tires totaling \$27,049 (PO # 08-15803) were purchased and received on September 18, 2008. The related expenditure and liability were not recorded in the general ledger at September 30, 2008. Management did not consider this amount material to the financial statements.

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2008-1, Continued

Recommendation: We recommend the following:

- All general ledger accounts are reconciled, reviewed and monitored on a monthly basis.
- Supporting journal vouchers, disbursement vouchers, invoices, and reconciliations be properly maintained.
- Examination of current system capabilities to alleviate and/or minimize manual journal entries and the use of spreadsheets.
- Adequate review of journal entries be performed.
- Consider providing training to staff with respect to their duties.
- Management establishes communications with the CNMI Government to ensure all interagency transactions are recorded and accounted for.

Prior Year Status: The above condition related to cash and prepaid expenses was reported as a finding in our previous management letter for fiscal year 2007 and the above condition related to construction in progress was reported as a finding in our previous management letters for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Comptroller

Corrective Action: CPA concurs with the findings. CPA, for the period of 2007 and 2008, functioned without a Comptroller. Further, for most of the fiscal year under audit, CPA had no functioning Board of Directors. Additionally, CPA suffered a near complete turnover in staff during the two-year period. This allowed for the deficiencies to develop. Further, the 2008 audit was also complicated by the fact that during the same year, CPA also closed out the 2006 and 2007 annual audits. However, subsequent to year end, CPA devoted additional assets to correct these known problems. This included subsequent reconciliations resulting in adjustments up to the end of your fieldwork.

Subsequent to year end, CPA hired a Comptroller, and filled six other accounting positions. The Comptroller issued a series of directives to strengthen internal controls particularly in the areas of journal entries, payroll and purchasing. An in-house training program has been developed, arrangements have been made for software training and an accounting manual has been prepared and distributed in draft form. CPA believes that with these changes and priorities, significant deficiencies in internal controls will be greatly reduced.

Proposed Completion Date: Ongoing

COMMONWEALTH PORTS AUTHORITY

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

Revenue Bonds Payable

Finding No. 2008-2

Criteria: Section 6.11 of the Airport and Seaport Bond Indenture Agreements state that CPA shall impose, levy, enforce and collect such fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11.

Condition: The required gross revenues for Airport and Seaport to be in compliance with Section 6.11 amount to \$12,287,723 and \$6,727,176, respectively. Actual gross revenues for the Airport amounted to \$9,264,470, resulting in a variance of \$3,023,253. Actual gross revenues for the Seaport amounted to \$5,474,433, resulting in a variance of \$1,252,743.

Cause: The cause of the above condition is insufficient revenues generated during the year.

Effect: The effect of the above condition is noncompliance with Section 6.11 of the Airport and Seaport Bond Indenture Agreements. The Indenture specifies requirements of CPA if this condition occurs. If after such requirements are met and required gross revenues continue to be insufficient, the deficiency shall constitute an event of default as specified in Section 7.01 of the Airport and Seaport Bond Indenture Agreements.

Recommendation: We recommend that CPA review all revenue generating sources to ensure amounts collected will be sufficient to meet requirements of Section 6.11.

Prior Year Status: Noncompliance with Section 6.11 of the Airport and Seaport Bond Indenture Agreements was reported as a finding in the Single Audits of CPA for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Comptroller

Corrective Action: CPA concurs with this finding. As noted in the finding, CPA failed to meet the bond indenture revenue requirements for fiscal years 2006, 2007 and 2008. For this three-year period, CPA had a total of five Executive Directors. Further, for most of the fiscal year, CPA did not fill such important positions as Airport Manager or Comptroller. Due to this lack of consistent direction, no workable policies were developed or initiated to meet the required goals. Subsequent to year end, the Executive Director recommended to the Board of Directors and the Board passed two major recommendations as follows:

1. The airport incentive program was discontinued. This program, which offered a 100% rebate of landing fees, failed to attract any new airlines, while, in fact, one major airline discontinued service entirely. In the first nine months of the current fiscal year, CPA has seen an increase in Airport cash deposits of \$1.8 million due to the discontinuation of the airport incentive program and better collection efforts.
2. Port handling fees had not been increased in several years. Effective March 2009, a 90% increase in port fees was approved. For the months of April, May and June 2009, CPA has seen an average increase in cash deposits for the Seaport of nearly \$150,000 per month.

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2008-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

CPA believes that with these two major policy changes along with better collection efforts and minimizing costs, the required ratios will be met. However, CPA will request a review of its efforts by a third party expert to provide an outside opinion as required by the bond indenture agreement.

Proposed Completion Date: Ongoing

COMMONWEALTH PORTS AUTHORITY

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

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

Allowable Costs/Cost Principles

Finding No. 2008-3

Program	Reason for Questioned Costs	Questioned Costs																											
U.S. Department of Transportation / Airport Improvement Program / CFDA # 20.106 / Federal Award #s AIP Nos. 3-69-0002-49, 3-69-0002-50, 3-69-0002-53, 3-69-0002-56, 3-69-0011-19 and 3-69-0011-20 / Federal Award Periods Ended 06/24/08, 06/24/08, 08/16/09, 08/20/10, 08/10/10 and 08/08/11	<p><u>Criteria:</u> Administrative costs charged to projects and recorded in the general ledger should be properly supported.</p> <p><u>Condition:</u> CPA recorded administrative costs related to ongoing/completed projects amounting to \$263,091. Of \$201,111 tested, the following items were noted:</p> <ul style="list-style-type: none"> Justification for 25% of gross salaries claimed were not properly supported for the following: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Project</th> <th style="text-align: center;">AIP No.</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td>Saipan Rehabilitation - Phase I, II, III & IV</td> <td style="text-align: center;">3-69-0002-50/53</td> <td style="text-align: right;">\$ 3,548</td> </tr> <tr> <td>Rehabilitate Runway Apron/Taxilane</td> <td style="text-align: center;">3-69-0002-56</td> <td style="text-align: right;">2,195</td> </tr> <tr> <td>Airport Runway Safety</td> <td style="text-align: center;">3-69-0002-49</td> <td style="text-align: right;">2,074</td> </tr> <tr> <td>Airport Parallel T^way Strengthening – Phase I and II</td> <td style="text-align: center;">3-69-0011-19/20</td> <td style="text-align: right;"><u>3,428</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>\$ 11,245</u></td> </tr> </tbody> </table>	Project	AIP No.	Amount	Saipan Rehabilitation - Phase I, II, III & IV	3-69-0002-50/53	\$ 3,548	Rehabilitate Runway Apron/Taxilane	3-69-0002-56	2,195	Airport Runway Safety	3-69-0002-49	2,074	Airport Parallel T ^w ay Strengthening – Phase I and II	3-69-0011-19/20	<u>3,428</u>			<u>\$ 11,245</u>	\$ 11,245									
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		<u>\$ 11,245</u>																											
	<ul style="list-style-type: none"> Recalculation of Airport Operation Area (AOA) payroll charges claimed resulted in the following variances: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">AIP No.</th> <th style="text-align: center;">Claimed</th> <th style="text-align: center;">Actual</th> <th style="text-align: center;">Variance</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3-69-0002-49</td> <td style="text-align: right;">\$ 79,928</td> <td style="text-align: right;">\$ 76,938</td> <td style="text-align: right;">\$ 2,990</td> </tr> <tr> <td style="text-align: center;">3-69-0002-56</td> <td style="text-align: right;">\$ 22,991</td> <td style="text-align: right;">\$ 22,522</td> <td style="text-align: right;">\$ 469</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Variances between the amount of hours claimed and the amount of hours certified were as follows: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">AIP No.</th> <th style="text-align: center;">Timesheet Certification</th> <th style="text-align: center;">Amount Claimed</th> <th style="text-align: center;">Variance (in hours)</th> <th style="text-align: center;">Variance (amount)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3-69-0002-49</td> <td style="text-align: center;">64</td> <td style="text-align: center;">66</td> <td style="text-align: center;">2</td> <td style="text-align: right;">\$ 43</td> </tr> <tr> <td style="text-align: center;">3-69-0011-19/20</td> <td style="text-align: center;">473</td> <td style="text-align: center;">517</td> <td style="text-align: center;">44</td> <td style="text-align: right;">\$ 1,127</td> </tr> </tbody> </table>	AIP No.	Claimed	Actual	Variance	3-69-0002-49	\$ 79,928	\$ 76,938	\$ 2,990	3-69-0002-56	\$ 22,991	\$ 22,522	\$ 469	AIP No.	Timesheet Certification	Amount Claimed	Variance (in hours)	Variance (amount)	3-69-0002-49	64	66	2	\$ 43	3-69-0011-19/20	473	517	44	\$ 1,127	<p>3,459</p> <p><u>1,170</u></p>
AIP No.	Claimed	Actual	Variance																										
3-69-0002-49	\$ 79,928	\$ 76,938	\$ 2,990																										
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AIP No.	Timesheet Certification	Amount Claimed	Variance (in hours)	Variance (amount)																									
3-69-0002-49	64	66	2	\$ 43																									
3-69-0011-19/20	473	517	44	\$ 1,127																									
	<p><u>Cause:</u> The cause of the above condition is estimates are being used to determine costs charged to federally funded projects and the lack of grantor approval of such estimates. In addition, timely reconciliation of the related accounts is not being performed.</p> <p><u>Effect:</u> The effect of the above condition is the possible misstatement of expenditures reported and claimed to the grantor and questioned costs of \$15,874.</p> <p><u>Recommendation:</u> We recommend that grantor approval be obtained for estimated percentages and hours utilized in CPA's administrative expense calculations. We also recommend reconciliation of accounts be performed in a timely manner.</p> <p><u>Prior Year Status:</u> The lack of grantor approval of cost estimates charged to projects and lack of timely reconciliation was reported as a finding in the Single Audits of CPA for fiscal years 2005 through 2007.</p>	<u>15,874</u>																											

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2008-3 Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Frances C. Mafnas, Comptroller</p> <p>Corrective Action: CPA concurs with this finding, but not its entire effect. Of the total questioned cost of \$15,874, the amount of \$11,245 related to an inability to locate the appropriate timesheets. CPA's Accounting Department, in the immediate year of the audit, moved its physical office two times. This has led to a great deal of misplaced paperwork. CPA believes that, if given enough time, appropriate documentation can be found. However, the need to complete the audit supersedes CPA's ability to locate the paperwork.</p> <p>CPA is in the process of filing with the Federal Aviation Administration (FAA) a federal overhead rate analysis. If accepted by the FAA, this will provide a clear, transparent and accountable methodology for administrative costs associated with federal grants.</p> <p>Proposed Completion Date: Ongoing</p>	

COMMONWEALTH PORTS AUTHORITY

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

Procurement and Suspension and Debarment

Finding No. 2008-4

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Transportation / Airport Improvement Program / CFDA # 20.106 / Federal Award #s AIP Nos. 3-69-0002-51 and 3-69-0002-55 / Federal Award Periods Ended 08/15/08 and 08/20/10	<p><u>Criteria:</u> CPA's Procurement Rules & Regulations state the following:</p> <ul style="list-style-type: none"> • Emergency Procurement: In accordance with Section 3.5 of CPA's Procurement Rules & Regulations, in case of any major public calamity, or whenever it is in the interest of aviation or shipping safety, or necessary to keep the ports operable by the Authority, the Board may determine that the public interest and necessity demand the immediate expenditure of funds to keep the ports facilities open to traffic or in a safe condition, and thereupon authorize the expenditure of such sums as may be needed without the observation of provision requiring contracts, bids or notices. • Sole Source Procurement: A contract may be awarded for supply, service or construction item without competition when the contracting officer determines in writing that there is only one source for the required supply, service or construction item. The written determination shall state the unique capabilities required and why they are required and the consideration given to alternative sources. <p><u>Condition:</u> Of \$10,468,343 expenditures, \$10,327,645 were tested and the following items were noted:</p> <ul style="list-style-type: none"> • Jetway repairs totaling \$122,781 were procured through emergency procurement. The justification for the emergency procurement relates to the deadline to draw down funds. • The justification for emergency procurement related to the purchase of surveillance cameras and security upgrade totaling \$578,950 was approved by the Acting Executive Director on August 1, 2007. The actual contract and notice to proceed was executed on March 14, 2008. Further, we did not note the approval of the emergency procurement justification from the Board of Directors. Of the total contract amount, \$265,003 was funded by AIP. • Sole source procurement was utilized to purchase proximity suits amounting to \$37,485. There was no indication that consideration was given to alternative sources. Further, we did not note the approval from the Board of Directors. Total funds drawn down and received amounted to \$24,868 on August 18, 2008. The invoice date of the items was November 14, 2008. Further, we noted that when the actual invoice was paid in fiscal year 2009, the entire amount was paid (check # 1770) from the FAA checking account (#1010-100). <p><u>Cause:</u> The cause of the above condition is noncompliance with CPA's procurement rules & regulations.</p> <p><u>Effect:</u> The effect of the above condition is questioned cost of \$412,652.</p> <p><u>Recommendation:</u> All purchases should comply with CPA's procurement rules and regulations.</p>	<p>122,781</p> <p>265,003</p> <p><u>24,868</u></p> <p><u>412,652</u></p> <p>Total Questioned Costs \$ <u>428,526</u></p>

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2008-4, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p data-bbox="505 430 987 457"><u>Auditee Response and Corrective Action Plan:</u></p> <p data-bbox="505 478 1125 506">Name of Contact Person: Frances C. Mafnas, Comptroller</p> <p data-bbox="505 531 1320 632">Corrective Action: CPA contests a portion of this finding and the majority of its effect. CPA's subsequent review confirms that the procurement documentation was weak in its definition of both emergency and sole source procurement.</p> <p data-bbox="505 657 1320 858">In the first case (jetway repairs of \$122,781), CPA argues that the vendor photos of the damaged area were severe enough to warrant an emergency, but that was not clearly reflected in the emergency declaration. The fact that the declaration mentions a deadline to draw down the funds, the only source of possible funding for the emergency, should not be construed or misinterpreted that it was solely the deadline that motivated the repairs. Further, on May 12, 2008, the Governor declared a State of Emergency for CPA. This can be argued in support of the emergency procurement.</p> <p data-bbox="505 884 1320 1005">In the second case (surveillance cameras of \$265,003), CPA agrees that the emergency procurement was improper, but it is quite possible that it could have been justifiable as a sole source contract. Regardless, it is unacceptable given the description and detail of the work performed, that the grantor suffered a 100% overcharge of their 50% contribution.</p> <p data-bbox="505 1031 1320 1209">In the third case (purchase of proximity suits of \$37,485), CPA agrees that the written documentation was inadequate. However, CPA also maintains that the vendor selected is the only vendor who carries the certified hazard suits. Additionally, the Board of Directors issue is moot, as the Board had been dissolved by the Governor in an emergency declaration. Again, the declared State of Emergency for CPA can be argued in support of the emergency procurement.</p> <p data-bbox="505 1234 914 1262">Proposed Completion Date: Ongoing</p>	

COMMONWEALTH PORTS AUTHORITY

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

U.S. Department of Transportation

Cash Management - Airport Improvement Program

CFDA #20.106, Federal Award #s AIP Nos. 3-69-0002-48, 3-69-0002-49, 3-69-0002-50/53, 3-69-0002-51, 3-69-0002-54, 3-69-0002-55, 3-69-0002-56, 3-69-0004-01, 3-69-0011-17/19/20/21 and 3-69-0011-18

Federal Award Periods Ended 06/24/08, 06/24/08, 6/24/08, 08/16/09, 08/15/08, 08/16/09, 08/20/10, 08/20/10, 08/16/09, 08/22/08, 08/10/10, 08/08/11, 06/12/10 and 08/23/09

Finding No. 2008-5

Criteria: In accordance with 49 CFR, Section 18.21(b) and (c), methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.

Condition: For forty-nine of one hundred one samples tested, disbursement checks cleared (subsequent to three business days) between one and twenty-eight days after cash receipt:

<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After Cash Receipt</u>
\$ 865,355	1690	03/03/08	02/25/08	2
\$ 6,434	1698	03/27/08	03/17/08	5
\$ 3,923	1716	06/04/08	05/20/08	8
\$ 4,707	1740	08/07/08	07/30/08	3
\$ 7,114	1755	10/01/08	09/24/08	2
\$ 11,104	1669	01/04/08	12/27/07	3
\$ 14,468	1688	03/07/08	02/25/08	4
\$ 63,944	1715	06/02/08	05/20/08	6
\$ 24,178	1725	07/10/08	07/02/08	3
\$ 16,831	1738	08/08/08	07/30/08	3
\$ 87,068	1670	01/07/08	12/27/07	4
\$ 214,167	1677	02/11/08	01/30/08	5
\$ 136,251	1687	03/03/08	02/25/08	2
\$ 261,561	1726	07/10/08	07/02/08	3
\$ 30,938	1727	07/11/08	07/02/08	4
\$ 6,499	1695	03/24/08	03/17/08	2
\$ 386,636	1756	10/02/08	09/23/08	4
\$ 11,068	1757	10/03/08	09/24/08	4
\$ 87,635	1672	01/07/08	12/27/07	4
\$ 37,698	1678	02/11/08	01/30/08	5
\$ 271,067	1686	03/04/08	02/25/08	3
\$ 13,619	1717	06/02/08	05/20/08	10
\$ 251,036	1739	08/07/08	07/30/08	5
\$ 23,836	1668	01/04/08	12/27/07	5
\$ 58,247	1733	07/23/08	06/17/08	25
\$ 12,213	1679	02/12/08	01/30/08	8
\$ 3,053	1731	07/15/08	07/03/08	5
\$ 28,615	1671	01/07/08	12/27/07	4
\$ 40,089	1693	03/24/08	03/17/08	2
\$ 32,293	1673	01/07/08	12/27/07	4
\$ 43,800	1680	02/11/08	01/30/08	5
\$ 119,432	1685	03/07/08	02/25/08	6
\$ 19,564	1694	03/24/08	03/17/08	1
\$ 11,096	1752	10/02/08	09/24/08	3
\$ 55,178	1689	03/07/08	02/25/08	6
\$ 49,059	1699	04/16/08	04/08/08	3
\$ 134,753	1701	04/14/08	04/08/08	1
\$ 59,431	1730	07/10/08	07/02/08	3

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2008-5, Continued

Condition, Continued:

<u>Amount</u>	<u>Check Number</u>	<u>Check Clearance Date</u>	<u>Cash Receipt Date</u>	<u>Days Elapsed After Cash Receipt</u>
\$ 36,163	1753	10/02/08	09/24/08	3
\$ 141,314	1682	02/11/08	01/30/08	5
\$ 115,279	1667	12/14/07	12/04/07	5
\$ 59,819	1683	02/11/08	01/30/08	5
\$ 4,655	1691	03/07/08	02/25/08	6
\$ 95	1745	09/05/08	08/21/08	8
\$ 45,447	1736	08/06/08	07/30/08	2
\$ 45,447	1737	08/06/08	07/30/08	2
\$ 122,781	1728	07/16/08	07/03/08	6
\$ 24,868	1770	11/24/08	08/18/08	28
\$ 20,736	-	09/30/08	08/18/08	28

The cash receipt of \$20,736 received from the grantor on August 18, 2008 has not been disbursed to the vendor, therefore, interest is calculated through September 30, 2008.

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

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$868 exists. However, no questioned costs result from the condition as the projected interest liability is less than \$10,000.

Recommendation: We recommend that management ensure strict compliance with federal cash management requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Comptroller

Corrective Action: CPA concurs with the findings and the recommendations.

Proposed Completion Date: Ongoing

COMMONWEALTH PORTS AUTHORITY

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

U.S. Department of Transportation
Equipment and Real Property Management - Airport Improvement Program
CFDA #20.106, Federal Award #s All AIP Grants
Federal Award Period Available Until Expended

Finding No. 2008-6

Criteria: In accordance with 49 CFR, Section 18.31(4)(d)(1)(2)(3)(4) Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) 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.

Condition: CPA has not conducted a physical inventory of its fixed assets in the last two years. In addition, a log indicating the location (Department) of equipment is not being maintained. Total fixed asset additions related to CPA's major program amounted to \$9,826,975, \$22,986,600 and \$12,786,137 during fiscal years 2008, 2007 and 2006, respectively. Of the total additions, \$9,778,502, \$22,022,560 and \$12,350,084 represent additions to construction in progress during the fiscal years ended September 30, 2008, 2007 and 2006, respectively.

Cause: The cause of the above condition is a lack of personnel.

Effect: The effect of the above condition is noncompliance with 49 CFR, Section 18.31(4)(d)(1)(2)(3)(4).

Recommendation: We recommend management ensure a physical inventory is conducted at least once every two years. We also recommend that documentation procedures be established to ensure recordkeeping of the assets are maintained.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Comptroller

Corrective Action: CPA concurs with the findings and the recommendations.

Proposed Completion Date: Ongoing

**Report on Compliance & Internal Control over
Compliance with Requirements Applicable to the
Passenger Facility Charge Program
Year Ended September 30, 2006
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/12/09, 9/3/09 (Deloitte re: CPA response), 11/25/09, 5/12/10

Date(s) of response letter(s) received : 8/31/09

See pages 222 to 226 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditor's Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings
Year Ended September 30, 2006

Passenger Facility Charge Expenditures/Reimbursements

Finding No. 2006-1

Criteria: Passenger Facility Charge (PFC) reimbursements should be applied to qualifying expenditures and approved projects. In addition, the Airport Improvement Program grant funded projects are not eligible for PFC reimbursements.

Condition: Of total PFC's collected of \$2,315,891 during the year ended September 30, 2006, disbursements/reimbursements of \$2,304,540 were tested and the following exceptions were noted:

- A PFC reimbursement of \$93,682 was applied to two projects, Radio Communication Upgrade and Flight Information Display, for which funding was subsequently reprogrammed to fund other projects. At September 30, 2006, cumulative PFC reimbursements on the two projects amounted to \$187,364.
- The Rota Runway/Taxiway/Apron project, totaling \$3,158,632 at September 30, 2006 was initially budgeted to be financed with the proceeds of the 1998 Senior Series A Bonds. The project subsequently received 100% funding from two grantors and the local government. The related interest cost and amount of PFC reimbursement applied during the year amounted to \$184,747 and \$129,575, respectively. The amount of PFC applied during the year exceeded the eligible amount by \$74,403. The total PFC approved for reimbursement totaled \$2,591,500.

Cause: The causes of the above conditions are as follows:

- Projects originally budgeted and planned have been cancelled and the related funding reprogrammed to other projects.
- The inclusion of a grantor funded project in the initial PFC application.
- Project costs are not closely monitored.

Effect: The effect of the above conditions is the application of PFC reimbursements to cancelled projects and the misstatement of project expenditures. In addition, a PFC reimbursement was applied to a project in excess of the eligible amount.

Recommendation: We recommend CPA review the approved PFC projects to ensure all PFC reimbursements are applied to valid qualifying project expenditures. We also recommend CPA review its PFC approved projects to ensure the exclusion of projects that are 100% funded by a grantor and amend its PFC application in the event such projects are included.

Prior Year Status: The application of PFC reimbursement to cancelled projects and the misstatement of expenditures was reported as a finding in the PFC audit for fiscal year 2005.

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2006

Finding No. 2006-1, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. Due to the financial condition of CPA, the Radio Communication and Flight Information Display has been deferred to future projects.

Proposed Completion Date: FY 2009

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-2

Criteria: In accordance with Section 158.65 of 14 CFR Part 158, each carrier collecting Passenger Facility Charges (PFC's) for a public agency shall file quarterly reports to the public agency providing an accounting of funds collected and funds remitted. The report shall be filed on or before the last day of the calendar month following the calendar quarter or other period agreed by the collecting carrier and public agency for which funds were collected.

Condition: During the year ended September 30, 2006, the following number of carriers either submitted an incomplete quarterly report or did not submit a report:

<u>Airport</u>	<u>No. of Carriers</u>	<u>Incomplete</u>	<u>No Report</u>
Saipan	23	11	9
Rota	6	1	5
Tinian	<u>2</u>	<u>-</u>	<u>2</u>
	<u>31</u>	<u>12</u>	<u>16</u>

Cause: The cause of the above condition is the lack of follow-up by CPA.

Effect: The effect of the above condition is noncompliance with Section 158.65 of 14 CFR Part 158.

Recommendation: We recommend CPA follow-up with air carriers to ensure quarterly reports are received in accordance with Section 158.65 of 14 CFR Part 158.

Prior Year Status: Noncompliance with Section 158.65 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2005.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will ensure that all air carriers submit a quarterly report as per section 158.65 of 14 CFR Part 158. CPA will also include this section in CPA's quarterly (PFC) report to the airlines.

Proposed Completion Date: FY 2009

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-3

Criteria: In accordance with Section 158.51 of 14 CFR Part 158, PFC collected by the carrier shall be remitted to the public agency no later than the last day of the calendar month following the month in which the PFC was collected.

Condition: During the year ended September 30, 2006, twenty-one air carriers remitted collections to CPA one or more months following the month in which the PFC collections were collected. In addition, PFC remitted by ten carriers did not include a description/information as to what period the collections relate to. A summary is as follows:

<u>Airport</u>	<u>No. of Carriers</u>	<u>Time Lag in Collections</u>	<u>Information Not Available</u>
Saipan	23	19	4
Rota	6	1	5
Tinian	<u>2</u>	<u>1</u>	<u>1</u>
	<u>31</u>	<u>21</u>	<u>10</u>

Cause: The cause of the above condition is the lack of follow-up by CPA.

Effect: The effect of the above condition is noncompliance with Section 158.51 of 14 CFR Part 158.

Recommendation: We recommend CPA establish follow-up procedures with air carriers to ensure PFC collections are remitted on a timely basis and ensure compliance with Section 158.51 of 14 CFR Part 158.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will ensure that all air carrier submit a full description on their payment to include collection period as per section 158.51 of 14 CFR Part 158.

Proposed Completion Date: FY 2009

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings, Continued
Year Ended September 30, 2006

Reporting

Finding No. 2006-4

Criteria: In accordance with Section 158.63 of 14 CFR Part 158, the public agency shall provide quarterly reports to carriers collecting PFC's for the public agency with a copy to the appropriate FAA Airports office. The quarterly report shall include PFC's received from collecting carriers, interest earned, and expenditures for the quarter; cumulative PFC's received, interest earned, expenditures, and the amount committed for use on currently approved projects, including the quarter; the PFC level for each project; and the current project schedule.

Condition: The expenditures reported on the quarterly reports submitted by CPA represent the allocation of PFC's received and applied to approved projects.

Cause: The cause of the above condition is a lack of understanding of PFC reporting requirements.

Effect: The effect of the above condition is noncompliance with the requirements of Section 158.63 of 14 CFR Part 158.

Recommendation: We recommend CPA ensure that the reporting requirements of Section 158.63 of 14 CFR Part 158 are adhered to.

Prior Year Status: Noncompliance with Section 158.63 of 14 CFR Part 158 was reported as a finding in the PFC audit for fiscal year 2005.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA agrees with the recommendation. CPA will revise the expenditure report to comply with PFC Section 158.63 of 14 CFR Part 158.

Proposed Completion Date: FY 2009

Commonwealth Utilities Corporation

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2006
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 9/16/08, 8/12/09, 11/25/09, 5/12/10

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

See pages 228 to 249 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings

Revenue/Receipts

Finding No. 2006-1

Criteria:

All recorded revenues and receivables should reflect collectible balances.

Condition:

Included in my testing of material long outstanding accounts with dispute are six (6) accounts amounting to \$520,154.08 that were not to be disconnected. Although these accounts are substantially supported, the explanation given for not disconnecting these accounts was that these customers had CUC wells, poles, pumps, etc., on their property, and therefore in-lieu of CUC rental payments for use of these customers' properties they are not paying 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:

CUC should execute formal agreements with all landowners for the use of land and ensure compliance to established policies and procedures.

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 2005. During 2007, CUC adopted a policy requiring all agreements to be prepared prior to using private properties. CUC also established procedures for easement claims.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Monitoring of Work Orders

Finding No. 2006-2

Criteria:

Construction-in-progress general ledger and subsidiary ledgers should be timely reconciled and costs accumulated for completed or cancelled work orders should be properly reclassified to capital assets or recorded as expenditure in a timely manner.

Condition:

In fiscal year ending September 30, 2006, CUC made a net adjustment of \$2,581,732 to record as prior year expenditures, several long outstanding open work orders and the difference between construction-in-progress subsidiary ledgers and general ledger balances.

Cause:

The cause of the above condition is the catch-up reconciliation made by CUC in fiscal year 2006 to reconcile capital expenditures with the CNMI Government Capital Improvement Projects Coordinator.

Effect:

The effect of the above condition is the restatement of beginning net assets to record decrease in capital assets and increase in prior year expenditures.

Recommendation:

CUC should ensure that reconciliations of construction-in-progress general ledger and subsidiary ledger are performed monthly to avoid material restatement of previously reported financial statements and to ensure that capital expenditures are properly recorded.

Prior Year Status:

Lack of reconciliation of capital expenditures with the CNMI Government Capital Improvement Projects Coordinator and lack of procedures in place to ensure that payment requests made to the CNMI Government are forwarded on a timely basis to CUC accounting for recording was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Purchases/Disbursements

Finding No. 2006-3

Criteria:

Disbursements should be properly supported with approved requisition vouchers and purchase orders as evidence that the purchase of goods or performance of services is authorized. Such supporting documentation should be maintained and filed accordingly.

Conditions:

- a. The requisition voucher was not properly signed by requisitioner for 21 or 52.5% of the 40 purchase order files tested.

<u>No.</u>	<u>Date</u>	<u>Purchase Order Number</u>	<u>Amount</u>
1.	10/14/2005	06 0054	\$ 300.00
2.	10/14/2005	06 0077	2,000.00
3.	10/18/2005	06 0110	124.00
4.	10/21/2005	06 0123	250.00
5.	10/25/2005	06 0171	305.00
6.	11/2/2005	06 0191	643.03
7.	1/3/2005	06 0215	890.06
8.	11/9/2005	06 0234	722.50
9.	11/25/2005	06 0306	3,799.60
10.	3/1/2006	06 0425	512.82
11.	3/6/2006	06 0437	3,050.00
12.	03/17/06	06 0468	1,500.00
13.	03/30/06	06 0494	362.50
14.	04/10/06	06 0530	534.38
15.	06/26/06	06 0675	440.00
16.	06/26/06	06 0676	1,010.45
17.	07/11/06	06 0709	550.00
18.	08/24/06	06 0813	276.00
19.	09/12/06	06 0887	810.94
20.	09/13/06	06 0915	2,210.00
21.	09/30/06	06 0991	900.00
			<u>\$ 21,191.28</u>

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Purchases/Disbursements, Continued

Finding No. 2006-3

b. The purchase order files were not provided for my examination for 3 or 7.5% of the 40 purchase order files selected for testing.

<u>Date</u>	<u>Purchase Order Number</u>	<u>Amount</u>
10/17/2005	06 0091	\$ 279.50
2/23/2006	06 0414	307.10
4/7/2006	06 0523	<u>150.00</u>
		<u>\$ 736.60</u>

Cause:

The cause of the above condition is failure to ensure completeness of relevant supporting documents prior to processing of purchase orders, a lack of strict compliance with established policies and procedures and a lack of proper and systematic filing of relevant supporting documents.

Effect:

The effect of the above condition is the potential for unauthorized/invalid expenditures and waste, fraud and abuse.

Recommendation:

I recommend that CUC ensure all expenditures are properly supported and properly authorized. Additionally, CUC should ensure that established policies and procedures regarding the processing of requisitions and purchase orders are strictly adhered to.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Payroll

Finding No. 2006-4

Criteria:

Personnel independent of the payroll process should perform the input of employee pay rates.

Condition:

During my testing of payroll expenses, I noted that the Payroll Department inputs the approved pay rate into the system.

Cause:

CUC's Human Resources (HR) Office does not have access to CUC's current payroll system and CUC is still in the process of sourcing for an HR module that will be able to address the requirements of CUC and at the same time facilitate the proper segregation of duties.

Effect:

The effect of the above condition is the potential for payroll personnel to alter pay rates.

Recommendation:

To compensate for the lack of segregation of duties, I recommend that an edit report should be printed on a bi-weekly basis detailing any changes made to the payroll master file. This report should be forwarded directly to the HR office by the IT department. The authorized payroll status change form used by Payroll Department as the source document to initiate changes to the payroll master file should also be forwarded to the HR office. The HR Office can then compare the report against the payroll status change form to determine whether changes were authorized and properly made.

Prior Year Status:

Lack of established policies and procedures over proper segregation of duties of payroll processing was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Accounts Receivable/Disconnection

Finding No. 2006-5

Criteria:

Pursuant to the CUC Electric Service Regulation, Part 17, CUC may disconnect past due accounts after 14 calendar days of second disconnection notice, which is sent 45 days after the first disconnection notice. The customer may seek remedy against disconnection by filing a formal dispute or execute a promissory note subject to the CUC approval.

Condition:

From the aging of receivables provided by CUC, I summarized active accounts with over due amounts and noted that 573 accounts totaling \$3,739,242.78, are over 75 days past due. Of these, only 84 accounts totaling \$2,032,515.72 are included in the summary of accounts under dispute and 7 accounts with totaling \$20,715.99, are included in the listing of promissory notes. Therefore, 482 accounts totaling \$1,686,011.07, should have been subject to disconnection.

Cause:

The cause of the above condition is the lack of monitoring to ensure that all accounts that are 75 days past due are disconnected, unless supported by promissory notes or formal customer dispute.

Effect:

The effect of the above condition is the accumulation of past due accounts that are doubtful of collectability and could be bad debts.

Recommendation:

CUC should comply with established policies and procedures for termination/disconnection of service. Furthermore, monitoring should be performed to ensure that accounts that are 75 day past due are timely disconnected, unless supported by promissory notes or formal customer dispute.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory

Finding No. 2006-6

Criteria:

Perpetual inventory records should, at all times reflect the total inventory quantity on-hand.

Condition:

The inventory valuation report as of September 30, 2006 showed several inventory items with negative quantities on-hand. Although the ending inventory was adjusted to actual physical count, the adjustment of \$455,255.13 may be overstated for these items with credit balances (See Finding No. 2006-7).

Cause:

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 personnel are matched by the system with the corresponding vendor invoices posted. Consequently, if corresponding invoices have not been posted by the Accounting Department 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 be inventory on-hand. Since the computer system allows for issuance even when there is not enough inventory items per books, inventory issuances by warehouse personnel may result in negative inventory per books.

Effect:

The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance and related expenses.

Furthermore, inaccurate inventory valuation report is not useful to management in making inventory purchase decisions.

Recommendation:

CUC should ensure that all inventory transactions are posted timely. A properly functioning perpetual inventory system will help generate more accurate interim financial statements and minimize the likelihood of making large physical inventory adjustments.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory Reconciliation

Finding No. 2006-7

Criteria:

A reconciliation of inventory balances between the general ledger and subsidiary ledgers should be performed regularly and discrepancies, if any, should be investigated.

Condition:

For fiscal year ending September 30, 2006, CUC adjusted as a credit to administrative expenses \$455,255.13, for the net understatement of the inventory general ledger balance control account against adjusted inventory valuation report without detailed investigation.

Cause:

The cause of the above condition is the lack of established policies and procedures over inventory reconciliations.

Effect:

The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance and related expenses.

Recommendation:

The adjustment should only be made by a responsible person after a reasonable explanation for the discrepancies have been obtained. Thus, before making the adjustment, someone with no access to the inventory should investigate the discrepancies between the inventory valuation report (subsidiary ledger) and physical count and attempt to determine whether they are due to clerical or counting errors, improper purchase and issuance cutoff during the physical count, theft, intentional misstatement of the records or count, etc. Steps should then be taken to address the causes so that they do not recur.

To ensure that the purchase and issuance cutoffs are proper, someone should control purchase and sales invoices received/issued shortly before and after the physical count. This person should determine that the subsidiary ledger as of the physical inventory date include purchase invoices for all goods received before, but not after, the physical count and should exclude issuances for all goods used/transferred before, but not after, the count.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory Reconciliation, Continued

Finding No. 2006-7

Recommendation, Continued:

Monthly inventory reconciliations should be prepared in a timely manner to identify reconciling items between the general ledger and subsidiary ledgers in order to test the accuracy of both systems and, therefore, provide more accurate financial information.

CUC should also consider performing periodic cycle counts of the fast moving inventory items and compare the results with the perpetual records. This will enable CUC to identify inventory shortages and errors on a timely basis.

Prior Year Status:

Lack of established policies and procedures over inventory reconciliations was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory Valuation

Finding No. 2006-8

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, 2006 and, accordingly, related issuances have negative values. Therefore, operating expenses maybe understated. Furthermore, 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 accounts payable and warehouse 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 resulting in an opinion qualification on the account balance and related expenses.

Recommendation:

CUC should establish policies and procedures to ensure timely posting of inventory purchases, receipts and issuances; establish a formal review process and monitoring procedures for inventory adjustments; ensure coordination between responsible personnel; and ensure that these policies and procedures are strictly adhered to. Even with the bar-coding system that CUC is planning to implement, coordination between Warehouse and Accounts Payable accountant would still be necessary. Although the bar-coding system may facilitate the receiving and issuance function of the warehouse, if the accounts payable section does not timely record the purchases, issuances will still result in credit balances in the inventory valuation report.

Prior Year Status:

Untimely posting of inventory purchases, receipts and issuances, the lack of coordination between Warehouse and Accounts Payable personnel for input of purchases and issuances and monitoring and review of inventory adjustments

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory Obsolescence

Finding No. 2006-9

Criteria:

Inventories should be reviewed regularly for possible obsolescence and generally accepted accounting principles in the United States of America requires inventory to be recorded at lower of cost or net realizable values.

Condition:

Inventory review to determine or identify old, obsolete or overstock was not performed until after fiscal year end.

Cause:

The cause of the above condition is the lack of established policies and procedures for reviewing and monitoring of obsolete and non-moving inventories.

Effect:

The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance.

Recommendation:

A periodic inventory turnover analysis or formal obsolescence evaluation throughout the year should be performed to identify slow moving and obsolete items. The timely disposal of these items will eliminate the additional carrying costs associated with inventory.

Carrying costs of slow-moving and obsolete items should be compared with their net realizable value. Should the carrying value exceed net realizable values, CUC should adjust the valuation to reflect the lower of cost or net realizable value.

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 audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Review Inventory Requirements

Finding No. 2006-10

Criteria:

Inventory should be kept at a reasonable level to support operations.

Condition:

Analysis of materials and supplies inventory (except fuels and lubes) is as follows:

Inventory	<u>\$ 8,048,672</u>
Issuances:	
Repairs and Maintenance	\$ 3,812,540
Supplies Expense	<u>350,495</u>
	<u>\$ 4,163,035</u>
Average inventory turnover	<u>2 years</u>

Cause:

The inventory system is not maintained timely, resulting in having items showing credit balances. Therefore, reported inventory levels may be inaccurate. Furthermore, CUC is experiencing cash flow difficulties and are unable to follow the inventory levels defined in the inventory system.

Effect:

The effect of the above condition is that the CUC sometimes faces unanticipated and undesirable stock-out situations, while levels of other inventory items are too high.

Recommendation:

CUC should evaluate its inventory levels, consider disposing of certain obsolete and slow-moving items.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Utility Plant

Finding No. 2006-11

Criteria:

Adequate presentation and control of fixed assets is essential in preparing accurate financial statements. Unless all fixed assets are recorded, depreciation used in determining utility rates could be misstated.

Condition:

CUC has not taken a physical inventory of its capital assets. The following was noted:

- Completed projects are not closed and transferred to capital 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 the respective estimated useful lives. This also resulted to a restatement increasing prior year expenses by \$2,581,732 as a result of the reconciliation of construction work-in-progress subsidiary ledgers and general ledger;
- CUC has not conducted physical count of capital assets in over 4 years and has no basis to determine if the carrying value of its capital assets is recoverable. In accordance with generally accepted accounting principles in the United States of America, long lived assets should be evaluated for impairments. Since a physical count has not been conducted, the asset listing may still include assets that have been retired, broken, destroyed or stolen; and
- Capital assets lapsing schedules and the general ledger balances were reconciled only at year end. This also resulted to a restatement decreasing prior year expenses by \$1,356,840.

Cause:

The causes of the above conditions are as follows:

- No physical count of capital assets has been performed;
- Lack of timely coordination and reconciliations between CUC's departments responsible for project oversight and the accounting department; and
- Lack of timely reconciliations between the general ledger and subsidiary ledgers;

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Utility Plant, Continued

Finding No. 2006-11

Effect:

The effect of the above conditions is a possible misstatement of capital asset balances resulting in an opinion qualification on the account balance and related depreciation expense. Additionally, a control deficiency exists over the safeguarding of capital assets.

Recommendation:

CUC should perform a physical inventory of all fixed assets on hand, agree the count with its records and make necessary adjustments. CUC should also consider evaluating capital assets for impairments and recoverability of carrying values. An asset should be tested for recoverability if events or changes in circumstances, such as the following among others, indicate that its carrying amount may not be fully recoverable:

- a. Significant adverse change in the asset's use or in its physical condition;
- b. Significant adverse changes in legal factors or business climate, including an adverse action or assessment by a regulator; and
- c. Costs to acquire or construct an asset that significantly exceed original expectations.

When a long-lived asset is tested for recoverability, a review of depreciation or amortization estimates may be required. Any revision to the remaining useful life should then be considered in developing estimates of future cash flows used to test the asset's recoverability.

Prior Year Status:

The lack of control over capital assets was reported as a finding in the audits of CUC for fiscal years 1988 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Insurance Coverage

Finding No. 2006-12

Criteria:

Insurance coverage should be maintained to protect an organization from potential perils and material losses.

Condition:

CUC has not obtained insurance for its capital assets.

Cause:

The CNMI government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI government does not maintain any insurance on its buildings, or its employees. CUC follows the CNMI's government of self-insurance policy.

Effect:

The effect of the above condition is the possibility of material losses.

Recommendation:

CUC should 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 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Obligations under Capital Lease

Finding No. 2006-13

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, "*Determining Whether an Arrangement Contains a Lease*", 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 Statement 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 determined that this agreement is, in fact, a capital lease and 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, constitutes the fair value of the leased property.

Cause:

The cause of the above condition is that CUC's management believes that the guaranteed price approximates fair value; however, a sound basis for determination of fair value such as the actual cost of the power plant or an appraisal report was not obtained.

Effect:

The effect of the above condition is the possible misstatement of obligations under capital lease resulting in an opinion qualification on the account balance.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Obligations under Capital Lease, Continued

Finding No. 2006-13

Recommendation:

CUC should 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 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Accrued Annual Leave

Finding No. 2006-14

Criteria:

CUC's policy on annual leave states that the Section Head or Division Manager may approve advanced annual leave of up to 40 hours per calendar year with the approval of the Executive Director or his/her designee.

Condition:

I noted that there were 7 employees with advanced annual leave over 40 hours amounting to \$4,157.19 as of September 30, 2006.

Cause:

There is a lack of timely review of accrued annual leave.

Effect:

CUC is not in compliance with its policies and procedures for advance annual leave.

Recommendation:

CUC should ensure that advance leave approved for an employee does not exceed 40 hours.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Security Deposits

Finding No. 2006-15

Criteria:

Electric Service Regulations Part 6.8, as amended in July 20, 2005 (Commonwealth Register Volume 27 No 06) states that,

- a. The Corporation shall be liable for all security deposits received. The Corporation shall maintain an account indicating customer name, date of security deposit and amount of deposit. Effective January 15 of each year, each account shall be credited an amount equal to the average "passbook" savings interest rate payable during the past year based on rates from at least three local FDIC insured banks.
- b. The Corporation's Comptroller shall prepare for the Board of Directors an annual report in January of each year which explicitly details amounts of deposits received, interest rate to be paid for the previous year and total account liabilities.

Condition:

Although annual interest owed on deposits received from customers are calculated annually, CUC did not recognized the liability for such interest in its financial statements.

As of September 19, 2007, the annual report on deposits for calendar year 2006 that is required to be prepared in January of each year was not yet available.

Cause:

The cause of the above condition is the lack of timely reconciliation of deposits per subsidiary ledgers to the general ledger balance.

Effect:

Although immaterial to CUC's financial statement taken as a whole, CUC's liabilities and expenses may be understated for the interest owed to customers for their deposits.

Recommendation:

CUC should accrue its liability for customer deposit interests.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Security Deposits

Finding No. 2006-16

Criteria:

Based on a Memorandum issued September 29, 2005 to all Division Managers by the Executive Director regarding "Assessing Electric Security Deposits":

- a. New customers who apply for service at a location where no prior service was provided, the electric security deposit will be \$200 for residential and \$365 for commercial.
- b. Customers whose security deposits are to be calculated based on actual or estimated usage stated in kilowatt-hours, depending on the applicable circumstances (i.e. certified load calculations provided by the electrical engineer, the 2 highest monthly usage during the past 12-month period, or average monthly usage for the last 6 months for the prior customer), the number of kilowatt-hours shall be multiplied by the applicable electric rate plus the current fuel surcharge fee.

Additional criteria for computation of required deposits from Part 6.4 of the Electric Service Regulations, which states that "after one year of established use and annually thereafter, the CUC may also recalculate security deposit".

Condition:

Of the 40 customer deposits selected for testing 32 or 80% and 24 or 60% have security deposits that are insufficient to the highest usage for the past 12-month period and average monthly usage for the past 6 months, respectively.

Cause:

CUC failed to assess customer security deposits in accordance with its policies and procedures.

Effect:

The effect of this condition is in case certain customers default in paying its billings, CUC does not have enough deposits from these customers to recover its receivable. This may result to potentially high uncollectable accounts.

Recommendation:

CUC should assess customer deposits in accordance with its policies.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Debt

Finding No. 2006-17

Criteria:

Section 7.2 of a loan agreement with a contractor requires CUC to establish and maintain an escrow account of not less than \$360,000 as part of their security agreement.

Condition:

As of September 30, 2006, CUC does not have an escrow fund account pursuant to the loan agreement.

Cause:

The cause of the above condition is lack of sufficient funds and a tight cash flow position.

Effect:

The effect of the above condition is noncompliance with the loan agreement.

Recommendation:

CUC should re-establish the escrow account to ensure compliance with debt requirements.

Prior Year Status:

The lack of escrow fund account was noted as finding for fiscal year 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

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**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2002
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 9/21/04, 2/15/05, 8/9/05, 3/13/06, 9/29/06, 2/6/07, 8/28/07,
3/17/08, 8/25/08, 8/12/09, 11/25/09, 5/12/10, 5/17/10

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

See pages 252 to 254 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

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.

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2008
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/13/09, 9/3/09 (Deloitte re: MPLT response), 11/25/09,
12/23/09 (Deloitte re: MPLT response), 5/12/10

Date(s) of response letter(s) received : 8/28/09, 9/2/09, 10/28/09

See pages 256 and 257 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

MARIANAS PUBLIC LAND TRUST

Schedule of Findings Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-1

Criteria: In accordance with Article XI, Section 6 of the Commonwealth of the Northern Mariana Islands (CNMI) Constitution, the trustees shall make reasonable, careful and prudent investments.

Condition: During the year ended September 30, 2008, MPLT loaned \$3,500,000 to a government agency. The loan is secured by future funds earmarked by Public Law 16-3, which are \$100,000 less than the loan value. The MPLT legal counsel recommended that certain actions be taken before the loan was finalized. However, we could not determine that all such conditions were met.

Cause: The cause of the above condition is that management is of the opinion that requisite conditions were met but such was not fully documented.

Effect: We could not determine if a financial statement effect results from the condition.

Recommendation: We recommend that management formally document the manner in which the legal counsel recommendations were considered.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bruce M. MacMillan, Board Consultant

Corrective Action: MPLT Trustees realize that making a loan to the Commonwealth Utilities Corporation (CUC) may appear to be lacking prudence given their financial problems. The Trustees were well aware of all the potential issues in making this investment, but the nature of the whole transaction outweighed the negatives of any potential default. This loan did not involve using any of MPLT's existing resources as the funding for this loan came from the simultaneous receipt of new principal due to the Department of Public Lands distribution of \$3,500,000. It is questionable as to whether this distribution would have been given to the Trust otherwise. Additionally, we received the earmarks per P.L. 16-3, which allows us to apply a total of \$3,400,000 to the repayment of this loan of which one half will be applied from the FY 2009 distribution to the CNMI General Fund. We have also been receiving the monthly interest payments from CUC in a timely manner, which has helped to offset the loss of interest from our NMHC loan. This has helped our beneficiary's interest considerably. The repayment of the loan for FY 2009 will be reinvested in accordance with our Investment Policy Statement.

The Trustees do not feel any corrective action is needed or required.

Proposed Completion Date: Not applicable

MARIANAS PUBLIC LAND TRUST

Schedule of Findings, Continued
Year Ended September 30, 2008

Local Noncompliance

Finding No. 2008-2

Criteria: In accordance with the By-Laws, any travel of over six hours of flight time may be permitted in business class or comparable class offered by the carrier. In all other situations, travel shall be by economy or coach class.

Condition: We noted four items representing the purchase of airfare tickets to the Philippines. The travel was based on business class travel. The flight to Manila, Philippines was three hours and forty minutes.

Cause: The cause of the above condition is due to lack of adherence to travel policies.

Effect: The effect of the above condition is noncompliance with the By-Laws.

Recommendation: We recommend that the Board of Trustees ensure that all travel arrangements strictly adhere to the By-Laws.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Bruce M. MacMillan, Board Consultant

Corrective Action: The Trustees approved this travel using business class even though the flight time was less than six hours. Their rationale was that the total travel time including layover in Guam exceeded the six hour requirement and it was a matter of the Trustees arriving in a rested state.

The Trustees are reviewing their By-Laws and may change this requirement.

Proposed Completion Date: Ongoing

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2008
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/12/09, 11/25/09, 5/12/10

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

See pages 259 to 282 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

NORTHERN MARIANAS COLLEGE

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

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

Receivables

Finding No. 2008-1

Criteria: Receivables should be periodically assessed for validity and collectability. Additionally, through this review process, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: Our examination of the College's receivables indicated the following:

- a. The College migrated to a new student account system during the year. Such migration resulted in improperly aged receivables. Further, the aging schedule indicated various credit balances, which made it difficult to assess current and past due accounts.
- b. The general ledger accounts receivable balance was \$38,957 greater than the balance reported on the aging schedule. The nature of the difference could not be determined.
- c. An analysis of the allowance for doubtful accounts was not performed during fiscal year 2008. An adjustment was proposed during the audit process to correct this matter.

Cause: The cause of the above condition is the lack of procedures in place to monitor and analyze receivables and inefficiencies when the College migrated to the new student account system.

Effect: The effect of the above condition is a potential misstatement of receivables. Further, interim financial statements are misstated due to an inadequate provision for doubtful receivables.

Recommendation: We recommend that the College implement procedures requiring periodic review of all receivables for validity and collectability.

Prior Year Status: Lack of review of receivables for validity and collectability was reported as a finding in the Single Audits of the College for fiscal years 2001 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College agrees with this finding. In FY2008, the College migrated to a new software for its accounts receivable which is more compatible with the students admissions and records system. Unfortunately during this migration, student receivable details did not carry into the new system. The College is currently working with vendors that service the accounting and student admissions and records software to address this issue.

NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-1, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

Further, the College made a concerted effort in financial year 2007 to address long outstanding receivables and, as a result, of which a significant portion of unsupported and uncollectible balances were written off.

An analysis of the allowance for doubtful accounts was not performed at September 30, 2008 but going forward, receivables will be reviewed on a periodic basis and adjustments made as warranted to the general ledger to reflect subsidiary details. An assessment of the adequacy of the allowance for doubtful accounts will also be performed on a periodic basis.

Proposed Completion Date: September 30, 2009

NORTHERN MARIANAS COLLEGE

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

Property, Plant and Equipment

Finding No. 2008-2

Criteria: The College's Property Management and Accountability Manual requires that an annual physical fixed asset inventory be taken. The fixed asset physical inventory records should be reconciled with general ledger fixed asset balances.

Condition: Tests of fixed assets noted the following:

- a. A physical inventory of property and equipment was performed in 2008; however, a reconciliation of the physical count to property asset records was not completed.
- b. Property, plant and equipment transactions were not recorded in the plant fund resulting in a proposed adjustment of \$748,244. Further, depreciation expense was not recorded for fiscal year 2008, resulting in a proposed adjustment of \$470,757.
- c. For twenty items verified for existence, two items (Asset Nos. RED009835 and RED010648) are included in the fixed asset register but are no longer in use.

Cause: The cause of the above condition is a lack of control procedures over property, plant and equipment.

Effect: The effect of the above condition is the potential misstatement of property, plant and equipment balances. Audit adjustments were proposed to correct the above condition.

Recommendation: We recommend that the College strengthen procedures and ensure that the physical inventories are completed and reconciled to fixed asset records. Further, we recommend that property, plant and equipment activities be periodically recorded in the plant fund.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. A comprehensive inventory of fixed assets began in FY2009 and was completed in December 2008. This effort unfortunately was only completed subsequent to the financial year under audit. It is noted that the College expended significant effort to address this long standing issue relative to the accounting and inventory of all College assets and the carrying balances of its real properties in FY2007. As a result, material adjustments were made to the financial statements and the related audit finding and report qualification were removed.

Conducting an annual inventory of fixed assets is both unreasonable and impractical considering the limited human and financial resources at the institution. Federal regulations do not call for an annual inventory of assets but do require that a physical inventory be conducted every two years. The College made adjustments to its local property management manual to have such coincide with the federal requirement. The College invested in the fixed assets module for tracking and accounting of its fixed assets. This should provide for greater accountability of all capital assets of the institution. The results of the physical inventory completed in December 2008 will be reflected in the financial statements for fiscal year 2009 (September 30, 2009).

Proposed Completion Date: September 30, 2009

NORTHERN MARIANAS COLLEGE

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

Local Noncompliance - Travel

Finding No. 2008-3

Criteria: Pursuant to the College's Travel Policies, travel authorizations must be closed fifteen days of the completion of travel.

Condition: For sixteen travel expenses, the travel voucher was not submitted and closed within fifteen days of the completion of travel.

<u>Check/Ref. No.</u>	<u>Document No.</u>	<u>Date Travel Ended</u>	<u>Date TA Closed</u>
28128	TA-102368	03/02/08	10/02/08
28824	TA-102839	05/09/08	07/16/08
28736	TW-102850	04/25/08	09/25/08
28422	TA-102360A	03/28/08	06/03/08
26972	TA-102061	11/03/07	06/23/08
28419	TA-102410B	03/28/08	06/11/08
28821	TA102857A	05/10/08	07/17/08
28012	TA-102295	02/16/08	11/06/08
4804.1b	TA-102178	01/16/08	07/23/08
4804.1b	TA-102179	01/16/08	07/23/08
29507	TA-102875	07/18/08	10/02/08
29853	TA-102876	08/21/08	10/02/08
29853	TA-103067	08/21/08	10/02/08
29294	TA-102474	07/28/08	08/15/08
27786	TA-102024	02/03/08	03/03/08
29022	TA-102478	05/22/08	07/02/08

Cause: The cause of the above condition is failure to ensure that travel vouchers are submitted and closed on a timely basis.

Effect: The effect of the above condition is noncompliance with the College's travel policies.

Recommendation: We recommend that the College strengthen procedures to ensure that travel vouchers are submitted and closed pursuant to established policies.

Prior Year Status: The lack of adequate procedures to ensure that travel vouchers are timely submitted and closed was reported as a finding in fiscal year 2001 through 2007 audits.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College agrees with this finding. Controls are now in place to hold travelers personally responsible for travel documents not being submitted in a timely manner. Further, should balances not be cleared in a timely manner, adjustments will be made to the financial statements to reclassify such as being receivable from the responsible employee until the documents are submitted or the amount of the travel advance repaid to the institution.

Proposed Completion Date: September 30, 2009

NORTHERN MARIANAS COLLEGE

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

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

Allowable Costs/Cost Principles

Finding No. 2008-4

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																																																
U.S. Department of Agriculture / Payments to Agricultural Experiment Stations Under the Hatch Act / CFDA # 10.203 / Federal Award #s 2008-3110006095 and 2007-3110006095 / Federal Award Periods 10/01/07 - 09/30/08 and 10/01/06 - 09/30/07	<p><u>Criteria:</u> Expenditures should be authorized, supported, and approved prior to incurrance and expenditures should be recorded in the correct period. Further, salary charges should be based on actual hours worked as certified in employee timesheets.</p> <p><u>Condition:</u> Of \$733,610 nonpayroll expenditures, forty-nine items totaling \$301,342 were tested. Further, of \$269,427 of payroll expenditures, eighteen items totaling \$12,154 were tested and the following noted</p> <p>a. For one \$4,971 disbursement (Document No. PO-111637) the supporting vendor invoice and receiving report or any equivalent document evidencing receipt of items or services purchased was not located.</p> <p>b. For two communication expenses, log sheets to monitor names of persons or companies and dates when long distance cell phone calls are made or evidence that billings are verified and exclude personal calls were not available. Thus, there is no evidence that these long distance calls are reasonable and necessary for the program.</p> <table style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Check No.</u></th> <th style="text-align: left;"><u>Document No.</u></th> <th style="text-align: left;"><u>GL Date</u></th> <th style="text-align: left;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>29483</td> <td>287-0552 may'08</td> <td>07/03/08</td> <td>\$ 1,520</td> </tr> <tr> <td>28908</td> <td>287-0552 feb'08</td> <td>05/01/08</td> <td><u>1,614</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">\$ <u>3,134</u></td> </tr> </tbody> </table> <p>c. For one disbursement (Document No. PO-111178), the expense recorded was \$585 greater than the amount of actual items received as of September 30, 2008.</p> <p>d. For six employees, actual hours worked certified in timesheets did not substantiate Program salaries of \$3,130. Details as follow:</p> <table style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Payroll Period No.</u></th> <th style="text-align: left;"><u>Payment Reference No.</u></th> <th style="text-align: left;"><u>Payment Date</u></th> <th style="text-align: left;"><u>Over Charged Salaries</u></th> </tr> </thead> <tbody> <tr> <td>PP# 7/08</td> <td>v022663</td> <td>03/28/08</td> <td>\$ 291</td> </tr> <tr> <td>PP# 3/08</td> <td>v022066</td> <td>02/01/08</td> <td>264</td> </tr> <tr> <td>PP# 11/08</td> <td>v023148</td> <td>05/23/08</td> <td>1,424</td> </tr> <tr> <td>PP# 10/08</td> <td>v023100</td> <td>05/09/08</td> <td>563</td> </tr> <tr> <td>PP# 21/07</td> <td>v021009</td> <td>10/12/07</td> <td>472</td> </tr> <tr> <td>PP# 10/08</td> <td>11119</td> <td>05/09/08</td> <td><u>116</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">\$ <u>3,130</u></td> </tr> </tbody> </table>	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	29483	287-0552 may'08	07/03/08	\$ 1,520	28908	287-0552 feb'08	05/01/08	<u>1,614</u>				\$ <u>3,134</u>	<u>Payroll Period No.</u>	<u>Payment Reference No.</u>	<u>Payment Date</u>	<u>Over Charged Salaries</u>	PP# 7/08	v022663	03/28/08	\$ 291	PP# 3/08	v022066	02/01/08	264	PP# 11/08	v023148	05/23/08	1,424	PP# 10/08	v023100	05/09/08	563	PP# 21/07	v021009	10/12/07	472	PP# 10/08	11119	05/09/08	<u>116</u>				\$ <u>3,130</u>	<p>4,971</p> <p>3,134</p> <p>585</p> <p>3,130</p>
<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>																																															
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NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-4, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Cause:</u> The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures, weak internal control procedures in filing and maintaining supporting documents and ensuring that salary charges are based on actual hours worked.</p> <p><u>Effect:</u> The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$11,820.</p> <p><u>Recommendation:</u> We recommend that the College strengthen internal control procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and pertinent documents supporting program expenditures are properly maintained and filed. We further recommend that the College strengthen internal controls over time record keeping to ensure the salaries charged are based on actual time spent on the program.</p> <p><u>Prior Year Status:</u> Failure to obtain pertinent approvals prior to incurrence and expenditures, lack of internal controls over filing and maintaining of supporting documents, and lack of internal control procedures over time record keeping was reported as a finding in the audit of College for fiscal year 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer</p> <p>Corrective Action: The College partially agrees with this finding. The College believes that adequate supporting documentation to support the costs are available while the auditors expectations appear to be otherwise.</p> <p>Attempting to track and report individual calls on all cell phones is deemed impractical and an inefficient use of program resources. In an effort to comply with the auditors' expectations, the College has eliminated the use of cellular phones and taken additional actions which, it believes is counter-productive to the operations of the program.</p> <p>For the personnel items, the College is in the process of updating personnel action forms to reflect the charges.</p> <p>The College will bring these documents and its position on the issues to the grantor agency and attempt to resolve such directly with the federal agency.</p> <p>Proposed Completion Date: September 30, 2009</p>	<p><u>11,820</u></p>

NORTHERN MARIANAS COLLEGE

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

Allowable Costs/Cost Principles

Finding No. 2008-5

Program	Reason for Questioned Costs	Questioned Costs																								
U.S. Department of Agriculture / Payments to Cooperative Extension Service Under the Smith Lever Act / CFDA # 10.500 / Federal Award #s 2008-41100-05700, 2008-41530-05700, 2008-41510-05700, and 2008-48024-05700/ Federal Award Period 10/01/07 - 09/30/08	<p><u>Criteria:</u> Expenditures should be authorized, supported, and approved prior to incurrence and should be recorded in the correct period. Further, salaries should be based on actual hours worked as certified in employee timesheets.</p> <p><u>Condition:</u> Of \$366,846 nonpayroll expenditures, twenty-nine items totaling \$26,687 were tested. Further, of \$432,925 in payroll expenditures, twenty-six items totaling \$17,350 were tested. Tests of expenditures noted the following:</p>																									
	a. For one \$350 disbursement (Document No. 2947jul31'08) for an independent services contract, there was no evidence that the amended contract was approved by the procurement officer and legal counsel.	350																								
	b. For one \$600 disbursement (Document No. 2972jan15'08) for independent contract services, the supporting contract was not provided.	600																								
	c. For one \$1,554 communication expense (Document No. 287-0552june'08), log sheets to monitor names of persons or companies and dates when long distance cell phone calls were made or evidence that billings are verified and exclude personal calls was not available. Thus, there is no evidence that these long distance calls are reasonable and necessary for the program.	1,554																								
	d. For one \$95 travel expense (Document No. TW-102919A), supporting boarding passes and trip reports evidencing that the traveler completed the travel were not available.	95																								
	e. For four employees, actual hours certified in timesheets did not substantiate salary charges. Details follow:																									
<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Payroll Period No.</u></th> <th style="text-align: center;"><u>Payment Reference No.</u></th> <th style="text-align: center;"><u>Payment Date</u></th> <th style="text-align: center;"><u>Over Charged Salaries</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PP# 2/08</td> <td style="text-align: center;">v022008</td> <td style="text-align: center;">01/18/08</td> <td style="text-align: right;">\$ 494</td> </tr> <tr> <td style="text-align: center;">PP# 21/07</td> <td style="text-align: center;">v020985</td> <td style="text-align: center;">10/12/07</td> <td style="text-align: right;">81</td> </tr> <tr> <td style="text-align: center;">PP# 22/07</td> <td style="text-align: center;">v021055</td> <td style="text-align: center;">10/26/07</td> <td style="text-align: right;">291</td> </tr> <tr> <td style="text-align: center;">PP# 12/08</td> <td style="text-align: center;">v023429</td> <td style="text-align: center;">06/06/08</td> <td style="text-align: right;">519</td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 1,385</u></td> </tr> </tbody> </table>		<u>Payroll Period No.</u>	<u>Payment Reference No.</u>	<u>Payment Date</u>	<u>Over Charged Salaries</u>	PP# 2/08	v022008	01/18/08	\$ 494	PP# 21/07	v020985	10/12/07	81	PP# 22/07	v021055	10/26/07	291	PP# 12/08	v023429	06/06/08	519				<u>\$ 1,385</u>	1,385
<u>Payroll Period No.</u>	<u>Payment Reference No.</u>	<u>Payment Date</u>	<u>Over Charged Salaries</u>																							
PP# 2/08	v022008	01/18/08	\$ 494																							
PP# 21/07	v020985	10/12/07	81																							
PP# 22/07	v021055	10/26/07	291																							
PP# 12/08	v023429	06/06/08	519																							
			<u>\$ 1,385</u>																							
f. For one employee (Reference No. 10529), salary per the personnel action form did not agree with the salary rate in the payroll system which results in an overpayment of \$149.	<u>149</u>																									

Cause: The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures, weak filing procedures and a lack of supporting documents and failure to ensure that salaries are based on actual hours worked.

NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-5, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p>Effect: The effect of the above conditions is use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$4,133. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.</p> <p>Recommendation: We recommend that the College strengthen control procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and pertinent documents supporting program expenditures are maintained and filed. We further recommend that the College strengthen controls over time keeping to ensure that salaries charged are based on actual time spent on the program.</p> <p>Prior Year Status: Failure to obtain pertinent approvals prior to incurrence and expenditures, lack of internal controls over filing and maintaining of supporting documents, and lack of internal control procedures over time record keeping was reported as a finding in the audit of College for fiscal year 2007.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer</p> <p>Corrective Action: The College partially agrees with this finding. The College believes that adequate supporting documentation to support the costs are available while the auditors expectations appear to be otherwise.</p> <p>Attempting to track and report individual calls on all cell phones is deemed impractical and an inefficient use of program resources. In an effort to comply with the auditors' expectations, the College has eliminated the use of cellular phones and taken additional actions which, it believes is counter-productive to the operations of the program.</p> <p>For the personnel items, the College is in the process of updating personnel action forms to reflect the charges.</p> <p>The College will bring these documents and its position on the issues to the grantor agency and attempt to resolve such directly with the federal agency.</p> <p>Proposed Completion Date: September 30, 2009</p>	<p><u>4,133</u></p>

NORTHERN MARIANAS COLLEGE

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

Procurement and Suspension and Debarment

Finding No. 2008-6

Program	Reason for Questioned Costs	Questioned Costs																																
<p>U.S. Department of Agriculture / Payments to Agricultural Experiment Stations under the Hatch Act / CFDA # 10.203 / Federal Award #s 2008-3110006095 and 2007-3110006095 / Federal Award Periods 10/01/07 - 09/30/08 and 10/01/06 - 09/30/07</p>	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Further, brand names should not be indicated in the request of proposals or solicitations so as not to limit competition. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days. • For independent contract services, programs should 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. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, CFAO, President, BOR Chairperson (if contract amount exceeds \$25,000), and Contractor. <p><u>Condition:</u> Of \$733,610 of nonpayroll expenditures, forty-nine items, totaling \$301,342 were tested. Tests of nonpayroll expenditures noted the following:</p> <p>a. For ten disbursements of independent contract services, there was no documentation evidencing the program's efforts to determine whether the requirements may have been met by available in-house resources or through other employment options authorized by the College.</p>																																	
<table border="1"> <thead> <tr> <th><u>Check No.</u></th> <th><u>Document No.</u></th> <th><u>GL Date</u></th> <th><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>27672</td> <td>FR07003-11/31/07</td> <td>01/02/08</td> <td>\$ 2,040</td> </tr> <tr> <td>28230</td> <td>C-2975 jan31'08</td> <td>03/04/08</td> <td>2,040</td> </tr> <tr> <td>29929</td> <td>2909 aud.15'08</td> <td>08/19/08</td> <td>1,341</td> </tr> <tr> <td>30286</td> <td>PS-2975 AUG'30</td> <td>09/30/08</td> <td>2,066</td> </tr> <tr> <td>27673</td> <td>2911 dec31'07</td> <td>01/02/08</td> <td>500</td> </tr> <tr> <td>29473</td> <td>2966 june30'08</td> <td>07/02/08</td> <td>500</td> </tr> <tr> <td>29475</td> <td>2960 june30'08</td> <td>07/02/08</td> <td>625</td> </tr> </tbody> </table>	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	27672	FR07003-11/31/07	01/02/08	\$ 2,040	28230	C-2975 jan31'08	03/04/08	2,040	29929	2909 aud.15'08	08/19/08	1,341	30286	PS-2975 AUG'30	09/30/08	2,066	27673	2911 dec31'07	01/02/08	500	29473	2966 june30'08	07/02/08	500	29475	2960 june30'08	07/02/08	625		
<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>																															
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29473	2966 june30'08	07/02/08	500																															
29475	2960 june30'08	07/02/08	625																															

NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-6, Continued

Program	Reason for Questioned Costs				Questioned Costs
<u>Condition, Continued:</u>					
	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	
	28725	2989 apr30'08	04/30/08	652	
	26990	0069-10/31/07	11/01/07	1,141	
	28724	2961 apr30'08	04/30/08	1,141	
				<u>\$ 12,046</u>	12,046
	b. For one \$6,675 disbursement (Document No. PO-111978) there was no documentation why the lowest quote was not selected.				<u>6,675</u>
	c. For one pooled purchase (Document No. PO-111178), the procurement was made through competitive sealed proposals instead of competitive sealed bidding but the supporting justification was not on file. No questioned cost is raised as the lowest bidder was selected and the solicitation was advertised.				
	<u>Cause:</u> The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.				
	<u>Effect:</u> The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$18,721.				<u>18,721</u>
	<u>Recommendation:</u> We recommend that the College strengthen controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file.				
	<u>Prior Year Status:</u> Noncompliance with procurement policies was reported as a finding in the Single Audit of the College for fiscal year 2007.				
	<u>Auditee Response and Corrective Action Plan:</u>				
	Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer				
	Corrective Action: The College partially agrees with this finding. The College believes that adequate supporting documentation to support the costs are available while the auditors expectations appear to be otherwise. The College further believes that the auditors' quoted language from the CFR is not applicable to the College and as such certain expectations of the auditors is misplaced. Further, the College believes that the auditor is also misapplying NMC's internal procurement policies and procedures in raising this finding and related questioned costs. The College procures all professional services for federal programs, especially the CREES program, via a competitive procurement process where all employees of the institution are also allowed to apply to perform the services. The auditor raises the issue of services being available internally not recognizing that services for CREES are for research or extension activities which are unique and specific in nature. The College will bring these documents and its position on the issues to the grantor agency and attempt to resolve such directly with the federal agency.				
	Proposed Completion Date: September 30, 2009				

NORTHERN MARIANAS COLLEGE

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

Procurement and Suspension and Debarment

Finding No. 2008-7

Program	Reason for Questioned Costs	Questioned Costs																				
<p>U.S. Department of Agriculture / Payments to Cooperative Extension Service Under the Smith Lever Act / CFDA # 10.500 / Federal Award #s 2008-41100-05700, 2008-41530-05700, 2008-41510-05700, and 2008-48024-05700 / Federal Award Period 10/01/07 - 09/30/08</p>	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Further, brand names should not be indicated in the request of proposals or solicitations so as not to limit competition. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days. • For independent contract services, programs should 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. • All contract must be signed by the Legal Counsel, College Official with expenditure authority, CFAO, President, BOR Chairperson (if contract amount exceeds \$25,000), and Contractor. <p><u>Condition:</u> Of \$366,846 of nonpayroll expenditures, twenty-nine items totaling \$26,687 were tested. Tests of nonpayroll expenditures noted the following:</p> <p>a. For eight disbursements of independent contract services, there was no documentation evidencing the program's efforts to determine whether the requirements may be met by available in-house resources or through other employment options authorized by the College.</p>																					
<table border="1"> <thead> <tr> <th><u>Check No.</u></th> <th><u>Document No.</u></th> <th><u>GL Date</u></th> <th><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>26989</td> <td>PS-2909*</td> <td>10/30/07</td> <td>\$ 495</td> </tr> <tr> <td>30016</td> <td>FR07010</td> <td>09/03/08</td> <td>767</td> </tr> <tr> <td>28517</td> <td>2983 mar31'08</td> <td>04/02/08</td> <td>848</td> </tr> <tr> <td>28144</td> <td>2947 feb15'08</td> <td>02/25/08</td> <td>350</td> </tr> </tbody> </table>	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	26989	PS-2909*	10/30/07	\$ 495	30016	FR07010	09/03/08	767	28517	2983 mar31'08	04/02/08	848	28144	2947 feb15'08	02/25/08	350		
<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>																			
26989	PS-2909*	10/30/07	\$ 495																			
30016	FR07010	09/03/08	767																			
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28144	2947 feb15'08	02/25/08	350																			

NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-7, Continued

Program	Reason for Questioned Costs				Questioned Costs
<u>Condition, Continued:</u>					
	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	
	27755	2972 jan15'08	01/16/08	600	
	29989	2947 july31'08	08/26/08	350	
	29025	2989 may15'08	05/20/08	652	
	27671	2961 apr15'08	04/18/08	380	
	Less amount already questioned at Finding No. 2008-5			(950)	
				<u>\$ 3,492</u>	3,492

- b. For two disbursements (Document Nos. 5609 and PO-111144) totaling \$5,700, the purchase was made through the sole source method but there was no evidence that other available sources were considered prior to the decision to procure through sole source. 5,700

Cause: The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$9,192. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000. 9,192

Recommendation: We recommend that the College strengthen internal controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file.

Prior Year Status: Noncompliance with procurement policies was reported as a finding in the Single Audit of the College for fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. The College believes that adequate supporting documentation to support the costs are available while the auditors expectations appear to be otherwise. The College further believes that the auditors' quoted language from the CFR is not applicable to the College and as such certain expectations of the auditors is misplaced. Further, the College believes that the auditor is also misapplying NMC's internal procurement policies and procedures in raising this finding and related questioned costs.

The College procures all professional services for federal programs, especially the CREES program, via a competitive procurement process where all employees of the institution are also allowed to apply to perform the services. The auditor raises the issue of services being available internally not recognizing that services for CREES are for research or extension activities which are unique and specific in nature.

The College will bring these documents and its position on the issues to the grantor agency and attempt to resolve such directly with the federal agency.

Proposed Completion Date: September 30, 2009

NORTHERN MARIANAS COLLEGE

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

Procurement and Suspension and Debarment

Finding No. 2008-8

Program	Reason for Questioned Costs	Questioned Costs																																				
U.S. Department of Education / Adult Education Program / CFDA # 84.002 / Federal Award #s V002A070055, V002A080055, V002A070059, and V002A080059 Federal Award Periods 07/01/07 - 09/30/08, 07/01/08 - 9/30/09, 09/01/07 - 08/31/08 and 09/01/08 - 08/31/09	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days. <p><u>Condition:</u> Of \$357,955 nonpayroll expenditures, twenty-five items, totaling \$144,886 were tested. Tests of nonpayroll items noted the following:</p> <p>a. For two items, there was only one price quote on file but adequate documentation evidencing competitive procurement is not evident.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Check No.</u></th> <th style="text-align: left;"><u>Document No.</u></th> <th style="text-align: left;"><u>GL Date</u></th> <th style="text-align: right;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>28438</td> <td>4804.1b</td> <td>12/01/07</td> <td style="text-align: right;">\$ 11,536</td> </tr> <tr> <td>28495</td> <td>TA-102405</td> <td>03/28/08</td> <td style="text-align: right;"><u>2,927</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>\$ 14,463</u></td> </tr> </tbody> </table> <p>b. For four items, price quotations and rationale for vendor selection was not documented in the procurement file.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Check No.</u></th> <th style="text-align: left;"><u>Document No.</u></th> <th style="text-align: left;"><u>GL Date</u></th> <th style="text-align: right;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td>27990</td> <td>04777</td> <td>02/26/08</td> <td style="text-align: right;">\$ 580</td> </tr> <tr> <td>28214</td> <td>CR-113535</td> <td>02/26/08</td> <td style="text-align: right;">1,250</td> </tr> <tr> <td>29323</td> <td>04865</td> <td>06/23/08</td> <td style="text-align: right;"><u>580</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>\$ 2,410</u></td> </tr> </tbody> </table>	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	28438	4804.1b	12/01/07	\$ 11,536	28495	TA-102405	03/28/08	<u>2,927</u>				<u>\$ 14,463</u>	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	27990	04777	02/26/08	\$ 580	28214	CR-113535	02/26/08	1,250	29323	04865	06/23/08	<u>580</u>				<u>\$ 2,410</u>	<p style="text-align: right;">14,463</p> <p style="text-align: right;">2,410</p>
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NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-8, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Condition, Continued:</u></p> <p>c. For one pooled purchase (Document No. PO-111178), the procurement was made through competitive sealed proposals instead of competitive sealed bidding but the supporting justification was not on file. No questioned cost is raised as the lowest bidder was selected and the solicitation was advertised.</p> <p><u>Cause:</u> The cause of the above condition is inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement regulations and possible questioned costs of \$16,873.</p> <p><u>Recommendation:</u> We recommend that the College strengthen internal controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in procurement files.</p> <p><u>Prior Year Status:</u> Noncompliance with established procurement regulations was reported as a finding in the audit of the College for fiscal year 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer</p> <p>Corrective Action: The College partially agrees with this finding. The College believes that adequate supporting documentation to support the costs are available while the auditors expectations appear to be otherwise. The College further believes that the auditors' quoted language from the CFR is not applicable to the College and as such certain expectations of the auditors is misplaced. Further, the College believes that the auditor is also misapplying NMC's internal procurement policies and procedures in raising this finding and related questioned costs.</p> <p>The College will bring these documents and its position on the issues to the grantor agency and attempt to resolve such directly with the federal agency.</p> <p>Proposed Completion Date: September 30, 2009</p>	<p>16,873</p>

NORTHERN MARIANAS COLLEGE

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

Procurement and Suspension and Debarment

Finding No. 2008-9

Program	Reason for Questioned Costs	Questioned Costs																								
U.S. Department of Education / TRIO - Student Support Services / Talent Search, and Upward Bound Programs / CFDA #s 84.042, 84.044, and 84.047 / Federal Award #s P042A051370-07, P044A060919-07, P047A030695-06, and P047A071200 / Federal Award Periods 09/01/07 - 08/31/08 and 09/01/08 - 8/31/09	<p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. <p><u>Condition:</u> Of \$476,299 of nonpayroll expenditures, twenty-four items totaling \$69,622 were tested.</p> <p>a. For four disbursements, price quotations or a justification memo documenting the procurement method used was not available.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Check No.</u></th> <th style="text-align: center;"><u>Document No.</u></th> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">29294</td> <td style="text-align: center;">TA-102474</td> <td style="text-align: center;">06/18/08</td> <td style="text-align: right;">\$ 2,746</td> </tr> <tr> <td style="text-align: center;">27786</td> <td style="text-align: center;">TA-102024</td> <td style="text-align: center;">01/22/08</td> <td style="text-align: right;">2,843</td> </tr> <tr> <td style="text-align: center;">28598</td> <td style="text-align: center;">TA-102814</td> <td style="text-align: center;">04/10/08</td> <td style="text-align: right;">2,474</td> </tr> <tr> <td style="text-align: center;">29022</td> <td style="text-align: center;">TA-102478</td> <td style="text-align: center;">05/19/08</td> <td style="text-align: right;"><u>2,888</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>10,951</u></td> </tr> </tbody> </table> <p>b. For one pooled purchase (Document No. PO-111178) amounting to \$11,991, procurement was made through competitive sealed proposals instead of competitive sealed bidding but the supporting justification was not on file. No questioned cost is raised as the lowest bidder was selected and solicitation was advertised.</p> <p><u>Cause:</u> The cause of the above condition is inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are followed.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with procurement regulations and possible questioned costs of \$10,951.</p> <p><u>Recommendation:</u> We recommend that the College strengthen controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement files.</p>	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	29294	TA-102474	06/18/08	\$ 2,746	27786	TA-102024	01/22/08	2,843	28598	TA-102814	04/10/08	2,474	29022	TA-102478	05/19/08	<u>2,888</u>				\$ <u>10,951</u>	<p><u>10,951</u></p>
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NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-9, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><u>Prior Year Status:</u> Noncompliance with established procurement regulations was reported as a finding in the audit of the College for fiscal year 2007.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer</p> <p>Corrective Action: The College partially agrees with this finding. The College believes that adequate supporting documentation to support the costs are available while the auditors expectations appear to be otherwise. The College further believes that the auditors' quoted language from the CFR is not applicable to the College and as such certain expectations of the auditors is misplaced. Further, the College believes that the auditor is also misapplying NMC's internal procurement policies and procedures in raising this finding and related questioned costs.</p> <p>In an effort to comply with the auditors' expectations, the College has implemented additional procedures to ensure that quotes are not only obtained from the two US flag carriers serving the islands but also from several travel agencies. The procedures were implemented in late FY2008 and should be reflected in FY2010. The College continues to work with federal agencies to resolve these and other related findings and questioned costs. Initial findings of the federal agencies suggest that this issue will be resolved in the College's favor.</p> <p>Proposed Completion Date: September 30, 2009</p>	

NORTHERN MARIANAS COLLEGE

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

Period of Availability of Federal Funds

Finding No. 2008-10

Program	Reason for Questioned Costs	Questioned Costs																
U.S. Department of Education / Higher Education Institutional Aid / CFDA # 84.031 / Federal Award # P031A020233-07 / Federal Award Period 10/01/06 - 01/28/08	<p><u>Criteria:</u> Grant term and conditions state that expenditures should be obligated within the period of availability.</p> <p><u>Condition:</u> Of \$133,388 nonpayroll expenditures, ten items totaling \$117,358 were tested. For two disbursements, expenditures were not obligated within the period of availability.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;"><u>Check No.</u></th> <th style="text-align: center;"><u>Document No.</u></th> <th style="text-align: center;"><u>GL Date</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">27850</td> <td style="text-align: center;">PO-112019</td> <td style="text-align: center;">01/28/08</td> <td style="text-align: right;">\$ 8,230</td> </tr> <tr> <td style="text-align: center;">27855</td> <td style="text-align: center;">PO-112020</td> <td style="text-align: center;">01/28/08</td> <td style="text-align: right;"><u>7,596</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 15,826</u></td> </tr> </tbody> </table>	<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>	27850	PO-112019	01/28/08	\$ 8,230	27855	PO-112020	01/28/08	<u>7,596</u>				<u>\$ 15,826</u>	
<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>															
27850	PO-112019	01/28/08	\$ 8,230															
27855	PO-112020	01/28/08	<u>7,596</u>															
			<u>\$ 15,826</u>															

Cause: The cause of the above condition was failure to ensure that expenditures are obligated within the period of availability.

Effect: The effect of the above condition is noncompliance with period of availability requirements and questioned costs of \$15,826.

15,826

Recommendation: We recommend that the College strengthen internal control procedures to ensure that expenditures are obligated within the grant's period of availability.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. The College believes that adequate supporting documentation to support the costs are available.

The College incurred the related costs within the period available for expenditure of these funds however certain signatures on the documents authorizing disbursement were dated otherwise. The date of the invoices and the receipt of the goods were prior to the termination date of the grant so it is the College's opinion that such is just a timing issue. The College will bring these documents and its position on these issues to the grantor agency and attempt to resolve the issues directly with the applicable federal agency.

Proposed Completion Date: September 30, 2009

NORTHERN MARIANAS COLLEGE

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

Matching, Level of Effort, Earmarking

Finding No. 2008-11

Program	Reason for Questioned Costs	Questioned Costs										
U.S. Department of Education / Adult Education Program / CFDA # 84.002 / Federal Award # V002A070055 / Federal Award Period 07/01/06 - 09/30/07	<p><u>Criteria:</u> The Adult Education and Family Literacy Act (the Act) requires that grants and contracts for eligible providers shall not be less than 82.5 percent of the eligible agency's grant funds. Such earmarking requirement is for each yearly grant award and must be met within the period of its availability (generally 27 months).</p> <p><u>Condition:</u> Our test of the above requirements for the Adult Education Program indicated that the College's grants and contracts for eligible providers in fiscal year 2007 was less than 82.5% of the eligible agency's grant funds in fiscal year 2007, calculated as follows:</p> <table style="margin-left: 40px;"> <tr> <td>2007 grant award # V002A060055</td> <td style="text-align: right;">\$ 277,791</td> </tr> <tr> <td>Earmarking floor</td> <td style="text-align: right;"><u>82.50%</u></td> </tr> <tr> <td>Required earmark</td> <td style="text-align: right;">229,177</td> </tr> <tr> <td>Total grants and contracts for eligible providers charged to the 2007 grant during the 2007 grant's period of availability</td> <td style="text-align: right;"><u>181,675</u></td> </tr> <tr> <td>Deficiency</td> <td style="text-align: right;">\$ <u>47,502</u></td> </tr> </table> <p><u>Cause:</u> The cause of the above condition is that the Program applied maximum administrative expenses of \$65,000, which consequently resulted in less than 82.5% of the grant fund being available for instructional costs.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with the criteria and questioned costs of \$47,502.</p> <p><u>Recommendation:</u> We recommend that the Program revisit its earmarking calculation in accordance with the requirements of the Act.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer</p> <p>Corrective Action: The College partially agrees with this finding. While the College agrees that the earmarking expectations are correct, the College's unique circumstances warranted a revisit of such by the granting agencies applicable program officer who determined that a waiver of this expectation was reasonable. The College will bring these documents and its position on the issue to the grantor agency and attempt to resolve such directly with the applicable federal agency.</p> <p>Proposed Completion Date: September 30, 2009</p>	2007 grant award # V002A060055	\$ 277,791	Earmarking floor	<u>82.50%</u>	Required earmark	229,177	Total grants and contracts for eligible providers charged to the 2007 grant during the 2007 grant's period of availability	<u>181,675</u>	Deficiency	\$ <u>47,502</u>	<p>47,502</p>
2007 grant award # V002A060055	\$ 277,791											
Earmarking floor	<u>82.50%</u>											
Required earmark	229,177											
Total grants and contracts for eligible providers charged to the 2007 grant during the 2007 grant's period of availability	<u>181,675</u>											
Deficiency	\$ <u>47,502</u>											
Total Questioned Costs		\$ <u>135,018</u>										

NORTHERN MARIANAS COLLEGE

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

U.S. Department of Education

Cash Management - Adult Education Program

CFDA # 84.002, Federal Award #s V002A070055, V002A080055, V002A070059, and V002A080059

Federal Award Periods 07/01/07 - 09/30/08, 07/01/08 - 9/30/09, 09/01/07 - 08/31/08 and 09/01/08 - 08/31/09

Finding No. 2008-12

Criteria: The 2 CFR 215, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations*, specifies that payment methods of State agencies or instrumentalities shall be consistent with Treasury-State CMIA agreements or default procedures codified at 31 CFR part 205 (CMIA Regulations).

Condition: For four of thirty-seven transactions tested, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days for the following transactions:

<u>Document Number</u>	<u>Check Number</u>	<u>Amount Tested</u>	<u>Clearance Date</u>	<u>Reimbursement Date</u>	<u>Days Lapsed After Three Business Days</u>
4804.1b	28438	\$ 49,559	03/31/08	01/11/08	51
4907	28490	\$ 8,966	04/01/08	03/21/08	4
PO-111178	31357	\$ 8,700	09/30/08	04/17/08	73
PO-111178	28487	\$ 3,000	09/30/08	04/17/08	73

Cause: The cause of the above condition is that the College appears to have overestimated its check clearing pattern and is drawing cash prior to actual check clearance.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the grantor agency is less than \$10,000. Interest earned on advances is \$243 and an interest liability of \$143 exists.

Recommendation: We recommend that the College update its check clearing study and draw down in accordance with that study.

Prior Year Status: Lack of regular and timely updates of the check clearing study and drawdowns was reported as a finding in the audits of the College for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College strongly disagrees with this finding. As a result of a similar finding in FY2006, the College amended its drawdown procedures to delay drawdown of federal funds for up to a week after the processing/incurred of the related expenses and/or payment for services.

NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-12, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

When a vendor decides to cash a check is really beyond the control of the institution and this issue is particularly difficult for the College as it is so far removed from the mainland. As many of our vendors are from off-island it is practically impossible for the College to determine accurately the time it would take for a vendor to receive and process a payment. It appears that the College has taken reasonable measures to address this concern by delaying drawdown of federal funds but the issue continues. The College will continue work with the federal grantor agencies to obtain resolution of this issue.

Initial findings of the grantor agencies suggest that this expectation is being misapplied by the auditors and that a final decision on such will be forthcoming.

Proposed Completion Date: September 30, 2009

NORTHERN MARIANAS COLLEGE

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

U.S. Department of Agriculture

Equipment and Real Property Management - Payments to Agricultural Experiment Stations Under the Hatch Act and Payments to Cooperative Extension Service Under the Smith Lever Act
CFDA #s 10.203 and 10.500, Federal Award #s 2008-3110006095, 2007-3110006095, 2008-41100-05700, 2008-41530-05700, 2008-41510-05700, and 2008-48024-05700
Federal Award Periods 10/01/07 - 09/30/08, 10/01/06 - 09/30/07 and 10/01/07 - 09/30/08

U.S. Department of Education

Equipment and Real Property Management - Adult Education Program, Higher Education Institutional Aid and TRIO - Student Support Services, Talent Search, and Upward Bound Programs
CFDA #s 84.002, 84.031, 84.042, 84.044, and 84.047
Federal Award #s V002A070055, V002A080055, V002A070059, V002A080059, P031A020233-07, P042A051370-07, P044A060919-07, P047A030695-06, and P047A071200
Federal Award Periods 07/01/07 - 09/30/08, 07/01/08 - 9/30/09, 10/01/06 - 01/28/08, 09/01/07 - 08/31/08, 09/01/08 - 08/31/09, 09/01/06 - 08/31/07 and 09/01/07 - 8/31/08

Finding No. 2008-13

Criteria: Title 34 Part 74.34 of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states the following requirements, among others:

- Equipment records shall be maintained accurately and shall include a description of the property, manufacturer's serial number or other identification number, the source of property including the award number, whether the title vests in the recipient of the Federal Government, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;

In addition, the College's Property Management and Accountability Manual requires that an annual physical inventory of fixed assets be taken.

Condition: The following were noted during our examination of College's compliance with the above requirements:

- a. The College's property records lack information as to source of the property, whether title vests to the recipient or the Federal government, information from which one can calculate the percentage of Federal participation in the cost of the property, and condition of the property.
- b. A physical inventory was performed in 2008; however, a reconciliation of the physical count to property records was not completed.

Cause: The cause of the above condition is lack of information as required by the federal regulations and lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment.

NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-13, Continued

Effect: The effect of the above condition is that the College is not in compliance with federal property standards and the Property Management and Accountability Manual.

Recommendation: We recommend that the College ensure compliance with applicable federal property rules and regulations and the Property Management and Accountability Manual.

Prior Year Status: Lack of policies and procedures to ensure compliance with federal property management standards was reported as a finding in the Single Audits of the College for fiscal years 2005 through 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College partially agrees with this finding. A comprehensive inventory of fixed assets began in FY2009 and was completed in December 2008. This effort unfortunately was only completed subsequent to the financial year under audit. It is noted that the College expended significant effort to address this long standing issue relative to the accounting and inventory of all College assets and the carrying balances of its real properties in FY2007. As a result, material adjustments were made to the financial statements and the related audit finding and report qualification were removed.

Conducting an annual inventory of fixed assets is both unreasonable and impractical considering the limited human and financial resources at the institution. Federal regulations do not call for an annual inventory of assets but do require that a physical inventory be conducted every two years. The College made adjustments to its local property management manual to have such coincide with the federal requirement. The College invested in the fixed assets module for tracking and accounting of its fixed assets. This should provide for greater accountability of all capital assets of the institution. The results of the physical inventory completed in December 2008 will be reflected in the financial statements for fiscal year 2009 (September 30, 2009).

Proposed Completion Date: September 30, 2009

NORTHERN MARIANAS COLLEGE

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

U.S. Department of Education

Special Tests and Provisions - Adult Education Program and TRIO - Student Support Services, Talent Search, and Upward Bound Programs
CFDA #s 84.002, 84.042, 84.044, and 84.047
Federal Award #s V002A070055, V002A080055, V002A070059, V002A080059, P042A051370-07, P044A060919-07, P047A030695-06, and P047A071200
Federal Award Periods 07/01/07 - 09/30/08, 07/01/08 - 9/30/09, 09/01/07 - 08/31/08, 09/01/08 - 08/31/09, 09/01/06 - 08/31/07 and 09/01/07 - 8/31/08

Finding No. 2008-14

Criteria: The grant terms and conditions require that when issuing statements, press releases, requests for proposals, bid solicitations, and other documents describing projects or programs funded in whole or in part with Federal money, all grantees receiving federal funds, shall clearly state the (1) dollar amount of federal funds for the project, (2) the percentage of the total cost of the project that will be financed by federal funds, and (3) the percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.

Condition: Our tests of the above requirement noted the following:

- a. Of \$357,955 nonpayroll expenditures under the Adult Basic Education Program, twenty-five items, totaling \$144,886 were tested. Request for proposals issued for four purchases did not comply with the requirements set forth above.

<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>
27990	04777	01/29/08	\$ 580
28214	CR-113535	02/26/08	1,250
28797	005	04/24/08	3,200
29323	04865	06/23/08	<u>580</u>
			\$ <u>5,610</u>

- b. Of \$476,299 nonpayroll expenditures under the TRIO Programs, twenty-four items, totaling \$69,622 were tested. Request for proposals issued for three purchases did not comply with the requirements set forth above.

<u>Check No.</u>	<u>Document No.</u>	<u>GL Date</u>	<u>Amount</u>
28487	PO-111178	03/27/08	\$ 5,139
28487	PO-111178	03/27/08	6,852
30008	PO-111770	08/29/08	<u>9,055</u>
			\$ <u>21,046</u>

NORTHERN MARIANAS COLLEGE

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

Finding No. 2008-14, Continued

Cause: The cause of the above condition is failure to incorporate such provision in the affected Program's policies and procedures.

Effect: The effect of the above condition is noncompliance with grant terms and conditions. However, no questioned costs result from these conditions as the items noted were allowable costs and competitively procured.

Recommendation: We recommend that the College comply with applicable terms and conditions of its grant awards.

Prior Year Status: Noncompliance with the above provision was reported as a finding in the audit of the College for the fiscal year 2007.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mr. Rogelio Madriaga, Chief Financial and Administrative Officer

Corrective Action: The College federal program personnel were obviously not aware of this requirement. The College will ensure that this requirement is met for all future procurement of services or goods utilizing federal funds. We will work with the federal grantor agencies to bring resolution to this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.

Proposed Completion Date: September 30, 2009

Northern Mariana Islands Retirement Fund

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2008
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 8/12/09, 9/3/09 (J. Scott Magliari & Company re: NMIRF response), 11/25/09, 5/12/10

Date(s) of response letter(s) received : 8/20/09

See pages 284 to 288 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2008

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2008-1 Employee Contribution Rate

Criteria:

Pursuant to Public Law 15-70, each class I member of the fund shall contribute 6.5% of the salary earned and accruing to the member in fiscal year 2006 and 2007. Beginning on the first day of fiscal year 2008 the rate shall increase by 1.0% per fiscal year until the contribution rate reaches 10.5%.

Each class II member of the fund shall contribute 9.0% of the salary earned and accruing to the member in fiscal year 2006 and 2007. Beginning on the first day of fiscal year 2008 the rate shall increase by 1.0% per fiscal year until the contribution rate reaches 11%.

Context:

Obtained copies of the active member listing with details of fiscal year earnings and contributions. Recalculated the rate of contribution and compared with the required contribution rate per Public Law 15-70.

Condition:

I noted the following:

- a) Of the 3,262 active class I members, 653 members or 20.0% contributed more than 7.5% of their covered payroll and 34 members or 1.0% contributed less than 7.5% of their covered payroll.
- b) Of the 239 active class II members, 5 members or 2.1% contributed only 7.5% of their covered payroll and 1 member or 0.4% contributed only 9% of his covered payroll

Cause:

The NMIRF only uploads the payroll information provided by the plan sponsors, agrees the remittance to the reported contributions and does not perform an independent verification of the correctness of employee contributions.

Effect:

The above conditions result to over and underpayment of contributions of members for the fiscal year ending September 30, 2008 as follows:

Class I overpayment	\$ 67,019
Class I underpayment	\$ (8,519)
Class II underpayment	\$ (3,572)

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2008

These do not include possible underpayments for class II members who are erroneously reported as class I members.

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2008-1 Employee Contribution Rate, Continued

Recommendation:

NMIRF should have monitoring controls in place to ensure that members are contributing the proper percentage. The database software should be able to generate exception reports per pay period to be sent out to plan sponsors (employers) to prompt them to review their retirement contribution deduction and correct errors before they become material.

Finding No. 2008-2 Underpayment of Contributions

Criteria:

Pursuant to the plan provision as established by Public Law 6-17 and amended by Public Law 15-70, Class II members who are active employees of the CNMI government contribute 9% of salary and beginning on the first day of fiscal year 2008 the rate shall increase by 1.0% per fiscal year until the contribution rate reaches 11%.

Context:

Performed analytical review of receivable from underpayment of contribution.

Condition:

Changes in the underpayment of contribution receivables for the fiscal year ending September 30, 2008 are as follows:

Beginning balance	\$ 508,727
Additions	47,667
Collections	<u>(48,469)</u>
Ending balance	<u>\$ 507,925</u>

Receivables from underpayment of contributions arises when a Class II member, who is required to contribute 9% of gross salary to the Fund, only contributes 6.5% which is the required contribution from a Class I member. Of the thirteen assessments for underpayment of contributions billed in fiscal year 2008, seven or 54% were assessed for retiring members. Usually the assessment for underpayment is only done when members retire, and relevant information such as year of service is computed.

Furthermore, of the 130 individuals with underpayment of contributions as of September 30, 2008, 89 or 68% did not make any repayment for the year then ended.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2008

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2008-2 Underpayment of Contributions, Continued

Cause:

NMIRF does not have any monitoring control to ensure that members are contributing the proper percentage based on their class.

Furthermore, the Fund cannot directly deduct payment from the retirement benefits without signed allotments.

Effect:

The above condition results to receivable balances for which collectibility is uncertain. Furthermore, since there are no monitoring and detection controls in place, there could be other underpayments of contributions by active member that are not yet detected.

Recommendation:

NMIRF should have monitoring controls in place to ensure that members are contributing the proper percentage.

Furthermore, to ensure collectibility of receivables from retirees, NMIRF should require retiring members to personally come to the NMIRF office to sign all necessary documents, including allotment authorization, if any before their first pension payout is released.

Prior Year Status:

Included in prior years as Finding Nos. 2007-02 and 2006-02.

Finding No. 2008-3 Overpayment of Benefits

Criteria:

The Fund, being fiduciary in nature, can only disburse benefits as mandated by the plan provision as established by Public Law 6-17 and amended by Public Law 15-70.

Condition:

Of the 52 individuals who received overpayment of benefits only 26 or 50% have made repayments during fiscal year ended September 30, 2008.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2008

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2008-3 Overpayment of Benefits, continued

Effect:

The above condition results to receivable balances for which collectibility is uncertain.

Furthermore, the fund Administrator and Board of Directors may be held liable for these overpayments since they authorized these pension payments.

Cause:

NMIRF does not have monitoring controls policies and procedures in place to ensure that there are no overpayments of benefits.

Recommendation:

NMIRF should develop and implement monitoring controls, policies and procedures to ensure that there are no overpayments of benefits.

Collection efforts should also be strengthened. NMIRF should coordinate with employers to obtain allotments from payroll for long outstanding receivables. All disbursements made in error, such as overpayment of benefits, should be returned to the fund as soon as practicable for it to be properly invested to earn income.

Prior Year Status:

Included in prior years as Finding Nos. 2007-03 and 2006-03.

Finding No. 2008-4 Documentation of Annuitants

Criteria:

Pursuant to the Funds Administrative regulations, the Fund may, from time to time, request for updated pertinent information, including but not limited to tax information, current identification, driver's license and the like. It is the duty of the recipient to timely respond to requests for updated information. Substantial or repeated failure to provide complete information or providing false or misleading information shall constitute grounds for terminating benefits.

Context:

Examined annuitants folders for compliance with documentation requirements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2008

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2008-4 Documentation of Annuitants, continued

Condition:

3 or 5% of the 60 annuitant's folders requested for examination were not provided to us during our audit.

Of the 57 annuitant's folder examined, 29 or 51% had no Form NMIRF-201, "Fund Annuity Recipient Information Update" on file for the fiscal year ending September 30, 2008.

Effect:

In the absence of updated annuitant's information fraud could occur and not be detected on a timely manner.

Cause:

Fund Annuity Recipient Information Update is only requested annually from off-island annuitants while on-island annuitant's confirmations are requested upon the discretion of the Fund Administrator.

Recommendation:

Since majority of the annuitants are on-island, the NMIRF should implement a more regular schedule of confirmation of annuitant's information than the current practice of only confirming at the request of the Fund Administrator.

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2008
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 8/12/09, 11/25/09, 5/12/10

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

See pages 290 to 296 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 08-01, Travel Authorization

Criteria:

Pursuant to PSS Regulation 3430, section C (8), within CNMI travel requests shall be submitted to the Commissioner no later than 5 working days prior to the travel date. Out of CNMI travel requests shall be submitted to the Commissioner or the Chairperson of the Board of Education, as appropriate, no later than 10 working days prior to commencement of travel, except for extenuating circumstances.

Conditions:

I noted the following:

- a. Eight (8) or 18% of forty five (45) travel authorization (TA) requested were not provided for testing.
- b. Of the thirty-seven (37) TA's examined, 1 or 3% was not submitted within the prescribed period.

The justification for the late TA was that the notification of invitation from PSS Curriculum and Instruction was received late. However when we examined the invitation it was sent out 15 days before the travel date, which provides for sufficient time to complete the TA within the 5 working days allowance.

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. Non-statistically selected forty five (45) individuals who traveled during the year and examined the supporting documents in accordance with the travel policies of PSS.

Cause:

PSS did not adhere to its established policies and procedures on travel authorization and travel authorizations were not properly filed. PSS does not have internal control monitoring procedures in place to ensure that all TA's are submitted in accordance with its existing travel policies.

Effect:

Failure to make a strict implementation of the travel policies may result in unauthorized travel, disallowed costs, significant bad debts and non-compliance with the applicable state laws and federal regulations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 08-01, Travel Authorization, Continued

Recommendation:

PSS should implement internal control monitoring procedures to ensure timely submission of all travel authorizations.

With the large volume of travel authorizations processed, PSS should explore the option of electronic filing and approval of travel authorizations. This option may also reduce the lead time it takes for the TAs to get from the requester to the Travel Section of PSS Accounting and reduce the paperwork for filling at the Travel Section.

Prior Year Status:

The above condition was cited as a finding in the Single Audits for fiscal years 2005, 2006 and 2007.

Auditee Response and Corrective Action Plan:

Public School System is in the process of upgrading the JDE Systems to include the electronic signature, filing and approval of all documents which will expedite processing and approval of Travel Authorizations. This upgrade is expected to be finalized between September through December 2009.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 08-02, Travel Advances

Criteria:

Pursuant to PSS Regulation 3420, section C (10), travel advances shall not be issued if there is an outstanding voucher or if an outstanding expense by the traveler has not been verified. Exceptions to this rule may be made at the discretion of the Commissioner or the Chairperson of the Board of Education, as appropriate.

Condition:

For six (6) or 16% of the thirty-seven (37) travel authorizations examined, travel advances were issued to travelers with unliquidated travel advances.

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. Non-statistically selected forty five (45) individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Cause:

PSS did not adhere to its established internal control policies and procedures for travel advances.

Effect:

Failure to make a strict implementation of the travel policies results to significant bad debts and high outstanding advances balance.

Recommendation:

PSS should enforce Regulation 3430, Section G (9) that is to deduct from salaries, honorarium or next travel advance, as applicable, any unliquidated travel advances.

Management should implement monitoring procedures to ensure that the Commissioner is made aware of any outstanding travel advance before the new travel advance is approved, because Commissioner's signature on the travel advance means that the Commissioner is exempting the traveler from the provision of Regulation 3430, section G (9) by exercising the Commissioner's discretion as allowed by section C (10).

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 08-02, Travel Advances, Continued

Prior Year Status:

The above condition was cited as a finding in the Single Audit of fiscal year 2005, 2006 and 2007.

Auditee Response and Corrective Action Plan:

For fiscal year 2009, the Fiscal & Budget office developed a form whereby the Commissioner of Education can authorize and approve travel advances for employees with outstanding travel advances when the situation warrants. This form will document the extenuating circumstances for the unliquidated travel advances.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 08-03, Travel Liquidation

Criteria:

Pursuant to PSS Regulation 3420, section G (1), travelers must file a travel voucher with supporting documentation within fifteen (15) working days upon completion of travel. Travelers who fail to meet this deadline will forfeit the remaining ten percent of the cost of travel. Travelers who fail to submit travel vouchers and supporting documentation will be subject to payroll deduction of the entire amount of the advance.

Conditions:

I noted the following:

- a. For thirteen (13) or 28% of forty five (45), travel authorizations tested, the travel advance liquidations are either not yet liquidated or were not on file.
- b. Six (6) out of the thirty-two (32) travel advance liquidations examined, submitted their travel voucher after the 15 working days allowance.

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. Non-statistically selected forty five (45) individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Cause:

PSS did not adhere to its established policies and procedures for monitoring and liquidating travel advances in a timely manner.

Effect:

Failure to make a strict implementation of the travel policies results in high outstanding advances balance and potential bad debts.

Recommendation:

PSS should designate an employee to monitor travel advances to ensure that such are liquidated in accordance with PSS Regulation 3420, section G (1). A report should be prepared and provided to the Commissioner for corrective action.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM
(A Component Unit of the CNMI Government)

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 08-03, Travel Liquidation, Continued

Prior Year Status:

The above condition was cited as a finding in the Single Audit of fiscal years 2005, 2006 and 2007.

Auditee Response and Corrective Action Plan:

The Fiscal & Budget office will continue its extensive collection efforts to ensure that travel advances are liquidated in a timely manner. The Fiscal & Budget travel section is currently short staffed, thus the existing staff will work have to work extra hours to meet the travel advances liquidation time frame and eventual liquidation of all completed travel.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

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

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - National School Lunch Program

Finding No. 08-4

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555	<p><u>Criteria:</u></p> <p>Pursuant to A-133 Compliance Supplement for CFDA 10.555, special tests and provisions, by December 15th of each school year, the State Food Authority (SFA) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the SFA is otherwise exempt from the verification requirement.</p> <p><u>Condition:</u></p> <p>The independent verification was not conducted for the fiscal year ending September 30, 2008.</p> <p><u>Cause:</u></p> <p>PSS failed to monitor the compliance to its program requirements.</p> <p><u>Effect:</u></p> <p>PSS School Lunch program is not in compliance with the special provision requirement of the grant.</p> <p><u>Recommendation:</u></p> <p>PSS Federal monitoring officer should ensure that the independent verification is conducted by the 15th of December for each school year to adhere to the A-133 Compliance Supplement program requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Management will ensure that the PSS Federal Monitor performs this annual verification of random sample of applications for free and reduced price school meals on or before December 15th of each year.</p>	\$ -

Workers' Compensation Commission

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2008
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 8/12/09, 9/3/09 (J. Scott Magliari & Company re: NMIRF response), 11/25/09, 5/12/10

Date(s) of response letter(s) received : 8/20/09

See page 298 and 299 for the recommendation issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore it does not correspond with the page numbers in the original report.

CNMI WORKERS' COMPENSATION COMMISSION
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2008

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2008-1 Collections of Outstanding Notice of Assessments

Criteria:

Pursuant to WCC Regulations,

- a. Any employer who fails to file a certificate of compliance within thirty (30) days of securing the payment of compensation on a form prescribed by the Commission shall be assessed a civil penalty of \$100 per day not to exceed \$1,500 per year. [4 CMC 9346(b)]
- b. Any employer who applies for a business license shall first obtain a certificate of clearance from the Administrator who shall certify that such employer has complied with the provisions of the Workers' Compensation Law. No business license shall be issued by the Secretary of Commerce without such certificate of clearance. For purposes of this section, employer includes any and all applicants for a business license who are or may become employers as defined in 4 CMC 9302(m). [4 CMC 9346(c)]
- c. For good cause shown, the Administrator may waive any penalties imposed by Public Law 6-33 or by these rules and regulations. All requests for waiver of penalties must be in writing and addressed to the Administrator. All such requests must be received within 30 calendar days from the date of the Notice of Assessment or other notice that a penalty is due.

Context:

Audit of outstanding assessments, deferred revenues and related income account.

Condition:

As of September 30, 2008, there were 555 employers with outstanding assessments amounting to \$820,046.

Summarized as follows are the changes in outstanding assessments:

	<u>2008</u>	<u>2007</u>
Beginning balance	\$ 914,252	\$ 893,539
Current year transactions:		
Assessments	83,260	346,067
Waived assessments	(164,173)	(310,587)
Collections	<u>(13,293)</u>	<u>(14,767)</u>
Ending balance	<u>\$ 820,046</u>	<u>\$ 914,252</u>

Collections accounted for only 7% of total deductions for the fiscal year 2008 while waived assessments were 93%. This indicates that the majority of the assessments are being waived rather than being collected. Furthermore,

CNMI WORKERS' COMPENSATION COMMISSION
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2008

aging of outstanding assessments shows \$801,896 or 98% were over 90 days overdue.

Effect:

Fraud could occur and not be detected in a timely manner.

Cause:

There are no monitoring policies and procedures in place to prevent fraud and misstatement from occurring and not be detected in a timely manner.

Recommendation:

An aging schedule per employer and monthly statement of outstanding assessments should be prepared to serve as basis for the investigation of possible errors and the scrutinizing and investigation of accounts, which may become doubtful of collection.

To improve accounts receivable collection, Management should consider the following steps:

- Periodically review the aged receivable schedule and send letter to customers with balances over 90 days old. Follow up with a phone call if payment is not received by a specified period after the letter is sent. If the cause appears to be financial difficulty, attempt to work out a plan for receiving a regular partial payment until the balance is paid up.
- Offer a discount for payment received within a specified period of time. The cost of the discount may be more than offset by resulting accelerated receipts and reduced bad debts.

Furthermore, WCC may send a regular summary of employers with outstanding assessments to the Business License Section of the Department of Commerce to prompt them that these employers have not been issued a certificate of clearance and if they are presenting one should be reported to the WCC.

The employee that summarizes the employers with outstanding assessments should be independent of the person issuing certificate of clearance.

Acronyms Used

AAL	Actuarial Accrued Liability
ADP	Automated Data Processing
AGIU	Attorney General's Investigative Unit
AGO	Office of the Attorney General
APV	Accounts Payable Voucher
AR	Audit Report
AWOL	Absent Without Leave
BMPLA	Board of Marianas Public Lands Authority
BOR	Board of Regents
BOT	Board of Trustees
BU	Business Unit
CALEA	Commission on Accreditation for Law Enforcement Agencies, Incorporated
CDA	Commonwealth Development Authority
CDBG	Community 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
CIG	Compact Impact Grant
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
CO	Change Orders
COC	Chain of Custody
CPA	Certified Public Accountant
CPA	Commonwealth Ports Authority
CSC	Civil Service Commission
CSI	Crime Scene Investigation
CST	Crime Scene Technician
CUC	Commonwealth Utilities Corporation
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
DRT	Division of Revenue & Taxation
EAC	Estimated Acquisition Cost

ECU	Evidence Custodial Unit
EDP	Electronic Data Processing
EITF	Emerging Issues Task Force
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulations
FASB	Financial Accounting Standards Board
FBI	Federal Bureau of Investigations
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FLSA	Fair Labor Standards Act
FMS	Financial Management System
FNS	Food & Nutrition Services
FTE	Full Time Employment
FY	Fiscal Year
GASB	Government Accounting Standards Board
GHI	Government Health Insurance
GL	General Ledger
GOV	Office of the Governor
GPD	Guam Police Department
HAP	Housing Assistance Payments
HPD	Honolulu Police Department
HQS	Housing Quality Standards
HRO	Human Resources Officer
HRPP	Human Resources Policies and Procedures
HUD	U.S. Department of Housing and Urban Development
JE	Journal Entry
LT	Letter Report
MCD	Mortgage Credit Division
MHLO	Marianas Hawaii Liaison Office
MOU	Memorandum of Understanding
MPLA	Marianas Public Lands Authority
MPLC	Marianas Public Land Corporation
MPLT	Marianas Public Land Trust
MQR	Minimum Qualification Requirement
MRO	Marianas Referral Office
MRPRR	Medical Referral Program Rules and Regulations
MVA	Marianas Visitors Authority
NAP	Nutrition Assistance Program
NASPO	National Association of State Purchasing Officials
NEG	National Emergency Grant
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.L.	Public Law
P&S	Procurement & Supply
PAO	Public Assistance Office
PFC	Passenger Facility Charge
PHA	Public Housing Agency
PIEI	Pacific Islands Education Initiative

PO	Purchase Order
PPE	Pay Period Ended
PPR	Procurement & Personnel Regulations
PR	Purchase Requisition
PSS	Public School System
PSSPR	Public School System Procurement Regulation
PSSRR	Personnel Service System Rules and Regulations
PTO	Paid Time-off
PV	Payment Voucher
R&R	Retailer & Redemption
RFP	Request for Proposals
RHC	Rota Health Center
RIF	Reductions-in-force
RMO	Rota Mayor's Office
SHEFA	Saipan Higher Education Financial Assistance
SBDC	Small Business Development Center
SF	Standard Form
SEFA	Schedule of Expenditures of Federal Awards
SOP	Standard Operating Procedures
TA	Travel Authorization
TCGCC	Tinian Casino Gaming Control Commission
TMO	Tinian Mayor's Office
TRIO	Educational Opportunity for Low-Income and Disabled Americans
TV	Travel Voucher
US	United States
VENA	Value Enhanced Nutrition Assessment
WASC	Western Association for Schools and Colleges
WCC	Workers' Compensation Commission
WIA	Workforce Investment Agency
WIC	Women, Infant, & Children
WRO	Washington Representative's Office
WTF	Water Task Force

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