

# Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

## SUMMARY ON THE STATUS OF AUDIT RECOMMENDATIONS Report on CNMI Agencies' Implementation of Audit Recommendations As of June 30, 2007

(Details of this summary are included in the full report in the enclosed CD. A copy of the full report is also available at the Office of the Public Auditor, or through OPA's website)

OPA tracked a total of 60 audit recommendations during the first six months of 2007. Of the 60 audit recommendations, 1 was closed and 59 remained either open or resolved. Of the 59 open or resolved recommendations, 50 were considered delinquent.

The following table presents a comparative schedule of the status of OPA's audit recommendations for calendar years 2005, 2006 and for the first six months of 2007.

Status of Audit Recommendations	2005	2006	up to 6/30/07
Total Recommendations Tracked for the Year	84	79	60
Less: Closed Recommendations	(5)	(19)	(1)
Outstanding Recommendations, End of Year (Open or Resolved)	79	60	59
Number of Delinquent Recommendations	46	47	50

### Closed Recommendation

OPA closed only 1 of the 60 audit recommendations it tracked during the first six months of 2007. The Department of Commerce implemented OPA's recommendation to address the security of CNMI government deposits by requiring all banks and financial institutions holding CNMI government and autonomous deposits to furnish the Office of Director of Banking with evidence and a certification that such deposits are being properly secured with bank assets.

### Delinquent Recommendations

Delinquent recommendations slightly increased by 3 (7%) from 47 in 2006 to 50 for the first six months of 2007.



Year	2005	2006	up to 6/30/07
1995	4	6	6
1996	1	2	2
1997	3	5	5
1998	1	2	2
1999	3	3	3
2000	7	6	7
2001	3	3	3
2002	2	2	4
2003	8	3	6
2005	14	15	12
Total	46	47	50

Table 1 - Delinquent Recommendations

Below is an aging of the 50 delinquent recommendations issued in calendar years 1995 through 2005:

Agency to Act	1995	1996	1997	1998	1999	2000	2001	2002	2003	2005	Total
1. Attorney General's Office	4	1	3	1	3	3	1	2	2	2	22
2. Department of Finance	1	1	2	1						5	10
3. Commonwealth Utilities Corporation								2	2	1	5
4. Northern Mariana Islands Retirement Fund						2	2			1	5
5. Department of Public Lands	1					2				1	4
6. Northern Marianas College									2	1	3
7. Department of Labor										1	1
Number of Delinquent Recommendations	6	2	5	2	3	7	3	4	6	12	50

## Independent Auditor's Report

OPA also includes in the Audit Recommendation Tracking Report a total of 117 recommendations from 10 recent audit reports issued by private CPA firms under contract with OPA.

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

As of June 30, 2007, recommendations in 13 audit reports were referred to the Attorney General's Office (AGO) for legal action to recover monies improperly expended. On September 4, 2007, OPA requested for a meeting between the AGO and OPA to discuss these referrals. The AGO did not respond to this request or provide OPA an update on these referrals, and as such, the status of these referrals remain unchanged from the previous report as of December 31, 2006.





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

	Report No. (Issue Date)	Particulars	Amount Recoverable	Status per AGO
1	AR-99-03 (4-7-99)	TCGCC - Legal action to recover overpayment of \$543,375 from the consultant on grounds of unjust enrichment, conversion, fraud and breach of fiduciary duty and recovery of \$195,971 from three other individuals for breach of fiduciary trust for total amount recoverable of \$739,346.	\$739,346	AGO is researching legal issues that have arisen in the pending suit and will follow-up on this matter with TCGCC's legal counsel.  In January 2005, AGO requested information from DOF regarding payments made to the Gaming Commission and other entities.
2	AR-02-02 (9/11/02)	TCGCC - Audit of Travel Transactions for fiscal years 1996 - 2001. The potential recovery amount for outstanding advances of \$406,925 was reduced by \$14,747 leaving a balance of \$392,178 still to be recovered	392,178	AGO is currently researching standing issues related to the collection of the debt.
3	AR-99-04 (10-28-99)	CNMI - Overpayments of professional services contracts. Balance of overpayments totaling \$1,315,102 re-directed to AGO of which \$8,302 is immediately recoverable and \$1,306,800 is recoverable unless adequately supported.	1,315,102	AGO requested to pursue collection of overpayments on 6/2/05.
4	AR-00-01 (4-13-00)	DPW - Recovery of \$164,534 in improper payments made to a surveying contractor and adverse action against contractor for misrepresentation relating to the Tinian road resurfacing project in 1997. Pursuant to a decision issued by the United States District Court, amount recoverable from the contractor is reduced to \$100,000 in restitution.	100,000	AGO stated that enforcement of the federal court order of restitution should be the responsibility of the U.S. Attorney's Office. Accordingly, the AGO plans to request enforcement by that office.
5	AR-98-06 (12-14-98)	DOF - Funds misused by the former Secretary of Finance during fiscal years 1995 to 1997.	75,000	A civil case against the defendant is still pending for the recovery of funds.
6	AR-97-06 (4-23-97)	DPH - Improper payments made by former RHC Director for repairs and non-existent lease extensions possibly paid out of the Rota imprest fund account.	9,000	AGO requested to review case and inform OPA whether or not it plans to pursue this case.
7	AR-97-06 (4-23-97)	DPH - Rota Health Center (RHC) - Recovery from the former RHC Director of amount taken from RHC funds and reimbursement for cost of a washing machine for the period	4,982	AGO informed OPA that although this referral case was previously closed on 9/5/02, the AGO plans to contact OPA for verification of records.



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



## **OPA Referrals to AGO for Legal Determinations**

OPA also referred to the AGO recommendations in 3 audit reports requesting for 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, AGO was requested to review OPA's opinion regarding granting six designated officials 14 annual leave hours per pay period.
- *Audit of the Marianas Hawaii Liaison Office* [Report No. AR-05-03 issued on August 12, 2005] - The AGO was requested to issue a determination on whether recovery of funds for double benefits paid to a former Liaison Officer is appropriate and should be pursued.
- *Audit of the Monthly Subsistence Allowance Provided to Members of the Senate* [Report No. AR-03-05 issued on August 6, 2003] - 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 January 1, 2007 through June 30, 2007, 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 remain unchanged from the previous report as of December 31, 2006.



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 June 30, 2007 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 from the former CPA officials 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.  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.  Total amount recoverable from the three former board members is \$115,862.33.	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 Board member's account ledger showing that the Court Order in the amount of \$11,657 was fully paid as of 10/28/04.  Due to discrepancies noted in the subsidiary ledgers provided to OPA on 4/11/06, OPA was unable to ascertain the total amount recovered from the two board members.
5 AR-97-05 (3-20-97)	CNMI - Promissory note for \$96,100 on overpayment of two professional services contracts (Contract nos. C40113 and C50108) covering the period October 1, 1991 to July 20, 1995.	96,100	Partial recovery of \$14,000 leaving a balance of \$81,900 still to be recovered.
6 AR-98-06 (12-14-98)	DOF - Funds misused by the former Secretary of Finance from fiscal years 1995	56,462	\$1,125 partially recovered from the former Secretary of Finance.





Report No. (Issue Date)	Particulars	Amount Recoverable	Status per Agency
	to 1997.		
	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 of 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 for 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 6/30/07		\$3,712,527	





# Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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## REPORT ON CNMI AGENCIES' IMPLEMENTATION OF AUDIT RECOMMENDATIONS AS OF June 30, 2007 (with agency responses up to November 16, 2007 incorporated)

December 28, 2007

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 June 30, 2007. OPA tracked a total of 60 audit recommendations during the period from January 1 through June 30, 2007.

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 Recommendation Tracking Report for information purposes. As of June 30, 2007, there was a total of 117 recommendations from 10 recent audit reports issued by private CPA firms.

Although the Coordinating Group members did not meet during the first six months of 2007, OPA again issued follow-up letters and/or called various government agencies with outstanding audit recommendations as of June 30, 2007. This report incorporated agency responses to follow-up letters received or documents obtained by OPA on or before November 16, 2007. The response letters received and documents obtained resulted in the closure of 1 audit recommendation. The number of delinquent recommendations slightly increased by 7% as of June 30, 2007.

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 S. Sablan, CPA  
Public Auditor

cc: Governor Benigno R. Fitial  
Lt. Governor Timothy P. Villagomez  
Members, Fifteenth CNMI Legislature (27 copies)  
Local Media



# Table of Contents

<b>Introduction</b> .....	<b>iii</b>
<b>Status of Audit Recommendations</b> .....	<b>v</b>
<b>Executive Branch Offices and Departments</b> .....	<b>1</b>
Office of the Attorney General .....	2
Department of Commerce .....	24
Department of Finance .....	25
Department of Labor .....	34
Department of Public Lands .....	35
Department of Public Safety .....	39
<b>Autonomous Agencies</b> .....	<b>44</b>
Commonwealth Ports Authority .....	45
Commonwealth Utilities Corporation .....	46
Marianas Visitors Authority .....	52
Northern Marianas College .....	53
Northern Mariana Islands Retirement Fund .....	55
Public School System .....	59
<b>Senate</b> .....	<b>61</b>
<b>Independent Auditor’s Report on Internal and Compliance</b> .....	<b>66</b>
Commonwealth of the Northern Mariana Islands .....	68
Commonwealth Development Authority .....	154
Commonwealth Government Employees’ Credit Union .....	158
Commonwealth Ports Authority .....	166
Commonwealth Utilities Corporation .....	170
Department of Public Lands (formerly Marianas Public Lands Authority) .....	220
Northern Marianas College .....	224

Northern Mariana Islands Retirement Fund . . . . . 246

Public School System . . . . . 250

Workers' Compensation Commission . . . . . 266

**Appendix A - Acronyms Used . . . . . 270**

# Introduction

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## 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. Additional telephone follow-up procedures are 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.

This report incorporates agency responses to follow-up letters received or documents obtained by OPA on or before November 16, 2007. 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 Recommendation Tracking Report for information purposes. Because OPA is responsible for overseeing all audits of the CNMI government, follow-up procedures are also conducted for these recommendations to determine what actions have been taken by the individual agencies to implement the recommendations issued by private CPA firms. A copy of the agencies' responses is subsequently provided to the Independent Auditor who conducted the audit to determine whether the agencies' responses are sufficient to consider the recommendations resolved. Based on the classification followed by private CPA firms, a recommendation is described as either *resolved* or *unresolved*.



# Status of Audit Recommendations



PA tracked a total of 60 audit recommendations during the first six months of 2007. Of the 60 audit recommendations, 1 was closed and 59 remained either open or resolved. Of the 59 open or resolved recommendations, 50 were considered delinquent.

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6. Northern Marianas College									2	1	3
7. Department of Labor										1	1
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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 June 30, 2007 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	DOL - Audit of Controls Over the	512,410	The on-going investigation is

Report No. (Issue Date)	Particulars	Amount Recoverable	Status per Agency
(6-6-05)	Nonresident Worker Application Process. Amount recoverable consists of uncollected fees of \$330,835 from Company A and \$181,575 from Company B.		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 from the former CPA officials 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.  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.  Total amount recoverable from the three former board members is \$115,862.33.	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 Board member's account ledger showing that the Court Order in the amount of \$11,657 was fully paid as of 10/28/04.  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.
5 AR-97-05 (3-20-97)	CNMI - Promissory note for \$96,100 on overpayment of two professional services contracts (Contract nos. C40113 and C50108) covering the period October 1, 1991 to July 20, 1995.	96,100	Partial recovery of \$14,000 leaving a balance of \$81,900 still to be recovered.
6 AR-98-06 (12-14-98)	DOF - Funds misused by the former Secretary of Finance from fiscal years 1995 to 1997.  On 2/22/01, the Federal Court ordered the Secretary of Finance to pay \$56,462 in restitution.	56,462	\$1,125 partially recovered from the former Secretary of Finance.
7 AR-97-05 (3-20-97)	CNMI - Overpayment to contractors of four professional services contracts (Contract nos. C40276, C50083, C50132 & C50208) audited covering the period October 1, 1991 to July 20,	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

Report No. (Issue Date)	Particulars	Amount Recoverable	Status per Agency
	1995.  Overpayments for C40276 totaling \$10,000 was fully recovered by OMB. Therefore, recovery of \$25,079 is reduced to \$15,079.		the statute of limitations on these claims.
8 AR-03-04 (3-10-03)	AGIU - Recovery of overpayments of per diem from three travelers involved.	1,605	Partial recovery of \$535.
	Total Amount Recoverable	\$4,662,816	
	Less: Partial Recoveries	(\$950,289)	
	Balance of Amount Recoverable as of 6/30/07	\$3,712,527	

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# Executive Branch Offices

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



# Office of the Attorney General

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

Date(s) of followup letter(s) sent : 11/20/95 (CPA), 3/7/96, 12/5/96, 2/02/98, 9/18/98, 11/22/99, 7/11/00, 1/17/01, 8/20/01, 3/5/02, 8/9/02, 10/3/02 (Re-directed to AGO), 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

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

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

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

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

**Status** : Resolved - Delinquent

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

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

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

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

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

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

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

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

Date(s) of followup letter(s) sent : Verbal follow-ups made through the telephone, 11/29/96, 12/3/96, 2/20/97 (AGO), 11/20/97, 9/17/98 (AGO), 3/3/98 (AGO), 9/18/98 (DLNR), 11/23/99 (DLNR), 1/26/99, 1/5/00 (AGO), 7/6/00 (DPL), 7/12/00 (AGO), 1/17/01 (AGO), 1/24/01 (DLNR), 8/21/01 (AGO), 8/23/01 (OPL), 8/12/02 (MPLA) (AGO), 10/3/02 (AGO), 2/14/03 (AGO) (MPLA), 8/4/03 (MPLA) (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 4/23/04 (MPLA), 9/21/04 (AGO) (MPLA), 2/15/05 (AGO) (MPLA), 8/9/05 (AGO) (MPLA), 3/10/06, 9/26/06, 2/7/07, 9/4/07

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

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

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

**Agency to Act** : Attorney General's Office

**Status** : Resolved - Delinquent

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

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

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

**Additional Information or Action Required** : The AGO should provide documents on conveyance of property for debt settlement of the former Executive Director to completely close this recommendation.

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**Recommendation 2** : *Original:* The Secretary of DLNR should recover from the cardholders the amount of \$45,698.

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

**Agency to Act** : Attorney General's Office

**Status** : Resolved - Delinquent

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

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

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

**Additional Information or Action Required** : The AGO should provide documents on conveyance of property for debt settlement of the former Executive Director to completely close this recommendation.

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

**Agency to Act** : Attorney General's Office

**Status** : Resolved - Delinquent

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

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

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

**Additional Information or Action Required** : The AGO should provide documents on conveyance of property for debt settlement of the former Executive Director to completely close this recommendation.

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

Date(s) of followup letter(s) sent : 12/4/96, 11/20/97, 3/3/98 (AGO), 9/17/98, 11/23/99, 1/26/99, 1/5/00, 7/12/00, 1/17/01, 8/21/01, 8/12/02, 10/3/02, 2/14/03, 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/05, 9/26/06, 2/7/07, 9/4/07

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

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

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

**Agency to Act** : Attorney General's Office

**Status** : Resolved - Delinquent

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

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

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

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

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

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

**Additional Information  
or Action Required** :

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

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

Date(s) of followup letter(s) sent : 6/23/97, 7/16/97, 2/02/98, 9/17/98 (DOF), 9/21/98 (RMO), 11/23/99 (DOF), 11/29/99 (RMO), 7/6/00 (RMO), 7/13/00 (DOF), 1/17/01 (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

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)

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

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

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

**Status** : Resolved - Delinquent

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

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

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

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

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

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

**Additional Information  
or Action Required** :

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

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**Recommendation 2** :

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

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

**Agency to Act** :

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

**Status** :

Resolved - Delinquent

**Agency Response** :

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

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

On 3/18/05, the Secretary of Finance informed OPA that no response has been received from either the Resident Director of Finance or the Mayor of Rota. The Secretary of Finance further stated that DOF was unable to confirm whether or not the payments in question were made to the vendor nor confirm any information through the DOF financial management system since these transactions were initiated before the system change in 1997. The Secretary of Finance requested that OPA refer this matter to the AGO. On 6/2/05, OPA referred this matter to the AGO for their review and legal action.

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

**Additional Information  
or Action Required** :

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

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**Recommendation 4** :

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

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

**Agency to Act** :

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

**Status** :

Resolved - Delinquent



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

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

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

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

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

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

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

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

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 1/26/99, 1/5/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 2/14/02 (AGO), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (DOF) (AGO), 8/8/05 (DOF), 8/9/05 (AGO), 3/10/06, 9/26/06, 2/7/07, 9/4/07

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)

**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 - Delinquent

**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.

**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 (Re-directed to AGO), 9/26/06 (AGO), 2/7/07, 9/4/07

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

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

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

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

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

**Status** : Resolved - Delinquent

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

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

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

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

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

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

**Additional Information or Action Required** : The AGO should inform OPA of their progress in their attempt to recover the remaining balance due from the former Washington Representative.

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

Date(s) of followup letter(s) sent : 1/5/00 (AGO), 7/12/00, 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

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

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

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

**Agency to Act** : Attorney General's Office

**Status** : Resolved - Delinquent

**Agency Response** : In his 3/9/01 response, the Acting Attorney General informed OPA that there is an ongoing investigation related to the facts and circumstances of this matter.

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

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

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

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

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

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

**Additional Information  
or Action Required**

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

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**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

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)

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

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

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

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

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

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

**Status** : Resolved - Delinquent

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

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

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

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

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

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

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**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

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

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

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

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

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

**Status** : Resolved - Delinquent

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

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

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

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

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

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

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

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

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

Date(s) of followup letter(s) sent : 1/17/01 (CPA), 1/19/01 (NMIRF), 8/20/01 (CPA), 8/21/01 (NMIRF), 3/5/02 (CPA) (NMIRF), 8/9/02 (CPA) (NMIRF), 8/12/02 (AGO), 10/3/02 (AGO), 12/24/02 (AGO), 2/14/03 (AGO) (CPA), 2/18/03 (NMIRF), 8/4/03 (NMIRF) (AGO), 4/13/04 (AGO), 4/16/04 (NMIRF), 9/21/04 (AGO), 9/28/04 (NMIRF), 2/15/05 (AGO) (NMIRF), 8/9/05 (AGO), (NMIRF), 3/10/06 (AGO) (NMIRF), 9/26/06 (AGO), 2/7/07 (AGO), 9/4/07 (AGO)

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

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

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

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

**Status** : Open - Delinquent

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

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

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



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

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

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

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

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

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

**Additional Information  
or Action Required**

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

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**Recommendation 5**

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

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

**Agency to Act**

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

**Status**

: Resolved - Delinquent

**Agency Response**

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

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

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

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

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

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

**Additional Information  
or Action Required**

: AGO should provide OPA a copy of its legal opinion on the matter.

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

Date(s) of followup letter(s) sent : 3/4/02, 8/12/02, 2/14/03, 4/21/03, 8/5/03, 11/10/03 (Re-directed to AGO), 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07

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

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

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

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

**Status** : Resolved - Delinquent

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

In his response dated 3/20/03, the Chairman for the CUC Board of Directors informed OPA that CUC has reverted to paying the subsistence allowance as recommended in the OPA audit report but that the present CUC Board of Directors has sanctioned the overpayments of the concerned Board members for the difference between the per diem they received and the subsistence allowance authorized and has provided justification for its decision, particularly in the case of the current board member who resides in Rota. On 4/21/03, OPA issued a letter to the Chairman of the CUC Board of Directors informing him that the position taken by the Board of Directors causes OPA concern for two reasons. First, it is inconsistent. To collect refunds for the overpayment from two individuals, but to excuse the others is inequitable. In addition, to state that CUC has reverted to paying the subsistence amount, indicating recognition that it is the authorized amount, but allowing individuals to retain the excess received over the subsistence amount is contradictory. Second, the letter provided by the Chairman of the CUC Board of Directors does not reflect the legal authority for an after the fact sanctioning of what the text of his letter and actions against the former employee and board member appear to recognize to be an improper act. OPA informed the Chairman of the CUC Board of Directors that without clearer legal authority or additional information to support their decision to sanction the overpayments, the recommendation will remain open.

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

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

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

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

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

**Additional Information  
or Action Required**

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

1. TA's with erroneous per diem payments for Board Member 1, Board Member 3, and Board Member 4 totaling \$2,730.
2. Questionable payment for one day per diem for TA no. 00-238 amounting to \$243.

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**Report No. AR-02-02 issued September II, 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

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

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**Recommendation I**

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

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

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

**Status** : Open - Delinquent

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

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

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

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

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

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

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

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

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

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

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

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**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

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

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**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 - Delinquent

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

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

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.

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

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**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

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

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

**Agency to Act** : Attorney General's Investigative Unit

**Status** : Resolved - Delinquent

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

In his response dated 9/15/03, the Acting Attorney General stated that this case was cleared by OPA. Upon further review, OPA determined that this case has not yet been cleared since OPA was not provided copies of documents evidencing repayment made into the fund by the current AGIU investigator for the overpayment of per diem and the results of their collection effort for the other two travelers with overpayments of per diem who are no longer employed with the AGIU.

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

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

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

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

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

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**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

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

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**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 - Delinquent

**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.

**Additional Information or Action Required** : The AGO should review the legal issues identified in OPA's audit report and inform OPA of its determination.

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

Date(s) of followup letter(s) sent : 3/13/06, 9/26/06, 2/7/07, 9/4/07

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

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**Recommendation 1** : Issue a determination on whether recovery of funds for double benefits paid to a former Liaison Officer is appropriate and should be pursued.

**Agency to Act** : Attorney General's Office

**Status** : Open - Delinquent

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

**Additional Information or Action Required** : OPA forwarded all pertinent documents relating to the contract to the AGO on 8/1/05.  
The AGO should inform OPA of the results of its review and whether recovery of funds for double benefits paid to a former Liaison Officer is appropriate and be pursued.

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**Recommendation 3** : *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** : Resolved - Delinquent

**Agency Response** : On 9/6/05, MHLO provided OPA with the schedule of payments for housing allowances improperly paid to two of the three employees cited in the report. MHLO did not inform OPA, however, whether it has forwarded the information to the AGO for legal query as to how to proceed in recovering the improper payments. OPA was subsequently contacted by an Assistant Attorney General to request a meeting to discuss and review pertinent files relating to OPA's findings of improper payments of housing allowances. OPA staff met with the Assistant Attorney General assigned to this case on 1/27/06. On 2/1/06, OPA forwarded to the Assistant Attorney General requested copies of audit work papers relating to the improper payments.

**Additional Information or Action Required** : AGO should inform OPA of the results of its review and determination regarding the improper payments of housing allowances.

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**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, 9/25/06, 2/2/07, 5/25/07, 8/23/07

Date(s) of response letter(s) received : 3/31/06, 10/18/06, 3/12/07, 10/4/07

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

**Agency to Act** : Department of Commerce

**Status** : Closed

**Agency Response** : In his letter dated 10/4/07, the Secretary of Commerce provided OPA a copy of Administrative Notice No. 07-01 requiring all banks and financial institutions holding CNMI government and autonomous agency deposits to furnish the Office of Director of Banking with evidence and a certification that such deposits are being properly secured with bank assets. The information shall be submitted together with the quarterly statements of financial condition at the end of each calendar quarter. The copy of the Administrative Notice No. 07-01 provided to OPA is sufficient to close this recommendation.

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# Department of Finance

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

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 1/26/99, 1/5/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 2/14/02 (AGO), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (DOF) (AGO), 8/8/05 (DOF), 8/9/05 (AGO), 3/9/06, 9/28/06, 2/6/07, 8/28/07

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)

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**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 - Delinquent

**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.

**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.

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**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

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

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**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.

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**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

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

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**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.

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**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

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

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**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.

**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.*

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**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.

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**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

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

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- 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

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

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

**Agency to Act** : Department of Finance

**Status** : Resolved - 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

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.

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**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.

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**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.

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

Date(s) of followup letter(s) sent : 3/13/06, 10/17/06, 2/6/07, 8/23/07

Date(s) of response letter(s) received : 8/25/06

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

**Agency to Act** : Department of Labor

**Status** : Resolved - Delinquent

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

In his letter dated 8/25/06, the Secretary of Labor informed OPA that he had met with the Secretary of Finance to discuss actions for implementing this recommendation. He stated that procedures are yet to be established and that another meeting will be held to resume discussions. He also stated that due to staff shortage, it may be necessary to close the Processing window early in order to carry out the comparison as recommended by OPA. The Secretary of Labor will be updating OPA on this issue after he meets with the Secretary of Finance.

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

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

**Agency to Act** : Department of Labor

**Status** : Resolved - Active

**Agency Response** : In his letter dated 8/25/06, the Secretary of Labor informed OPA that the on-going investigation in this matter is nearly complete. The Secretary of Labor will keep OPA apprised of any new developments in this investigation.

*OPA Response* - This recommendation will remain *Resolved - Active* until such time that the investigation is completed.

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

# 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

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

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**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 14<sup>th</sup> 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 14<sup>th</sup> 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

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.

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**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.

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**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

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

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**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.

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

**Recommendation I** : 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 - Active

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

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**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

- f. facility;
- f. Duties and responsibilities of the Evidence Custodian and any alternate(s);
- g. Prohibition of incompatible duties for evidence room personnel; and
- h. Periodic inspections, inventory and reports.

**Agency to Act** : Department of Public Safety

**Status** : Open - Active

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

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

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

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 EDU 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

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

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**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 - Active

**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.

**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.

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# 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

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

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**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.

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**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.

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**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

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

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**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.

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**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

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

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**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.

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**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

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

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**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.

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# Marianas Visitors Authority

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

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

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

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**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** : Resolve - Active

**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.

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

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**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

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

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**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.

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**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.

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**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

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

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**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.

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# 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

Date(s) of response letter(s) received : 7/22/03, 3/22/05, 8/14/06, 10/26/06

**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.

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

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

**Agency to Act** : Northern Mariana Islands Retirement Fund

**Status** : Resolved - Delinquent

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

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

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

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

Date(s) of followup letter(s) sent : 1/17/01 (CPA), 1/19/01 (NMIRF), 8/20/01 (CPA), 8/21/01 (NMIRF), 3/5/02 (CPA) (NMIRF), 8/9/02 (CPA) (NMIRF), 8/12/02 (AGO), 10/3/02 (AGO), 12/24/02 (AGO), 2/14/03 (AGO) (CPA), 2/18/03 (NMIRF), 8/4/03 (NMIRF) (AGO), 4/13/04 (AGO), 4/16/04 (NMIRF), 9/21/04 (AGO), 9/28/04 (NMIRF), 2/15/05 (AGO) (NMIRF), 8/9/05 (AGO) (NMIRF), 3/10/06 (NMIRF) (AGO), 10/17/06 (NMIRF), 2/7/07, 8/27/07

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)

**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.

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**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.

**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.

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**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

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

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**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 instituti.on.

*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.

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**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

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

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**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 - Active

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

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.

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**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

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

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

**Agency to Act** : Senate

**Status** : Open - Active

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

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

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

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

On 8/17/05, OPA met with the Senate Legal Counsel to discuss OPA's audit recommendations. The Senate Legal Counsel informed OPA that the Senate's position on this matter is essentially the same. However, OPA expressed its concern that a better system of accountability should be established. On 8/29/05, the Senate President reiterated to OPA that the Senate's position on this matter still remains the same and that no further legislation is necessary at this time. However, after discussing the matter with the Senate Legal Counsel and the concerns expressed by OPA staff during the 8/17/05 meeting, the Senate President agreed that a better system of accountability should be established. The Senate President therefore requested OPA's assistance in establishing an accounting system for the monthly Senatorial allowance or stipend that balances ease of use and proper accountability and is mutually acceptable to both the Senate and OPA. In OPA's response to the Senate President dated 9/22/05, OPA stated that in developing a system for the Senate's use, OPA consulted with representatives of the Hawaii Legislature, the Hawaii State Auditor, the Virgin Islands Inspector General, and the American Samoa Territorial

Auditor because of the similarities in the multi-island geographic composition of the state or territory and the level of sophistication of accounting systems. OPA provided the Senate President with a copy of the Hawaii House Administrative and Financial Manual for the Hawaii House of Representatives, Twenty Second State Legislature as reference in developing an accounting system for the monthly allowances paid to CNMI Senators. In its letter, OPA cited various requirements, restrictions, and forms which must be completed governing the Hawaii Legislature's annual allowance. For the CNMI Senator's stipend, OPA proposed a simple one page form which would simply list the date and amount of the monthly disbursement and then account for its usage. Since the Senators are currently being required to provide the Senate President with their monthly receipts, this system incorporates that method and make it easily reviewable. This form will also allow the Senators to undertake an analysis to determine reasonable travel costs to ensure that the amounts set for allowances are appropriate for the expenses incurred.

**Additional Information  
or Action Required :**

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

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**Recommendation 3 :** Document travel activity to enable the Senate to more accurately estimate an appropriate monthly allowance.

**Agency to Act :** Senate

**Status :** Open -Active

**Agency Response :** The Senate agreed to provide OPA with a written analysis of what it considers as reasonable travel to support changing the amount set for the monthly subsistence allowance.

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

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

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

On 8/17/05, OPA met with the Senate Legal Counsel to discuss OPA's audit recommendations. The Senate Legal Counsel informed OPA that the Senate's position on this matter is essentially the same. However, OPA expressed its concern that a better system of accountability should be established. On 8/29/05, the Senate President reiterated to OPA that the Senate's position on this matter still remains the same and that no further legislation is necessary at this time. However, after discussing the matter with the Senate Legal Counsel and the concerns expressed by OPA staff during the 8/17/05 meeting, the Senate President agreed that a better system of accountability should be established. The Senate President therefore requested OPA's assistance in establishing an accounting system for the monthly Senatorial allowance or stipend that balances ease of use and proper accountability and is mutually acceptable to both the Senate and OPA. In OPA's response to the Senate President dated 9/22/05, OPA stated that in developing a system for the Senate's use, OPA consulted with representatives of the Hawaii Legislature, the Hawaii State Auditor, the Virgin Islands Inspector General, and the American Samoa Territorial Auditor because of the similarities in the multi-island geographic composition of the

state or territory and the level of sophistication of accounting systems. OPA provided the Senate President with a copy of the Hawaii House Administrative and Financial Manual for the Hawaii House of Representatives, Twenty Second State Legislature as reference in developing an accounting system for the monthly allowances paid to CNMI Senators. In its letter, OPA cited various requirements, restrictions, and forms which must be completed governing the Hawaii Legislature's annual allowance. For the CNMI Senator's stipend, OPA proposed a simple one page form which would simply list the date and amount of the monthly disbursement and then account for its usage. Since the Senators are currently being required to provide the Senate President with their monthly receipts, this system incorporates that method and make it easily reviewable.

**Additional Information  
or Action Required :**

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

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

**Agency to Act :** Senate

**Status :** Open -Active

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

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

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

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

**Additional Information  
or Action Required :**

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

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# Independent Auditor's Recommendations

CNMI  
Commonwealth Development Authority  
Commonwealth Government Employees' Credit Union  
Commonwealth Ports Authority  
Commonwealth Utilities Corporation  
Department of Public Lands  
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.<sup>1</sup>

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.

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<sup>1</sup> 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, 2006  
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/27/07 (DEQ) (DPH) (GOV) (Medicaid) (NAP), 8/28/07 (DOF), 9/17/07 (Deloitte re: DEQ, Medicaid response), 10/12/07 (Deloitte re: NAP response), 10/15/07 (Deloitte re: DPH response)

Date(s) of response letter(s) received : 9/12/07 (DEQ), 9/14/07 (Medicaid), 9/24/07 (DPH), 10/4/07 (NAP)

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See pages 69 to 153 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, 2006

**Section II - Financial Statement Findings**

External Financial Reporting

Finding No. 2006-1

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

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** FY2008



**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Cash Flows**

**Finding No. 2006-2**

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

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

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

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

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

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

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

**Auditee Response and Corrective Action Plan:**

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-2, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

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

**Proposed Completion Date:** Ongoing

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Purchases/Disbursements**

**Finding No. 2006-3**

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-3, Continued

Condition, Continued:

<u>General Ledger Cash Account #</u>	<u>Check Number</u>	<u>Check/Wire Transfer Date</u>	<u>Check Amount</u>
11430	303176	01/23/07	\$ 380,639
11430	3652	01/30/07	363,210
11430	303661	02/02/07	476,262
11540	3600	11/27/06	377,934
11540	3635	01/16/07	<u>411,957</u>
			<u>\$ 2,010,002</u>

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

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

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

Recommendation: We recommend that the Department of Finance ensure that all expenditures recorded in the general ledger are properly supported by certified accounts payable vouchers, invoices and other relevant documents. Further, we recommend the Department of Finance ensure that all accounts payable vouchers are properly filed and maintained.

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Purchases/Disbursements

Finding No. 2006-4

**Criteria:** Expenditures should be recorded when incurred.

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

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

**Effect:** The effect of the above condition is that actual expenditures incurred during the year are not properly accrued resulting in the understatement of current year expenditures and unrecorded liabilities. This condition results in a qualification of accounts payable on the basic financial statements.

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

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

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** N/A

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash and Cash Equivalents

Finding No. 2006-5

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

**Condition:** During the fiscal year ended September 30, 2006, the bank reconciliations for the Payroll, General Fund, NMTIT Rebate Trust Fund, Treasury Savings Account and the NMTIT Rebate Savings Account (A/c #s 11420.1010, 11430.1010, 11400.1010, 11610.1010 and 11640.1010) were not performed in a timely manner.

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2006-6

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

**Condition:** As of September 30, 2006, the receivable balance at CHC was \$157,264,191. Based on our review of the subsidiary ledger, this balance represents accounts outstanding in excess of 120 days. The large receivable balance, the many aged individual balances, and the backlog of billing files all reflect inadequate billing and collection procedures.

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

**Effect:** The effect of the above condition is the possibility of a misstatement of CHC receivable balances; however, this effect is mitigated by a corresponding allowance for uncollectible accounts of \$157,264,191.

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

**Prior Year Status:** Inadequate controls over receivables at CHC was reported as a finding in the Single Audits of the CNMI for fiscal years 1995 through 2005.

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Receivables

Finding No. 2006-7

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** FY2007



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Advances

Finding No. 2006-8

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

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

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

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

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

**Prior Year Status:** The lack of a reconciled subsidiary ledger and timely liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 2001 through 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** This finding is related to Finding 2006-11. We are currently reconciling the advance to vendors and received not vouchered accounts and making adjustments. Even though the expense is posted during the receiving function, it appears that the debit advance amount is not being closed for prepaid items, leaving an offsetting credit open in the received not vouchered account. A new FMS procurement receiving procedure has been implemented for prepaid items. Reconciliation procedures will be developed to reconcile the advance to vendors and received not vouchered account balances.

**Proposed Completion Date:** Ongoing

## COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

#### Advances

#### Finding No. 2006-9

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

**Condition:** As of September 30, 2006, the General Fund recorded travel advances of \$1,573,692, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, approximately \$1,165,800 represents carryforwards from prior years.

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-9, Continued

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

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

**Prior Year Status:** Liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2005.

**Auditee Response and Corrective Action Plan:**

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

**Corrective Action:** We agree that the travel advance balance needs to be adjusted for old balances and that most these old balances cannot be adequately documented. We have implemented automated sub ledgers by traveler for our travel advance accounts. Advance and voucher filing procedures are now being enforced so that new advances are not issued if there are pending outstanding advances. Payroll deductions are being made if vouchers are not filed in a timely manner. Scanning of travel vouchers is now being done. We are reviewing and clearing old balances. The amount outstanding as of May 31, 2007 has been reduced to \$1,496,724. The amount outstanding is reserved against fund balance on the balance sheet either through the reserve for encumbrances or reserve for related assets.

**Proposed Completion Date:**

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Payables**

**Finding No. 2006-10**

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

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

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

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

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-10, Continued

Condition, Continued:

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Other Liabilities and Accruals

Finding No. 2006-11

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

**Condition:** As of September 30, 2006, the General Fund recorded liabilities (A/c #s 20120.1010 and 20120.1012) including a credit balance of \$980,534 and a debit balance of \$12,147 for which no detailed subsidiary ledgers were available. We are unable to determine the propriety of these account balances. Further, in prior years, these accounts also included prepaid items/debit balances. A summary of debit balances included in accounts payable is as follows:

<u>Fund</u>	<u>Amount</u>
1010	\$ 4,261,418
1012	19,851
1015	3,749
2020	76,689
2030	134
2043	2,462
2070	2,629
2300	2,044
4043	167
4044	102
4045	538
4052	<u>1,267</u>
	\$ <u>4,371,050</u>

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

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

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

**Prior Year Status:** The lack of established policies and procedures to ensure adequate recording of liabilities for goods received by the Division of Procurement and Supply was reported as a finding in the Single Audits of the CNMI for fiscal years 1999 through 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-11, Continued

Auditee Response and Corrective Action Plan:

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

**Corrective Action:** This is related to Finding 2006-8. Proper balance sheet accounting for vendor advance payments has been a continuing problem. Under the method in use from 1999 to 2005 it appears that the debit advance amount may not be closed for prepaid items leaving an offsetting credit open in the received not vouchered account. We are reviewing and adjusting balances where needed. A new FMS procurement receiving procedure has been implemented for prepaid items. Reconciliation procedures will be developed to reconcile received not vouchered balances on a monthly basis.

The debit payable balances noted above are recorded in the regular automated accounts payable account and subsidiary ledger and result from advances issued in 1997 through 1999 when a debit payable voucher was created for each advance issued. It appears an offsetting entry will need to be made in the automated payables account pending reversal of the individual records. An accurate method of eliminating the detail records has not been developed at this point.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Retirement Contributions - General Fund

Finding No. 2006-12

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

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

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

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

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

**Prior Year Status:** The lack of compliance with Public Law 6-12, Section 8342 was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Ongoing



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Tax Rebates Payable

Finding No. 2006-13

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

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

**Condition:** At September 30, 2006, estimated tax rebates payable aggregated \$39,428,591. The estimate consists of the following:

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

The unpaid 2005 and prior rebates consist of completed tax returns and the value of matched and unmatched tax returns. The detailed listings of the matched tax returns for the tax years 2000 through 2005 for both individual returns amounting to \$17,681,439 and corporate returns amounting to \$5,265,037 were not made available. Additionally, the detailed listings of the unmatched tax returns for the tax year 2002 for individual returns amounting to \$463,070 and for the tax years 2000 through 2003 for corporate returns amounting to \$1,450,745 were not made available. Further, no interest is calculated or paid on overpayments.

**Cause:** The cause of the above condition is the failure of the Division of Revenue & Taxation to print a detailed listing at September 30, 2006 to support tax assessments. Further, there is a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments.

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

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

**Prior Year Status:** A lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-13, Continued

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

**Fund Balance**

**Finding No. 2006-14**

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

**Condition:** As of September 30, 2006, no detailed schedule of outstanding local construction projects was made available for reconciliation to the Local Capital Projects Fund (Fund 4042) reserve for continuing appropriations, which totaled \$1,844,404.

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

**Effect:** The effect of the above condition is the possibility of a misstatement of the reserve for continuing appropriations.

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

**Prior Year Status:** The lack of appropriate documentation supporting the status of ongoing construction projects was reported as a finding in the Single Audits of the CNMI for fiscal years 1997 through 2005.

**Auditee Response and Corrective Action Plan:**

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

**Corrective Action:** The fiscal year 1997 conversion of remaining appropriation balances for local CIP projects was incorrectly done. We have completed researching the correct remaining balances and expect to have FMS corrections made in fiscal year 2007.

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

CNMI Local Noncompliance

Finding No. 2006-15

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

**Condition:** During the year ended September 30, 2006, the CNMI operated under a continuing resolution based on Public Law No. 13-24, the Appropriations and Budget Authority Act of 2003. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2006:

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

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

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

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

**Prior Year Status:** Over-expenditures in excess of budget allotments was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2005.

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** N/A

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

CNMI Local Noncompliance

Finding No. 2006-16

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Fiscal year 2007

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

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

**Allowable Costs/Cost Principles - All Major Programs**

**Finding No. 2006-17**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																																																							
	<p><b>Criteria:</b> Expenditures recorded in the general ledger should be supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p><b>Condition:</b> Supporting accounts payable vouchers and invoices for the following programs were not provided, as follows:</p> <ul style="list-style-type: none"> <li>• Of forty-seven expenditures tested of the Homeland Security Grant Programs aggregating \$3,485,301, the supporting travel authorization for one item (ref. T264395 for PV 571431) amounting to \$3,429 was not made available.</li> <li>• Of \$2,150,136 in non-payroll expenditures of the Public Assistance Grants tested, we noted the following:               <ol style="list-style-type: none"> <li>1. While copies of the journal vouchers were made available, the supporting accounts payable vouchers, GAR's requests for payment, invoices and receiving reports for the following were not provided:                   <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Disaster</th> <th style="text-align: center;">DR #</th> <th style="text-align: center;">JV #</th> <th style="text-align: center;">Amount</th> <th></th> </tr> </thead> <tbody> <tr> <td>Chata'an</td> <td>1430</td> <td>116341</td> <td>\$ 34,362</td> <td style="text-align: right;">34,362</td> </tr> <tr> <td>Pongsona</td> <td>1447</td> <td>116121</td> <td>\$ 39,289</td> <td style="text-align: right;">5,893</td> </tr> <tr> <td>Paka</td> <td>1194</td> <td>128452</td> <td>\$ 56,512</td> <td style="text-align: right;">56,512</td> </tr> </tbody> </table> </li> </ol> </li> <li>• Of twenty-four non-payroll expenditure items tested relating to non-major programs aggregating \$1,215,957, the supporting accounts payable vouchers, invoices and relevant documents for the following were not made available:                   <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">CFDA No.</th> <th style="text-align: center;">Reference No.</th> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Amount</th> <th></th> </tr> </thead> <tbody> <tr> <td>93.959</td> <td>562803 PV</td> <td>02/15/06</td> <td>\$ 21,000</td> <td></td> </tr> <tr> <td>15.875</td> <td>564046 PV</td> <td>02/27/06</td> <td>5,000</td> <td></td> </tr> <tr> <td>93.217</td> <td>564335 PV</td> <td>02/28/06</td> <td>17,720</td> <td></td> </tr> <tr> <td>15.622</td> <td>570315 PV</td> <td>05/01/06</td> <td>96,466</td> <td></td> </tr> <tr> <td>16.579</td> <td>585296 PV</td> <td>09/12/06</td> <td><u>13,407</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">\$ <u>153,593</u></td> <td style="text-align: right;">153,593</td> </tr> </tbody> </table> </li> </ul>	Disaster	DR #	JV #	Amount		Chata'an	1430	116341	\$ 34,362	34,362	Pongsona	1447	116121	\$ 39,289	5,893	Paka	1194	128452	\$ 56,512	56,512	CFDA No.	Reference No.	General Ledger Date	General Ledger Amount		93.959	562803 PV	02/15/06	\$ 21,000		15.875	564046 PV	02/27/06	5,000		93.217	564335 PV	02/28/06	17,720		15.622	570315 PV	05/01/06	96,466		16.579	585296 PV	09/12/06	<u>13,407</u>					\$ <u>153,593</u>	153,593	<p>\$ 3,429</p>
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	<p><b>Cause:</b> The cause of the above condition is the lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents.</p> <p><b>Effect:</b> The effect of the above condition is questioned costs of \$253,789.</p>																																																								

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-17, Continued

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Allowable Costs/Cost Principles**

**Finding No. 2006-18**

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>																															
U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/05 - 09/30/06	<b>Criteria:</b> Expenditures should be authorized, supported by documents, and approved prior to incurrence.  <b>Condition:</b> We noted the following:																																
	<ul style="list-style-type: none"> <li>For two travel expenses, the supporting travel authorizations were not made available:</li> </ul>																																
	<table border="0"> <thead> <tr> <th style="text-align: center;"><u>General Ledger Date</u></th> <th style="text-align: center;"><u>General Ledger Account</u></th> <th style="text-align: center;"><u>Reference No.</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td align="center">11/22/05</td> <td align="center">62500</td> <td align="center">PV554330</td> <td align="right">\$ 2,338</td> </tr> <tr> <td align="center">11/16/05</td> <td align="center">62500</td> <td align="center">PV406430</td> <td align="right"><u>1,606</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td align="right">\$ <u>3,944</u></td> </tr> </tbody> </table>	<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>	11/22/05	62500	PV554330	\$ 2,338	11/16/05	62500	PV406430	<u>1,606</u>				\$ <u>3,944</u>	3,944															
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				\$ <u>3,944</u>																													
	Further, the related travel voucher and trip report for one item (PV421998) amounting to \$1,580 were not submitted within fifteen days upon completion of travel.																																
	<ul style="list-style-type: none"> <li>For six items, accounts payable vouchers were not supported by actual billings and claims from service providers:</li> </ul>																																
	<table border="0"> <thead> <tr> <th style="text-align: center;"><u>General Ledger Date</u></th> <th style="text-align: center;"><u>General Ledger Account</u></th> <th style="text-align: center;"><u>Reference No.</u></th> <th style="text-align: center;"><u>Amount</u></th> </tr> </thead> <tbody> <tr> <td align="center">11/25/05</td> <td align="center">62060</td> <td align="center">PV407351</td> <td align="right">\$ 21,769</td> </tr> <tr> <td align="center">10/06/05</td> <td align="center">62060</td> <td align="center">PV401973</td> <td align="right">3,569</td> </tr> <tr> <td align="center">12/20/05</td> <td align="center">62060</td> <td align="center">PV409577</td> <td align="right">83,868</td> </tr> <tr> <td align="center">12/20/05</td> <td align="center">62060</td> <td align="center">PV409581</td> <td align="right">12,965</td> </tr> <tr> <td align="center">10/06/05</td> <td align="center">62060</td> <td align="center">PV401975</td> <td align="right">7,980</td> </tr> <tr> <td align="center">11/16/05</td> <td align="center">62500</td> <td align="center">PV406430</td> <td align="right"><u>1,606</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td align="right">\$ <u>131,757</u></td> </tr> </tbody> </table>	<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>	11/25/05	62060	PV407351	\$ 21,769	10/06/05	62060	PV401973	3,569	12/20/05	62060	PV409577	83,868	12/20/05	62060	PV409581	12,965	10/06/05	62060	PV401975	7,980	11/16/05	62500	PV406430	<u>1,606</u>				\$ <u>131,757</u>
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			\$ <u>131,757</u>																														
<ul style="list-style-type: none"> <li>Of the total program payroll expenditures of \$75,374, two employees with total gross pay of \$1,685 were tested. Both employees included PTO charges totaling \$157 but the approved annual leave forms for the employees were not provided for review:</li> </ul>																																	
<table border="0"> <thead> <tr> <th style="text-align: center;"><u>Employee No.</u></th> <th style="text-align: center;"><u>Payroll Period Ended</u></th> <th style="text-align: center;"><u>No. of PTO Hours</u></th> </tr> </thead> <tbody> <tr> <td align="center">103084</td> <td align="center">03/18/06</td> <td align="center">22</td> </tr> <tr> <td align="center">210704</td> <td align="center">03/18/06</td> <td align="center">8</td> </tr> </tbody> </table>	<u>Employee No.</u>	<u>Payroll Period Ended</u>	<u>No. of PTO Hours</u>	103084	03/18/06	22	210704	03/18/06	8	157																							
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210704	03/18/06	8																															

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-18, Continued

Program	Reason for Questioned Costs	Questioned Costs
	<p><b>Effect:</b> The effect of the above conditions is the lack of support for the authorization of expenditures prior to incurrence and questioned costs of \$135,858.</p> <p><b>Recommendation:</b> We recommend that the Medicaid office obtain all necessary approvals/authorizations prior to incurrence/payment of expenditures and ensure that supporting documents are properly and completely filed.</p> <p><b>Prior Year Status:</b> Failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to submit all supporting documents for filing was reported as a finding in the Single Audit of the CNMI for fiscal year 2005.</p> <p><b>Auditee Response and Corrective Action Plan:</b></p> <p><b>Name of Contact Person:</b> Helen Sablan, Medicaid Administrator</p> <p><b>Corrective Action:</b> Medical referral authorizations are maintained by the Medical Referral Office. Medicaid has requested these documents. In past years we have been able to document this type of missing document finding but given the emphasis on timely completion of the final audit, this portion of the finding will probably remain in the final audit. We do not feel the cause is lack of approvals and/ or authorizations but rather documents filed in several offices.</p> <p>However, our Operational Plan does not specify or require a treatment authorization so long as the Medical Referral Committee approves the referral of the Medicaid patient for treatment off-island.</p> <p>Timekeeping has been centralized at the Department of Public Health. Copies of the annual leave forms have been requested but not received.</p> <p><b>Proposed Completion Date:</b> Ongoing</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Management

Finding No. 2006-19

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Finding No. 2006-19, Continued**

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

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

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Finding No. 2006-19, Continued**

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

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

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

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

**Effect:** The effect the above condition is lack of compliance with grant requirements relating to cash management, a potential interest liability and questioned costs of \$32,884.

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

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

**Auditee Response and Corrective Action Plan:**

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-19, Continued

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

**Corrective Action, Continued:**

We feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus drawdowns is not considered. The agency may not have made payments for other expenditures. We reviewed each project with checks clearing more than 30 days after the drawdown was received noted in the findings. In each case the project still had a net receivable balance after the drawdown was received. Since the Federal agencies also have responsibilities to disburse requested funds in a timely manner under the CMIA, we think the audit testing should include the date the drawdown was requested as well as when it was received.

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

**Proposed Completion Date:** Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Management

Finding No. 2006-20

Program	Reason for Questioned Costs	Questioned Costs			
<p>U.S. Department of Homeland Security / Public Assistance Grants / CFDA #97.036 / Federal Award #s MP02PA1430, MP03PA1447, 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 08/06/02 through completion, 12/11/02 through completion, 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion</p>	<p><b>Criteria:</b> Per OMB Circular A-133, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. The allowable clearance pattern is three days.</p> <p><b>Condition:</b> Of total disbursements of \$1,666,563 related to large projects, we noted the following:</p> <ul style="list-style-type: none"> <li>• Per DSR 48014 for Typhoon Paka (DR 1194), which is to close out the Rota Early Warning Project, the federal share is a negative \$159,142. The negative balance results from insurance and de-obligation adjustments made by grantor. An additional drawdown of \$412,267 was received during the year. The liability per the DSR of \$159,142 and the additional amount drawn of \$412,267 has been included in the following interest liability calculation.</li> <li>• Funds advanced were not disbursed after receipt of drawdown for the following:</li> </ul>				
APV #	DR	Cost Center	CR date	Date Cleared	Days Elapsed After the Allowable Clearance Pattern
116341	1430	M3544O	10/06/05	09/30/06	356
586809	1611	M6036K	05/17/06	09/30/06	133
584895	1611	M6036F	05/17/06	09/30/06	133
559199	1447	M3544G	10/01/05	03/14/06	161
570106	1447	M3544G	10/01/05	05/17/06	225
573011	1447	M3544G	10/01/05	06/15/06	254
574590	1447	M3544G	05/17/06	06/19/06	30
220468	1447	M3544H	10/01/05	02/27/06	146
551791	1447	M35444	10/01/05	01/17/06	105
564330	1447	M35444	10/01/05	04/03/06	181
572071	1447	M35444	10/01/05	06/09/06	248
116121	1447	M35440	10/01/05	09/30/06	361
Payroll	1532	M30360	10/01/05	07/08/06	277
Payroll	1541	M4036S	10/01/05	09/02/06	333
Payroll	1541	M40366	10/01/05	12/10/05	67
576037	1541	M4036O	05/17/06	07/18/06	59
557245	1541	M4036S	10/01/05	01/23/06	111
563932	1541	M4036S	10/01/05	04/10/06	188

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-20, Continued

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-20, Continued

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

**Corrective Action, Continued:**

Managing large disasters with hundreds of projects sometimes results in excess draw downs for a particular project. When this occurs, the excess funds drawn are applied to other projects within the disaster that have reimbursable costs not drawn down. Since costs have already been incurred in another project we do not feel interest should be calculated. The audit report shows a net receivable balance of \$1,359,467 for U.S. Department of Homeland Security grants under CFDA # 97.036 as of the audit date.

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

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

**Proposed Completion Date: FY2007**

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Cash Management

Finding No. 2006-21

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

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

**Condition:** For eighty-two of one hundred thirty-seven samples tested, disbursement checks were released and cleared from three to two hundred forty-two days after the allowable clearance pattern from the date cash was received from the grantor agency, as follows:

Document #	Amount	Check Number	Clearing Date	Reimbursement Date	Days Elapsed After the Allowable Clearance Pattern
PV404496	\$ 55,463	282218	01/03/06	11/16/05	38
PV404497	\$ 68,283	282218	01/03/06	11/16/05	38
PV404498	\$ 65,930	282218	01/03/06	11/16/05	38
PV404499	\$ 41,333	282218	01/03/06	11/16/05	38
PV404500	\$ 53,653	282218	01/03/06	11/16/05	38
PV404501	\$ 56,460	282218	01/03/06	11/16/05	38
PV407952	\$ 27,777	282203	01/03/06	12/19/05	5
PV407963	\$ 14,484	282203	01/03/06	12/19/05	5
PV407967	\$ 17,508	282203	01/03/06	12/19/05	5
PV408427	\$ 15,254	282214	01/18/06	12/19/05	20
PV408428	\$ 14,270	282214	01/18/06	12/19/05	20
PV408431	\$ 22,623	282214	01/18/06	12/19/05	20
PV408432	\$ 14,875	282214	01/18/06	12/19/05	20
PV408436	\$ 47,105	282214	01/18/06	12/19/05	20
PV411386	\$ 39,394	288214	04/25/06	01/31/06	74
PV414522	\$ 18,802	285705	05/01/06	01/31/06	80
PV563224	\$ 19,572	287748	04/07/06	02/27/06	29
PV563226	\$ 16,328	287748	04/07/06	02/27/06	29
PV563227	\$ 13,058	287748	04/07/06	02/27/06	29
PV563231	\$ 32,067	287748	04/07/06	02/27/06	29
PV563232	\$ 21,883	287748	04/07/06	02/27/06	29
PV563241	\$ 115,197	287749	03/31/06	02/27/06	22
PV563243	\$ 152,288	287749	03/31/06	02/27/06	22
PV428853	\$ 14,109	293971	08/11/06	05/16/06	77
PV428854	\$ 86,265	293971	08/11/06	05/16/06	77
PV433235	\$ 39,656	296823	09/06/06	08/11/06	16
PV434212	\$ 35,848	296039	08/28/06	08/11/06	7
PV437795	\$ 21,356	296822	09/06/06	08/24/06	3
PV437801	\$ 22,460	296822	09/06/06	08/24/06	3
PV437822	\$ 20,593	296822	09/06/06	08/24/06	3
PV437832	\$ 21,915	296822	09/06/06	08/24/06	3
PV437837	\$ 14,689	296822	09/06/06	08/24/06	3
PV401975	\$ 6,605	280250	12/27/05	11/16/05	31
PV408103	\$ 3,383	282207	02/17/06	12/19/05	50
PV408115	\$ 4,663	286103	06/09/06	12/19/05	162
PV408433	\$ 12,368	282214	01/18/06	12/19/05	20
PV414703	\$ 4,948	288244	06/09/06	02/27/06	92
PV414704	\$ 5,963	289778	05/02/06	02/27/06	54
PV562560	\$ 1,400	285556	03/21/06	02/27/06	12
PV563229	\$ 3,852	287748	04/07/06	02/27/06	29
PV563237	\$ 5,386	287749	03/31/06	02/27/06	22
PV563238	\$ 5,096	287749	03/31/06	02/27/06	22
PV563240	\$ 5,730	287749	03/31/06	02/27/06	22
PV418763	\$ 2,307	289220	05/23/06	02/27/06	75
PV418777	\$ 3,620	287119	05/12/06	02/27/06	64

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-21, Continued

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

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

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

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

**Prior Year Status:** The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-21, Continued

<u>Program</u>	<u>Reason for Questioned Costs</u>	<u>Questioned Costs</u>
	<p><b>Auditee Response and Corrective Action Plan:</b></p> <p><b>Name of Contact Person:</b> Antoinette Calvo, CNMI Treasurer and Helen C. Sablan, Medicaid Administrator</p> <p><b>Corrective Action:</b> CNMI policy is to disburse advance Federal funds as close to receipt of funds as possible. We will review our procedures with appropriate staff to minimize the timing differences.</p> <p>We feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus draw downs is not considered. The agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$520,826 for CFDA #93.778 (Medical Assistance Program).</p> <p>In the case of Medicaid, we disagree that we receive advance funds. Due to insufficient funding, the Commonwealth Health Center (CHC) does not receive Medicaid reimbursements so that grant funds can be utilized to pay non-governmental providers. When drawdowns are requested, CHC has already spent many times more than the drawdown amount on Medicaid services. Rather than reimburse CHC, grant and matching funds are used to pay non CNMI Government vendors.</p> <p><b>Proposed Completion Date:</b> Ongoing</p> <p><b>Auditor Response:</b> The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.</p>	

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Eligibility

Finding No. 2006-22

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-22. Continued

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

**Corrective Action, Continued:**

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2006-23

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2006-24

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1996 - 2006 Appropriations Act / Federal Award Period Available Until Expended</p>	<p><b>Criteria:</b> Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law.</p> <p><b>Condition:</b> During the year ended September 30, 2006, the CNMI entered into a contract (contract # 356-OS) using an expedited procurement method. We did not note any written determination documenting the use of expedited procurement. The fiscal year 2006 expenditures tested relating to this contract amounted to \$85,345.</p> <p><b>Cause:</b> The cause of the above condition is failure to provide for full and open competition in the applicable procurement transactions.</p> <p><b>Effect:</b> The effect of the above condition is the lack of full and open competition in the applicable procurement transactions and questioned costs of \$85,345.</p> <p><b>Recommendation:</b> We recommend that the CNMI review its current procurement regulations to ensure conformity with applicable federal laws.</p> <p><b>Prior Year Status:</b> The lack of compliance with Section 3-108 of the CNMI Procurement Regulation was reported as a finding in the Single Audit of the CNMI for fiscal year 2005.</p> <p><b>Auditee Response and Correction Action Plan:</b></p> <p><b>Name of Contact Person:</b> Robert Florian, Assistant Director, Procurement and Supply</p> <p><b>Corrective Action:</b> We accept your recommendation and are fully aware of the requirement for written documentation supporting the use of the expedited procurement method. Effective immediately, our contract and PO reviewers will be asked to be particularly aware to ensure that such documentation is included.</p> <p><b>Proposed Completion Date:</b> Ongoing</p>	<p>85,345</p>

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Procurement and Suspension and Debarment**

**Finding No. 2006-25**

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



**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Procurement and Suspension and Debarment**

**Finding No. 2006-26**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment

Finding No. 2006-27

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Procurement and Suspension and Debarment**

**Finding No. 2006-28**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-28, Continued

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Procurement and Suspension and Debarment**

**Finding No. 2006-29**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-29, Continued

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Special Tests and Provisions**

**Finding No. 2006-30**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-30, Continued

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Homeland Security

Allowable Costs/Cost Principles - Public Assistance Grants

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

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

Finding No. 2006-31

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

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

- The equipment rates used for one Typhoon Chaba (DR 1541) project (PW 16) were higher than the FEMA rates used in estimation stipulated in scope of work. Local rates were used instead.

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

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

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

**Prior Year Status:** The lack of established local guidelines relating to equipment rates was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

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

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

**Proposed Completion Date:** N/A

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-31, Continued

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Health and Human Services  
Allowable Costs/Cost Principles - Medical Assistance Program  
CFDA #93.778, Federal Award # 05-0405CO5028  
Federal Award Period 10/01/05 - 09/30/06

Finding No. 2006-32

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

**Condition:** Of one hundred thirty-seven items tested totaling \$3,332,738 at September 30, 2006, sixty-six items totaling \$1,647,963 were not reviewed for eligibility of services or for propriety of rates charged. Further, there was no evidence of rate verification or review of the accuracy of billings. Based on tests, the eligibility of services was in accordance with Part 3 of the revised Operational Plan; therefore, no questioned costs result from this condition. Details as follows:

<u>General Ledger Date</u>	<u>General Ledger Account</u>	<u>Reference No.</u>	<u>Amount</u>
10/26/05	62060	PV404496	\$ 55,463
10/26/05	62060	PV404497	68,283
10/26/05	62060	PV404498	65,930
10/26/05	62060	PV404499	41,333
10/26/05	62060	PV404500	53,653
10/26/05	62060	PV404501	56,460
12/06/05	62060	PV408428	14,270
12/06/05	62060	PV408431	22,623
12/06/05	62060	PV408432	14,875
12/20/05	62060	PV409584	90,665
02/17/06	62060	PV563224	19,572
02/17/06	62060	PV563226	16,328
02/17/06	62060	PV563227	13,058
02/17/06	62060	PV563231	32,067
02/17/06	62060	PV563232	21,883
02/17/06	62060	PV563241	115,197
02/17/06	62060	PV563243	152,288
05/31/06	62060	PV430745	18,661
05/31/06	62060	PV430746	23,380
05/31/06	62060	PV430747	19,295
05/31/06	62060	PV430748	20,851
05/31/06	62060	PV430749	21,399
05/31/06	62060	PV430750	25,445
05/31/06	62060	PV430751	18,752
05/31/06	62060	PV430757	22,089
05/31/06	62060	PV430758	21,548
05/31/06	62060	PV430759	24,917
05/31/06	62060	PV430760	22,130
05/31/06	62060	PV430761	25,051
05/31/06	62060	PV430762	21,399
05/31/06	62060	PV430763	23,555
05/31/06	62060	PV430764	22,964
05/31/06	62060	PV430765	23,977
06/20/06	62060	PV433235	39,656
06/29/06	62060	PV434066	15,742
06/30/06	62060	PV434215	18,403
08/08/06	62060	PV437795	21,356

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Finding No. 2006-32, Continued**

**Condition, Continued:**

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

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

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

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Finding No. 2006-32, Continued**

**Condition, Continued:**

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-32, Continued

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

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

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

**Prior Year Status:** The lack of clearly defined and communicated procedures for verification of billings prior to reimbursement was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2005.

**Auditee Response and Corrective Action Plan:**

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

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

**Proposed Completion Date:** N/A

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Allowable Costs/Cost Principles - All Major Programs

Finding No. 2006-33

**Criteria:** In accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment E, Section D 1(d), indirect cost proposals must be developed (and, when required, submitted) within six months after the close of the governmental unit's fiscal year, unless an exception is approved by the cognizant Federal agency. If the proposed central service cost allocation plan for the same period has not been approved by that time, the indirect cost proposal may be prepared including an amount for central services that is based on the latest federally approved central service cost allocation plan. The difference between these central service amounts and the amounts ultimately approved will be compensated for by an adjustment in a subsequent period.

**Condition:** During the year ended September 30, 2006, the CNMI applied the 2003 indirect cost rate on eligible federal programs without obtaining the cognizant agency's approval.

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

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

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

**Prior Year Status:** The lack of prior approval from the cognizant agency prior to applying the indirect cost rate on eligible federal programs was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Fiscal year 2007

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

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

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

**Finding No. 2006-34**

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

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

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

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

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-34, Continued

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

**Effect:** The effect of the above condition is noncompliance with federal cash management requirements and a possible interest liability of \$970. However, no questioned costs result from the condition as the estimated interest liability to the U.S. Department of Veterans Affairs and the U.S. Environmental Protection Agency is less than \$10,000.

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

Auditee Response and Corrective Action Plan:

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

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

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

**Proposed Completion Date:** Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2006-35

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

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

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

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

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

**Prior Year Status:** The lack of adequately defined control procedures over the Program's electronic system was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2005.

**Auditee Response and Corrective Action Plan:**

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

**Corrective Action:** We disagree with the audit finding. Database updates are done by the eligibility workers and verified by the administrative clerk. Changes are documented in the recipients file and initialed by the person updating the record and the verifier. Hard copies are filed in the recipients file. The account clerks are restricted to verifying eligibility and third party liability information only.

**Proposed Completion Date:**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Environmental Protection Agency

Equipment and Real Property Management - Environmental Protection Consolidated Grants-  
Program Support

CFDA #66.600, Federal Award # M-009156-04

Federal Award Period 10/01/03 - 09/30/08

U.S. Department of Homeland Security

Equipment and Real Property Management - Homeland Security Cluster

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

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

U.S. Department of Homeland Security

Equipment and Real Property Management - Public Assistance Grants

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

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

Finding No. 2006-36

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-36, Continued

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

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

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

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

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

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

**Prior Year Status:** The lack of compliance with federal property rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-36, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

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

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

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

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

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

**Proposed Completion Date: Ongoing**

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2006-37

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

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

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

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

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

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

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

**Prior Year Status:** The lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-37, Continued

Auditee Response and Corrective Action Plan:

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

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

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

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

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

**Proposed Completion Date:** Ongoing

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2006-38

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

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

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

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

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

**Prior Year Status:** The lack of a written procurement policy on travel and related expenditures was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Ongoing

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

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

CFDA #15.875, Federal Award # Fiscal Years 1996 - 2006 Appropriations Act

Federal Award Period Available Until Expended

Finding No. 2006-39

**Criteria:** In accordance with Section 5-103 (2) of the CNMI Procurement Regulations, before adding significant new work to existing contracts, the agency shall thoroughly assess whether or not it would be more prudent to seek competition. Change orders on construction and A&E contracts, which exceed 25 percent of the cumulative contract price, shall automatically be procured through competitive procedures pursuant to Section 3-101, except when the procurement of the additional work is authorized without using full and open competition under Section 3-104.

**Condition:** During the year ended September 30, 2006, the CNMI executed change orders (CO) related to four contracts (contract #s 277-OS - CO #1 for \$319,599, 282-OS - CO #2 for \$516,588, 358-OS - CO #7 for \$530,857 and 337-OS - CO #4 for \$442,532) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although a justification was noted regarding the additional work to be performed on three (#s 277-OS, 282-OS and 358-OS), we did not note the justification for sole source procurement. Further, a sole source justification was noted regarding additional work to be performed for one contract (# 337-OS). The justification was not sufficient to support sole source procurement.

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

**Effect:** The effect of the above condition is the lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation.

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

**Prior Year Status:** The lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 and 2005.

Auditee Response and Corrective Action Plan:

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

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

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

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

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

CFDA #15.875, Federal Award # Fiscal Years 1996 - 2006 Appropriations Act

Federal Award Period Available Until Expended

Finding No. 2006-40

**Criteria:** Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law.

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

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

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

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

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

**Effect:** The effect of the above condition is lack of full and open competition on federal funded purchases. We are unable to assess the possible questioned costs that may result from this finding due to the lack of available details to identify the expenditures tested that relate to these change orders.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-40, Continued

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** N/A

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of the Interior

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

CFDA #15.875, Federal Award # Fiscal Years 1996 - 2006 Appropriations Act

Federal Award Period Available Until Expended

U.S. Department of Veterans Affairs

Procurement and Suspension and Debarment - State Cemetery Grants

CFDA #64.203, Federal Award # VA Project MP-94-01

Federal Award Period 08/25/05 - 08/25/08

Finding No. 2006-41

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

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

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-41, Continued

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

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

**Auditee Response and Correction Action Plan:**

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

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

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

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2006-42

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

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

**Condition:** During the year ended September 30, 2006, the CNMI executed five contracts (contract #s 380-OS, 387-OS, 398-OS 405-OS and 447337-OC), which provided advance payments of more than 25% of the contract amount. Additionally, we did not note the presence of written justification that common business practice of the related industry requires buyers to pay on an advance payment basis.

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

**Effect:** The effect of the above condition is the lack of compliance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulation and this condition results in an interest liability (refer to Finding No. 2006-6).

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

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

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Ongoing

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

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

**Finding No. 2006-43**

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

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

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

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

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

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

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

**Auditee Response and Corrective Action Plan:**

**Name of Contact Person:** Virginia Villagomez, CIP Coordinator

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

**Proposed Completion Date:** Fiscal year 2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2006-44

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

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

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

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

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

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

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

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



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-44, Continued

Auditee Response and Corrective Action Plan:

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Health and Human Services  
Reporting - Medical Assistance Program  
CFDA #93.778, Federal Award # 05-0405CO5028  
Federal Award Period 10/01/05 - 09/30/06

Finding No. 2006-45

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

**Condition:** Based on total expenditures reported to the grantor during the year ended September 30, 2006 using the CMS 64 Certification, total federal expenditures amounted to \$3,618,546. The actual expenditures per the general ledger amounted to \$3,332,738 resulting in a variance of \$285,808. The funds drawn down, however, correspond with expenditures recorded in the general ledger. Therefore, no questioned costs result from this condition.

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

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

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

**Prior Year Status:** Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2005.

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Homeland Security

Reporting - Homeland Security Cluster

CFDA #s 97.004 and 97.067, Federal Award #s 2005-GE-T5-0029, 2004-GE-T4-0044, 2003-MU-T3-0012, 2003-TE-TX-0162, 2002-TE-TX-0091 and 2002-TE-TX-0076

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

Finding No. 2006-46

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

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

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

**Condition:** We noted the following:

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

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-46, Continued

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

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

**Auditee Response and Corrective Action Plan:**

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

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

**Proposed Completion Date:** Ongoing

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**U.S. Department of Homeland Security**

**Reporting - Public Assistance Grants**

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

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

**Finding No. 2006-47**

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

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

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

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

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

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

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

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

**Finding No. 2006-47, Continued**

**Condition, Continued:**

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

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

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

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

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

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

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

**Auditee Response and Corrective Action Plan:**

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

**Corrective Action:** We agree with the finding. The reporting errors occurred due to inconsistency in the accounts used to record the local matching share and mispostings. The Public Assistance Office will verify Project Status Reports with Finance records and make corrections where necessary. We plan to consolidate both the Federal and local portion of FEMA expenditures in one account in the future to address confusion over what accounts to report for total expenditures. In addition, responsibility for preparation of the FEMA 20-10 report will be transferred to the Public Assistance Office.

**Proposed Completion Date:** FY2008

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS**

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

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

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

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

**Finding No. 2006-48**

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

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

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

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

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

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

**Auditee Response and Corrective Action Plan:**

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

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

**Proposed Completion Date:** N/A

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2006-49

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

**Condition:** Compliance visits were not performed during the third and fourth quarters of the fiscal year ended September 30, 2006.

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

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

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

**Prior Year Status:** Noncompliance with the specific requirements of the MOU and Manual of Operations was reported as a finding in the Single Audits of the CNMI for fiscal years 2001 through 2005.

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** FY2008



COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

Finding No. 2006-50

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

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

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

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

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

Auditee Response and Corrective Action Plan:

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

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

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

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

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

Finding No. 2006-51

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

Condition: Our review of the ADP system at the Medicaid Office indicated that daily backups have recently been implemented. However, only a single backup is performed, which is retained in an unsecured area at the Medicaid Office. A second backup is not being performed on a periodic basis (e.g., monthly or quarterly).

During our review of the ADP system at the Nutrition Assistance Program, we noted that backups of the system are performed weekly and disks are stored in an office safe. A second backup, however, is not being performed on a periodic basis (e.g., monthly or quarterly), which should be maintained at a second external facility.

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

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

Recommendation: We recommend that policies and procedures be established for system security, which would address and reduce risks involved with the ADP system.

Prior Year Status: Lack of required policies and procedures regarding ADP was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2005.

Auditee Response and Corrective Action Plan:

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

**Corrective Action:**

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

**NAP:** We agree with the finding although NAP is performing a monthly backup. NAP is working with the Department of Finance to begin storing a monthly backup at the EDP Office. This procedure was implemented in March 2007.

**Proposed Completion Date:** FY2007

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

U.S. Department of Homeland Security

Subrecipient Monitoring - Public Assistance Grants

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

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

Finding No. 2006-52

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

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

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

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

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

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

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

<u>Subrecipient</u>	<u>Amount per CNMI</u>
MVA	\$ 56,266
PSS	511,120
CUC	<u>498,280</u>
Total	<u>\$ 1,065,666</u>

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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

Finding No. 2006-52, Continued

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

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

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

**Auditee Response and Corrective Action Plan:**

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

**Corrective Action:** We disagree with the finding. Payments are made to subrecipients based on invoices submitted and payment amounts are approved by FEMA prior to funds being disbursed. Only the FEMA approved payment is recorded on CNMI's records. The receiving agency is responsible for the local matching share and any excess costs.

**Proposed Completion Date:**

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

# Commonwealth Development Authority

**Annual Financial & Compliance Audit  
In Accordance with OMB-A-133  
Fiscal Year Ended September 30, 2005  
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 10/3/06 (CDA) (NMHC), 11/7/06 (Deloitte re: NMHC response), 2/6/07 (CDA) (NMHC), 5/22/07 (Deloitte re: NMHC response), 8/27/07(NMHC), 8/28/07 (CDA), 12/13/07 (Deloitte re: CDA response)

Date(s) of response letter(s) received : 10/12/06 (NMHC), 3/6/07 (NMHC), 9/14/07 (CDA)

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See pages 155 to 156 for recommendations issued by the Independent Auditor and page 157 for CDA'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, 2005

**Section II - Financial Statement Findings**

Receivables

Finding No. 2005-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis.

Condition: Our audit included an analysis of the Development Corporation Division's past due loans to determine the propriety of the allowance for doubtful loans as of September 30, 2005. This analysis revealed that as of September 30, 2005, one hundred seventy-two loans (85% of the two hundred three total loans outstanding) were six months or more in arrears. At September 30, 2004, one hundred thirty-two loans (61% of the two hundred fifteen total loans outstanding) were six months or more in arrears. Accrued interest on loans has also increased from \$11,225,283 at September 30, 2004 to \$13,140,752 as of September 30, 2005. As such, the collateral for these loans is decreasing as a percentage of the total loan and interest portfolio.

Cause: The cause of the above condition is the increase in past due loans.

Effect: The effect of the above condition is an increased possibility of loan losses due to non-payment by borrowers.

Recommendation: We recommend that follow-up procedures on past due loans be adhered to. We recommend that evaluations be performed on these loans and a corrective plan be developed and documented. Future results may be compared against this plan and actions taken by management as deemed necessary. Legal action should be considered for those loans which are considered unlikely to be serviceable by the borrower.

Prior Year Status: Past due loans was reported as a finding in the Single Audits of CDA for fiscal years 1994 through 2004.

COMMONWEALTH DEVELOPMENT AUTHORITY

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

U.S. Department of Housing and Urban Development  
Reporting - HOME Investment Partnerships Program  
CFDA #14.239, Federal Award # M(04 to 05)-ST-69-0001  
Federal Award Period October 1, 2004-2005 to September 30, 2009-2010

Finding No. 2005-2

Criteria: HUD requires that HOME expenditures be reported on SF-272, Federal Cash Transactions Report.

Condition: NMHC draws funds for use in HOME expenditures and reports these expenditures on the SF-272. We noted that funds drawn in the current year include administrative expenditures incurred in prior years amounting to \$103,650. Additionally, NMHC has not requested for drawdowns for administrative costs incurred in the current year. Administrative costs are included under operating expenses and cannot be readily identified from other federal grant administrative expenses.

Cause: The cause of the above condition is the timing of filing for administrative expenditure.

Effect: The effect of the above condition is variances between expenditures reported on the SF-272 and the general ledger.

Recommendation: We recommend that management ensure proper reporting of expenditures on SF-272's to HUD. We also recommend that management separately account for and monitor administrative costs incurred per specific grant programs.

Prior Year Status: Lack of timeliness of filing of administrative expenditures on the SF-272 was reported as a finding in the Single Audit of CDA for fiscal year 2004.

Corrective Action Plans to Questioned Costs and Findings included in the Independent Auditors' Report on Internal Control and Compliance for the Year Ended September 30, 2005

**Financial Statements Findings**

Receivables

Finding No. 2005-1

The Loan Department continues to do its Loan Servicing. Clients have been contacted to come to the Office and try to establish workable solutions to bring their accounts to current. Aging letters of 30, 60, 90-days delinquency and loan statements are mailed to clients on a monthly basis. Field visits are conducted so that a better communication system may be established with the clients and to have better understanding of their business situation and financial conditions. Intern services from the Pacific Business Center Program of the University of Hawaii, as well as the Northern Marianas College Small Business Development Center (SBDC) are maximized by conducting educational assistances, trainings, and workshops, and working on a one on one basis with our clients. We have also instituted a workshop program focused on clients' needs using peculiarly CDA's own resources and incentive programs. The goal is to improve CDA's overall loan portfolio by acting on delinquent clients. After all means have been exhausted, accounts that are 120 days in arrears are referred to the legal counsel for litigation. There are still many more loans over 120 days delinquent and have not been referred to legal counsel. Some of these loans are workable and only lack actions from either borrower or from CDA. However, as stated above if all efforts fail to work loan out litigation will follow. But again, even if a loan is still in litigation CDA and borrower can still explore avenues to move account out of litigation and back to the performing loan category.

Improving CDA-Client relationships and reducing the delinquency rate continue to be difficult objectives. Consistent communications and understanding of clients' business conditions via regular mailings of monthly statements, visits, and workshops are efforts to improve CDA-client relationships. The institution and implementation of various CDA initiated programs which include Deed in Lieu of Foreclosure options, waivers of interests and late charges and or deferred monthly payments during times of disasters, interest rate reductions, and others are tools aimed at reducing the delinquency rate. In addition, aggressive collection efforts, which may or may not include litigations, are enforced.

All accounts are carefully scrutinized and analyzed in how best the clients can be assisted to either make their accounts current or to improve their existing business conditions.

In addition to the above response for 2004 and 2005, it should be noted that the CDA Board of Directors has adopted new regulations for the loan program. The new regulations became effective September 2005. It allows for the extension of terms to 30 years amortization with a 5-year callable provision and reduced interests rates. We are actively calling in clients to avail of the reduced interest rates regardless whether borrowers are current or delinquent. Loan revisions are done where and when warranted, but not after all efforts to collect have been exerted and borrower shows willingness and promise.

Federal Award Findings and Questioned Costs

Reporting

Finding No. 2005-2

NMHC management ensures proper reporting of expenditures on SF-272s to HUD. NMHC did reconcile expenditures versus revenues prior to reporting to HUD and implemented administrative cost per specific grant programs based on the percentage allocation. The effect of the above condition is going to be the same every year, as such program year grant is received every end of the year but the fiscal year begins the following year. This refers to SF-272 for program year and general ledger for fiscal year.



# Commonwealth Government Employees' Credit Union

**Annual Financial & Compliance Audit  
In Accordance with OMB-A-133  
Year Ended December 31, 2004  
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/23/07, 11/19/07 (Deloitte re: CGECU response)  
Date(s) of response letter(s) received : 11/16/07

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See pages 159 and 165 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 GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings  
Year Ended December 31, 2004

NMIRF Loan Conditions

Finding No. 2004-1

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' Credit Union* states that the Northern Mariana Islands Retirement Fund (the Fund) shall be designated loss payee on each policy or insurance obtained by the Credit Union for so long as the Credit Union has outstanding obligations with the Fund (Section 5.14) 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: The Fund was not named lien holder or loss payee on the public liability, fire, or automobile insurance policies acquired by the Credit Union. Furthermore, Fund approval for the existing regulations, policies, and related amendments were not provided for our review.

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 for those conditions that are no longer in effect or enforced by the lender.

Auditee Response and Corrective Action Plan: We agree that the Fund has never been designated as loss payee on each policy or insurance obtained by the Credit Union nor was the Credit Union able to secure approval from the Fund for all proposed rules and regulations, policies, and amendments prior to publication, as indicated on the loan agreement as a condition in granting the loan to the Credit Union.

Since the Fund had never brought this matter to our attention or written to us indicating that we are in violation or in noncompliance with the conditions of the loan agreement, we assumed that they no longer imposed this condition on us. However, we understand that it is a requirement on the loan agreement, so the Credit Union will write to the Fund requesting a waiver to have an official document that those conditions are no longer in effect or enforced by the lender.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings, Continued  
Year Ended December 31, 2004

Regular and Special Reserves

Finding No. 2004-2

Criteria: Board *Resolution-96-003* states that a Regular Reserve (in an amount which is equivalent to 10% of the average of the principle amounts of all Credit Union loans and/or credits extended by the Credit Union in the immediate preceding fiscal year) and a Special Reserve (in an amount which is equivalent to 10% of the average daily balance of all Credit Union savings and investment accounts on deposit in the immediate preceding fiscal year) be maintained.

Condition: The Credit Union is using 6% rather than 10% in its calculation of Regular Reserve and Special Reserve amounts, however a Board resolution or approved amendment to substantiate this percentage could not be provided. Furthermore, a computation to verify compliance with the stipulated percentage reserve requirements is not being performed.

Cause: The cause of the above condition is lack of procedures in place to monitor compliance with reserve requirements.

Effect: The effect of the above condition is the possibility of noncompliance with established policy.

Recommendation: We recommend that any amendments to established policy be documented as being approved by the Board, and that compliance with policy be monitored.

Auditee Response and Corrective Action Plan: The Credit Union did some computations and determined compliance with Board Resolution 96-003.

As a corrective plan, Credit Union management will ask its Board of Directors to revise Resolution 96-003, specifically on the reserve requirements, through a new resolution. Thereafter, both reserves shall be maintained at 10%, and the 6% requirement approved by the previous Board shall be disregarded. Furthermore, Credit Union management will ask its Board of Directors to define a clear formula in computing the 10% computation for regular and special reserves, which shall also be indicated in the new resolution. Additionally, the compliance of this resolution will be monitored by our in-house accountant.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings, Continued  
Year Ended December 31, 2004

Allowance for Loan Losses

Finding No. 2004-3

Criteria: Loans receivable and related interest receivable should be valued based on the likelihood of collectibility.

Condition: Our tests of loans and interest receivable noted the following:

1. The Credit Union recorded an allowance for delinquent accounts forwarded to a collection agency in the amount of \$201,126 but did not record an allowance for related interest receivable of \$105,491.
2. No assessment is performed on overdue and aged loans that have not been forwarded to a collection agency.

The above condition was corrected through proposed audit adjustments.

Cause: The cause of the above condition is the lack of procedures to monitor the collectibility of aged or overdue accounts.

Effect: The effect of the above condition is the overstatement of loans and interest receivable.

Recommendation: We recommend that the Credit Union establish procedures to assess the collectibility of loans and interest receivable on a timely basis and determine appropriate allowances.

Auditee Response and Corrective Action Plan: The Credit Union contracted the services of an outside accounting firm to perform compilations of its financial statements and prepare other supporting schedules and subsidiary ledgers, and assumed that all the necessary reports and schedules were completed.

As a corrective action, the Credit Union has hired an in-house accountant to bring the financial statements and other schedules up to date and to make necessary adjustments and corrections on previous reports. Furthermore, the Credit Union has contracted for the development of a new computer software that can provide accurate reports on the total amount of deposits by members.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings, Continued  
Year Ended December 31, 2004

Loan Write-Off

Finding No. 2004-4

**Criteria:** Direct write-off of loans should be performed in a timely manner and approved by the appropriate level of management.

**Condition:** Of one hundred and twenty-five loan receivables tested, we noted one (PN-96-1060-0259) that had no activity since September 30, 1998 for which the collateral, a 1996 white Hyundai Accent, was repossessed by the Credit Union in 1999. Our tests of the member's loan ledger noted that a write-off of the receivable was made in August 2005. We were not provided Board approval for the loan write-off. Furthermore, the vehicle has not been accounted for in the fixed asset register.

**Cause:** The cause of the above condition is improper accounting of collateral repossession and loans written-off.

**Effect:** The effect of the above condition is the possibility of unauthorized transactions and improper valuation of loans receivable.

**Recommendation:** We recommend that the Board approve direct write-offs of loans, that a separate schedule of loan write-offs be maintained, and that all collateral possessions be properly accounted for.

**Auditee Response and Corrective Action Plan:** The Credit Union failed to make the necessary adjustment to write-off this loan and to account for the vehicle in its fixed asset register due to the member leaving island without proper documentation being prepared between the Credit Union and the member. Furthermore, the old Credit Union database program was not able to generate reports for loans that had been written-off. The Credit Union has made some corrective action through hiring an in-house accountant to monitor loans receivable. Additionally, the Credit Union has contracted to develop a new computer software, which has an option to process loan write-offs, as well as to generate reports for all loan write-offs.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings, Continued  
Year Ended December 31, 2004

Other Receivables

Finding No. 2004-5

Criteria: Account balances in the general ledger should be supported by subsidiary ledgers or schedules.

Condition: Detail of receivables from Board members, amounting to \$8,304, and other receivables, amounting to \$3,399, were not provided. These balances have been carried forward from prior years and collectibility may be remote.

Cause: The cause of the above condition is the lack of supporting schedules.

Effect: The effect of the above condition is the possibility of overstated receivables.

Recommendation: We recommend that the Credit Union maintain detailed supporting schedules and evaluate aged receivables to assess collectibility.

Auditee Response and Corrective Action Plan: These cited receivables are amounts that have been carried forward from prior years. The Credit Union will determine if these are still valid receivables. If not, the Credit Union will request its Board of Directors to write-off these accounts. As a corrective action, the Credit Union will maintain detailed supporting schedules and agings for all current and existing receivables, and will evaluate the collectibility of each account on a timely basis.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings, Continued  
Year Ended December 31, 2004

Members Savings Database

Finding No. 2004-6

**Criteria:** The Credit Union's *Regulations Article IV, Section 1*, states that the Credit Union shall accept money for deposit into the Credit Union savings accounts. All such deposits shall be accounted for as savings and reflected as a current liability of the Credit Union.

**Condition:** Our tests of member savings account balances noted the following:

1. A variance of \$927,863 existed between the member savings account subsidiary ledger and the preliminary general ledger control account. This condition was corrected through proposed audit adjustments.
2. Of one hundred and three member savings accounts tested, balances of the subsidiary ledger did not agree with balances of the current database. Subsidiary ledger balances tested were understated by \$4,193 and overstated by \$1,429.

**Cause:** The cause of the above condition is the current database used to account for all member savings accounts cannot produce a subsidiary ledger for reconciliation to the general ledger. As a result, the Credit Union has contracted for a new system and has transferred all accounts to the new system to produce the subsidiary ledger. However, cut-off errors were noted when transferring account balances from the current database to the new system. Final transition to the new system took place in 2007.

**Effect:** The effect of the above condition is the possibility of misstated balances and improper accounting of member savings accounts.

**Recommendation:** We recommend that the Credit Union ensure that the subsidiary ledger is reconciled to the general ledger on a timely basis.

**Auditee Response and Corrective Action Plan:** As a corrective action, the Credit Union has contracted to develop a new database software that can generate accurate reports of member savings balances as well as subsidiary ledgers for reconciliation to the general ledger.

COMMONWEALTH GOVERNMENT EMPLOYEES' CREDIT UNION

Schedule of Findings, Continued  
Year Ended December 31, 2004

Member Savings Withdrawal

Finding No. 2004-7

Criteria: Segregation of duties is essential in safeguarding assets. No one department or individual should perform more than one of the following functions: initiating transactions, authorizing transactions, recording transactions, and maintaining custody over assets.

Condition: Our tests of the member savings withdrawal cycle noted that the same person initiating a withdrawal transaction also has access to the approved withdrawal checks as any employee of the Credit Union can both initiate and disburse these checks.

Cause: The cause of the above condition is the lack of proper segregation of duties when transacting members' withdrawals.

Effect: The effect of the above condition is the possibility of misappropriated assets.

Recommendation: We recommend that management establish procedures to separate the initiating and disbursing process of withdrawals, and that username controls be implemented in the computer system for monitoring purposes. Periodic account statements should be sent to members in order to mitigate the risk caused by any lack of segregation of duties.

Auditee Response and Corrective Action Plan: The Credit Union has made corrective action by contracting to develop new computer software that will assign a username and password for each employee and identify the person processing any transactions, as well as disbursing to members. Periodic account statements will be sent to members on a semi-annual basis until such time that the Credit Union has enough funds to provide members with quarterly savings statements. Furthermore, the General Manager is reviewing the daily transaction report to verify the validity of each transaction and to look for any suspicious transactions.



# Commonwealth Ports Authority

**Annual Financial & Compliance Audit  
In Accordance with OMB-A-I33  
Fiscal Year Ended September 30, 2005  
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 2/14/07, 8/23/07, 12/6/07 (Deloitte re: CPA response)  
Date(s) of response letter(s) received : 9/6/07 (Request for extension), 10/4/07 (Request for extension), 10/29/07

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See pages 167 and 168 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, 2005

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

U.S. Department of Transportation  
Allowable Costs/Cost Principles - Airport Improvement Program  
CFDA #20.106  
Federal Award Period Available Until Expended

Finding No. 2005-1

Criteria: Administrative costs charged to projects and recorded in the general ledger should be properly supported.

Condition: CPA recorded administrative costs related to ongoing/completed projects amounting to \$1,201,107. Of the total amount, approximately \$706,960 were not adequately supported as follows:

<u>AIP/Award No.</u>	<u>Questioned Costs</u>
3-69-0002-31/32/50/53	\$ 135,819
3-69-0002-33/39/46	24,920
3-69-0002-35	8,803
3-69-0002-37	27,000
3-69-0002-38/41	91,455
3-69-0002-42/47	50,251
3-69-0002-43	36,457
3-69-0002-44	12,614
3-69-0002-45	28,710
3-69-0002-48	32,625
3-69-0002-49	28,500
3-69-0002-51	11,209
3-69-0002-52	4,750
3-69-0002-54	4,750
3-69-0004-01	2,850
3-69-0003-13	17,500
3-69-0003-14	11,247
3-69-0003-15/18	27,384
3-69-0003-16	9,993
3-69-0003-17	2,500
3-69-0003-19	11,907
3-69-0011-10/15	71,937
3-69-0011-14	2,500
3-69-0011-16	28,500
3-69-0011-17	18,029
3-69-0011-18	4,750
	<u>\$ 706,960</u>

Cause: The cause of the above condition is due to percentage estimates being used to calculate administrative costs and the lack of support at the time expenditures were reported to the grantor.

Effect: The effect of the above condition is the possible unallowed expenditures. No questioned costs result from the condition, however, as CPA obtained subsequent approval of their calculations from the grantor.

Recommendation: We recommend CPA ensure administrative costs are properly supported and percentage estimates, if any, be adequately substantiated.



## COMMONWEALTH PORTS AUTHORITY

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Corrective Action Plans to Findings and Questioned Costs included in the Independent Auditors' Report on Internal Control and Compliance for the Year Ended September 30, 2005

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

#### Allowable Costs/Cost Principles Finding No. 2005-1

Administrative costs are properly supported and percentage estimates are adequately substantiated in the form of an Administrative Expense Report summary document with the appropriate supporting documents in file at the time the grant funds are processed.

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# Commonwealth Utilities Corporation

**Annual Financial & Compliance Audit  
In Accordance with OMB-A-I33  
Fiscal Year Ended September 30, 2005  
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent :

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

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See pages 171 to 219 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

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

**Section II - Financial Statement Findings**

**Revenue/Receipts**

**Finding No. 2005-1**

**Criteria:** All recorded revenues and receivables should reflect collectible balances.

**Condition:** Investigation of long outstanding accounts revealed a listing of twenty-one accounts amounting to \$1,042,034 prepared by the credit and collections division of accounts that were not to be disconnected. Although these accounts are substantially provided for, the explanation given for the lack of disconnection of these accounts was that these customers had CUC wells, poles, pumps, etc., on their property, and were therefore not billed for utility usage.

**Cause:** The cause of the above condition is the lack of formal agreements with landowners.

**Effect:** The effect of the above condition is the potential uncollectibility of accounts receivable and understatement of rental expense. Additionally, there could be inequalities in the consideration paid for certain parcels depending on the value of utilities used.

**Recommendation:** We recommend that CUC execute formal agreements with all landowners for the use of land.

**Prior Year Status:** Lack of formal agreements with landowners for the use of land was reported as a finding in the audits of CUC for fiscal years 1996 through 2004.

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

Revenue/Receipts

Finding No. 2005-2

**Criteria:** Pursuant to CUC's Electric Service Regulations Part 24.5.8.1, fuel surcharge fee provides that any difference between the actual fuel costs and fuel surcharge fee (FSF) revenues shall be accumulated in a deferred account and shall be subject to an annual reconciliation. Any over- or under-recovery of fuel costs will be included in the next annual FSF.

**Condition:** During the fiscal year ended September 30, 2005, CUC did not perform an analysis or determination of the difference between the actual fuel costs and fuel surcharge fee revenues. As a result, CUC did not maintain a deferred account.

**Cause:** The cause of the above condition is the lack of policies and procedures in determining and analyzing actual fuel costs against fuel surcharge fee revenues.

**Effect:** The effect of the above condition is noncompliance with Part 24.5.8.1 of CUC's Electric Service Regulations.

**Recommendation:** We recommend that CUC establish policies and procedures to analyze actual fuel costs against fuel surcharge fee revenues and ensure that necessary FSF revenue deferrals are properly recorded and are in accordance with CUC's Electric Service Regulations.

COMMONWEALTH UTILITIES CORPORATION

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

Purchases/Disbursements

Finding No. 2005-3

Criteria: Capital expenditures should be recorded in the period incurred and in a timely manner.

Condition: Of \$3,185,929 in construction in progress expenditures tested, we noted the following:

- Expenditures incurred in prior fiscal years were recorded in the current year for the following:

<u>Contract</u>	<u>Invoice #/ Payment Request #</u>	<u>Amount</u>
270 OS	3	\$ 65,252
280 OS	3813	\$ 34,921
282 OS	1, 2, 3	\$412,520
285 OS	1, 2, 3	\$210,030

- The current year expenditures for one contract (contract # 280-05, payment applications 4-9) amounting to \$66,368 was not recorded.

Cause: The cause of the above condition is the 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.

Effect: The effect of the above condition is the misstatement of current and prior year capital expenditures and liabilities.

Recommendation: We recommend that CUC ensure reconciliations of capital expenditures are performed with the CNMI Government Capital Improvement account and ensure that all payment requests made from the Grants Department are reviewed and forwarded to the Accounting Department in a timely manner to ensure 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 2004.



COMMONWEALTH UTILITIES CORPORATION

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

Purchases/Disbursements

Finding No. 2005-4

**Criteria:** Disbursements should be properly supported with receiving reports or certification of completion as evidence of receipt of goods or performance of services. Further, such supporting documents should be maintained and filed accordingly.

**Condition:** The receiving report or certification of completion of services performed for the following disbursements were not made available:

<u>Check #</u>	<u>Invoice/Contract #</u>	<u>Amount</u>
71008	147946	\$ 16,167
71247	37687	61,961
71019	994623	<u>8,113</u>
		<b>\$ <u>86,241</u></b>

**Cause:** The cause of the above condition is failure to ensure completeness of relevant supporting documents prior to processing payment, 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 possible duplicate payments to vendors.

**Recommendation:** We recommend that CUC ensure all expenditures are properly supported by receiving reports or certification for completion of services. Additionally, CUC should ensure that established policies and procedures regarding the processing of payments are strictly adhered to.

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

Payroll

Finding No. 2005-5

Criteria: Personnel independent of the payroll process should perform the input of employee pay rates.

Condition: During our testing of payroll expenses, we noted that the payroll department inputs the approved pay rate into the system.

Cause: The cause of the above condition is the lack of proper segregation of duties of payroll processing.

Effect: The effect of the above condition is the potential for payroll personnel to alter pay rates.

Recommendation: We recommend that management review the payroll process to ensure all input of pay rates be performed by the Human Resources Department.

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 2004.

COMMONWEALTH UTILITIES CORPORATION

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

Payroll

Finding No. 2005-6

Criteria: Payroll timesheet/timecard reports, overtime and leave authorizations should be signed by the employee and approved by the respective division manager. Non-emergency overtime is required to be pre-approved by a supervisor seventy-two hours in advance. Additionally, all allotments should be approved by the employee and be maintained in the employee personnel file.

Condition: Of twenty-five payroll disbursements tested, the following exceptions were noted:

- Although timesheets were properly approved, the timecard reports did not evidence the employee's signature for the following:

<u>Pay Period</u> <u>Ended</u>	<u>Employee No.</u>
12/25/04	4141
04/16/05	402
06/25/05	806
04/02/05	59
05/28/05	10109
04/30/05	4276

- The overtime requests and authorization for the following employees were approved after the job was completed:

<u>Pay Period</u> <u>Ended</u>	<u>Employee No.</u>
10/30/04	788
01/08/05	3511
04/16/05	402
07/23/05	10020
12/25/04	4141
03/19/05	10100
05/28/05	10109

- Four items indicated employee withholding authorizations do not correspond to deductions from gross pay and amounts recorded in the payroll register. In some cases, authorization allowing vendor deductions could not be located and/or no authorization could be found discontinuing vendor deduction from gross pay. Further, we noted instances where deductions do not agree to supporting allotment forms.

<u>Pay Period</u> <u>Ended</u>	<u>Employee No.</u>
12/11/04	230
06/11/05	13
07/09/05	2444
07/23/05	10020

COMMONWEALTH UTILITIES CORPORATION

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

Finding No. 2005-6, Continued

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to the review and authorization of payroll related documents.

Effect: The effect of the above condition is the possible unauthorized payment of overtime and unauthorized deductions from employee pay.

Recommendation: We recommend that CUC ensure that all payroll timesheet/timecard reports, overtime and leave authorizations are signed by the employee and approved by the respective division managers. We also recommend that CUC ensure all payroll deductions are properly supported by employee authorizations maintained in employee personnel files.

Prior Year Status: Lack of adherence to established policies and procedures relating to the review and authorization of payroll related documents was reported as a finding in the audits of CUC for fiscal years 2002 through 2004.

COMMONWEALTH UTILITIES CORPORATION

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

External Financial Reporting

Finding No. 2005-7

**Criteria:** Without an adequate system to record receivable or payable balances from or to the grantor agency, an entity cannot accurately report on the use of funding.

**Condition:** CUC is not reconciling receivable or payable balances from or to the grantor agency on a timely basis. At September 30, 2005, CUC's Schedule of Expenditures of Federal Awards (SEFA) contains adjustments amounting to \$121,014 with no support.

**Cause:** The cause of the above condition is that management has not implemented an adequate system of reconciling receivable or payable balances and monitoring related transactions.

**Effect:** The effect of the above condition is that amounts due from or to the grantor agency and capital contributions accounts are misstated throughout the year.

**Recommendation:** We recommend that CUC implement a system whereby a receivable/payable account records all cash received from the grantor agency and records all related expenditures. The account should be reconciled on a monthly basis to the SEFA.

**Prior Year Status:** The non-reconciliation of receivable or payable balances from or to grantor agencies and capital contributions accounts was reported as a finding in the audits of CUC for fiscal years 1990 through 2004.

COMMONWEALTH UTILITIES CORPORATION

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

Receivables

Finding No. 2005-8

Criteria: Accounts receivable should be based on valid billings and collected in a timely manner.

Condition: At September 30, 2005, CUC has recorded \$16,632,680 in receivables from the CNMI government. The CNMI government reported a payable to CUC of \$15,593,119 at September 30, 2005, resulting in a variance of \$1,039,561. A reconciliation of this variance was not provided. The CNMI government has determined that most of these receivables are based on estimates related to water and sewer billings from previous years. As such, the CNMI is disputing these receivables. At September 30, 2005, CUC recorded an allowance for doubtful accounts of \$16,279,944 related to these receivables.

In addition, at September 30, 2005, the CNMI government reported total utilities expense of \$12,926,624. Revenues earned from the government per CUC at September 30, 2005 amounted to approximately \$10,329,770, resulting in a variance of \$2,596,854. A reconciliation of this variance was not provided.

Cause: The cause of the above condition is lack of reconciliation and review of individual government accounts and timely collection of outstanding balances.

Effect: The effect of the above condition is that receivables and revenue from the CNMI government may be misstated.

Recommendation: We recommend CUC review the government utility accounts in detail with the CNMI to determine proper classification of the accounts and ensure proper billing.

Prior Year Status: Lack of reconciliation and review of individual government accounts and timely collection of outstanding balances was reported as a finding in the audits of CUC for fiscal years 2003 and 2004.

COMMONWEALTH UTILITIES CORPORATION

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

Receivables

Finding No. 2005-9

Criteria: Disputed receivable balances should be resolved in a timely manner.

Condition: Of sixty-six receivable accounts tested, we noted the following:

- Account # 29619-4, amounting to \$289,943, was backbilled for water and sewer charges incurred from 1997 through 1999 for \$138,063. The customer is not making payments on the backbilling and has not been disconnected.
- Account # 18802-9, amounting to \$33,849, was making payments on current meter billings, however, was not making payments on the amounts past due. The account has not been disconnected.
- Account # 35751-7, amounting to \$138,658, was not making appropriate payments on a promissory note related to raw sewage brought to CUC's waste water treatment plants. The account indicated no activity during the year.
- Account #21868-5, amounting to \$119,756, was backbilled due to an unregistered meter. The customer is not making payments on the backbilling and has not been disconnected.
- Thirty-two accounts amounting to \$3,155,295 at September 30, 2005 made payments only sufficient to cover current billings. They did not make payments on past due balances and have not been disconnected.
- One account (# 53112-9) amounting to \$78,198 at September 30, 2005 made no payments during the year; however, they were assessed late charges.
- One account (# 8267-7) amounting to \$42,843 at September 30, 2005 made no payments during the year; however, was assessed current and late charges. The power and water services have been disconnected.
- Fifteen accounts (#s 12504-7, 29460-3, 27421-7, 26138-8, 36169-1, 10509-8, 15542-4, 7587-9, 26354-1, 27613-9, 8055-6, 35751-7, 29506-3, 40700-7 and 13263-9) amounting to \$674,089 at September 30, 2005 indicated no activity during the year. All of the accounts have been disconnected.
- An adjustment made for one account (customer #42499-4) pertains to prior year billings (i.e. November 2000 to May 2004) that were identified and adjusted only in the prior fiscal year which resulted in a negative receivable balance. At September 30, 2005, the receivable balance of this customer amounts to (\$1,400).
- Billings for water usage for one account (customer #32529-0) were based on estimates but adjustments to actual water usage were made. Further, estimates made varied significantly throughout the year.
- One account (customer #1905-9) made no payments during the year, however, was assessed current and late charges. Although the power service has been disconnected since 2003, the water and sewer services for this account remain active.

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

Finding No. 2005-9, Continued

Condition, Continued:

- Account # 39601-0, amounting to \$1,018,639, was erroneously billed electric charges amounting to \$959,604 in March 2005. CUC made an adjustment to reverse the erroneous billing only in the next fiscal year. Because of the delay in correcting the erroneous billing, the account was also billed for late charges automatically computed by the system. This was corrected through an audit adjustment.
- Account #s 11190-6, 40537-3, 18802-9, and 47612-7, amounting to \$40,141, \$39,089, \$33,849, and \$31,148, respectively, at September 30, 2005, were adjusted in the subsequent fiscal year to correct previous billing errors or reverse prior year overcharges. This was corrected with an audit adjustment.
- Account # 838-3, amounting to \$27,019, was sent a closing billing in March 2005 due to nonpayment, but subsequent readings and charges were still made. It appears that the account has not been disconnected despite the nonpayment.
- Account # 49628-1, amounting to \$44,862, was billed two accumulated one-time charges during the year due to irregular readings made.
- Accounts #s 55385-9, 56282-7, and 38794-4, amounting to \$40,322, \$39,922, and \$14,507, respectively, at September 30, 2005, were billed based on erroneous meter readings resulting in over billings of \$38,898, \$39,922, and \$14,507, respectively. These balances were adjusted through audit adjustments.
- Account #s 4330-7, 4329-9, 29619-4, 4333-1, 18141-2, 4863-7, 31696-8, 53024-6, and 13001-3, amounting to \$601,696, \$385,449, \$289,993, \$230,003, \$158,549, \$127,364, \$98,267, \$36,233, and \$29,484, respectively, appear to have not been aged properly. Regular payments were made only for current charges, sometimes not even adequate to cover current charges. Since prior year's ending receivable balances have not been paid, the total amounts should have been aged as more than seventy-five days due. However, as of September 30, 2005, the total balance aged as more than seventy-five days due was less than the prior year's ending receivable balance.

The accounts noted above are substantially allowed for.

Further, during our testing of the other receivables balance amounting to \$805,136 at September 30, 2005, we noted an amount receivable from the Commonwealth Ports Authority (CPA) of \$325,054. Based on our review of supporting documents, we noted that CPA actually paid CUC approximately \$73,856 (check #s 18935, 24548 and 24556, dated 02/27/96, 02/27/96 and 03/21/96, respectively) of this amount. CUC is currently unable to determine where the payment was applied. The remaining balance of \$251,198 appears to relate to relocation of power poles and installation of services at CPA facilities. We have been advised by CPA that such costs should have been assessed against the independent contractors requesting such services from CUC.

Cause: The cause of the above condition is the lack of timely review and resolution of old and/or disputed receivable balances, lack of disconnection of customers who have not paid on time, inaccurate reading of meters, incorrect meters installed, incorrect meter multiplier used and incorrect utility schedule used to bill customers.



COMMONWEALTH UTILITIES CORPORATION

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

Finding No. 2005-9, Continued

Effect: The effect of the above condition is the increased potential for bad debts, resulting in losses to CUC and the misstatement of revenues and receivables.

Recommendation: We recommend that CUC implement policies and procedures to ensure the timely review and resolution of disputed receivable balances. We also recommend CUC review and strengthen its existing controls over meter reading policies and procedures to ensure accurate and timely readings.

Prior Year Status: Lack of timely review and reconciliation of receivable accounts was reported as a finding in the audits of CUC for fiscal years 2000 through 2004.

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

Receivables

Finding No. 2005-10

**Criteria:** CUC's policy for accounts receivable allowance assessment provides for a one hundred percent (100%) provision for account balances greater than seventy-five days old.

**Condition:** Of fifty-eight accounts receivable (totaling \$5,825,559) tested, we noted balances less than seventy-five days old representing billings due to erroneous meter usage and disputed balances amounting to \$94,117. Based on our review of subsequent collections, we noted that some of these billing errors were written-off in the subsequent fiscal year but were not adequately provided for.

**Cause:** The cause of the above condition is the lack of specific review of accounts receivable that are less than seventy-five days old which, at September 30, 2005, amounted to \$9,095,178.

**Effect:** The effect of the above condition is the possible overstatement of net receivables and understatement of bad debt.

**Recommendation:** We recommend CUC evaluate its current accounts receivable allowance assessment policy to consider specific review of individual accounts in the determination of the allowance for doubtful accounts. CUC should also consider establishing an allowance for accounts aged less than seventy-five days based on historical experience.

**Prior Year Status:** Lack of specific review of accounts receivable was reported as a finding in the audits of CUC for fiscal years 2003 and 2004.

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

Receivables

Finding No. 2005-11

**Criteria:** All advances should be periodically reviewed to ensure recovery or proper recording of expense.

**Condition:** Detailed summaries of other receivables and travel advances outstanding amounting to \$805,136 and \$8,279, respectively, as of September 30, 2005 were found to contain many individual items outstanding in excess of one year. At September 30, 2005, CUC recorded an allowance for doubtful accounts of \$668,436 related to these accounts.

**Cause:** The cause of the above condition is the lack of periodic review of the account.

**Effect:** The effect of the above condition is an overstatement of CUC's assets and an understatement of expenses at September 30, 2005. Additionally, the lack of timely follow-up on travel advances reduces the chance of recovery.

**Recommendation:** We recommend that long outstanding balances included in the accounts as of September 30, 2005 be reviewed and expensed as necessary. We also recommend that these accounts be reviewed on a monthly basis.

**Prior Year Status:** The lack of timely follow-up of advances and prepayments was reported as a finding in the audits of CUC for fiscal years 1993 through 2004.

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

Inventory

Finding No. 2005-12

Criteria: Final inventory summaries should reflect the number of items counted during inventory procedures.

Condition: During tests of inventory, the following exceptions were noted:

- Of sixty-two inventory items physically counted, seventeen instances were noted where the count varied from the final inventory listing.
- Of sixty-two inventory items traced from CUC's count sheet to the final inventory listing, we noted four instances where the final quantity varied from the counts.
- The count sheets for four warehouses (ref. Warehouse E-Saipan Generation, R-Rota Power Distribution, S-Rota Water and U-Rota Generation) were not made available.

Cause: The cause of the above conditions may be due to the following:

- CUC's computer system records inventory when accounts payable personnel post vendor invoices into the system. Receiving reports prepared and posted by CUC's warehouse are matched by the system with the corresponding vendor invoices posted. Consequently, if corresponding invoices have not been posted by Accounts Payable or cannot be identified, inventory per books is not adjusted for warehouse receipts. As a result, inventory per books may be zero even though there may be inventory on hand. Therefore, inventory issuances by warehouse may result in negative inventory per books.
- Inventory issuances are not always properly recorded including items being removed from the warehouse without proper documentation, thus resulting in balances in the system when items are not physically available in the warehouse.

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: We recommend that final inventory listings reflect quantities of items counted. We also recommend that the subsidiary ledger be reconciled to the final inventory listing.

Prior Year Status: Inaccuracies in inventory items counted as of balance sheet date versus the final inventory listing was reported as a finding in the audits of CUC for fiscal years 1994 through 2004.

COMMONWEALTH UTILITIES CORPORATION

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

Inventory

Finding No. 2005-13

**Criteria:** A reconciliation of inventory balances between the general ledger and subledger should be performed regularly and differences, if any, should be investigated.

**Condition:** While the inventory balance per the general ledger was adjusted to agree to the inventory valuation report (subsidiary ledger) and the actual count, no reconciliation was performed to account for and investigate the differences between the general ledger and subsidiary ledger.

**Cause:** The cause of the above condition is the lack of established policies and procedures over inventory 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:** We recommend that CUC establish and implement policies and procedures for timely reconciliation and investigation of significant variances between inventory balances per the general ledger and the subsidiary ledger. CUC may consider specifically designating an employee to regularly perform reconciliations.

**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 2004.

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

Inventory

Finding No. 2005-14

Criteria: Inventories should be reviewed regularly for possible obsolescence.

Condition: Inventory items were not reviewed for possible obsolescence. Moreover, an inventory-aging analysis is not prepared to identify slow moving inventory items.

Cause: The cause of the above condition is the lack of established policies and procedures for the review and monitoring of obsolete and non-moving inventories.

Effect: The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance and related expenses.

Recommendation: We recommend that CUC establish formal policies and procedures for obsolescence review and tracking of inventory movements. We also recommend that CUC establish and maintain an aging analysis to assist in determining potential obsolescence of inventory.

Prior Year Status: Lack of established policies and procedures for the review and monitoring of obsolete and non-moving inventories was reported as a finding in the audits of CUC for fiscal years 2002 through 2004.

COMMONWEALTH UTILITIES CORPORATION

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

Inventory

Finding No. 2005-15

Criteria: When the moving average unit cost method of inventory costing is utilized, unit cost is updated for new purchases and issuances are valued based on the most recent average unit cost.

Condition: Certain inventory items have negative unit costs as of September 30, 2005 and, accordingly, related issuances have negative values. In addition, costs of inventory adjustments were not based on the most recent average unit costs.

Cause: The cause of the above condition may be due to the following:

- untimely posting of inventory purchases, receipts and issuances;
- lack of coordination between warehouse and accounts payable personnel for input of purchases and issuances; and
- lack of monitoring and review of inventory adjustments.

Effect: The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance and related expenses.

Recommendation: We recommend that CUC (a) take steps to establish policies and procedures to ensure timely posting of inventory purchases, receipts and issuances; (b) establish a formal review process and monitoring procedures for inventory adjustments; (c) ensure coordination between responsible personnel; and (d) ensure that these policies and procedures are strictly adhered to.

Prior Year Status: Untimely posting of inventory purchases, receipts and issuances, the lack of coordination between warehouse and accounts payable personnel for input of purchases and issuances and monitoring and review of inventory adjustments was reported as a finding in the audits of CUC for fiscal years 2002 through 2004.

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

Collection of Notes Receivable

Finding No. 2005-16

**Criteria:** Promissory notes should be periodically reviewed to ensure that the customer is performing according to terms, and alternate collection options pursued if the amount is in arrears.

**Condition:** Of eight promissory notes tested, we noted the following exceptions:

- The application of payments made by one customer (# 8267) did not correspond to the actual terms of the promissory note. The promissory note provides for periodic payments inclusive of principal and 12% annual interest. However, review of the customer's account history indicated payments being applied only to principal. Moreover, documentation authorizing the current treatment was not made available. In addition, the said promissory note lacks the signature of authorized CUC personnel. In January 2002, interest was calculated based on the outstanding balance of the promissory note. As a result, negative amounts were applied to the principal amount thus increasing the promissory note balance. Based on review of subsequent collections, no payments were made. We were unable to locate documentation to indicate that alternate collection procedures were pursued.
- The promissory note for one customer (# 56599) has not been provided for review.

In tests of \$1,023,230 of \$1,223,245 total notes receivable recorded at September 30, 2005, we noted the following:

- Nine customer accounts (#s 8267, 53017, 26567, 9086, 11848, 50277, 35769, 45277 and 8263) amounting to \$148,610 did not indicate any payments made subsequent to year end.

**Cause:** The cause of the above condition is the lack of follow-up on delinquent notes receivable. In addition, there is a lack of timely review as to the application of payments received on promissory notes.

**Effect:** The effect of the above condition is the potential misstatement of notes receivable and loss of recovery on the accounts.

**Recommendation:** We recommend that CUC review the above condition and consider establishing procedures requiring periodic review of notes receivable and procedures for pursuit of delinquent accounts.

**Prior Year Status:** Lack of follow-up on delinquent notes receivable was reported as a finding in the audits of CUC for fiscal years 2001 through 2004.



COMMONWEALTH UTILITIES CORPORATION

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

Prepayments

Finding No. 2005-17

Criteria: Recorded prepayments should represent valid assets of an entity. Additionally, a good internal control provides for timely identification and reversal of prepayments upon receipt of goods and/or services.

Condition: Prepayments per the general ledger amounting to \$480,334 at September 30, 2005 include the following items, which were paid and received during fiscal year 2005:

<u>Vendor Number</u>	<u>Document Ref. Number</u>	<u>Check Number</u>	<u>Amount</u>
1928	05-6393	5089/5097/5101	\$ 22,400
1928	P05-5414	5027	7,261
183	05-5712	5044	16,034
183	CUCPG04-C011	4128/5018	<u>7,480</u>
			\$ <u>53,175</u>

Additionally, two items (ref. PO #s 05-5991 and 05-6383) amounting to \$46,824 were paid subsequent to September 30, 2005 but have been recorded as prepayments at September 30, 2005. The above conditions were corrected through a proposed audit adjustment.

Relevant supporting invoices and check payments for one prepayment amounting to \$2,988 (vendor # 183) were not made available.

Cause: The cause of the above condition is the lack of establish policies and procedures on strict monitoring of prepayments.

Effect: The effect of the above condition is the misstatement of prepayments and expenses.

Recommendation: We recommend that CUC establish policies and procedures on monitoring of prepayments.

COMMONWEALTH UTILITIES CORPORATION

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

Utility Plant

Finding No. 2005-18

**Criteria:** Adequate presentation and control of fixed assets is essential in preparing accurate financial statements. Additionally, unless all fixed assets are recorded, depreciation used in determining utility rates could be misstated.

**Condition:** CUC has not taken a physical inventory of fixed assets. Additionally, CUC has no registration system in place to ensure safekeeping of fixed assets. During our detailed testing of fixed assets, we noted the following:

- There is a lack of timely review and certification of projects for completion. The lack of coordination between the departments responsible for project oversight and the accounting department relative to the transfer and capitalization of completed projects contributed to this condition.
- Completed projects are not closed and transferred to fixed assets in a timely manner and often remain in Construction Work in Progress for several years. These assets, although already in use, are not being depreciated resulting in material misstatements of depreciation expense. This condition contributed to large variances between the net book values of assets tested and net book value derived through calculation of accumulated depreciation based on estimated useful lives.
- We were unable to complete tests of the following Power and Water assets due to a lack of adequate documentation supporting original capitalized costs:

<u>Account Number</u>	<u>General Ledger Description</u>	<u>Cost Per Books</u>	<u>Useful Life</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Power Division:					
023-1002	Saipan Permanent Power Plant 4T	\$ 2,866,819	15	\$ 2,376,852	\$ 489,967
023-1020	Emergency Power	2,753,768	20	1,870,083	883,685
022-1020	Fuel Storage Tanks	615,897	20	368,290	247,607
033-2001	Tinian Power Plant	<u>501,752</u>	20	<u>344,921</u>	<u>156,831</u>
Total Power Assets		<u>\$ 6,738,236</u>		<u>\$ 4,960,146</u>	<u>\$ 1,778,090</u>
Water Division:					
327-3001	Water Transmission Line-Rota	\$ 1,014,266	25	\$ 419,228	\$ 595,038
206-1003	Sadog Tasi Water	<u>883,189</u>	25	<u>435,705</u>	<u>447,484</u>
Total Water Assets		<u>\$ 1,897,455</u>		<u>\$ 854,933</u>	<u>\$ 1,042,522</u>

- Open work orders are not periodically reviewed to ensure timely closing and capitalization or write-off of the related costs recorded in construction in progress. Our tests revealed that work orders dating back to FY1992 remained open and as a result, construction in progress and depreciation or repair and maintenance expense in the related fiscal years was overstated and understated, respectively.
- Despite efforts by the accounting division to close out old work orders for FY2000 and prior, which resulted in approximately \$4.2 million in old work orders being closed, approximately \$1.2 million in work orders relating to fiscal year 2000 and prior remain in construction in progress. Further, work orders opened from October 1, 2000 through September 30, 2001 have yet to be analyzed to determine if such represent valid construction in progress.

## COMMONWEALTH UTILITIES CORPORATION

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

#### Finding No. 2005-18, Continued

##### Condition, Continued:

- During physical presence and asset condition tests, we were unable to verify the existence of a Waste Oil Incinerator, valued at approximately \$510,000, at the Tinian Telesource Power Plant. The contract documents and the original project plan required a Waste Oil Incinerator to be built as part of the Power Plant. CUC personnel are currently determining whether a change order or subsequent agreement reached with Telesource eliminated the requirement to construct this asset.
- Portions of construction contracts, such as design and survey costs associated with projects, are not consistently capitalized. This condition resulted in numerous variances between project costs recorded by CUC and project costs determined through attest procedures.
- A periodic inventory of CUC's fixed assets has not been performed in recent years. There is no periodic verification concerning the existence and condition of fixed assets. As a result, assets that are retired and are no longer in use continue to be carried in CUC's fixed assets register.
- CUC's AS400 upgrades, which occur approximately every two years, are being depreciated over five years. This condition results in assets being depreciated for periods longer than their expected useful life.
- Currently, no process exists to ensure that retired or broken fixed assets are removed from the fixed asset listing. We noted several assets that have been retired, broken and in some instances destroyed, that were still carried in CUC's fixed asset register.
- During our review of the Rota Wastewater Project and the Rota Wastewater Outfall, we determined that both projects were completed in fiscal year 1989, but were never commissioned and remain unused to date.
- One Yanmar engine at the old Tinian Power Plant, which is no longer operational, has only seventy-eight hours of use. This engine has not been in use since the new Telesource Power Plant came on line in 1999. Discussions with CUC personnel in Tinian indicate that this engine is basically new. Additionally, we noted that numerous parts ordered for an overhaul of one of the other engines, valued in excess of \$100,000, are still in boxes in the parts warehouse.
- We noted various small dollar items (as low as \$30) being capitalized. CUC's fixed asset policy requires capitalization of assets with a value of \$300 or more, with the exception of small tools, which are to be depreciated over two years. We noted that this policy is not consistently followed.
- One of the three Caterpillar "containerized" engines at the old Isley Power Plant has not been in operation. We learned from discussions with CUC personnel that these engines currently only serve as a back up power source for the water pumps and related equipment located in and around the Isley area. Further, we learned that two of the engines are in need of repair; however, no funds have been allocated. If the engines are in fact idle and inoperable, CUC should suspend depreciation and record a disposal of fixed assets.

**COMMONWEALTH UTILITIES CORPORATION**

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

**Finding No. 2005-18, Continued**

**Condition, Continued:**

- The supporting documents for the following work orders evidencing material issuances, labor charges to appropriate work orders and certification of work completion have not been provided. Thus, we were unable to verify that the following work orders were valid and closed in a timely manner.

<u>Work Order #</u>	<u>Fixed Asset #</u>	<u>Amount</u>
201550	9641501	\$ 4,800
300802	Various	\$ 7,543
200346	Various	\$ 69,891
201550	9651901	\$ 11,543
301749	9680181	\$ 10,751

- There were no overhead costs charged to two work orders (#s 201550 and 300802).
- The current year depreciation per the accumulated depreciation lapsing schedule is \$185,965 more than the recorded depreciation expense per the general ledger. Additionally, tests of reasonableness of recorded depreciation expense noted an understatement in recorded depreciation by \$457,525. Further, the accumulated depreciation balance per the general ledger is \$1,474,625 more than the amount per the fixed asset register.
- Current year movements in the accumulated depreciation account include transfers from work orders of \$13,758, disposals of \$330,312 and adjustments of \$565,929. Detailed schedules for these transactions were not made available.
- The fixed asset balance per the general ledger was not reconciled to the subsidiary ledger resulting in a variance of \$1,939,698.
- A detailed schedule of current year construction-in-progress (CIP) has not been provided.
- Current year movement in the fixed assets account includes transfers from work orders of \$1,185,779, transfer from CWIP of \$ 5,804,902, additions of \$ 164,739 and adjustments of \$7,881,081. Detailed schedules for these transactions were not made available.

**Cause:** The causes of the above conditions are as follows:

- No inventory of fixed assets has been performed.
- Lack of coordination between CUC's departments responsible for project oversight and the accounting department relative to procedures for closing completed projects.
- Lack of timely review and certification of projects for completion.
- The fixed asset capitalization policy is not being consistently applied.

COMMONWEALTH UTILITIES CORPORATION

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

Finding No. 2005-18, Continued

Cause, Continued:

- Lack of supporting documents.
- Lack of details and a reconciliation of the construction in progress accounts.
- Assets are not individually evaluated as to their useful life prior to being capitalized.
- Lack of periodic review of work orders.
- Lack of reconciliation between the general ledger and subledger.

Effect: The effect of the above conditions is a possible misstatement of fixed asset balances resulting in an opinion qualification on the account balance and related depreciation expense. Additionally, a serious weakness in control exists over the safeguarding of fixed assets.

Recommendation: We recommend that CUC perform a physical inventory of all fixed assets on hand, agree the count with its records and make necessary adjustments. Additionally, we recommend that CUC implement a system of tagging fixed assets and perform periodic counts to ensure existence.

Prior Year Status: The lack of control over fixed assets was reported as a finding in the audits of CUC for fiscal years 1988 through 2004.

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

Utility Plant

Finding No. 2005-19

Criteria: Insurance coverage protects an organization from potential material losses.

Condition: CUC has not obtained insurance for its fixed assets.

Cause: The cause of the above condition is the lack of an adequate policy to ensure insurance coverage.

Effect: The effect of the above condition is the possibility of material losses.

Recommendation: We recommend that CUC implement a policy with respect to required insurance coverage levels.

Prior Year Status: The lack of insurance coverage was reported as a finding in the audits of CUC for fiscal years 1989 through 2004.

COMMONWEALTH UTILITIES CORPORATION

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

Obligations under Capital Lease

Finding No. 2005-20

**Criteria:** Financial Accounting Standards Board (FASB) Statement No. 13, *Accounting for Leases*, requires that the lessee record a capital lease as an asset and an obligation at an amount equal to the present value of minimum lease payments during the lease term. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the asset and liability shall be fair value.

Emerging Issues Task Force (EITF) Issue No. 01-8 states that in certain circumstances energy-related contracts may represent lease transactions, and the evaluation of whether an arrangement contains a lease within the scope of FASB No. 13 should be based on the substance of the arrangement and whether the use of specific property, plant and equipment is necessary in the fulfillment of the arrangement.

**Condition:** CUC entered into an agreement with a contractor for the construction, maintenance and operation, and transfer of ownership of a 10 megawatt power plant on the island of Tinian. The agreement is for a guaranteed price of \$9,959,000 plus interest and fees of \$11,641,000 payable over ten years. During this period, the contractor will maintain and operate the power plant and be paid operation, production and maintenance fees in addition to the guaranteed price. The power plant will be turned over to CUC at the end of the ten year period.

CUC has determined that this agreement is, in fact, a capital lease and that the payments made under the agreement are lease payments. As such, CUC recorded \$9,959,000 as plant and obligations under capital lease.

CUC has been unable to determine whether the guaranteed price of \$9,959,000, in fact, constitutes the fair value of the leased property.

**Cause:** The cause of the above condition is that CUC has not determined the actual cost of the power plant or obtained an appraisal.

**Effect:** The effect of the above condition is the possible misstatement of obligations under capital lease resulting in an opinion qualification on the account balance.

**Recommendation:** We recommend that CUC determine the actual cost of the plant, or obtain an appraisal of the plant for purposes of compliance with the EITF.

**Prior Year Status:** The inability to determine whether the recording of the plant and obligation under capital lease are in accordance with FASB No. 13 and EITF No. 01-8 was reported as a finding in the audits of CUC for fiscal years 2000 through 2004.

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

Accrued Expenses

Finding No. 2005-21

**Criteria:** Accrued annual leave and other accruals should be reviewed and reconciled regularly.

**Condition:** Accrued annual leave per the general ledger varies with the subsidiary ledger by \$90,045. This condition was corrected through a proposed audit adjustment. Additionally, other accrued expenses include payables for compensatory time credits which have been outstanding for more than one year.

**Cause:** The cause of the above condition is lack of policies and procedures to properly review and reconcile accrued annual leave.

**Effect:** The effect of the above condition is the misstatement of accrued expenses and related expense accounts.

**Recommendation:** We recommend that CUC establish policies and procedures to properly review and reconcile annual leave. We also recommend CUC review the validity of accruals on a regular basis.



COMMONWEALTH UTILITIES CORPORATION

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

Debt

Finding No. 2005-22

**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:** At September 30, 2005, CUC closed the escrow fund account established in a prior year.

**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:** We recommend that CUC re-establish the escrow account to ensure compliance with debt requirements.

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

**Automated Data Processing**

**Finding No. 2005-23**

**Criteria:** A formal Disaster Recovery Plan, written Automated Data Processing (ADP) policies and procedures and offsite storage for daily back-up files are recommended for all large organizations.

**Condition:** CUC currently has no formal Disaster Recovery Plan or written ADP policies and procedures. In addition, CUC does not have an offsite storage for daily back-up files.

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

**Effect:** The effect of the above condition is the potential inability of CUC's ADP department to recover from a disaster and resume operations in a reasonable time frame, which in turn, could result in the loss of critical data, revenue and also lead to customer service and public relations concerns.

**Recommendation:** We recommend that CUC review the need to document in writing its ADP policies and procedures and to develop and adopt a formal Disaster Recovery Plan for its ADP department. CUC should also maintain an offsite storage for daily back-up files.

**Prior Year Status:** Lack of a formal Disaster Recovery Plan and written ADP policies and procedures was reported as a finding in the audits of CUC for fiscal years 2001 through 2004.

COMMONWEALTH UTILITIES CORPORATION

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

Recovery of Labor Costs

Finding No. 2005-24

Criteria: Generally, direct costs incurred internally, including labor costs, related to federally funded projects are reimbursable or may be used for matching purposes.

Condition: Currently, CUC does not request reimbursement of direct labor costs incurred on various federally funded construction projects.

Cause: The cause of the above condition is that CUC has not pursued this matter with the grantor agencies.

Effect: The effect of the above condition is the potential loss of federal revenue and inefficient use of internal funds.

Recommendation: We recommend that CUC review the above condition and consider requesting reimbursement of direct labor costs if it is deemed to be in the best interest of CUC.

Prior Year Status: Lack of request of reimbursement of direct labor costs incurred on various federally funded construction projects was reported as a finding in the audits of CUC for fiscal years 2001 through 2004.

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

**Board Minutes**

**Finding No. 2005-25**

**Criteria:** All board and executive meetings should be appropriately and promptly documented and maintained.

**Condition:** The minutes of board of directors' meetings subsequent to December 14, 2004 were not made available.

**Cause:** The cause of the above condition is the lack of timely transcription of the minutes of the meetings.

**Effect:** The effect of the above condition is an incomplete record of board of directors' actions and decisions resulting in an opinion qualification.

**Recommendation:** We recommend that CUC ensure that all board of directors' and executive meetings are appropriately and promptly documented.

**Prior Year Status:** Lack of timely transcription of the minutes of board of directors' meetings was reported as a finding in the audits of CUC for fiscal years 2002 through 2004.

COMMONWEALTH UTILITIES CORPORATION

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

Local Noncompliance

Finding No. 2005-26

**Criteria:** In certain instances, the award of contracts for recurring and continuing service requirements are often delayed due to circumstances beyond the control of contracting offices. An effective procurement regulation should explicitly provide for policies governing extension of performance for recurring and continuing service requirements.

**Condition:** Our review of compliance with procurement regulations noted three contracts (ref. Contracts CUC-PG-04-C002, CUC-ALL-04-C005 and CUC-AD-03-C024), which were renewed for another year. The contracts included a provision for contract renewal that was exercised by CUC. CUC's procurement regulations, however, do not explicitly provide for policies governing extension of contracts for recurring and continuing service requirements.

**Cause:** The cause of the above condition is lack of established policies governing extension of contracts for recurring and continuing service requirements.

**Effect:** The effect of the above condition is the potential to award contracts without providing for an open and free competition.

**Recommendation:** We recommend CUC review existing procurement regulations and formulate policies governing extension of contracts for recurring and continuing service requirements.

**Prior Year Status:** Lack of established policies governing extension of contracts for recurring and continuing service requirements was reported as a finding in the audit of CUC for fiscal year 2004.

COMMONWEALTH UTILITIES CORPORATION

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

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

Procurement and Suspension and Debarment

Finding No. 2005-27

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / DOI and Capital Improvement Projects / CFDA # 15.875 / Federal Award # Fiscal Year 1996 - 2002 Appropriations Act / Federal Award Period Available Until Expended	<p><u>Criteria:</u> Section 12.76(a) of 43 CFR 12, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, requires that a State will use the same policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.</p> <p>Furthermore, in accordance with Section 5-103 of the CNMI Procurement Regulations, contractors shall not be allowed to continue working beyond the expiration term of an original contract in the absence of an approved new contract or change order. Change orders shall be processed using the procedures for processing new contracts in Section 2-104. Further, Section 5-103 (2) of the CNMI Procurement Regulations states that 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&amp;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 \$2,097,640 in expenditures tested, we noted the following:</p> <ul style="list-style-type: none"> <li>Expenditures were incurred beyond the contract expiration for the following:</li> </ul>	\$ 66,907

Contract	Invoice/ Payment Request #	Total Amount	Federal Share
250 OS	13	\$ 72,767	\$ 36,383
144 OS	10	61,047	30,524
Total		\$ 133,814	\$ 66,907

The related change orders for the above contracts were approved subsequent to the expiration date of the original contracts.

We noted that the delay in processing the change order to extend the contract period for one contract (Ref. 144 OS) was due to the suspension of funds by the grantor agency on February 21, 2003. However, documentation verifying that grantor agency had lifted the suspension during the year has not been provided.

\$ 66,907

- One contract (ref. # 278-OS) for construction management services was procured through competitive sealed proposals. During our review, it was noted that only the highest ranked contractor was approached to submit a cost proposal for negotiation. It was also noted that the second and third ranked contractors were within competitive range and should have been approached to submit a cost proposal for proper consideration of all evaluation factors. The actual expenditures incurred to date, however, are still within the original contract amount; therefore, no questioned costs result at this time.

COMMONWEALTH UTILITIES CORPORATION

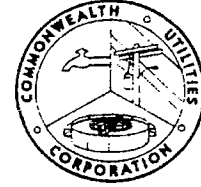
Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2005

Finding No. 2005-27, Continued

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of the Interior / DOI and Capital Improvement Projects / CFDA # 15.875 / Federal Award # Fiscal Year 1996 - 2002 Appropriations Act / Federal Award Period Available Until Expended	<p><u>Condition, Continued:</u></p> <ul style="list-style-type: none"> <li>Two change orders related to one contract (ref. #280-OS, change orders #s 1 &amp; 2 amounting to \$23,935 and \$54,955, respectively) were procured through small purchase instead of competitive procedures as required by CNMI Procurement Regulations. The change orders exceeded the 25 percent cumulative requirement. We did not note the justification for the small purchase procurement and evidence that the change orders were procured in accordance with CNMI Procurement Regulations. The actual expenditures incurred to date, however, are still within the original contract amount; therefore, no questioned costs result at this time.</li> <li>Two change orders related to one contract (ref. #282-OS, change orders #s 1 &amp; 2 amounting to \$556,020 and \$516,588, respectively) were procured through small purchase instead of competitive procedures as required by CNMI Procurement Regulations. The change orders exceeded the 25 percent cumulative requirement. We did not note the justification for the small purchase procurement and evidence that the change orders were procured in accordance with CNMI Procurement Regulations. The actual expenditures incurred to date, however, are still within the original contract amount; therefore, no questioned costs result at this time.</li> </ul>	
	<p><u>Cause:</u> The cause of the above condition is the lack of established policies and procedures to ensure timely processing of change orders and the use of CUC procurement of contracts in accordance with CUC's procurement regulations.</p>	
	<p><u>Effect:</u> The effect of the above condition is noncompliance with Section 5-103 of the CNMI Procurement Regulations, noncompliance with federal procurement requirements and questioned costs of \$66,907.</p>	
	<p><u>Recommendation:</u> We recommend that CUC ensure compliance with established procurement regulations for pass through grants.</p>	
	<p><u>Prior Year Status:</u> Lack of established policies and procedures to ensure timely processing of change orders and the use of CUC procurement of contracts in accordance with CUC's procurement regulations was reported as a finding in the audit of CUC for fiscal year 2004.</p>	
	<p>Total Questioned Costs</p>	<p>\$ <u>66,907</u></p>



# Commonwealth Utilities Corporation



Corrective Action Plans to Questioned Costs and Findings, included in the Independent Auditors' Reports on Internal Control and Compliance for the Year Ended September 30, 2005

## Financial Statement Findings

### Revenue/Receipts Finding No. 2005-1

CUC partially agrees with the finding.

CUC has continuously investigated easement claims. The Internal Auditor was tasked to conduct a review of these claims. Her report dated February 21, 2006 detailed the following actions taken by CUC to resolve the easement issues:

1. Seven accounts were granted administrative hearings. It was determined that the easement claims were not valid. A final order to close these cases was being prepared by the administrative hearing officer. Subject customers were asked to pay their current charges.
2. Six accounts had meetings with CUC's outside Legal Counsel. Legal advice was that the nature of property was an agricultural homestead. A proposal for settlement was submitted to the customers. The customers requested for administrative hearings. Administrative hearings were conducted. The customers agreed to settle their cases and committed to sign promissory notes (PNs). To date, these customers have not shown up to CUC to sign PNs.
3. Five accounts were disconnected and closed.

The Easement Specialist is also working closely with the new Legal Counsel in reviewing these easement disputes. Per a memorandum dated February 1, 2007, the Easement Specialist forwarded two accounts to the Legal Counsel for review.

CUC requires all new connections to be accompanied with dedication of easement by the applicant or owners of the land. For its own in-house projects, the Easement Specialist ensures that CUC projects do not encroach on private property. For those projects requiring the use of private property, CUC shall formally seek an agreement with the affected parties prior to using such properties.

CUC has established procedures for easement claims. All easement claims are forwarded to the Easement Specialist for preliminary investigation. As soon as he completes his investigation and validates the claim, the Legal Counsel would initiate contact with the customer to settle the problem. A customer who is not willing to settle can request for an administrative hearing. The Legal Counsel would advise the customer to pay their current bill until such time that their case is heard and concluded.

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## **Financial Statement Findings, Continued**

### Revenue/Receipts, Continued

#### Finding No. 2005-2

CUC partially agrees with the finding.

The former Assistant Comptroller prepared an analysis of the difference between the actual costs and fuel surcharge fee revenues for the period April 2005 to December 2005. His files were turned over to the Acting Chief Financial Officer (ACFO) and are available for review. There was no request from the auditor for a copy of these analyses.

As of September 30, 2005, the total unrecovered fuel costs amounted to about \$13.7 million. Management is still seeking legal advice whether CUC is capable of recovering such amount before recording it in the books.

CUC is in the process of setting up accounts to monitor the over and under recoveries. The Executive Director assigned staff to research and prepare policies and procedures in order to accurately determine the difference between actual fuel costs against fuel surcharge fee revenues.

Auditor Response: CUC's Electric Service Regulations Part 24.5.8.1 specifically states that any difference between the actual fuel costs and fuel surcharge fee shall be accumulated in a deferred account and subject to an annual reconciliation. CUC did not have such an account at September 30, 2005. This information was requested from the previous Chief Accountant and the Acting Comptroller at the time.

### Purchases/Disbursements

#### Finding No. 2005-3

CUC partially agrees with the finding.

One of CUC's corrective action plans in fiscal year (FY) 2004 to ensure that expenditures were recorded in a timely manner was to perform reconciliation of expenses with the CNMI Government Capital Improvement Projects Coordinator (CNMI-CIP). For FY 2005, CUC obtained a copy of the CNMI-CIP project detail reports and compared dates, numbers of payment requests and amounts to CUC's records. To reconcile with the CNMI-CIP, CUC prepared catch-up entries to the general ledger for those payment requests recorded by the CNMI-CIP but not recorded by CUC. Some of the entries pertained to expenditures incurred in prior fiscal years, which may be the expenditures cited by the auditors that were recorded up in FY 2005.

The expenditures for four contracts cited were for FY 2004 when no reconciliation of expenses was performed.

CUC prepared policies and procedures to ensure proper coordination of transaction processing and recording of payment requests among the different divisions involved such as the initiating division, grants management section and the accounting section. Also included in the procedures are the steps to be undertaken to reconcile records with the CNMI-CIP.

## **Financial Statement Findings, Continued**

### Purchases/Disbursements, Continued

#### Finding No. 2005-4

CUC disagrees with the finding.

The receiving reports and certifications of completion of services for the three instances cited are on file. The Accounts Payable (A/P) staff explained that the documents have always been in the vendors' files. According to her, the auditor did not ask or request for the documents.

The A/P staff ensures that all disbursements are properly supported with receiving reports or certifications of completion of services. The A/P staff prepares the A/P voucher and attaches all supporting documents for review by the A/P supervisor and approval by the ACFO.

Auditor Response: The receiving reports and certification of completion of services were not available on file or per request as of our test date of July 17, 2006.

### Payroll

#### Finding No. 2005-5

CUC agrees with this finding.

CUC management recognizes the need to transfer the function of inputting approved pay rates from the Payroll Section (Payroll) to the Human Resources (HR) office. The Deputy Director for Administration was tasked to find a good HR module for CUC operations. He is still in the process of evaluating the proposals to ensure that the HR module will be able to address CUC's requirements and at the same time facilitate proper segregation of functions in payroll processing. Target completion date to install the CUC HR module is September 2007.

At present, only the Payroll Manager has access to inputting the approved pay rates in the system. The other payroll personnel are restricted. From time to time, the ACFO or her designated staff performs spot checks to review pay rates entered by the Payroll Manager against the approved personnel action.

#### Finding No. 2005-6

CUC partially agrees with the finding.

The ACFO issued a memorandum to all division managers reiterating strict adherence to established policies and procedures relating to payroll-related documents. Also, the ACFO met with the staff of Payroll and discussed the FY 2005 findings and recommendations.

The Payroll Manager had a meeting with all timekeepers regarding timecards submitted to Payroll. Payroll will no longer accept timecards without the signature of the employee. In the past, Payroll would accept explanations such as, the employee is out on the field or the employee is on leave, as reasons for the employee not signing his or her timecard. Citing the finding, the Payroll Manager will return all unsigned timecards to the division timekeeper.

After-the-fact overtime requests and authorizations are unavoidable for emergencies and trouble calls. Employees and/or crews respond to trouble calls after regular working hours. On the following day, the employee/crew submits the trouble call log to the timekeeper. The timekeeper is responsible for preparing the overtime authorization form (OT form) and attaches the trouble call log to the OT form. The OT form is then routed to the ACFO and the Executive Director for approval.

## **Financial Statement Findings, Continued**

### Payroll, Continued

#### Finding No. 2005-6, Continued

Payroll organized the personnel files and ensured that employee withholding authorizations and allotment forms were updated and on file. Also, Payroll was reminded that they should not accept phone-in requests or instructions for payroll deductions. All employees are required to fill out a payroll allotment form and submit the form to Payroll prior to payroll processing.

### External Financial Reporting

#### Finding No. 2005-7

CUC partially agrees with the finding.

CUC implemented a system whereby a due from/to account records all cash received from the grantor agency as well as the related expenditures. The procedure was established to address a finding and was part of the corrective action plan for FY 1999. However, due to personnel turnover in the accounting section, the monthly reconciliation of this account was not performed. For FY 2005, a reconciliation of due from/to grantor agencies and capital contributions accounts was only performed at year end.

Also, CUC compared records with the project details report provided by the CNMI-CIP. Each variance noted was investigated. CUC entered all payment requests recorded by the CNMI-CIP but not recorded by CUC to the general ledger.

The ACFO will oversee the training of an accounting staff to handle the due from/to grantor agencies and the related expenditures recorded in the capital contributions accounts.

### Receivables

#### Finding No. 2005-8

CUC agrees with the finding.

CUC met with the CNMI Department of Finance (CNMI-DOF) staff-in-charge for utility payables and expenses. The ACFO was assigned to take the lead in reconciling accounts with the CNMI-DOF. Both representatives will sit down to determine the accuracy and the completeness of their records. The CNMI-DOF's listing of utility payables will be compared against CUC's listing of government utility receivable accounts. The comparison will be detailed. The account status (active/closed/disputed) and outstanding balances as of the agreed cut-off date of each individual account from the two (2) listings will be reviewed. Any variance noted will be investigated. Adjustments will be made to bring both records to balance.

As discussed in the most recent meeting with the CNMI-DOF, it was agreed that they will reconcile balances as of September 30, 2006.

Given the reconciled balances, CUC and the CNMI-DOF will prepare a reconciliation on a monthly basis.

## **Financial Statement Findings, Continued**

### Receivables, Continued

#### Finding No. 2005-9

CUC partially agrees with the finding.

Pursuant to Part 19 of the Electric Service Regulations of CUC regarding disputes, in the event of a disagreement of a bill, the customer shall pay the undisputed portion of a challenged billing and any unchallenged additional billings received before the agreement is reached is completed. Account numbers 29619-4, 18802-9, 21868-5 and the thirty-two accounts cited amounting to \$3,155,295 are all disputed accounts. These accounts were backbilled by CUC. Customers disagreed on the amount of the backbilling. The accounts cited are paying current charges. They have not been disconnected pending settlement of their dispute and legal advice.

Dispute of account number 18802-9 was settled in March 2007 and is now current.

Account number 53112-9 refers to a promissory note of a contractor for a government capital improvement project. The contractor owes CUC for the cost of labor and materials incurred for the relocation of poles. This account will be closed, late charges assessed will be reversed and an adjustment to reclassify the receivable will be recorded in FY 2006.

Disconnected/closed account numbers 35751-7, 12504-7, 27421-7, 36169-1, 15542-4, 29506-3 and 40700-7 were already referred to a collection agency. The Executive Director instructed the ACFO to get a report from the collection agency. Should the collection agency see no chance of collecting these long-outstanding accounts, the ACFO will recommend write-off of these receivables.

The ACFO will recommend write-off for account numbers 29460-3, 26138-8, 7587-9, 26354-1, 8055-6, 10509-8, 27613-9 and 13263-9.

Account numbers 8267-7 and 1905-9 will be adjusted in the system. Late charges will be reversed for these closed accounts.

Account number 838-3 was disconnected, closed and transferred/name-changed to another account. Adjustment to transfer balance from this account to the new account will be performed.

Account number 49628-1 is disputing a backbill for water charges. Pending final report from the water investigation team, the account has not been disconnected and is paying current charges.

Account numbers 42499-4, 39601-0, 11190-6, 40537-3, 18802-9, 47612-7, 55385-9, 56282-7 and 38794-4 have adjustments pertaining to prior years' billings. Due to limitations of the automated utility billing module, adjustments for prior years' cannot be posted on its actual year of occurrence. Adjustments are recorded in the current year. Audit adjustments were proposed to correct this error. CUC recorded the adjustments. The ACFO will review all adjustments that affect prior years. She will ensure that adjustments are recorded on their proper period.

Account numbers 4330-7, 4329-9, 29619-4, 4333-1, 18141-2, 4863-7, 31696-8, 53024-6 and 13001-3 are all disputed accounts. Payments are being made only for current charges. It would seem that these accounts have not been aged properly. However, CUC's utility billing system is designed to apply payments received, either for current or past due, always to the over-75 days first. The ACFO will monitor these disputed accounts paying current charges. At year end, when a specific review of accounts is performed, the ACFO will correct the aging report to reflect a more accurate application of payments for the disputed accounts.

## **Financial Statement Findings, Continued**

### Receivables, Continued Finding No. 2005-9, Continued

The ACFO discussed the long-outstanding receivable from the Commonwealth Ports Authority (CPA) with the auditors. CPA advised the auditors that these receivables should have been billed to the contractors. The ACFO recommended write-off of the receivable from CPA noting that there is inadequate documentation to support the claim. This has been outstanding in 1996 and has been 100% allowed for. With the approval of the Executive Director, this receivable will be cleared in CUC books in FY 2007.

### Finding No. 2005-10

CUC partially agrees with the finding.

As one of its corrective action plans in FY 2004, CUC reassessed its procedures for determining the allowance for doubtful accounts. To improve financial reporting, CUC implemented procedures to conduct year-end reviews of all accounts not in over-75 days. The Accounts Receivable Section (A/R) individually reviewed each account to determine whether any part of the balance is due to erroneous meter usage (meter reading errors or meter malfunctions) and/or disputed balances. CUC then made a preliminary assessment of the amount that it believed may be uncollectible, including any late charges, which were included in the allowance for doubtful accounts. To prove that these procedures were performed, an analysis was prepared by A/R is available for review. A journal voucher was prepared to provide an additional allowance for doubtful accounts based on this analysis.

This was the first time that this specific review of accounts was performed. The auditors cited some accounts that were not adequately allowed for. The ACFO will revisit the procedures performed to completely capture and assess all accounts in the determination of allowance for doubtful accounts.

### Finding No. 2005-11

CUC agrees with the finding.

The ACFO reviewed the status of long-outstanding other receivables and travel advances. Her review revealed that there has been no movement for the past years. Also, these long-outstanding accounts have been substantially allowed for.

A recommendation to write-off these accounts was forwarded to the Executive Director for his approval. Upon his concurrence, a journal voucher will be prepared to clear the general ledger of these accounts.

The ACFO will see to it that there will be monthly review of receivables to ensure timely follow-up of advances.

### Inventory Finding No. 2005-12

CUC agrees with the finding.

The resignation of the Inventory Accountant created a big impact in the accounting functions to ensure reconciliation of final inventory summaries and count sheets. The Warehouse Manager and the ACFO worked together to review the discrepancies noted. One of the accounting staff was temporarily assigned to perform the functions vacated by the former Inventory Accountant.

## **Financial Statement Findings, Continued**

### Inventory, Continued

#### Finding No. 2005-12, Continued

The ACFO and the Warehouse Manager will conduct a refresher training with the personnel involved in the inventory module. A proper coordination among the users of the inventory modules from warehouse operations, accounting, procurement and supply divisions' office staff is the key to accurate inventory records.

The count sheets for Warehouses E, R, S and U are now available for review.

#### Finding No. 2005-13

CUC agrees with the finding.

The ACFO assigned one of the accounting staff to perform the function of reconciling the inventory balances per the general ledger (GL) and the subsidiary ledger (SL). The former Inventory Accountant used to analyze both records on a monthly basis. Unfortunately, he was not able to complete FY 2005's reconciliation of inventory balances per the GL and the SL.

Reconciliation of inventory balances per the GL and the SL as of September 30, 2005 is in progress. The ACFO will oversee that procedures are properly performed.

Also, the ACFO will initiate action to update the CUC general operating procedures on inventory functions. Preparation of written policies and procedures to ensure timely reconciliation of inventory balances per the GL and the SL is in process.

#### Finding No. 2005-14

CUC agrees with the finding.

CUC has tasked the Warehouse Manager to segregate all obsolete inventory items. A listing was prepared by warehouse staff and reviewed by the Warehouse Manager. All division managers were required to verify the listing.

To address this audit finding on inventory obsolescence matters, the Warehouse Manager drafted updated CUC's general operating procedures to establish written policies and procedures for the review/assessment and removal of slow-moving, obsolete and/or dead-stock inventories. The draft was forwarded to the ACFO for comments and review. This will be routed to the Executive Director for approval and adoption.

## **Financial Statement Findings, Continued**

### Inventory, Continued Finding No. 2005-15

CUC agrees with the finding.

A team from warehouse operations and accounting was formed to review the negative costs and quantities cited in the finding. The Warehouse Manager was asked to look into the causes of these unusual figures in the inventory records. After his meticulous investigation and review, the Warehouse Manager believes that he needs to reorganize the work groups related to inventory costing. Due to personnel turnover, the Warehouse Manager explains that a staff training on the proper coordination of all modules involved in inventory costing is very much needed. The training will highlight discussions about the flow of transactions that affects the inventory unit cost. Employees responsible in Accounts Payable, Procurement and Supply and the Warehouse need to know how to process inventory transactions in a timely manner. The training will emphasize the effects of timely and accurate encoding of data from the preparation of purchase, receiving and issuing to the encoding of vendor's invoices in coming up with an accurate inventory unit cost. Personnel involved will be instructed on how to use the system-generated daily exception report for negative unit costs and negative quantities. The Warehouse Manager and the ACFO will work hand-in-hand to strictly monitor the flow of information processed in the financial modules involved with inventory costing.

Also, CUC is in the final stage of the installation of the bar-coding system. The new warehouse system is expected to maximize efficiencies such as paperless transactions, immediate postings, as well as improved procedures to ensure accuracy and completeness of inventory transactions.

### Collection of Notes Receivable Finding No. 2005-16

CUC agrees with the finding.

CUC management has reorganized the Credit and Collection Section (C & C). The objective of the reorganization was to improve the transaction processing of the section. The new C & C leadership will review long-outstanding promissory notes and will see to it that demand letters are issued to customers with delinquent accounts.

The PN of customer number 8267 cited in the finding was reviewed by the ACFO. Adjustment to this account will be made.

The nine customers with PNs that did not indicate any payment were already referred to the collection agency. CUC has engaged the services of a collection agency to pursue more aggressive efforts to collect overdue accounts.

The PN for customer number 56599 has been located and is now available for review.

### Prepayments Finding No. 2005-17

CUC partially agrees with the finding.

This finding was corrected through a proposed audit adjustment.

## **Financial Statement Findings, Continued**

### **Prepayments, Continued**

#### **Finding No. 2005-17, Continued**

CUC disagrees that there is lack of established policies and procedures for prepayments. CUC General Operating Procedure on General Ledger Functions No. AC-001 established policies and procedures to strictly monitor prepayments. The General Ledger Accountant is responsible for coordinating with A/P to analyze and liquidate prepayments. However, the policies and procedures need to be reviewed, revised and updated to meet the current operations and accounting system.

The ACFO has included prepayments in the plan to revisit the general operating procedures in accounting. She will see to it that the staff-in-charge to monitor prepayments will strictly adhere to the policies and procedures.

### **Utility Plant**

#### **Finding No. 2005-18**

CUC agrees that it has not conducted a 100 percent physical inventory of its fixed assets. However, in 2002, CUC engaged Deloitte & Touche LLC (D&T) to perform agreed-upon procedures related to the fixed assets and accounting records. One such procedure was to conduct a physical inventory of all major fixed assets, of which D&T verified the existence of more than 80 percent of the total assets.

Conversely, CUC disagrees that it lacks a registration system for fixed assets. The CUC automated data processing system has a fixed asset module for recording and entering all pertinent data needed to readily identify and account for its assets. The module has three maintenance screens for this purpose, as follows:

**Asset Information Screen:** for assigning a number to each asset, description, location, classification number, depreciation rate, general ledger code, tag number, serial number, model, manufacturer, vendor name, license number with expiration date (for vehicles), and, if property assigned, employee name.

**Asset History Screen:** for recording asset cost and or acquisitions and retirements.

**Net Book Value Screen:** for summarizing the asset cost, accumulative depreciation and net book value.

CUC disagrees that many of the itemized conditions contained in this finding existed at the time of this audit. D&T assisted CUC in reconciling, adjusting, and recording the proposed adjustments to its fixed asset records and/or initiated corrective action to address and remove from the report the following conditions:

- Implemented procedures to ensure timely review, certification, transfer and capitalization of completed projects. The accounting section now coordinates with division engineers to promptly transfer construction work in progress to fixed assets.
- Recorded the D&T adjustments to correct depreciation for completed projects that were not timely closed and transferred to fixed assets.



## **Financial Statement Findings, Continued**

### Utility Plant, Continued

#### Finding No. 2005-18, Continued

- Cleared and/or closed open work orders dating back to FY 1992 to properly capitalize costs, adjust depreciation, write-off costs related to repairs and maintenance, and correctly state construction work in progress. Now, Support Services provides documentation for open work orders to the accounting section each month for closing.
- Analyzed and closed all work orders for FY 2001 and prior. Capitalized costs, adjusted depreciation, wrote off expenses for repairs and maintenance and adjusted construction work in progress, as applicable.
- Capitalized design and survey costs for both past and present projects.
- Recorded D&T adjustment to reclassify AS400 upgrades from asset to expense and reverse related depreciation.
- Removed all items that were either retired or damaged beyond repair from the fixed asset listing.
- Prepared policies and procedures to provide the means for the disposal of CUC's assets. Documents were forwarded to the Executive Director for his review and approval.
- Reversed depreciation for idle assets such as the two Rota wastewater projects.
- Adjusted current and past depreciation for the Yanmar engine in Tinian.
- Changed policy to expense small dollar items of \$1,000 or less. CUC continues to enter these items on the fixed asset listing, but at zero cost. Items are added to the listing to assign responsibility and maintain accountability. Asset cost and other pertinent data for these items are entered as general comments only.
- Adjusted depreciation and recorded entries for the disposal of the three "containerized" Caterpillar engines in Saipan that are no longer operational.

Only two conditions reported in the agreed-upon procedures remain.

- There is a lack of adequate documentation to support the original capitalized costs for the four Power assets and the two Water assets mentioned in the report. These assets were apparently acquired at various times between 1990 and 1993. Therefore, the possibility of locating documentation at this time is minimal at best. Further, CUC is of the opinion that the capitalized costs are fairly stated. A review of prior audit reports for the periods during and subsequent to the capitalization of these assets did not disclose any related audit findings for the six assets in question. In addition, if the actual costs for these assets are determined later, CUC doubts that any adjustment to the recorded costs and accumulated depreciation would have a material affect on the amounts as reported in the financial statements.
- The waste oil incinerator that could not be located during the physical inventory is now under review. To date, CUC found that neither a change order was processed nor an agreement reached that eliminated the incinerator from the contract. CUC referred this matter to its legal counsel for further review and recommendation. This is an ongoing matter that CUC expects to resolve during the current fiscal year.

## **Financial Statement Findings, Continued**

### Utility Plant, Continued Finding No. 2005-18, Continued

Regarding the conditions noted during the audit, CUC disagrees with the following:

- There are no additions/movements in the GL.
- Overhead costs were applied to work order no. 0300802, but not to work order no. 0201550. Regarding No. 0201550, it accounted for costs related to the repair of various fixed assets that were damaged by a typhoon. Of these costs, the Federal Emergency Management Agency (FEMA) reimbursed CUC for 75 percent of all eligible direct costs. Note that overhead costs normally charged to a CUC work order (25 percent of labor and materials) are not an allowable cost that is reimbursable by FEMA.
- General and subsidiary ledger balances for fixed assets were reconciled. Initial reconciliation was prepared in CUC format, which was in a usable format but was apparently unacceptable to the auditor. A second reconciliation was then prepared in D&T format and provided to the auditors. Detailed schedules of transfers from work orders, transfers from CWIP, additions and adjustments are now available for review.

However, CUC does agree that further action is required to resolve the following conditions, as reported:

- Not all supporting documents were located, which were requested by the auditors. This occurred because the respective CUC divisions did not provide these documents to the Fixed Asset Accountant. Accordingly, the Comptroller shall draft a directive to all divisions, signed by the Executive Director, that all work order files must contain sufficient documentary evidence to support all recorded costs. A list of required documents will be identified for each type of project and included with the directive.
- A detailed schedule of current year construction-in-progress (CIP) was not provided to the auditors for their review. The CIP general and subsidiary ledger balances have not been reconciled. Currently, CUC is in the process of reconciling the two ledgers and, when completed, will be provided to the auditors.
- CUC is still in the process of reconciling accumulated depreciation per the general ledger against the amounts in the fixed asset register.

Auditor Response: We acknowledge that CUC has a fixed asset module; however, the proper and effective use of the module would not have resulted in the many discrepancies and issues noted during our audit. Due to the lack of supporting documentation, non-reconciliation of accounts, lack of physical inventory and significant miscellaneous adjustments among others, we are unable to determine that discrepancies have been resolved.

### Finding No. 2005-19

CUC agrees with the finding.

CUC has issued a Request for Proposal (RFP) to solicit proposals from insurance companies throughout the region for insurance coverage for its fixed assets. Unfortunately, CUC has not been able to find any insurance company that is willing to offer insurance coverage.

## **Financial Statement Findings, Continued**

### Utility Plant, Continued Finding No. 2005-19, Continued

CUC will continue to seek for insurance companies to address this finding.

### Capital Lease Finding No. 2005-20

CUC disagrees with the finding.

CUC believes that the guaranteed price of \$9,959,000 constitutes the fair value of the leased property. Any payment by CUC in excess of this amount constitutes financing costs. However, this amount may be subject to adjustment pending the resolution of the waste oil incinerator that could not be located, which is valued at \$510,000 (see Finding No. 2005-19). CUC expects the matter regarding the incinerator to be resolved during the current fiscal year. At that time, CUC will make whatever adjustments are necessary to the utility plant and obligations under capital lease.

Further, CUC does not agree that it needs to obtain an appraisal of the plant. The acquisition of the power plant underwent the scrutiny of the competitive procurement process in accordance with CUC Procurement Regulations. CUC issued an RFP and, after discussions with the responsible offerors, awarded the project to the contractor that offered the most favorable price and terms that were available to CUC. Hence, the fair value was established at \$9,959,000.

**Auditor Response:** CUC had agreed to this finding as reported in fiscal years 2000 through 2003. CUC has determined that the payments made under the agreement are lease payments. To comply with FASB 13 and EITF No. 01-8, a determination of the actual cost of the plant and/or appraisal would be necessary. The amount stipulated in the contract does not necessarily indicate the actual cost or fair value of the asset.

### Accrued Expenses Finding No. 2005-21

CUC agrees with the finding.

The ACFO has assigned the Payroll Manager and the General Ledger Accountant to ensure proper review and reconciliation of accrued leave balances per the payroll report and the GL.

Also, the accounting section is in the process of preparing policies and procedures to review the validity of accruals on a regular basis. This will be part of the ACFO's plan to revisit the general operating procedures of the CUC accounting section.

In regards to the long-outstanding payables for compensatory time (CT) credits, the ACFO forwarded her recommendation to reverse accruals made for this account. CT credits refer to CUC employees who have resigned.

### Debt Finding No. 2005-22

CUC agrees with the finding.

CUC is presently negotiating with the contractor regarding the escrow account. Pending agreement with the contractor, CUC will re-establish the \$360,000 escrow account to comply with the debt requirements.

## **Financial Statement Findings, Continued**

### Automated Data Processing Finding No. 2005-23

CUC agrees with the finding.

CUC's Electronic Data Processing (EDP) department has prepared a draft of its Disaster Recovery Plan and written Automated Data Processing (ADP) policies and procedures. These documents are subject to review by the Deputy Director for Administration and approval by the Executive Director.

Currently, the daily back-up files are stored in a fire-proof vault at the EDP room. The AS/400 month end and year end back-up tapes are kept at a local bank on Saipan (off-site storage). In case of disaster, critical software can be reloaded from these back-up tapes.

### Recovery of Labor Costs Finding No. 2005-24

CUC disagrees with the finding.

Capital improvements projects (CIP) cited by the auditors are all contracted labor and materials project. There are no direct CUC labor costs incurred. Should there be expenses pertaining to the CIP projects, CUC will process request for reimbursement. There are also times that administrative expenses and travel expenses are directly processed at the CNMI Government Department of Finance.

Auditor's Response: Although the various capital improvement projects are contracted, CUC would have incurred labor costs related to monitoring the progress and status of the projects.

### Board Minutes Finding No. 2005-25

CUC partially agrees with the finding.

The Board of Directors have not been able to meet in recent months due to the declaration of the State of Emergency since May 2005. The minutes have not been ratified by the individual Board members.

For some meetings, the minutes are still awaiting transcription. Tapes and board assistant's notes are available for review.

### Local Noncompliance Finding No. 2005-26

CUC disagrees, in part, with the finding.

CUC agrees that it has experienced delays in awarding contracts for recurring and continuing service requirements. However, CUC disagrees that the delays are necessarily beyond the control of the contracting offices and that procurement regulations should provide explicit policies governing the extension of these types of contracts. CUC management is of the opinion that the delays were caused by the contracting office's lack of established controls to monitor the expiration date for these type of contracts. Accordingly, CUC will direct the contracting offices to institute procedures to monitor the completion dates for all contracts for recurring and continuing service requirements.

## **Financial Statement Findings, Continued**

### **Local Noncompliance, Continued** **Finding No. 2005-26, Continued**

In this regard, the contracting office shall identify all such contracts. A suspense date shall be established that is six months prior to the expiration date of the contract. On that date, the contracting office shall send a written notice of the expiration date to the appropriate division, with a copy to the Comptroller. The division shall respond, either positive or negative, as to whether CUC has a continuing need for those services. If positive, the division shall forward with the response, those documents needed to initiate a procurement action for the additional services. If the division fails to respond within ten working days, the contracting office shall send a second notice, with a copy to the Comptroller. The division shall respond within five working days of the second notice. If there is still no response, the contracting office shall immediately notify the Comptroller, who will elevate the matter to the Executive Director. The contracting office shall be required to maintain a complete file of all such documents related to monitoring the expiration dates for all contracts with recurring and continuing service requirements.

Regarding the three contracts cited, CUC believes that it was in the best interest of CUC to extend the contracts based on their renewal clauses. These services are required twenty-four hours per day, seven days per week. CUC did not have the option to let the contracts expire, which would have caused lapses in the services. CUC required the services of the mechanics to maintain a somewhat constant supply of electricity to its consumers. In addition, CUC required the services of the guards to comply with certain regulatory requirements imposed by the U.S. Coast Guard and the Homeland Security Act.

The abovementioned procedures should eliminate the condition noted. Nonetheless, CUC will consider revisiting the use of the renewal clause to determine if this issue should be addressed in the CUC procurement regulations.

**Auditor Response:** The condition states that CUC's procurement regulations do not explicitly provide for policies governing the extension of contracts for recurring and continuing service requirements. Therefore, contracts with options to renew are done so without regard to any established procurement process or procedure.

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

### **Procurement and Suspension and Debarment** **Finding No. 2005-27**

CUC partially agrees with the findings.

As long as the contractor is within the budgeted project cost and there is no revision in scope of work, CUC usually allows the contractor to continue work while the change order is being processed. The contractor is required to submit a letter addressed to the Executive Director to request for time extension to complete the work. CUC project engineers evaluate the reasons for time extension and recommend approval. Upon approval by the Executive Director, CUC grants the extension and revises the completion date by processing a change order. Contractors' requests for time extension and letters of approval from the Executive Director are on file and available for review.

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

### **Procurement and Suspension and Debarment, Continued**

#### **Finding No. 2005-27, Continued**

Although there was no document supporting the lifting of suspension of funds from the U.S. Department of the Interior (DOI) (Ref. 144-OS), DOI approved drawdowns again on May 14, 2003 (after suspension of funds on February 21, 2003).

To address this finding, the Executive Director has tasked the Grants Manager to prepare policies and procedures to ensure timely processing of change orders. The Grants Manager will meet with all division managers to discuss this finding and remind them to strictly adhere to CUC procurement regulations.

# Department of Public Lands

**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

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

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See pages 221 to 223 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, 2006  
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 8/23/07

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

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See pages 225 to 239 for recommendations issued by the Independent Auditor and pages 240 to 244 for NMC's Corrective Action Plans to Finding and Questioned Costs. 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, 2006

**Section II - Financial Statement Findings**

Receivables

Finding No. 2006-1

Criteria: Receivables should be periodically assessed for validity and collectibility. Additionally, through this process, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: Numerous account balances approximating \$2,100,000 have been outstanding for several fiscal years with little or no subsequent activity. Further, several accounts have negative balances totaling to \$269,922. This condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is that supporting documents for these long outstanding balances could not be located and receivable schedules were not reviewed at year end for propriety.

Effect: The effect of the above condition is that the College's receivables are not being collected in a timely manner. Further, interim financial statements are misstated due to a lack of adequate provision for doubtful receivables.

Recommendation: We recommend that the College implement procedures requiring periodic review of all receivables for validity and collectibility. Accounts determined to be uncollectible should be written-off. This process should also address the adequacy of the related allowances for doubtful accounts.

Prior Year Status: Lack of review of receivable balances for validity and collectibility was reported as a finding in the audits of the College for fiscal years 2001 through 2005.

NORTHERN MARIANAS COLLEGE

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

Interfund and Interdepartment Accounts

Finding No. 2006-2

**Criteria:** Interfund and interdepartment accounts should be reconciled in a timely manner. Further, variances between funds should be investigated and adjusted.

**Condition:** Interfund accounts for elimination do not agree by \$85,213. Further, interdepartment accounts between the College and the College's Bookstore reflected a variance of \$286,864.

**Cause:** The cause of the above condition is untimely reconciliation and lack of adequate accounting staff during year 2006.

**Effect:** The effect of the above condition is a potential misstatement of amounts recorded in the College's financial statements. An audit adjustment was proposed to correct this condition.

**Recommendation:** We recommend that the College ensure periodic review and monitoring of interfund and interdepartment accounts.

NORTHERN MARIANAS COLLEGE

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

Inventories - Bookstore

Finding No. 2006-3

**Criteria:** Physical inventory procedures should be established and variances between the general ledger and the subsidiary ledger should be investigated and reconciled in a timely manner. The subsidiary ledger should reflect accurate information as to quantity and cost. Further, costs in the subsidiary ledger should be based on underlying invoices.

**Condition:**

- a. Our observation of the Bookstore's physical inventory count indicated the following:
- Verbal inventory instructions were given to the count team, which was composed of student aides. Based on observation, the students were not well informed as to required procedures.
  - Inconsistencies in description and item codes were found in the inventory count sheets.
  - Some of the count records were listed on scratch paper rather than on prenumbered count tags.
  - The case goods inventory was generally stacked in an organized manner. However, the same inventory is sometimes stored at various locations. Since the Bookstore did not prepare an organized layout of the floor space, it became very time consuming to identify all locations where particular inventory is kept. The Bookstore omitted or overcounted certain inventory in their initial counts and was required to recount several times to ensure an accurate count.
  - The Bookstore did not utilize tag controls in its counts. As a result, the Bookstore ran the risk of omitting or double counting floor inventories. This situation worsens, as there are multiple personnel involved. Again, the Bookstore had to recount several times to ensure there was no omission or double counting.
- b. The inventories subsidiary ledger was not reconciled to the general ledger balance resulting in an overstatement of inventories of \$224,869.
- c. For twenty-two of thirty items tested, variances were noted in quantities between year-end inventory test counts and the final inventory listing.
- d. Five of thirty test counts during the year end inventory count could not be traced to the final inventory count. Thus, it appears that the inventory records were not adjusted based on the count performed.
- e. For ten of eighteen items tested, unit costs differ from underlying invoices.

NORTHERN MARIANAS COLLEGE

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

Finding No. 2006-3, Continued

Cause: The cause of the above condition is weak internal controls over inventories.

Effect: The effect of the above condition is untimely completion of inventory counts and reconciliation and misstatement of inventories. Audit adjustments were proposed to correct these conditions.

Recommendation: We recommend that the College establish adequate internal control measures over inventories. Further, we recommend that the College ensure that inventories are properly valued and reconciliation of the inventory general ledger and subledger balances occur on a regular and timely basis.

NORTHERN MARIANAS COLLEGE

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

Fixed Assets

Finding No. 2006-4

**Criteria:** The College should maintain property records detailing the description, cost, acquisition date and estimated useful life of its fixed assets. Such records should agree to the balances recorded in the College's financial statements. Additionally, periodic physical inventories of all fixed assets should be performed and accounting records should be updated based on the results of those instances.

**Condition:** A physical inventory of the College's fixed assets has not been performed within the past two years. Additionally, the College was unable to produce a schedule of fixed assets as of September 30, 2006, and original cost data or alternative valuation data is not available.

**Cause:** The cause of the above condition is non-adherence to the College's established fixed asset capitalization policy and a lack of adequate fixed asset subsidiary records.

**Effect:** The effect of the above condition is a potential misstatement of amounts recorded in the College's financial statements.

**Recommendation:** We recommend that the College institute procedures to substantially identify and determine the cost of its fixed assets. Once valuation and identity have been established, we recommend that the College reconcile the balance of actual fixed assets on hand to the balance of assets recorded in its financial statements.

**Prior Year Status:** Lack of support of recorded fixed assets and periodic inventory of fixed assets was reported as a finding in the audits of the College for fiscal years 2001 through 2005.



NORTHERN MARIANAS COLLEGE

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

Accrued Leave

Finding No. 2006-5

**Criteria:** The accrued leave subsidiary schedule should be reconciled to the general ledger in a timely manner. Further, leave taken by employees should be supported by approved leave requests.

**Condition:** The accrued leave subsidiary schedule was not reconciled to the general ledger resulting in an overstatement of \$252,392. Further, leave taken by one employee was not supported by an approved leave request.

**Cause:** The cause of the above condition is that adjustments to accrued leave only occur at calendar year end.

**Effect:** The effect of the above condition is a misstatement of the accrued annual leave liability. An audit adjustment was proposed to correct this condition.

**Recommendation:** We recommend that the College's accrued annual leave schedule be reconciled to the general ledger in a timely manner and leave taken be supported by approved leave requests.

**Prior Year Status:** Lack of regular and timely reconciliation of the accrued annual leave schedule to the general ledger was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

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

Retirement Expense

Finding No. 2006-6

**Criteria:** In accordance with Public Law 6-17, Section 8342(b), each autonomous agency, instrumentality, or public corporation of the Commonwealth 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(d) requires both employee and employer contributions be remitted to the Fund within five working days following the end of each payroll date. Further, Public Law 6-41 (an amendment to certain provisions of Public Law 6-17), states that any employer who fails to pay or remit contributions as required shall pay a penalty of 10% per month or part thereof for which the contribution remains unpaid, up to a maximum penalty of 25% of the unpaid contribution.

**Condition:** The Fund increased the retirement contribution rate to 36.7727% effective October 1, 2005. The College elected not to contribute at this rate as the CNMI government and certain other component units were forgiven such an increase. Additionally, the College's approved budget submission and its approved budget included the rate utilized by the College to calculate the liability included in the accompanying financial statements. Had the increase been recorded, accrued salaries and benefits payable and benefits expense would have increased by approximately \$1,500,000 as of and for the year ended September 30, 2006.

**Cause:** The cause of the above condition is the uncertainty regarding the applicability of the increased rate.

**Effect:** The effect of the above condition is potential misstatement of amounts recorded in the College's financial statements.

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

NORTHERN MARIANAS COLLEGE

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

Journal Vouchers

Finding No. 2006-7

**Criteria:** Segregation of duties and an adequate system of internal control require that journal entries be reviewed for validity and accuracy by someone other than the preparer.

**Condition:** Journal entries are not always reviewed and approved prior to posting. This situation resulted in duplicate posting and several reversing or correcting entries.

**Cause:** The cause of the above condition is the absence of independent review of journal vouchers.

**Effect:** The effect of the above condition is that possible errors are not identified in a timely manner, which could result in misstatements of the financial statements.

**Recommendation:** We recommend that the College establish policies and procedures requiring that journal entries be reviewed and approved for entry by someone other than the preparer and that the review be evidenced by the reviewer's signature.

NORTHERN MARIANAS COLLEGE

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

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

Procurement and Suspension and Debarment

Finding No. 2006-8

Program	Reason for Questioned Costs	Questioned Costs
U.S. Department of Education / Adult Education - State Grant Program and TRIO Programs / CFDA #s 84.002, 84.042, 84.044 and 84.047 / Federal Award #s V002A050055, P042A051370, P044A020234-05 and P047A030695-05 / Federal Award Periods 07/01/05 - 09/30/06 and 09/01/05 - 08/31/06	<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.</p> <p><u>Condition:</u> We noted the following:</p> <ul style="list-style-type: none"> <li>• Of total nonpayroll program expenditures of \$156,877 under the Adult Education - State Grant Program, fourteen items amounting to \$60,148 were tested. Price quotes for the procurement of airfare for two disbursements (check nos. 20376 and 22507) amounting to \$6,336 were not provided for review. This matter is reportable as the projected questioned costs exceed the threshold.</li> <li>• Of total nonpayroll program expenditures of \$334,598 under the TRIO Programs, thirty-five items amounting to \$82,334 were tested. Price quotes for the procurement of airfare for eleven disbursements (check nos. 21814, 20400, 22229, 21814, 22191, 21169, 22028, 22673, 22890, 20375 and 22878) amounting to \$29,582 were not provided for review.</li> </ul> <p><u>Cause:</u> The cause of the above condition is noncompliance with established federal procurement regulations.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$35,918.</p> <p><u>Recommendation:</u> We recommend that the College comply with federal procurement regulations.</p>	<p>\$ 6,336</p> <p>29,582</p>

NORTHERN MARIANAS COLLEGE

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

Procurement and Suspension and Debarment

Finding No. 2006-9

Program	Reason for Questioned Costs	Questioned Costs
<p>U.S. Department of Agriculture / Cooperative Extension Services and Payments to Agricultural Experiment Stations Under the Hatch Act / CFDA #s 10.500 and 10.203 / Federal Award #s 2006-41100-05700 and 2006-31100-06095 / Federal Award Period 10/01/05 - 09/30/06</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.</p> <p><u>Condition:</u> We noted the following:</p> <ul style="list-style-type: none"> <li>• Of the nonpayroll program expenditures of \$231,432 under the Cooperative Extension Services Program, thirteen items amounting to \$48,338 were tested. Price quotes for the procurement of airfare for two disbursements (check nos. 22136 and 22652) amounting to \$4,559 were not provided for review. This matter is reportable as the projected questioned costs exceed the threshold.</li> <li>• Of the nonpayroll program expenditures of \$221,841 under the Payments to Agricultural Experiment Stations Under the Hatch Act, eighteen items amounting to \$64,153 were tested. Price quotes for the procurement of airfare for three disbursements (check nos. 21149, 22707 and 22136) amounting to \$7,512 were not provided for review. This matter is reportable as the projected questioned costs exceed the threshold.</li> </ul> <p><u>Cause:</u> The cause of the above condition is the lack of an established policy for the procurement of airfare.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$12,071.</p> <p><u>Recommendation:</u> We recommend that quotes be obtained for airfare or that travel agents be procured through a request for proposal.</p> <p><u>Prior Year Status:</u> Lack of established policy with federal procurement regulations was reported as a finding in the audit of the College for fiscal year 2005.</p>	<p>4,559</p> <p>7,512</p>
Total Questioned Costs		\$ <u>47,989</u>

NORTHERN MARIANAS COLLEGE

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

U.S. Department of Education

Cash Management - Adult Education - State Grant Program and Higher Education Institutional Aid  
CFDA #s 84.002 and 84.031, Federal Award #s V002A050055 and P031A020233-05  
Federal Award Periods 07/01/05 - 09/30/06 and 10/01/05 - 09/30/06

Finding No. 2006-10

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

**Condition:** We noted the following:

- Check no. 22521 amounting to \$4,367 was released and cleared ninety-five days after cash was received from the grantor agency.
- The supporting invoice, contract or equivalent document could not be provided for one item (document no. CR 108664) amounting to \$8,495. This was corrected through an adjustment. However, the check was not released to the vendor nor were the funds returned to the grantor.
- Payroll costs of \$25,619 were charged for one employee who did not directly work for the Program. This was corrected through a proposed adjustment. However, the funds received were not returned to the grantor.
- A drawdown of \$9,000 related to one purchase (check no. 22453); however, the items bought for the fund are not being used for the program. This was corrected through an adjustment; however, the funds received were not returned to the grantor.
- Supporting invoice, contract or any equivalent document could not be provided for one item (check no. 22762) amounting to \$1,874. This was corrected through an adjustment; however, the funds received were not returned to the grantor.

**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.

**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 update of the check clearing study and draw downs was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

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

Equipment and Real Property Management - All Major Programs

Finding No. 2006-11

**Criteria:** Section 74.34 of 34 CFR 74, *Administration of Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires grant recipients to maintain property management records and to perform a physical inventory of equipment at least once every two years.

**Condition:** Property management records are not maintained. Furthermore, a physical inventory of equipment has not been taken within the past two years.

**Cause:** The cause of the above condition is a lack of established policies and procedures related to equipment and real property management.

**Effect:** The effect of the above condition is noncompliance with federal property management standards.

**Recommendation:** We recommend that the College establish policies and procedures to ensure compliance with federal property management standards.

**Prior Year Status:** Noncompliance with federal property management standards was reported as a finding in the audits of the College for fiscal years 2001 through 2005.

**Prior Year Status:** Lack of policies and procedures to ensure compliance with federal property management standards was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

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

U.S. Department of Education  
Program Income - Adult Education - State Grant Program  
CFDA # 84.002, Federal Award # V002A050055  
Federal Award Period 07/01/05 - 09/30/06

Finding No. 2006-12

Criteria: OMB A-110 and CFR 34, Part 80, sec80.25 allows state grantees of Adult Education and Family Literacy Act (AEFLA) awards to earn program income. Program income from tuition and fees must be: (1) governed by the terms of the agreement between the state grantee and the local subgrantee to which the state provides federal funds; (2) accounted for in the program records; and (3) used only for costs allowable under AEFLA.

Condition: An accounting of the use of program income and a declaration of total program income received for fiscal year 2006 was not included in the Financial Status Report.

Cause: The cause of the above condition is a lack of adherence to the condition and a lack of adequate accounting staff during fiscal year 2006.

Effect: The effect of the above condition is noncompliance with grant terms and conditions.

Recommendation: We recommend that the College ensure that compliance with the criteria is met.



NORTHERN MARIANAS COLLEGE

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

U.S. Department of Education  
Reporting - Adult Education - State Grant Program  
CFDA # 84.002, Federal Award # V002A050055  
Federal Award Period 07/01/05 - 09/30/06

Finding No. 2006-13

**Criteria:** OMB A-110 and CFR 34, Part 80, sec80.40, requires that the initial report for 15 months and the final report for 27 months (funds are available for obligation for 27 months) after initiation of the program are due 90 days after year end.

**Condition:** Expenses reported in the final SF-269 were overstated by \$36,883.

**Cause:** The cause of the above condition is a lack of adequate accounting staff during fiscal year 2006.

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

**Recommendation:** We recommend that control policies and procedures be implemented to ensure compliance with the criteria.

**Prior Year Status:** Lack of control policies and procedures to ensure that federal financial reporting requirements are complied with was reported as a finding in the audit of the College for fiscal year 2005.

NORTHERN MARIANAS COLLEGE

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

U.S. Department of Agriculture  
Reporting - Payments to Agricultural Experiment Stations under the Hatch Act  
CFDA # 10.203, Federal Award # 311000609505  
Federal Award Period 10/01/05 - 09/30/06

Finding No. 2006-14

Criteria: The College is required to submit SF 269 and SF 272, financial reports that should be supported by applicable accounting records and fairly presented in accordance with program requirements.

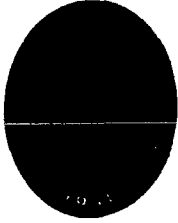
Condition: The SF 269 was not made available for review and we were therefore unable to determine if the report agreed with the College's financial records.

Cause: The cause of the above condition is a lack of adequate accounting staff during fiscal year 2006.

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

Recommendation: We recommend that reports be submitted when due and be supported by applicable accounting records.

Prior Year Status: Lack of management oversight and review was reported as a finding in the audit of the College for fiscal year 2005.



# Northern Marianas College

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Corrective Action Plans to Findings and Questioned Costs included in the Independent Auditors' Reports on Internal Control and on Compliance for the Year Ended September 30, 2006

## Financial Statement Findings Section

### Receivables

#### Finding No. 2006-1

The College concurs with the finding. The College has accumulated numerous large receivable balances over the years on which there has been little to no subsequent collection activity. The College feels, however, that it has adequately reserved for these balances. Several accounts have been referred to attorneys and collection agencies for further action. The College is of the opinion that there is still potential for recovery on some of these balances and is reluctant to write them off. The College will increase its efforts to collect these balances and periodically review the adequacy of related allowances. Unfortunately as often is the case, movement on collection cases is slow and when judgments are received in the College's favor payment amounts are generally minimal. Also contributing to the high level of old balances is the lack of direct access to details for old balances on the MIPS accounting system. Details were not carried forward when the College migrated to the current accounting system (MIPS) several years ago. Thus, when attempts are made to collect old balances, extensive research of manual records is required and when produced often the amounts are disputed by the customers. This often results in the College having to resort to litigation for collection. Unfortunately, when we are forced to pursue collection through litigation the balances cannot be written off until the case is resolved. The College will again review these old balances and where the statute of limitation has expired and no activity is noted will recommend to the Board of Regents for write-off.

### Interfund and Interdepartment Accounts

#### Finding No. 2006-2

We concur with the finding. As noted, the lack of adequate personnel in the accounting department as a result of resignations and subsequent hiring freezes implemented to cope with a reduction in our personnel budget has had a negative impact on operations. Interfund accounts reconciliations were being performed but were not completed during FY2006. NMC's Bookstore Manager left the College in FY2006 and as a result of the hiring freeze this position was not filled in a timely manner. The Bookstore Assistant also resigned in FY06 and again this position was not filled in a timely manner due to funding constraints. Subsequently, the College elected to fill these positions by transferring employees from the School of Business and the Small Business Development Center (SBDC). Obviously, the lack of historical knowledge of the operations of the Bookstore contributed to the issues noted in the finding. Further in an effort to reduce expenses and increase efficiency, accounting for the College's Bookstore was moved to the NMC Finance Office beginning FY2007. This move should assist in ensuring the interfund balances between the College and the Bookstore are reconciled in a timely manner.

A Land Grant Institution accredited by the Accrediting Commission for Community and Junior Colleges and by the Senior Commission for Colleges and Universities of the Western Association for Schools and Colleges

## **Financial Statement Findings Section, Continued**

### **Inventories - Bookstore** **Finding No. 2006-3**

The College concurs with the finding. NMC's Bookstore Manager left the College in FY2006 and as a result of the hiring freeze this position was not filled in a timely manner. The Bookstore Assistant also resigned in FY06 and again this position was not filled in a timely manner due to funding constraints. Subsequently, the College elected to fill these positions by transferring employees from the School of Business and the Small Business Development Center (SBDC). Obviously, the lack of historical knowledge of the operations of the Bookstore contributed to the issues noted in the finding. As also noted in Finding No. 2, in an effort to reduce expenses and increase efficiency, accounting for the College's Bookstore was moved to the NMC Finance Office beginning FY2007. This move provides for direct oversight of the Bookstore's operations.

### **Fixed Assets** **Finding No. 2006-4**

The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College in procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed assets module was requested from the College's Planning, Budget and Evaluation Council. Once again funding constraints prevented this body from making the funds available for such purposes in FY2004 and 2005. Although funding was set aside for this purpose in FY2006, such was cut in an effort to address a budget shortfall in FY2006. Funding for this purpose was requested of the NMC Foundation in FY2007 \$50,000 and was approved. The finding should be resolved in FY2007.

### **Accrued Leave** **Finding No. 2006-5**

The College concurs with the finding. Due to the various challenges in personnel funding the College was forced to freeze various positions resulting in additional duties being assumed by existing personnel. Unfortunately, as the existing accounting staff members are already overwhelmed with day to day operations, recording of various adjustments to the financial statements were not effected during the course of the financial year and rather deferred to adjustment through the annual audit process. This will continue to be challenge until such time that staffing levels are increased to meet the needs and demands of the office. Beginning in FY2004, the College started budgeting for such payouts and has seen quite of a few employees leave the College since and as a result cashing out their annual leave. As a matter of practice and for tracking purposes, such payouts are recorded as expenses and adjusted against the accruals at financial year end.

### **Retirement Expense** **Finding No. 2006-6**

The College concurs with the finding to the extent that if ultimately the College is not exempted from the increase rate of contribution, as in the case of another Government agency, adjustments will need to be made to the financial statements attached hereto. As noted in the finding, in FY2006 the CNMI Retirement Fund increased the rate of contribution for employers participating in the plan from approximately 24% to 36%. The College did not comply with this increased rate of contribution and further elected not to accrue such in the financial statements attached hereto for the following reasons:

## **Financial Statement Findings Section, Continued**

### **Retirement Expense, Continued**

#### **Finding No. 2006-6, Continued**

- This was not a budgeted expense and the College's funding from CNMI appropriations was reduced by approximately \$2.1M from what was received in FY2005. Had the College elected to accrue for this increase in the contribution rate, the net impact would have been an additional \$1.2M in unbudgeted expenses. The College communicated this financial challenge to the CNMI Government.
- At the advice of the CNMI Government, the College continued, as is the case with other Governmental agencies and the central Government, to contribute at the approximately 24% rate.

The College will work with the CNMI Government to obtain an exemption from this large increase in the employer rate of contribution to the Retirement Fund and the unfunded obligation it creates for the institution.

### **Journal Vouchers**

#### **Finding No. 2006-7**

The College concurs with the finding. The College has implemented internal procedures that require all journal entries to be reviewed by the Chief Accountant and approved by the Chief Financial and Administrative Officer prior to such being recorded on the accounting system. The College believes this provides the necessary oversight to ensure that only valid and accurate entries are posted to the accounting system.

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

### **Procurement and Suspension and Debarment - Adult Education - State Grant Program and TRIO Programs**

#### **Finding No. 2006-8**

The College strongly disagrees with the finding. The fact of the matter is that there is a limited pool of travel agents available on the island and the carriers which service the island, especially to the mainland, where the bulk of the College travel is made to, is also limited to two airlines (Continental and Northwest). Further, in an effort to avoid prior audit findings and questioned cost which were raised by the auditors, we ensure all travel is made on fully refundable economy tickets and as such, the fares do not differ from agency to agency.

The College makes every effort to ensure that travel expenditures are distributed among the available travel agencies and every effort is made to ensure that the College receives the lowest "fully refundable" fare available to the destination while also considering the frequency of the flight availability and routing of the itinerary. The College will implement procedures which will require that all travel is alternated between the approximately four reputable travel agencies available in the CNMI in an effort to further systematically distribute such expenditures among travel agencies available on the island. The College is at a loss as to what other efforts it needs to make to meet the auditor's concern.

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

### **Procurement and Suspension and Debarment - Cooperative Extension Services and Payments to Agricultural Experiment Stations Under the Hatch Act**

#### **Finding No. 2006-9**

The College strongly disagrees with the finding. The fact of the matter is that there is a limited pool of travel agents available on the island and the carriers which service the island, especially to the mainland, where the bulk of the College travel is made to, is also limited to two airlines (Continental and Northwest). Further, in an effort to avoid prior audit findings and questioned cost which were raised by the auditors, we ensure all travel is made on fully refundable economy tickets and as such the fares do not differ from agency to agency.

The College makes every effort to ensure that travel expenditures are distributed among the available travel agencies and every effort is made to ensure that the College receives the lowest "fully refundable" fare available to the destination while also considering the frequency of the flight availability and routing of the itinerary. The College will implement procedures which will require that all travel is alternated between the approximately four reputable travel agencies available in the CNMI in an effort to further systematically distribute such expenditures among travel agencies available on the island. The College is at a loss as to what other efforts it needs to make to meet the auditor's concern.

### **Cash Management - Adult Education - State Grant Program and Higher Education Institutional Aid**

#### **Finding No. 2006-10**

The College strongly disagrees with the finding. The College ensures that all cash drawdowns are disbursed in accordance with the federal cash management guidelines. The College has no control over when the vendors clear their checks through the banks. A cut-off test of the checks on hand will clearly evidence that checks are disbursed to the vendors in a timely manner. The cashier on receipt of the check from accounts payable, promptly calls the vendors for pick up. If the vendor does not pick up the check and does not bank the check in a timely manner the College cannot be held responsible. Further, certain off island vendors, as a natural consequence of our remote location, will not be able to bank their checks until received through the postal system. Again, the College has no control over such timing. In instances where the College has had to reclassify/reverse expenditures and drawdowns were already made for such expenses, the College freezes drawdown of funds against such grants until such time that the excess drawdown has been exhausted. As this is a repeat finding, the College effective immediately, will only drawdown funds from program after one week from the date of the payment to allow for greater time lapse prior to related cash being drawdown from the Payment Management System (PMS). We will review the effect of this process on our federal cash balances and make further adjustments to the timing of our drawdowns to minimize the time lapsed between receipt of the cash and clearance from our accounts.

### **Equipment and Real Property Management - All Federal Programs**

#### **Finding No. 2006-11**

The College concurs with the finding. Although a physical inventory of the fixed assets commenced in FY2004 and continued into FY2005, the lack of adequate financial resources precluded the College from procuring the services of a professional appraiser to appraise its real properties. Additionally, funding for the purchase of the fixed assets module was requested from the College's Planning, Budget and Evaluation Council. Once again, funding constraints prevented this body from making the funds available for this purpose in FY2004 and FY2005. Although funding was set aside for this purpose in FY2006, it was cut in an effort to address a budget shortfall in FY2006. Funding for this purpose was requested of the NMC Foundation in FY2007 \$50,000 and was approved. The finding should be resolved in FY2007.

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

### **Program Income - Adult Education - State Grant Program** **Finding No. 2006-12**

The College partially concurs and partially disagrees with the finding. The auditor was provided the documentation which clearly accounts for all program income and evidences that such is used, as required by federal regulations, for enhancement of the program objectives. All related program income is held in a restricted special account and is accounted for accordingly. We do agree that the FSR did not include documentation and this was the result of lack of adequately trained personnel on federal reporting requirements. The College, due to the various challenges in personnel funding, was forced to freeze various positions resulting in additional duties being assumed by existing personnel. The College's federal accountant retired in December 2005 and federal reports due as of that date which covered the financial year ended September 30, 2005 and in subsequent FY2006 reporting quarters were delayed as this position remained vacant until May 2006. In spite of our best efforts to cover this void, due to already inadequate staffing levels in the office and lack of experience of existing staff on federal financial reporting requirements, various federal financial reports were delayed. The College did recruit for the position of Chief Accountant which was filled in FY2007 and should alleviate some of the staffing concerns in the office and result in improved oversight of the office.

### **Reporting - Adult Education - State Grant Program** **Finding No. 2006-13**

The College concurs with the finding. The College, due to the various challenges in personnel funding, was forced to freeze various positions resulting in additional duties being assumed by existing personnel. The College's federal accountant retired in December 2005 and federal reports due as of that date which covered the financial year ended September 30, 2005 and in subsequent FY06 reporting quarters, were delayed as this position remained vacant until May 2006. In spite of our best efforts to cover this void, due to already inadequate staffing levels in the office and lack of experience of existing staff on federal financial reporting requirements, various federal financial reports were delayed. This will continue to be challenge until such time that staffing levels are increased to meet the needs and demands of the office. The College did recruit for the position of Chief Accountant which was filled in FY2007 and should alleviate some of the staffing concerns in the office and result in improved oversight of the office.

### **Reporting - Payments to Agricultural Experiment Stations Under the Hatch Act** **Finding No. 2006-14**

The College concurs with the finding. The College, due to the various challenges in personnel funding, was forced to freeze various positions resulting in additional duties being assumed by existing personnel. The College's federal accountant retired in December 2005 and federal reports due as of that date which covered the financial year ended September 30, 2005 and in subsequent FY06 reporting quarters were delayed as this position remained vacant until May 2006. In spite of our best efforts to cover this void, due to already inadequate staffing levels in the office and lack of experience of existing staff on federal financial reporting requirements, various federal financial reports were delayed. This will continue to be challenge until such time that staffing levels are increased to meet the needs and demands of the office. The College did recruit for the position of Chief Accountant which was filled in FY2007 and should alleviate some of the staffing concerns in the office and result in improved oversight of the office.

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# Northern Mariana Islands Retirement Fund

**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 : 8/27/07

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

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See pages 247 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.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2006

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding No. 2006-1 Reconciliation of subsidiary ledgers with the general ledger balances**

Criteria

Regular reconciliation of subsidiary ledgers with the general ledger balances should be performed to ensure that subsidiary ledgers totals agree with the general ledger balances.

Condition

The following totals subsidiary ledgers does not agree with the general ledger balances:

	<u>Per General Ledger</u>	<u>Per Subsidiary Ledger</u>	<u>Difference</u>
Appropriations receivable	\$ 15,026,333	\$ 11,894,019	\$(3,132,314)
Member Home Loan Program notes receivable	7,673,245	7,962,571	( 289,326)
30% Early retirement receivable - CNMI (employee)	2,847,611	2,857,615	( 10,004)
Buyback receivable	691,434	696,796	( 5,362)
Underpayment of contribution	426,857	450,629	( 23,772)
30% Early retirement receivable - individuals	276,802	278,007	( 1,205)
Overpayment of Benefit	187,582	188,010	( 428)
Rental receivable	166,233	229,606	( 63,373)
Board member receivable	10,429	4,184	6,245
Employee receivable	1,166	2,070	( 904)

Context

Audit procedures performed for receivables in accordance with accounting principles generally accepted in the United States in America and Government Auditing Standards.

Effect

Although NMIRF have identified the reason for the significant differences as items posted directly in the general ledger through general journal entries and I have audited the balances and noted no material misstatement, untimely reconciliation of general ledgers and subsidiary ledgers opens opportunity for balances to be misstated and not be detected on a timely basis.

Cause

NMIRF overlooked the need to conduct regular reconciliation of receivable accounts.

Recommendation

Although the material discrepancies were reconciled during my audit, I recommend that regular reconciliations be done to ensure that totals of subsidiary ledgers agree with the general ledger balances.

NORTHERN MARIANA ISLANDS RETIREMENT FUND  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS, continued

Finding No. 2006-2 Underpayment of Contribution

Criteria

Based on the plan provision as established by Public Law 6-17, Class II members who are active employees of the CNMI government contribute 9% of salary.

Condition

Receivables from certain individual members for underpayment of contributions increased from \$228,824 in 2005 to \$426,856 in 2006 (a \$198,033 or 87% increase).

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 require contribution for as a Class I member. Usually the assessment for underpayment is only done when members retire, and relevant information such as year of service is computed.

Furthermore, the majority of the balances of the underpayment of contribution are non-moving. This is because the Fund cannot directly deduct payment from the retirement benefits without signed allotments.

Context

Audit procedures performed for receivables in accordance with accounting principles generally accepted in the United States in America and Government Auditing Standards.

Effect

The above condition results to increase in receivable balances that 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.

Cause

NMIRF does not have any monitoring control to ensure that members are contributing the proper percentage based on their class.

Recommendation

NMIRF should have a monitoring control 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.

**NORTHERN MARIANA ISLANDS RETIREMENT FUND**  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2006

**SECTION II - FINANCIAL STATEMENT FINDINGS, continued**

**Finding No. 2006-3 Overpayment of Benefit**

Criteria

Based on the plan provision as established by Public Law 6-17, benefit payment of retiree who returns to government service for more than 60 days shall be terminated.

Condition

Receivable due from certain individual members for overpayment of benefits increased from \$92,621 in 2005 to \$187,581 in 2006 (a \$94,960 or 103% increase). This shows benefit payments to some retirees, who returned to government service for more than 60 days, was not terminated in time resulting to overpayments.

Furthermore, the majority of the balances of the overpayment of benefit are non-moving. This is because the Fund can not directly deduct payment from the retirement benefits without signed allotments.

Context

Audit procedures performed for receivables in accordance with accounting principles generally accepted in the United States in America and Government Auditing Standards.

Effect

Collectibility of receivable from overpayment of benefits is uncertain as most retirees who received the overpayment believe that it was administrative oversight on the part of the Fund's management and that they should not be held liable for such. Furthermore, since there are no monitoring and detection controls in place, there could be other overpayments of benefits that are not yet detected.

Cause

NMIRF does not have monitoring control, policies and procedures in place to ensure that there are no overpayments of benefits.

Recommendation

NMIRF should implement monitoring control, policies and procedures in place to ensure that there are no overpayments of benefits.

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.

**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 : 8/23/07

Date(s) of response letter(s) received : 8/22/07

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See pages 251 to 264 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, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

Deposit Policy for Credit and Custodial Risk

Finding No. 06-1

Criteria

PSS adopted budgets on local funds and they must ensure that unused funds already remitted to PSS are safeguarded from risk. Among this risk is credit risk for uninsured portion of deposits in banks.

Condition

As of September 30, 2006 and 2005, the total amounts deposited with the Federal Deposit Insurance Corporation (FDIC) insured banks were \$4,727,350 and \$4,511,540, respectively. From these deposits, \$200,000 in 2006 and 2005 were subject to coverage by FDIC with the remaining balance exceeding insurable limits. PSS does not require collateralization of bank accounts, and therefore, amounts in excess of insurable limits are uncollateralized.

Context

Audit procedures performed for Cash in accordance with Government Auditing Standards.

Effect

Lack of collateral for deposits beyond FDIC insured limits exposes bank deposits to credit risk. The risk that PSS may not collect all of its deposits.

Cause

PSS has not experienced any losses on its deposits, thus have not established policies regarding requiring collateral for uninsured deposits.

Recommendation

PSS should develop deposit policies which includes requiring collateral from banks for deposits beyond FDIC insured limits.

Auditee Response and Corrective Action Plan

The Acting Director of Finance is communicating with financial institutions to provide collateral for PSS' bank balances. If the financial institution will not provide collateral to cover PSS bank balances, PSS leadership and management will discuss to the Board the options to transfer its bank accounts to financial institutions that are willing to collateralize its deposits in excess of FDIC insured limits.

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, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances

Finding No. 06-2

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.

Condition

I noted the following during my audit:

- a. Two (2) or 10% of the twenty (20) travel authorization tested were not submitted within the prescribed period.
- b. For three (3) or 15% of the twenty (20) travel authorization tested, documents such as justification memorandum for the travel; documents of invitation and or agenda; specific purpose; itinerary; and estimated cost were not attached to Travel Authorization.

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 20 individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Effect

Failure to make a strict implementation of the travel policies results to unauthorized travels, disallowed costs, significant bad debts and non-compliance with the applicable state laws and federal regulations.

Cause

PSS did not adhere to its travel policies and procedures.

Recommendation

Travel authorization and other accountable documents should be properly filled out to facilitate processing.

Although PSS' policy provide that extenuating or justifying circumstances may waive the 5-10 working days lead-time for submission of travel advances, our audit showed that PSS does not document the justification for waiving the lead time. To ensure that this prerogative of the Commissioner to waive the lead-time is not abused or misused, extenuating circumstances should be documented and attached to the approved travel authorization.

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, 2006

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2005.



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, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 06-2, Continued

Auditee Response and Corrective Action Plan

The Commissioner will issue a memorandum to reiterate that all travelers must comply with PSS travel policies. In the event that the 5-10 working days lead-time for submission of travel advances cannot be complied with because of a reasonable justification, such justification should be documented and attached to the travel request to be approved by the Commissioner or the Chairperson of the Board of Education.

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, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 06-3

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, as appropriate.

Condition

Seven or 35% of the twenty (20) travel authorizations, 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 for travel advances. Attributes were identified based on the approved travel policies of PSS. Non-statistically selected 20 individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Effect

Failure to make a strict implementation of the travel policies results to significant bad debts and high outstanding advances balance.

Cause

PSS did not adhere to its established policies and procedures on travel.

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.

There should also be monitoring 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).

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2005.

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, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 06-3, Continued

Auditee Response and Corrective Action Plan

The Commissioner will issue a memorandum to reiterate that all travelers must comply with PSS travel policies. In no instance will a traveler with outstanding travel advance be allowed to receive new travel advance.

Furthermore, the Travel Accountant, under the fiscal and budget department, effective fiscal year 2007 is regularly preparing statement of accounts sent to travelers with outstanding travel advances and are requiring signed allotment authorization from traveler with outstanding balances.

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, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 06-4

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.

Condition

I noted the following during my audit:

- a. For six (6) or 30% of twenty (20), travel authorizations tested, the travel advance liquidations are either not yet liquidated or were not on file.
- b. Four (4) out of the fifteen (15) who submitted do not have complete supporting documents.

Context

Based on the risk assessment made and the planning materiality computed, test of internal control was performed over travel advances. Attributes were identified based on the approved travel policies of PSS. Randomly selected 20 individuals who traveled during the year and examined the supporting documents in accordance with the policies of PSS.

Effect

Failure to make a strict implementation of the travel policies results in high outstanding advances balance and potential bad debts.

Cause

PSS did not adhere to its established policies and procedures on travel.

Recommendation

PSS should enforce timely liquidation of travel advances. Upon travel, PSS uses local funding to provide travel advances and they can only charge corresponding federal grants upon liquidation. Although the amount of outstanding travel advances to be billed to federal grants was not quantified PSS cannot afford to tie-up local funds in receivables.

Prior Year Status

The above condition was cited as a finding in the Single Audit of fiscal year 2005.

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, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

Travel Advances, Continued

Finding No. 06-4, Continued

Auditee Response and Corrective Action Plan

The Commissioner will issue a memorandum to reiterate that all travelers must comply with PSS's travel policies.

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, 2006

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Food and Nutrition Services

Finding No. 06-5

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555	<p><u>Criteria</u> A-133 Compliance Supplement for CFDA 10.555 states that "Children from households with incomes at or below 130 percent of the Federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the Federal poverty level are eligible to receive reduced price meals".</p> <p>PSS policies require that two pay stub be attached to the application to provide basis for eligibility.</p> <p><u>Condition</u> For ten (10) or 22% of the 45 samples selected, only two pay stub of one parent were attached to the application form. PSS has no established procedure to determine that the other parent or any other member of the household does not receive any income.</p> <p><u>Context</u> Based on auditor's judgment, randomly selected 45 samples for the conduct of audit procedures for eligibility requirements.</p> <p><u>Effect</u> Household income used in determining the eligibility maybe understated since no verification is done to determine that the other parent is unemployed or does not receive any income. This could result to non-eligible children receiving benefits of free or reduced priced meals.</p> <p><u>Cause</u> Management oversight and enforcement was not strict enough to properly implement the stated policy.</p>	\$ -

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, 2006

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Food and Nutrition Services, Continued

Finding No. 06-5, Continued

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555	<p><u>Recommendation</u> PSS should strictly enforce its approved policies and procedures and federal regulations. Potentials for abuse or misuse of federal fund should be avoided by implementing additional controls to ensure that applicant may not fraudulently exclude income received by other members of the household.</p> <p>PSS could consider requiring notarized documentation that the other parent does not receive any income.</p> <p><u>Auditee Response and Corrective Action Plan</u> Effective for fiscal year 2008, food and nutrition program will require documentations supporting applicant claims that the other spouse is unemployed.</p>	\$ -

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, 2006

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility and Special Tests and Provisions - Food and Nutrition Services

Finding No. 06-6

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555	<p><u>Criteria</u> Annual eligibility determinations may also be based on the child's household receiving benefits under the Food Stamp Program, Food Distribution Program on Indian Reservations (FDPIR), the Head Start Program (CFDA 93.600) (42 USC 1758(b)(6)(A)), or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558) (42 USC 1758(b)). A household may furnish documentation of its participation in one of these programs; or the school, institution, or sponsor may obtain the information directly from the State or local agency that administers these programs (7 CFR section 245.6(b)).</p> <p>Furthermore, A-133 Compliance Supplement for CFDA 10.555 states under special test and provision that 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>a. Twenty six (26) or 58% of the 45 samples selected were approved based on Food Stamp Program,</p> <p>b. For fifteen (15) or 58% of the twenty six (26) children approved based on Food Stamp Program, no copy of current food stamp identification card was on file;</p> <p>Also, as evident by the un-updated food stamp ID on file, it is determined that sampling and verification of free and reduced price applications were not performed, as required.</p>	\$ -



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, 2006

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Food and Nutrition Services, Continued

Finding No. 06-6

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
10.555		\$ -

Context

Based on auditor's judgment, randomly selected 45 samples for the conduct of audit procedures for eligibility requirements.

Effect

Noncompliance to the eligibility requirements could result to non-eligible children receiving benefits of free or reduced priced meals.

Cause

Management oversight and enforcement was not strict enough to properly implement the stated policy.

Recommendation

PSS should strictly enforce its approved policies and procedures and federal regulations. PSS should require applicants to provide updated ID when they become available or PSS may consider requesting updated information directly from the CNMI administrator of the food stamp program.

Also, PSS should ensure that the special provision tests and provision requirement for the sampling and verification of free and reduced price applications were performed by December 15th of each school year.

Auditee Response and Corrective Action Plan

In corroboration with the food and nutrition eligibility officer coordinated with the Foodstamp Program Administration of the CNMI requesting for regular updated listing of individuals availing of the food stamp benefits. The Foodstamp Program Administration to provide PSS with the updated listing beginning FY 2008.

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, 2006

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Eligibility - Childcare

Finding No. 06-7

<u>CFDA No.</u>	<u>Findings/Noncompliance</u>	<u>Questioned Costs</u>
93.575	<p><u>Criteria:</u> Child Care and Development Fund Plan provides for a sliding fee scale for child care services, which determines each family's contribution to the cost of child care.</p> <p><u>Condition:</u> For 1 or 4% of 25 samples tested, the certification shows 15% co-pay, while actual co-pay per PSS disbursement summary is only 10%.</p> <p><u>Context</u> Based on auditor's judgment, randomly selected 25 samples for the conduct of audit procedures for eligibility requirements.</p> <p><u>Effect</u> PSS share for payment of child care services exceed the amount that should have been paid based on the sliding fee scale.</p> <p><u>Cause</u> The percentage of co-payment in the payment schedule was not timely updated based on actual certification.</p> <p><u>Recommendation</u> PSS should ensure that the co-payment percentages in the payment schedule and certifications are timely updated.</p> <p><u>Auditee Response and Corrective Action Plan</u> Pursuant to Childcare administrative guidelines, PSS will recoup the payments made in excess of the computed PSS share.</p> <p>Furthermore, the listing of PSS and co-payment will be reviewed every six months to ensure that any changes in co-payment or eligibility as a result of the eligibility review every six month are properly reflected in the listing.</p>	\$ -

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, 2006

Total Questioned Costs

\$ -

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# Workers' Compensation Commission

**Annual Financial & Compliance Audit  
In Accordance with OMB-A-133  
Fiscal Year Ended September 30, 2006  
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 8/27/07

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

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See pages 267 and 268 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.

**CNMI WORKERS' COMPENSATION COMMISSION**  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2006

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Finding No. 2006-1 No Subsidiary Ledger for Outstanding Notice of Assessments**

Criteria

Regular reconciliation of subsidiary ledgers with the general ledger should be performed to ensure that subsidiary ledgers totals agree with the general ledger balance.

Condition

I noted that there are no subsidiary ledgers maintained per company for the receivables from outstanding notice of assessments. WCC only prepares a listing of notices per case number and does not summarize per employer, thus no regular statement per employer can be generated and sent out to facilitate collection. As of September 30, 2006, the outstanding notice of assessments includes receivable over 5 year overdue amounting to \$240,282.18.

Furthermore, general ledger balance of outstanding notice of assessments does not agree with the total per summary of outstanding notice of assessments.

Per general ledger before adjustments	\$ 1,290,876.61
Per summary before adjustments	<u>1,133,821.18</u>
Difference	<u>\$ 157,055.43</u>

Context

Audit procedures performed for receivables in accordance with accounting principles generally accepted in the United States of America and Government Auditing Standards.

Effect

Unreconciled balances may result to misstatement occurring and not be detected on a timely manner. Furthermore, receivable with significant non-moving account balances are indication of potential fraud.

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

I recommend that an aging schedule per employer and monthly statement of outstanding assessments 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, I recommend that the following steps be considered:

- Periodically review the aged trial balance 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.

CNMI WORKERS' COMPENSATION COMMISSION  
(A Component Unit of the CNMI Government)

Schedule of Findings  
September 30, 2006

- 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.

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**Acronyms Used**

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
BOT	Board of Trustees
CALEA	Commission on Accreditation for Law Enforcement Agencies, Incorporated
CDA	Commonwealth Development Authority
CFDA	Catalog of Federal Domestic Assistance
CGECU	Commonwealth Government Employees Credit Union
CHC	Commonwealth Health Center
CI Fund	Confidential Informant Fund
CIB	Criminal Investigations Bureau
CIP	Capital Improvement Projects
CMC	Commonwealth Code
CMIA	Cash Management Improvement Act
CMS-64	Quarterly Statement of Expenditures for the Medical Assistance Program
CNMI	Commonwealth of the Northern Mariana Islands
CNMI-PR	Commonwealth of the Northern Mariana Islands Procurement Regulations
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
EDP	Electronic Data Processing
EITF	Emerging Issues Task Force
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
GOV	Office of the Governor
GPD	Guam Police Department
HPD	Honolulu Police Department
HRO	Human Resources Officer
HRPP	Human Resources Policies and Procedures
HUD	U.S. Department of Housing and Urban Development
LT	Letter Report
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
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
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
SBDC	Small Business Development Center
SF	Standard Form
SFA	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
WASC	Western Association for Schools and Colleges
WCC	Workers' Compensation Commission
WIA	Workforce Investment Agency
WRO	Washington Representative's Office

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