

Report on CNMI Agencies' Implementation of
Audit Recommendations
As of June 30, 2008

Office of the Public Auditor
Commonwealth of the Northern Mariana Islands



EXECUTIVE SUMMARY

Report on CNMI Agencies' Implementation of Audit Recommendations, as of June 30, 2008
Report No. TR-08-01, December 31, 2008

Summary

Background

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

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

The Coordinating Group has not met since 2000. However, OPA continues to send follow-up letters and/or contact agencies with outstanding recommendations to request for information on corrective actions taken to implement OPA's audit recommendations. OPA also meets with agencies when requested to discuss and clarify actions necessary to implement OPA's audit recommendations. This report incorporates agency responses to OPA's follow-up letters or documents obtained by OPA on or before November 25, 2008. In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals and entities are not disclosed in OPA's Audit Recommendation Tracking Report.

Classification of OPA Audit Recommendations

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

An *open* recommendation is one where no action or plan of action has been made, or no time frame for the plan of action has been provided by the client (department or agency). A *resolved* recommendation is one in which OPA is satisfied that the client cannot take immediate action, but has established a reasonable plan and time frame for action. A *closed* recommendation is one in which the client has taken sufficient action to meet the intent of the recommendation or OPA has withdrawn it. Also, OPA classifies open and resolved recommendations as *delinquent* if the recommendation has been outstanding for at least 180 days and OPA has not been informed by the concerned agency or department of any action being taken to close the recommendations.

Status of OPA Audit Recommendations

OPA tracked a total of 49 audit recommendations as of June 30, 2008. All 49 audit recommendations remained either open or resolved. Of the 49 open or resolved recommendations, 32 were considered delinquent.



The table below presents the status of OPA's audit recommendations as of June 30, 2008.

| Status of Audit Recommendations | up to 6/30/08 |
|---|---------------|
| Total Recommendations Tracked as of June 30, 2008 | 49 |
| Less: Closed Recommendations | 0 |
| Outstanding Recommendations as of June 30, 2008 (Open or Resolved) | 49 |
| Number of Delinquent Recommendations | 32 |

Closed Recommendations

OPA did not close any audit recommendation it tracked during the first six months of 2008.

Delinquent Recommendations

The number of delinquent recommendations increased by 2 (6%) from 30 in 2007 to 32 for the first six months of 2008. Agencies with delinquent recommendations as of June 30, 2008 include the Commonwealth Ports Authority, Commonwealth Utilities Corporation, Department of Finance, Department of Public Lands, Department of Public Safety, Marianas Visitors Authority, Northern Mariana Islands Retirement Fund, Northern Marianas College, and the Public School System. The recommendations addressed to these agencies were classified as delinquent as OPA was not informed by these agencies within the last 180 days of any corrective action taken to implement OPA's recommendations.

Potential Recovery of \$2.6 Million Referred to the AGO

As of June 30, 2008, audit recommendations in 13 audit reports were referred to the Attorney General's Office for legal action to recover monies improperly expended. According to these 13 audit reports, approximately \$2.6 million is potentially recoverable. The AGO did not provide OPA an update on these referral cases during OPA's follow-up process, therefore, the status of these referrals remain unchanged from the previous report as of December 31, 2007.

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

OPA identified potential recoveries of approximately \$3.7 million in 8 audit reports addressed to various agencies. During its semi-annual follow-up process for the period January 1, 2008 through June 30, 2008, OPA has not received any update on the status of recovery of funds from the responsible agencies. Therefore, approximately \$3.7 million remains potentially recoverable from the previous report of December 31, 2007.

Independent Auditor's Recommendations

OPA also includes in its Audit Recommendation Tracking Report a total of 122 recommendations from 11 recent audit reports issued by private CPA firms under contract with OPA.



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

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REPORT ON CNMI AGENCIES'
IMPLEMENTATION OF AUDIT RECOMMENDATIONS
AS OF June 30, 2008
(with agency responses up through November 25, 2008 incorporated)

December 31, 2008

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, 2008. OPA tracked a total of 49 audit recommendations during the period from January 1 through June 30, 2008.

We have also included in this report recommendations issued by private Certified Public Accounting (CPA) firms. OPA is not responsible for tracking the implementation of these recommendations, however, they are included in the audit recommendations tracking report for information purposes. As of June 30, 2008, there was a total of 122 recommendations from 11 recent audit reports issued by private CPA firms.

Although the Coordinating Group members did not meet during the first six months of 2008, OPA again issued follow-up letters and/or called various government agencies with outstanding audit recommendations as of June 30, 2008. This report incorporates agency responses to follow-up letters received or documents obtained by OPA on or before November 25, 2008. The number of delinquent recommendations increased by 6% as of June 30, 2008.

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

Sincerely,

Michael Pai, CPA
Public Auditor

cc: Governor Benigno R. Fitial
Lt. Governor Timothy P. Villagomez
Members, Sixteenth CNMI Legislature (29 copies)
Local Media

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Introduction

Background



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

The Coordinating Group has not met since 2000, however, OPA continues to issue follow-up letters semi-annually to agencies with outstanding recommendations requesting for information on actions taken to address its recommendations. 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 25, 2008. 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 recommendations have 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 the implementation of those recommendations, but, they are included for monitoring purposes. OPA is responsible for overseeing all audits of the CNMI government and this tracking report serves as a follow-up process to determine what actions have been taken by the individual agencies to implement the recommendations of private CPA firms. Copies of the agencies' responses are subsequently provided to the Independent firm which conducted the audit to determine whether the agencies' responses are sufficient to address the recommendations. 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 49 audit recommendations during the first six months of 2008. All 49 audit recommendations remained either open or resolved. Of the 49 open or resolved recommendations, 32 were considered delinquent.

The following table presents a comparative schedule of the status of OPA's audit recommendations for calendar years 2006, 2007 and for the first six months of 2008.

| Status of Audit Recommendations | 2006 | 2007 | up to 6/30/08 |
|---|------|------|---------------|
| Total Recommendations Tracked for the Year | 79 | 60 | 49 |
| Less: Closed Recommendations | (19) | (11) | (0) |
| Outstanding Recommendations, End of Year (Open or Resolved) | 60 | 49 | 49 |
| Number of Delinquent Recommendations | 47 | 30 | 32 |

Delinquent Recommendations

Delinquent recommendations increased by 2 (6%) from 30 in 2007 to 32 for the first six months of 2008.

| Year | 2006 | 2007 | up to 6/30/08 |
|-------|------|------|---------------|
| 1995 | 6 | 2 | 2 |
| 1996 | 2 | 1 | 1 |
| 1997 | 5 | 1 | 1 |
| 1998 | 2 | 1 | 2 |
| 1999 | 3 | 0 | 0 |
| 2000 | 6 | 4 | 4 |
| 2001 | 3 | 2 | 2 |
| 2002 | 2 | 2 | 2 |
| 2003 | 3 | 4 | 4 |
| 2005 | 15 | 13 | 14 |
| Total | 47 | 30 | 32 |

Table 1 - Delinquent Recommendations

Below is the distribution of the 32 delinquent recommendations issued in calendar years 1995 through 2005:

| Agency to Act | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | Total |
|---|------|------|------|------|------|------|------|------|------|------|------|-------|
| 1. Commonwealth Ports Authority | | | | | | | | | | | 1 | 1 |
| 2. Commonwealth Utilities Corporation | | | | | | | | 2 | 2 | | 1 | 5 |
| 3. Department of Finance | 1 | 1 | 1 | 2 | | | | | | | 5 | 10 |
| 4. Department of Public Lands | 1 | | | | | 2 | | | | | 1 | 4 |
| 5. Department of Public Safety | | | | | | | | | | | 2 | 2 |
| 6. Northern Mariana Islands Retirement Fund | | | | | | 2 | 2 | | | | 1 | 5 |
| 7. Northern Marianas College | | | | | | | | | 2 | | 1 | 3 |
| 8. Marianas Visitors Authority | | | | | | | | | | | 1 | 1 |
| 9. Public School System | | | | | | | | | | | 1 | 1 |
| Number of Delinquent Recommendations | 2 | 1 | 1 | 2 | 0 | 4 | 2 | 2 | 4 | 0 | 14 | 32 |

Independent Auditor's Report

OPA also includes in the Audit Recommendation Tracking Report a total of 122 recommendations from 11 recent audit reports issued by private CPA firms.

Other OPA Report

OPA issued one procurement decision during the first six months of 2008 for an appeal to OPA as follows:

- The Appeal (BP-A054) filed by Bolis-R-Us Catering was not filed with OPA with the time required by § 70-30.3-505(c) of the CNMI Procurement Regulations. OPA found that the conditions set forth in § 70-30.3-505(c) that would allow OPA to consider an appeal that has not been filed timely did not exist. OPA, therefore, dismissed the appeal.

AGO Action Needed for Recovery of Approximately \$2,680,000

As of June 30, 2008, recommendations in 13 audit reports were referred to the Attorney General's Office (AGO) for legal action to recover monies improperly spent. On September 16, 2008, OPA requested for an update on these referrals. The AGO did not respond to this request or provide OPA an update on these referrals, as such, the status of these referrals remains unchanged from the previous report as of December 31, 2007.

The following table presents a listing of AGO referral recommendations involving recovery of funds in which approximately \$2,683,453 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. | \$739,346 | AGO Civil Division will check to see if a civil case has been filed. |
| 2 | AR-02-02 (9/11/02) | TCGCC - Audit of Travel Transactions for fiscal years 1996 - 2001. The potential recovery amount for outstanding advances was \$406,925 but reduced by \$14,747. | 392,178 | OPA to re-direct this referral to the Tinian Mayor's Office for review and determination of appropriate actions. |
| 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 to confirm an existing 99' accord and settlement. |
| 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. A decision issued by the United States District Court, reduced the amount for restitution. | 100,000 | AGO to review its internal file to confirm the request made to the U.S. Attorney's Office to enforce the federal court order of restitution. |
| 5 | AR-98-06 (12-14-98) | DOF - Funds misused by the former Secretary of Finance during fiscal years 1995 to 1997. | 75,000 | AGO Civil Division will conduct a review on the status of the civil case. |
| 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 advised OPA to close this matter as the statute of limitation ran, at the latest, in 2002. |
| 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 December 1993 to March 1996. | 4,982 | AGO Civil Division will review the file and decide whether this is an appropriate case to test neverending statute of limitation for the sovereignty. |
| 8 | AR-96-05 | MPLA - Recovery of rentals due | Unknown. | AGO advised OPA to |

| Report No. (Issue Date) | Particulars | Amount Recoverable | Status per AGO |
|------------------------------------|--|-----------------------|--|
| (3-21-96) | 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. | | close this matter as the statute of limitation ran, at the latest, in 2002. |
| 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 advised OPA to close this matter as the statute of limitation ran, at the latest, in 2001. |
| 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 advised OPA to close this matter as the statute of limitation ran, at the latest, in 2001. |
| 11 LT-01-07 (11/23/01) | CUC - Recover travel overpayments and questionable payment from current and former Board Members. | 2,973 | AGO advised OPA to close this matter as the statute of limitation ran, at the latest, in 2007. |
| 12 AR-99-02 (3/29/99) | WRO - Recovery of the balance of a loan receivable made to a CNMI constituent by the former Washington Representative. | 2,200 | AGO to follow-up with the Secretary of Finance to see if payments have been made. |
| 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 Recoverable | | \$2,735,557 | |
| Less: AR-97-06 | | (\$9,000) | |
| Less: AR-95-17 | | (\$40,131) | |
| Less: LT-01-07 | | (\$2,973) | |
| Balance Recoverable as of 6/30/08: | | <u>\$2,683,453</u> | |

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 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, 2008 through June 30, 2008, 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, 2007.

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, 2008 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. | \$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 | 126,730 | Recoupment from the former CPA officials benefits will commence if and when re- |

| Report No. (Issue Date) | Particulars | Amount Recoverable | Status per Agency |
|----------------------------|---|-----------------------|--|
| | time claimed. | | 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. In a meeting with the Attorney General on 6/2/08, OPA was advised that AGO will follow-up with DOF on the promissory note signed by the contractor. |
| 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, 1995. Total overpayment was \$25,079 but \$10,000 overpayments for C40276 was fully recovered by OMB. | 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. |

| Report No. (Issue Date) | Particulars | Amount Recoverable | Status per Agency |
|----------------------------|--|-----------------------|----------------------------|
| 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 Recoverable | \$4,662,816 | |
| | Less: Partial Recoveries | (\$950,289) | |
| | Balance Recoverable as of 6/30/08 | <u>\$3,712,527</u> | |

Executive Branch Offices

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

Office of the Attorney General

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

Date(s) of followup letter(s) sent : 6/23/97, 7/16/97, 2/02/98, 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, 3/17/08, 9/16/08

Date(s) of response letter(s) received : 6/16/97 (RMO), 2/24/98 (RMO), 7/19/00 (RMO), 11/17/00 (DOF), 11/21/00 (meeting with Coordinating Group on DOF), 11/27/00 (DOF), 3/9/01 (AGO), 9/18/01 (DOF), 2/12/02 (meeting with AGO), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 9/1/05 (AGO), 6/2/08 (meeting with AGO)

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

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

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

Status : Resolved - Active

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

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

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

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

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

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

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

**Additional Information
or Action Required** :

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

Recommendation 4 :

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

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

Agency to Act :

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

Status :

Resolved - Active

Agency Response :

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

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.

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

Additional Information

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

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

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 1/26/99, 1/5/00 (AGO), 1/17/01 (AGO), 8/21/01 (AGO), 2/14/02 (AGO), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/13/04 (AGO), 4/14/04 (DOF), 9/21/04 (AGO), 9/28/04 (DOF), 2/15/05 (DOF) (AGO), 8/8/05 (DOF), 8/9/05 (AGO), 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08

Date(s) of response letter(s) received : 1/20/00 (AGO), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 3/31/05 (DOF), 9/1/05 (AGO), 4/18/06 (DOF), 9/11/06 (AGO), 6/2/08 (meeting with AGO)

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

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

Status : Resolved - Active

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

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

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

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

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

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

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

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

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

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

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

**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, 3/17/08, 9/16/08

Date(s) of response letter(s) received : 10/6/99, 9/25/01, 3/20/02, 8/12/02, 8/21/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 3/29/06 (DOF request for extension), 4/18/06 (DOF), 6/2/08 (meeting with AGO)

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

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

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

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

Status : Resolved - Active

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

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

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

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

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

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

On 6/2/08, OPA met with the Attorney General. The Attorney General advised OPA that the AGO will follow-up with the Secretary of Finance to see if payments have been made.

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

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

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

Date(s) of response letter(s) received : 4/9/99 (TMO), 1/20/00 (AGO), 11/7/00 (meeting with Coordinating Group on AGO), 3/9/01 (AGO), 12/31/01, 2/12/02 (meeting with AGO), 9/15/03 (AGO), 10/31/03, 4/30/04, 10/25/04, 9/1/05, 6/2/08 (meeting with AGO)

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

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

Agency to Act : Attorney General's Office

Status : Resolved - Active

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

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

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

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

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

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

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

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

Additional Information or Action Required : The AGO should inform OPA the results of its review.

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

Date(s) of followup letter(s) sent : 11/23/99 (DOF), 11/26/99 (TMO), 1/5/00 (AGO), 7/12/00 (AGO), 7/13/00 (DOF), 1/17/01 (AGO), 1/19/01 (DOF), 8/21/01 (DOF) (AGO), 2/14/02 (AGO), 3/12/02 (DOF), 8/12/02 (DOF) (AGO), 10/3/02 (AGO), 2/14/03 (AGO), 2/18/03 (DOF), 8/4/03 (DOF) (AGO), 4/14/04 (DOF), 9/28/04 (DOF), 2/15/05 (DOF), 8/9/05 (Re-directed to AGO), 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08

Date(s) of response letter(s) received : 1/12/00 (GOV), 1/20/00 (AGO), 2/18/00 (DOF), 11/7/00 (meeting with Coordinating Group on AGO), 11/9/00 (DOF), 11/19/00 (DOF), 11/21/00 (meeting with Coordinating Group on DOF), 1/14/01 (DOF), 3/9/01 (AGO), 5/01 (DOF), 10/01/01 (DOF),

2/12/02 (meeting with AGO), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 3/17/03 (DOF request for extension), 9/15/03 (AGO), 10/21/03 (AGO), 10/22/03 (AGO), 3/7/05 (DOF request for extension), 3/18/05 (DOF), 9/1/05 (AGO), 6/2/08 (meeting with AGO)

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

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

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

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

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

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

Status : Resolved - Active

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

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

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

On 3/18/05, the Secretary of Finance provided OPA a copy of the invoices and receipts to substantiate payments made for C60114 and C50305 totaling \$94,156.41. Therefore, of the \$1,400,955.91 that is recoverable unless adequately supported, \$1,306,799.50 from three contractors remain to be recovered. The Secretary of Finance is requesting that OPA refer the remaining \$8,301.95 that is immediately recoverable and the remaining \$1,306,799.50 that is recoverable unless adequately supported to AGO given the time lapsed since the issuance of the bills for collections

and letters requesting for supporting documents from the contractors with no response to date. On 6/2/05, OPA referred this matter to the AGO for their review and legal action.

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

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

**Additional Information
or Action Required :**

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

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

Date(s) of followup letter(s) sent : 7/3/00 (DPW), 7/12/00 (AGO), 7/13/00 (DOF), 1/17/01 (Re-directed to AGO), 8/21/01, 2/14/02, 8/12/02, 10/3/02, 2/14/03, 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08

Date(s) of response letter(s) received : 5/10/00 (DPW), 11/7/00 (meeting with Coordinating Group on AGO), 12/7/00 (meeting with Coordinating Group on DOF), 3/9/01 (AGO), 2/12/02 (meeting with AGO), 9/15/03 (AGO), 4/30/04, 10/25/04, 9/1/05, 6/2/08 (meeting with AGO)

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

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

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

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

Status : Resolved - Active

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

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

requesting that restitution from the contractor be ordered at sentencing.

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

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

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

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

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

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

**Additional Information
or Action Required**

: AGO should inform OPA of the results of its request to enforce payment of the restitution ordered by the federal court.

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

Date(s) of followup letter(s) sent : 1/17/01 (CPA), 1/19/01 (NMIRF), 8/20/01 (CPA), 8/21/01 (NMIRF), 3/5/02 (CPA) (NMIRF), 8/9/02 (CPA) (NMIRF), 8/12/02 (AGO), 10/3/02 (AGO), 12/24/02 (AGO), 2/14/03 (AGO) (CPA), 2/18/03 (NMIRF), 8/4/03 (NMIRF) (AGO), 4/13/04 (AGO), 4/16/04 (NMIRF), 9/21/04 (AGO), 9/28/04 (NMIRF), 2/15/05 (AGO) (NMIRF), 8/9/05 (AGO), (NMIRF), 3/10/06 (AGO) (NMIRF), 9/26/06 (AGO), 2/7/07 (AGO), 9/4/07 (AGO), 3/17/08, 9/16/08

Date(s) of response letter(s) received : 8/31/01 (meeting with CPA), 10/4/01 (NMIRF letter of request for extension to respond until 11/3/01), 10/12/01 (CPA), 1/29/01, 2/12/02 (meeting with AGO), 8/12/02 (CPA request for extension), 8/30/02 (CPA), 9/25/02 (CPA), 4/2/03 (NMIRF), 7/22/03 (NMIRF), 9/15/03 (AGO), 4/30/04 (AGO), 10/25/04 (AGO), 3/22/05 (NMIRF), 9/1/05 (AGO), 6/2/08 (meeting with AGO)

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

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

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

Status : Open - Active

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

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

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

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

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

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

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

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

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

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

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

Recommendation 5 : *Original:* The CPA Board of Directors should instruct the CPA Accounting Department to stop the practice of making advance payments of unused annual leave and salary, and comply with the provision in the employment contracts that payments will be made upon contract expiration. In the case of retiring employees not covered by employment contracts, payment should be made on the next payday following the termination of employment or on payroll due dates.

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

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

Status : Resolved - Active

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

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

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

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

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

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

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

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

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, 3/17/08, 9/16/08

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

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

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

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

Status : Open - Active

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

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

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

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

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

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

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

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

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

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

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

Additional Information or Action Required

: No action or information is requested from AGO at this time. OPA will be re-directing this recommendation to the Tinian Mayor's Office in its next audit recommendation follow-up process.

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

Date(s) of followup letter(s) sent : 2/18/03 (DOLI), 8/4/03 (AGO), 10/27/03 (AGO), 4/13/04 (AGO), 9/21/04 (AGO), 2/15/05 (AGO), 8/9/05 (AGO), 3/10/06 (AGO), 9/26/06 (AGO), 2/7/07 (AGO), 9/4/07, 3/17/08, 9/16/08

Date(s) of response letter(s) received : 9/15/03 (AGO), 10/31/03 (AGO), 4/30/04 (AGO), 9/1/05 (AGO), 6/2/08 (meeting with AGO)

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

Agency to Act : AGO-Division of Immigration - Tinian

Note: This recommendation was previously addressed to the Department of Labor and Immigration (DOLI) - Tinian. Pursuant to Executive Order 03-01 dated 3/10/03, the Division of Immigration was transferred to the AGO. Implementation of this recommendation will now be required from AGO-Division of Immigration - Tinian.

Status : Resolved - Active

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

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

Director's office.

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

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

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

Additional Information or Action Required : No action or information is requested from AGO at this time. OPA will be re-directing this recommendation to the Division of Immigration - Tinian in its next audit recommendation follow-up process.

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

Date(s) of followup letter(s) sent : 8/4/03, 4/13/04, 9/21/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/7/07, 9/4/07, 3/17/08, 9/16/08

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

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

Agency to Act : Attorney General's Investigative Unit

Status : Resolved - Active

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

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

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

In his response dated 10/25/04, the Acting Attorney General stated that OPA only allowed \$200 per diem rate, however, the AGO Administrative Officer determined that AGIU was allowed higher per diem rate. He further stated that OPA required

receipts and disallowed some expenses, however, under current travel policies and memoranda, per diem does not have to be justified by receipts. The requirement imposed is that boarding passes must be supplied. The AGO also stated that there are no fiscal rules regarding paid travel, per diem, or hearing procedures in contested cases. AGO plans to meet with OPA and DOF to discuss this matter.

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

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

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

**Additional Information
or Action Required** :

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

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

Date(s) of followup letter(s) sent : 4/13/04 (Senate), 9/27/04, 2/15/05, 8/9/05, 9/22/05, 3/8/06, 2/7/07 (Re-directed to AGO), 9/4/07, 3/17/08, 9/16/08

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

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

As Revised and Re-directed to the AGO: AGO should inform OPA of the results of its review and legal determination on whether the Senate should introduce legislation to grant it authority for the subsistence allowance, to set the amount of the allowance, and to certify it as a public purpose.

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

Status : Open - Active

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

In his response dated 10/13/04, the Senate President informed OPA that after reviewing the controlling legal authorities and after extensive deliberation and discussion, the Senate feels that a comprehensive Constitutional and statutory system currently exists to adequately govern the allowance given to members of the Senate

and that no further legislation is necessary at this time.

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

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

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

**Additional Information
or Action Required** :

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

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

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

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

Recommendation 3 : *Original:* Compute the total improper payments of housing allowances to employees hired in Hawaii, including those made prior to FY 2000, and initiate recovery of improper payments by forwarding the information to the AGO and making a legal query as to how to proceed in recovering the improper payments.

As Revised and Redirected to the AGO: Determine appropriate legal action to be taken to recover improper payments of housing allowances.

Agency to Act : Marianas Hawaii Liaison Office - Redirected to the Attorney General's Office

Status : Resolved - Active

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

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

**Additional Information
or Action Required** :

AGO should inform OPA of the results of its review and determination regarding the improper payments of housing allowances.

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, 3/20/08, 9/16/08

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)

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.

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

Date(s) of followup letter(s) sent : 7/16/96, 11/29/96, 12/3/96, 2/2/98, 9/17/98, 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08

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

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

Agency to Act : Department of Finance

Status : Resolved - Delinquent

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

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

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

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

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

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

Date(s) of followup letter(s) sent : 3/28/96, 11/25/96, 2/2/98, 9/17/98, 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08

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

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

Agency to Act : Department of Finance

Status : Resolved - Delinquent

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

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

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

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

Additional Information

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

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

Date(s) of followup letter(s) sent : 7/9/97, 2/02/98, 9/17/98, 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08

Date(s) of response letter(s) received : 11/9/00, 11/21/00 (meeting with Coordinating Group on DOF), 5/01, 10/1/01, 3/27/02 (DOF request for extension), 4/12/02, 3/17/03 (DOF request for extension), 3/7/05 (DOF request for extension), 3/18/05, 3/22/05, 3/29/06 (request for extension), 4/18/06, 6/2/08 (meeting with AGO)

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

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

Status : Resolved - Active

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

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

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

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

Additional Information

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

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

Agency to Act : Department of Finance

Status : Resolved - Delinquent

Agency Response : In the 10/1/01 response from DOF, the Secretary of Finance stated that \$7,559 (for Contract no. C50083) of the \$15,079 in total overpayment has already been settled and that supporting documents regarding the settlement were provided to OPA. For the others in question which include \$1,020 (for Contract no. C50132) and

\$6,500 (for Contract no. C50208), DOF requested that AGO initiate a recovery action, given the length of time involved and the improbability of a reply from both contractors.

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

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

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

**Additional Information
or Action Required** :

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

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

Date(s) of followup letter(s) sent : 9/17/98 (DOF), 11/23/99, 7/13/00, 1/19/01, 8/21/01, 3/12/02, 8/12/02, 2/18/03, 8/4/03, 4/14/04, 9/28/04, 2/15/05, 8/8/05, 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08

Date(s) of response letter(s) received : 9/29/00 (DOF), 12/7/00 (meeting with Coordinating Group on DOF), 10/01/01 (DOF), 3/27/02 (DOF request for extension), 4/12/02 (DOF), 3/17/03 (DOF request for extension), 3/7/05 (DOF), 3/18/05, 3/31/06 (request for extension), 4/18/06

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

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

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

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

Agency to Act : Department of Finance - Procurement & Supply

Status : Resolved - Delinquent

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

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

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

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

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

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

Date(s) of followup letter(s) sent : 3/9/06, 9/28/06, 2/6/07, 8/28/07, 3/20/08, 9/16/08

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, 3/20/08, 9/16/08

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

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

Agency to Act : Department of Finance

Status : Resolved - Delinquent

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

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

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

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

Additional Information

or Action Required : OPA reiterates the need for DOF to adopt written guidelines and procedures to ensure proper accounting and recording of funeral service advances. Written procedures will also help ensure that proper accounting and recording will continue when DOF or MLHO personnel change. The guidelines and procedures can be incorporated in a memorandum or directive from the DOF secretary to DOF and MHLO personnel. A copy of the circulated memorandum or directive should also be provided to OPA so this recommendation can be closed.

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

Agency to Act : Department of Finance

Status : Resolved - Delinquent

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

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

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

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

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

Agency to Act : Department of Finance

Status : Resolved - Delinquent

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

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

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

Recommendation 17 : DOF should issue a memorandum instructing staff to: make adjustments to the proper fund and receivable accounts. The Secretary of Finance should also instruct the staff assigned to record expenditure transactions concurrently with payment transactions to avoid double recording of disbursements. (The Secretary of

Finance should ensure that Acct#1972 should be used for all expenditure transactions of medical referral operations, Acct#1041 should be used for operations of MHLO other than medical referral, and Receivable Acct#12160 should be used for disbursements and deposits of check exchange transactions).

Agency to Act : Department of Finance

Status : Resolved - Delinquent

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

OPA Response - Although the benefit of what DOF intends to do will only be realized prospectively, OPA agrees that DOF's assistance to DPH and MHLO will help ensure the proper coding and accurate recording of payments and receipts related to funeral advances in the future. Proper coding and accurate recording will then eliminate the need for DOF to perform future bank reconciliation adjustments to correct expenditure accounts of MHLO Operations and Medical Referral Imprest Funds. DOF should provide OPA the name of the DOF official who will be responsible for assisting DPH and MHLO and the target date to complete the task as well as a copy of the written guidelines and procedures to be followed by DOF and MHLO.

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

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

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

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

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

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

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

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

Status : Resolved - Delinquent

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

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

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

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

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

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

On 4/11/06, DPL provided OPA with the updated subsidiary ledgers pertaining to the accounts listed above. Due to discrepancies found between the balances of these ledgers to the ledgers provided to OPA on July 21, 2005, OPA was unable to accurately ascertain the exact amount still to be recovered from the former Chairman of the Board and former Rota Board member. OPA will be contacting DPL to reconcile the balances. Aside from the account ledgers provided to OPA, DPL stated that the accounts of the former Board Chairman and former Rota Board Member are seriously delinquent. Their accounts will be forwarded to their in-house Legal Counsel for legal action and to obtain some collateral.

**Additional Information/
Action Required** :

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

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

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

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

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

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

Status : Resolved - Delinquent

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

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

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

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

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

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

Additional Information or Action Required

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

Recommendation 5

: The DPL Secretary should send letters to lessees who misinterpreted certain provisions of the lease agreements/permits and incorrectly computed required rentals, clarifying for them the proper interpretation of material subject to royalty or gross receipts rent, and the common errors noted such as not implementing rate increases on the anniversary dates of lease agreements.

Agency to Act

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

Status

: Resolved - Delinquent

Agency Response

: OPA was provided with a 9/15/00 letter sent by DPL to quarry operator E evidencing communication as to the audit finding on its quarry operations. Another quarry operator, quarry operator H, fully paid its amount due to DPL, so there is no need to send it a letter. We consider the part of the recommendation pertaining to quarry operators E and H closed.

On 12/18/01, OPA was provided with a 3/13/01 letter sent by MPLA to quarry operator G clarifying the proper interpretation of material subject to royalty or gross receipts rent, and the common errors noted such as not implementing rate increases on the anniversary dates of lease agreements. Based on the response provided, we consider the part of the recommendation pertaining to quarry operator G closed.

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

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

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

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

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

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

Date(s) of followup letter(s) sent : 3/13/06, 9/29/06, 2/6/07, 8/28/07, 3/17/08, 8/25/08

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

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

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

Status : Open - Delinquent

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

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

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

Date(s) of followup letter(s) sent : 3/7/06, 9/25/06, 2/7/07, 3/27/08, 9/16/08

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

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

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

Agency to Act : Department of Public Safety

Status : Resolved - Delinquent

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

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

OPA was also informed by DPS during the walkthrough of the new evidence storage facility that DPS is in the process of creating a task force to develop an evidence tracking system. Two personnel from the Guam Police Department's evidence storage facility are scheduled to assist DPS in developing its tracking system and transferring the evidence temporarily stored in two containers into the newly renovated facility. Plans for an additional facility that will be used to store general items of evidence is also being considered. Based on the information provided, OPA considers recommendation 1 (a through d) resolved.

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

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

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

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

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

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

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

**Additional Information
or Action Required :**

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

Recommendation 2 :

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

- a. Deadline for submission of evidence;
- b. Temporary storage of evidence;
- c. Required documentation for the collection, transfer and storage of evidence;
- d. Classification, segregation, security, and disposal of evidence;

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

Agency to Act : Department of Public Safety

Status : Open - Delinquent

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

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

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

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

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

In his letter dated 8/1/07, the CSI/ECU Supervisor stated that ECU does not have a deadline for evidence submission and that each departmental employee in possession of evidence should be responsible for its safekeeping until submitted into the evidence facility. The supervisor also stated that the 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.

Autonomous Agencies

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

Commonwealth Ports Authority

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

Date(s) of followup letter(s) sent : 3/7/06, 9/25/06, 2/14/07, 8/23/07, 12/6/07 (Deloitte re: CPA response), 3/17/08, 9/16/08

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

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

Agency to Act : Commonwealth Ports Authority

Status : Open - Delinquent

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

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

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

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

Commonwealth Utilities Corporation

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

Date(s) of followup letter(s) sent : 2/14/03, 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08

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

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

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

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Delinquent

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

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

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

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

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

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

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

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

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

**Additional Information
or Action Required :**

CUC should continue to update OPA on its efforts in promulgating amendments to the PPR. Once promulgated, CUC should provide OPA with an official copy of the amendments to its Procurement Rules and Regulations addressing split purchases, emergency procurement, and sole source procurement promulgated as regulations.

Recommendation 2 :

The CUC Board should adopt policies and procedures for small purchases that:

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

Agency to Act :

Commonwealth Utilities Corporation

Status :

Resolved - Delinquent

Agency Response :

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

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

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

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

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

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

In her response letter dated 8/24/05, the Executive Director Stated that CUC is in the process of finalizing all the necessary documents to promulgate the Proposed Amendments to the CUC Procurement Rules and Regulations addressing split purchases, after-the-fact purchase orders, and Disclosure Statement Form.

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

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

**Additional Information
or Action Required :**

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

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

Date(s) of followup letter(s) sent : 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06,
2/6/07, 8/23/07, 3/17/08, 9/16/08

Date(s) of response letter(s) received : 2/21/03, 10/17/03, 10/29/04, 3/16/05, 8/24/05, 3/27/06 (request
for extension), 4/11/06, 11/9/06

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

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Delinquent

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

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

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

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

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

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

**Additional Information
or Action Required :**

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

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

Date(s) of followup letter(s) sent : 9/2/03, 4/13/04, 9/27/04, 2/15/05, 8/9/05, 3/10/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08

Date(s) of response letter(s) received : 2/21/03, 10/17/03, 10/29/04, 3/16/05, 8/24/05, 3/27/06 (request for extension), 4/11/06, 11/9/06

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

Agency to Act : Commonwealth Utilities Corporation

Status : Resolved - Delinquent

Agency Response : In her response dated 2/21/03, the CUC Executive Director informed OPA that the CUC Board of Directors adopted an interim manual for Human Resources Policies and Procedures (HRPP) on 12/27/02. Upon completion of its review from staff and management, the Board will adopt the manual in a final form and present it to the AGO for review and promulgation in the Commonwealth Register as a regulation. CUC is preparing to issue a solicitation for a firm to create new classification and compensation plans for reclassification for the Corporation. The HRPP will address the issues of promotion and provide for a competitive promotional process. The compensation plan will provide for step increases in salaries for employees. The

HRPP requires strict compliance with the Fair Labor Standards Act and it is CUC's intention that, with the concurrence of the consulting firm doing the compensation plan, CUC will eliminate premium pay and incorporate all aspects of any individual position which would impact compensation into the base salary. Based on the information provided, this recommendation is considered resolved until such time that the manual for HRPP is promulgated as regulations.

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

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

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

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

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

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

**Additional Information
or Action Required :**

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

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

Date(s) of followup letter(s) sent : 3/10/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08

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

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

Agency to Act : Commonwealth Utilities Corporation

Status : Open - Delinquent

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

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

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, 3/17/08, 9/16/08

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

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 - Delinquent

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.

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

Date(s) of followup letter(s) sent : 8/1/03, 4/28/04, 9/27/04, 2/15/05, 8/8/05, 3/8/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08

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

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

Agency to Act : Northern Marianas College

Status : Resolved - Delinquent

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

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

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

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

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

Agency to Act : Northern Marianas College

Status : Open - Delinquent

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

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

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

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

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

Date(s) of followup letter(s) sent : 3/8/06, 9/26/06, 2/6/07, 8/23/07, 3/17/08, 9/16/08

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

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

Agency to Act : Northern Marianas College

Status : Open - Delinquent

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

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

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

Northern Mariana Islands Retirement Fund

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

Date(s) of followup letter(s) sent : 3/5/02, 8/9/02, 2/18/03, 8/4/03, 4/16/04, 9/28/04, 2/15/05, 8/9/05
3/10/06, 10/17/06, 2/7/07, 8/27/07, 3/17/08, 9/16/08

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, 3/17/08, 9/16/08

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 comp time hours that were considered as additional credited service.

Agency To Act : Northern Mariana Islands Retirement Fund

Status : Resolved - Delinquent

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

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

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

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

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

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

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

**Additional Information
or Action Required**

: NMIRF should inform OPA of a target date when their recalculation of pension benefits for all other fund members will be completed. Once completed, NMIRF should provide OPA evidence that corrective action was taken to adjust the benefits of affected members.

Recommendation 9

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

Agency to Act

: Northern Mariana Islands Retirement Fund

Status

: Resolved - Delinquent

Agency Response

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

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

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

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

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

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

Additional Information or Action Required : NMIRF should provide OPA (1) evidence of a written settlement agreement with the former CPA Security Chief requiring repayment to the Retirement Fund and (2) the Superior Court's Order in the appeal made by the Former Executive Director to the Superior Court.

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

Date(s) of followup letter(s) sent : 3/10/06, 10/17/06, 2/7/07, 8/27/07, 3/17/08, 9/16/08

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

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

Agency to Act : Northern Mariana Islands Retirement Fund

Status : Open - Delinquent

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

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

Date(s) of followup letter(s) sent : 3/9/06, 9/28/06, 2/7/07, 8/23/07, 3/17/08, 9/16/08

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

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

Agency to Act : Public School System

Status : Open - Delinquent

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

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

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

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

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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, 3/20/08

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

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

Agency to Act : Senate

Status : Open - Active

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

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

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

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

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

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

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

Additional Information or Action Required :

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

Recommendation 3 :

Document travel activity to enable the Senate to more accurately estimate an appropriate monthly allowance.

Agency to Act :

Senate

Status :

Open -Active

Agency Response :

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

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

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

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

On 8/17/05, OPA met with the Senate Legal Counsel to discuss OPA's audit recommendations. The Senate Legal Counsel informed OPA that the Senate's position on this matter is essentially the same. However, OPA expressed its concern that a better system of accountability should be established. On 8/29/05, the Senate President reiterated to OPA that the Senate's position on this matter still remains the same and that no further legislation is necessary at this time. However, after discussing the matter with the Senate Legal Counsel and the concerns expressed by OPA staff during the 8/17/05 meeting, the Senate President agreed that a better system of accountability should be established. The Senate President therefore requested OPA's assistance in establishing an accounting system for the monthly Senatorial allowance or stipend that balances ease of use and proper accountability and is

mutually acceptable to both the Senate and OPA. In OPA's response to the Senate President dated 9/22/05, OPA stated that in developing a system for the Senate's use, OPA consulted with representatives of the Hawaii Legislature, the Hawaii State Auditor, the Virgin Islands Inspector General, and the American Samoa Territorial Auditor because of the similarities in the multi-island geographic composition of the state or territory and the level of sophistication of accounting systems. OPA provided the Senate President with a copy of the Hawaii House Administrative and Financial Manual for the Hawaii House of Representatives, Twenty Second State Legislature as reference in developing an accounting system for the monthly allowances paid to CNMI Senators. In its letter, OPA cited various requirements, restrictions, and forms which must be completed governing the Hawaii Legislature's annual allowance. For the CNMI Senator's stipend, OPA proposed a simple one page form which would simply list the date and amount of the monthly disbursement and then account for its usage. Since the Senators are currently being required to provide the Senate President with their monthly receipts, this system incorporates that method and make it easily reviewable.

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

**Additional Information
or Action Required :**

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

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

Agency to Act : Senate

Status : Open -Active

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

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

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

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

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

**Additional Information
or Action Required :**

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

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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.¹

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

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

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

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2007
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), 3/17/08 (DEQ) (DPH) (Medicaid), 3/20/08 (NAP) (OHS) (PAO), 4/8/08 (Deloitte re: DEQ, Medicaid response), 9/16/2008 (DEQ, DOF, DPH, DPW, Medicaid, NAP, Public Assistance Office), 10/1/08 (Deloitte re: DPW response), 10/16/08 (Deloitte re: DEQ response)

Date(s) of response letter(s) received: 9/12/07 (DEQ), 9/14/07 (Medicaid), 9/24/07 (DPH), 10/4/07 (NAP), 4/4/08 (DEQ) (Medicaid), 9/29/08 (DPW), 10/6/08 (DEQ)

See pages 61 to 152 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, 2007

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

External Financial Reporting

Finding No. 2007-1

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, 2007, the Commonwealth Development Authority (CDA), the Commonwealth Utilities Corporation (CUC) and the Public School System (PSS), discretely presented component units, and the Northern Mariana Islands Retirement Fund (NMIRF), the Northern Mariana Islands Government Health and Life Insurance Trust Fund (GHLITF) and the CNMI Workers' Compensation Commission (WCC), fiduciary funds, were unaudited at September 30, 2007.

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

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

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

Prior Year Status: Lack of audited financial statements for CDA, CUC, PSS, NMIRF, GHLITF and WCC was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: 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.

Proposed Completion Date: 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Cash Flows

Finding No. 2007-2

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>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------------------------|------------------|------------------|------------------|------------------|-----------------|
| Total assets | \$ 84,562,318 | \$ 73,178,439 | \$ 74,676,988 | \$ 95,490,132 | \$ 63,483,266 |
| Total liabilities | \$ 283,813,688 | \$ 225,281,973 | \$ 210,539,483 | \$ 201,378,383 | \$ 157,467,782 |
| Total fund deficit | \$ (199,251,370) | \$ (152,103,534) | \$ (135,862,495) | \$ (105,888,251) | \$ (93,984,516) |
| Total revenues | \$ 159,879,556 | \$ 192,660,289 | \$ 214,891,036 | \$ 210,630,807 | \$ 200,744,520 |
| Total expenditures | \$ 193,136,802 | \$ 209,039,185 | \$ 244,881,423 | \$ 246,858,759 | \$ 211,223,864 |
| Other financing sources (uses) | \$ (2,996,864) | \$ 137,857 | \$ 16,143 | \$ 25,532,709 | \$ (2,583,731) |

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

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

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

Prior Year Status: Inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: See also Finding No. 2007-8 relating to the liability to the retirement fund. Since the liability to the retirement fund is \$172.6 million and the fund balance deficit is \$199.2 million, resolving the retirement fund issues will also be resolving this finding. On June 6, 2006 Public Laws 15-13, 15-14 and 15-15 were enacted to address issues related to the retirement fund. PL 15-13 created portable retirement accounts for all new public employees hired on or after January 1, 2007 and allowed non vested members of the existing defined benefit plan to transfer into the new plan. The employer contribution rate is set at 4%. PL 15-14 extended the full funding period for the existing defined contribution plan for 25 years and requires an actuarial study to determine required employer contributions based on the new laws enacted. PL 15-15 suspended payment of employer contributions for FY06, effective March 1, 2006, and for all of FY2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-2, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

The difference between revenues and expenditures for 2004, 2005 and 2006 is overstated as \$28 million in bond proceeds received in 2004 for land compensation payments are excluded as revenues 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.

In addition, the 2006 and 2007 expenditure amounts include employer retirement contributions of \$9 million and \$17 million where payment was suspended but the expenditure and liability recorded.

Various austerity measures, including reduced work hours, hiring freeze, stringent review of non personnel expenditures and reduced budget allotments have reduced expenditures from \$245 million in 2005 to \$180 million in 2007 as noted above.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Purchases/Disbursements

Finding No. 2007-3

Criteria: Expenditures should be recorded when incurred.

Condition: Of total medical related expenditures of \$4,713,098 at September 30, 2007, professional services of \$3,098,902 and nonpayroll expenses of \$157,162 were tested. Of ninety-three items tested, fifty-eight items, totaling \$834,696 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. Further, for eight expenditures tested, totaling \$145,312, the amount recorded in the general ledger was only the amount actually paid and accrual was not made for the unpaid balance. This condition was corrected through a proposed audit adjustment.

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

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

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

Prior Year Status: The lack of policies and procedures regarding the timely recognition of expenditures at the time services are rendered was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2006.

Auditee Response and Corrective Action Plan:

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

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

The Department of Finance will not accept any claims and will reject the claims once there is no funding available in our Medicaid accounts.

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, 2007

Cash and Cash Equivalents

Finding No. 2007-4

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

Condition: During the fiscal year ended September 30, 2007, bank reconciliations for the following accounts were prepared two to three months after month end.

| Bank Code | Account Name |
|-----------|--------------------------------------|
| 11190 | Treasury (DOF) Imprest Fund |
| 11830 | Law Revision Commission Imprest Fund |
| 11570 | Federal Grants Fund |
| 11520 | Credit Card |
| 11480 | Lottery Commission Imprest Fund |
| 11320 | Las Fiesta Revolving Imprest Fund |
| 11180 | Guam Operation Imprest Fund |
| 11170 | Guam Medical Referral Imprest Fund |
| 11430 | General Fund |
| 11410 | Special Disability Imprest Fund |
| 11230 | Food Stamps |
| 11130 | LNO Hawaii - Medical Referral |
| 11120 | LNO Hawaii - Operation |

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

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

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

Recommendation: We recommend that the CNMI adhere to established policies and procedures to ensure 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 2006.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-4, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree with the finding. 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. 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. Procedures to provide for entry of reconciling items on a monthly basis are currently being implemented.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Receivables

Finding No. 2007-5

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, 2007, the receivable balance at CHC was \$104,598,219. The subsidiary ledger indicates that 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 \$104,598,219.

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 2006.

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. 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, 2007

Receivables

Finding No. 2007-6

Criteria: Receivables should be properly identified, recorded and reconciled.

Condition: The CNMI Group Health and Life Insurance (GHLI) Program confirmed amount due to the CNMI of \$15,269,405. However, these balances are not reconciled to CNMI's records. Details are as follows:

| | GHLI | CNMI | Difference |
|----------------------------------|----------------------|----------------------|-----------------------|
| Commonwealth Health Center (CHC) | \$ 14,829,951 | \$ 24,219,543 | \$ (9,389,592) |
| Tinian Health Center (THC) | 247,215 | - | 247,215 |
| Rota Health Center (RHC) | <u>192,239</u> | <u>-</u> | <u>192,239</u> |
| | <u>\$ 15,269,405</u> | <u>\$ 24,219,543</u> | <u>\$ (8,950,138)</u> |

CHC receivables are fully allowed for as of September 30, 2007. Further, the amount due to THC and RHC totaling \$439,454 were not recorded as receivables in the CNMI's books. This was corrected through an audit adjustment.

Cause: The cause of the above condition is the lack of policies and procedures to ensure that all valid receivables are identified, recorded and reconciled on a timely manner.

Effect: The effect of the above condition is the possibility of a misstatement of receivable balances; however, this effect is mitigated by a corresponding 100% allowance for uncollectible accounts.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure that all valid receivables are properly identified, recorded and reconciled. Further, we recommend the CHC, THC and RHC establish policies and procedure for periodic reconciliation of balances with GHLI.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Joseph Kevin Villagomez, Secretary of Public Health and Eloy S. Inos, Secretary of Finance

Corrective Action: We agree with the finding although for all intents and purposes, the GHLI Trust Fund has ceased to exist. Effective November 1, 2007, the GHLI program was privatized under the new Health Insurance Provider for the Northern Mariana Islands Government, Aetna Global Benefits. Since no payment will be forthcoming from GHLI and the receivable is fully reserved for, the final amounts will be written off on both sides.

Proposed Completion Date: 2009

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Travel Advances

Finding No. 2007-7

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, 2007, the General Fund recorded travel advances of \$1,532,772, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, approximately \$1,139,546 represents carryforwards from prior years.

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

| Employee Number | Travel Advance at September 30, 2007 |
|------------------------|---|
| 100399 | \$ 20,601 |
| 310916 | \$ 18,274 |
| 443058 | \$ 17,440 |
| 102581 | \$ 17,339 |

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

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

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

Prior Year Status: Liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2006.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-7, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: We agree that the travel advance balance needs to be adjusted for old balances and that most these old balances cannot be adequately documented. We have implemented automated sub ledgers by traveler for our travel advance accounts. Advance and voucher filing procedures are now being enforced so that new advances are not issued if there are pending outstanding advances. Payroll deductions are being made if vouchers are not filed in a timely manner. Scanning of travel vouchers is now being done. We are reviewing and clearing old balances. The amount outstanding as of 05/31/08 has been reduced to \$1,365,496. This is less than half the amount outstanding two years ago. 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: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Retirement Contributions - General Fund

Finding No. 2007-8

Criteria: In accordance with Public Law 6-17, Section 8342(a), the Government shall make contributions to the Northern Mariana Islands Retirement Fund (the Fund) each year on an actuarially funded basis toward the annuities and benefits provided its members. Section 8342(c) requires both employee and employer contributions be remitted to the Fund within five working days following the end of each payroll date. Further, Section 8342(e) states that an employer who fails to pay or remit contributions as required shall pay a penalty of ten percent per month or part thereof for which contributions remains unpaid, up to a maximum penalty of twenty-five percent of the unpaid contribution. Further, effective October 1, 2005 the employer contribution rate increased from 24% to 36.7727%.

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

- As of September 30, 2007, the CNMI recorded a contribution liability of \$114,878,126 of which \$97,382,599 dates back to fiscal year 2006 and prior. An aging of the outstanding contribution liability by fiscal year is as follows:

| | |
|----------------|-----------------------|
| 2007 | \$ 17,495,526 |
| 2006 | 16,806,429 |
| 2005 | 24,006,548 |
| 2004 | 24,489,210 |
| 2003 | 23,427,715 |
| 2002 and prior | <u>8,652,697</u> |
| | \$ <u>114,878,125</u> |

- The Fund assessed the CNMI an additional penalty of \$4,442,262 for the year ended September 30, 2007. The CNMI, however, has determined that no penalty can be assessed for fiscal year 2007 due to the suspension of employer contributions pursuant to Public Law 15-15. As of September 30, 2007, the Fund has assessed total penalties of \$33,045,966 on outstanding contributions of which only \$21,100,949 is recorded by the CNMI. The CNMI is currently contesting the balance of \$11,945,017 in penalties.

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

Effect: The effect of the above condition is noncompliance with Public Law 6-17, Section 8342. This condition results in a qualification of the due to pension (and other employee benefit) trust fund account.

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

Prior Year Status: The lack of compliance with Public Law 6-12, Section 8342 was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-8, Continued

Auditee Response and Corrective Action Plan:

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

Corrective Action: On June 6, 2006 Public Laws 15-13, 15-14 and 15-15 were enacted to address issues related to the retirement fund. PL 15-13 created portable retirement accounts for all new public employees hired on or after January 1, 2007 and allowed non vested members of the existing defined benefit plan to transfer into the new plan. The employer contribution rate is set at 4%. PL 15-14 extended the full funding period for the existing defined contribution plan for 25 years and requires an actuarial study to determine required employer contributions based on the new laws enacted. PL 15-15 suspended payment of employer contributions for FY06, effective March 1, 2006, and for all of FY2007.

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

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Tax Rebates Payable

Finding No. 2007-9

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

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

Condition: At September 30, 2007, estimated tax rebates payable aggregated \$33,460,325. The estimate consists of the following:

| | |
|--|----------------------|
| Estimated 2007 liability based on fiscal year 2007 collections | \$ 3,767,275 |
| 2006 and prior rebates unpaid as of September 30, 2007 | <u>29,693,050</u> |
| | <u>\$ 33,460,325</u> |

The unpaid 2006 and prior rebates consist of completed tax returns and the value of matched and unmatched tax returns. The detailed listings of the matched and unmatched tax returns for the tax years 2001 through 2006 and unmatched tax returns for tax year 2000 were generated as of September 30, 2007. A comparison of the tax rebate payable summary report to the detailed listings revealed that tax rebate payables reflected in the summary report is higher by \$656,448 than the amount in the detailed listings. This condition was corrected through a proposed audit adjustment.

The detailed listings for the matched returns for tax year 2000 for individual returns amounting to \$113,439 and corporate returns amounting to \$1,173,243 per summary report were not generated as of September 30, 2007. Detailed listings relating to the 2000 matched returns were generated as of March 25, 2008 reflecting rebate payables of \$87,782 and \$397,207 as of March 25, 2008 for individual and corporate returns, respectively. Rebate payments from October 1, 2007 to March 25, 2008 relating to matched returns for tax year 2000 amounted to \$1,146. As of September 30, 2007, the summary report is higher by \$800,447 than detailed listings. This condition was corrected through a proposed audit adjustment.

According to the Division of Revenue and Taxation, the variances between the summary report and detailed listings were due to the database change during the fiscal year 2007 whereby the summary report feature of the tax system was not programmatically pulling all information into the report and creating a variance between the summary schedules and the detailed schedules.

In addition, our detailed tests of the unpaid 2006 and prior rebates noted the following:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-9, Continued

Condition, Continued:

- Of twenty-four unmatched filings relating to individual tax rebate payable aggregating to \$711,602, sixteen items totaling to \$526,294 did not agree to the tax returns filed either due to errors in tax calculation, errors in the system where estimated tax penalties are duplicated and data entry error, among others. Further, four items totaling to \$81,603 may be overstated due to the related estimated tax penalty being deducted twice. For one item amounting to \$12,769 subsequently paid, the cancelled or carbon copy of check has not been made available. Further, subsequent payments for two items totaling to \$29,713 did not agree to the recorded rebate payable amount of \$29,551.
- Of forty-two matched filings relating to individual tax rebate payable aggregating to \$801,027, twenty items totaling to \$497,181 did not agree to the tax returns filed either due to incorrect calculations by taxpayers, estimated penalty being duplicated in the system, programming errors where the system added the tax deposits to the tax returns, data entry error, and calculation error, among others. The tax return was not made available for one item amounting to \$12,362. Four items totaling to \$185,650 were overstated by \$141,798 due to the estimated tax deposits included as rebate payable. Further, two items totaling to \$42,269 may be overstated due to the related estimated tax penalty being deducted twice. Further, for eight items totaling to \$112,032 that were paid subsequent to September 30, 2007, the cancelled or a duplicate copy of check has not been made available. Additionally, for one item amounting to \$52,040 a check payment was issued for \$24,040 however, the system did not deduct the estimated tax penalty.
- Of twenty-five unmatched filings relating to corporate tax rebate payable aggregating to \$5,745,211, the taxpayers name for seven items totaling \$1,284,529 were not found in the JDE system. Additionally, four items totaling \$965,603 did not agree to the tax returns filed due to taxpayers not attaching the relevant supporting documentation to properly calculate tax.
- Of ten matched filings relating to corporate tax rebate payable aggregating to \$1,976,798, nine items totaling to \$1,891,191 did not agree to the tax returns either due to the system creating double payable or the taxpayers did not submit the relevant supporting documentation to properly calculate tax. Further, seven items totaling to \$1,746,060 were overstated by \$911,668 due to the tax system creating double rebate payable. This was due to a glitch in the system. In addition, for one item amounting to \$44,846, the taxpayer's name was not found in the JDE system.
- Of four matched filings relating to tax year 2000 aggregating to \$321,777, three items totaling \$289,654 did not agree to the tax returns due to rebate payable amount being doubled in the detailed schedule. Further, the taxpayers' names for these three items were not found in the JDE system.

Further, no interest is calculated or paid on overpayments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-9, Continued

Cause: The cause of the above condition is the failure to ensure the integrity of the database change made during fiscal year 2007 and the lack of review of the related rebate payable summary reports and detailed listings to ensure accuracy and completeness. 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 the misstatement of tax rebates payable. This condition results in a qualified opinion on tax rebates payable.

Recommendation: We recommend that the Division of Revenue and Taxation ensure the integrity of changes to the database. Further, we recommend that policies and procedures be established for the review of tax rebate summary reports and detailed listings to ensure accuracy and completeness of supporting reports and schedules. Additionally, we recommend that the Division of Revenue and Taxation ensure that all tax forms are properly filed and maintained. . We also recommend that recorded rebate payable should be reconciled with the liability indicated in the tax forms and significant variances, if any, should be investigated, monitored, adequately documented and addressed in a timely manner.

Prior Year Status: A lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The Division of Revenue and Tax has begun reviewing the discrepancies in the summary and detail payable reports and has identified the cause of the discrepancy for tax year 2000 as inconsistent program code in selecting records between the two reports. A detail review of the program code and records for each tax year through 2006 will need to be done to insure the summary and detail reports are consistent.

Once that is completed, Revenue and Tax will address the other detailed findings and will need to coordinate with the auditors for information on the specific documents reviewed so that the issues raised in the finding can be traced through the system.

As this is a lengthy and detailed finding, Revenue and Tax will need to perform an initial review to determine the time frame and steps to be taken to address the individual findings.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Due to Component Units

Finding No. 2007-10

Criteria: Amounts due to component units should be reconciled in a timely manner.

Condition: During tests of the due to component units balances, we noted the following:

- As of September 30, 2007, the due to component unit - PSS of \$620,975 recorded in the General Fund did not agree to the due from primary government of \$2,693,942 recorded by the Public School System. The difference of \$2,000,000 is a carry over from fiscal year 2006 and is currently being contested by the CNMI. Further, PSS reported total appropriations from the CNMI of \$36,721,414. The total transfers out, however, per the CNMI amounted to \$35,915,769 resulting in a variance of \$805,645. Of the total variance, approximately \$367,214 relates to 1% OPA fees and the remaining \$438,431 is due to timing differences.
- As of September 30, 2007, the due to component unit - MVA of \$2,001,847 recorded in the General Fund did not agree to the due from primary government of \$2,201,848 recorded by the Marianas Visitors Authority. The difference of \$200,000 is due to the supplemental budget recognized by MVA. The CNMI considered the \$200,000 as part of the current year appropriations.
- As of September 30, 2007, the preliminary balance of the due from component unit - CUC of \$214,449 recorded in the General Fund did not agree to the utility receivables from the CNMI of \$2,486,387 confirmed by the Commonwealth Utilities Corporation. A reconciliation made by the CNMI reflected amount due to CUC of \$763,602 as of September 30, 2007. The CNMI determined that the remaining variance of \$1,722,785 is CUC's receivables from other autonomous agencies and not receivables from the CNMI government.

Cause: The cause of the above condition is disputed balances and the lack of timely reconciliation of balances with component units.

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

Recommendation: We recommend the Department of Finance establish policies and procedures for the timely reconciliation of balances with component units. Further, we recommend the Department of Finance ensure that difference in balances with PSS, MVA and CUC are properly addressed and adjusted as necessary.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The Department of Finance only controls one side of the reconciliation and correction process. Delays in the reconciliation process or differences of opinion in regard to the nature of the corrections by the component units result in delays in processing offsetting corrections.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-10, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

In the case of the \$2 million difference with Public School System, PSS has not recognized the reduction in their 2006 appropriation resulting from mid year allotment adjustments due to a decrease in estimated revenues for the year. The Office of the Public Auditor is reviewing the validity of the \$2 million receivable and will issue a recommendation shortly. Corrections will be made based on the OPA recommendation.

MVA received \$200,000 for additional marketing efforts in 2007. Unspent, unobligated appropriations lapse at the end of each fiscal year. MVA has not responded to the Secretary of Finance's request for a list of obligations supporting the \$2,001,847 remaining appropriations from 2006 and 2007 included as payables on CNMI's records. Since it appears there are substantial lapsed funds we consider the \$200,000 payment to have been made from 2007 appropriations.

For CUC, CNMI's records show \$763,602 payable to CUC from the central government as of 09/30/07. The latest reconciliation from CUC shows \$877,172. Our reconciliation determined that the difference was due to CUC not applying payments made by the Tinian finance office during the January to June, 2007 period to the receivable.

Proposed Completion Date: 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

CNMI Local Noncompliance

Finding No. 2007-11

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

Condition: On September 15, 2006, the CNMI passed Public Law 15-28 as the Appropriations and Budget Authority Act for 2007. Total estimated local revenues and resources available and identified for fiscal year 2007 is \$193,483,041 under PL 15-28. On June 26, 2007, the CNMI passed Public Law 15-71 to amend Public Law 15-28. Public Law 15-71 provided for an immediate emergency reduction in the revenue estimate and the appropriations for all budgeted activities previously appropriated pursuant to PL 15-28. Total estimated local revenues and resources available and identified is \$163,260,013 under PL 15-71. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2007:

| | <u>Budgeted Level of Expenditures</u> | <u>Actual Expenditures</u> | <u>Over- Expenditure</u> |
|---|---|--------------------------------|------------------------------|
| Executive Branch: | | | |
| Corrections | \$ 2,536,497 | \$ 2,932,220 | \$ (395,723) |
| Finance | \$ 5,329,812 | \$ 6,154,928 | \$ (825,116) |
| Independent Programs: | | | |
| Joeten/Kiyu Public Library | \$ 138,191 | \$ 168,484 | \$ (30,293) |
| Utilities | \$ 2,538,867 | \$ 2,564,512 | \$ (25,645) |
| Office of the Washington Representative | \$ 899,941 | \$ 955,661 | \$ (55,720) |

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 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Eloy S. Inos, Secretary of Finance and Esther Fleming, Special Assistant for Administration

Corrective Action: We agree with the following items above:

- Department of Corrections shows over expenditure of \$95,723 (less compact impact expense). This occurred due to difference in encumbrance amounts as calculated by the FMS and the auditors. We are reconciling to determine what caused the difference.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-11, Continued

Corrective Action, Continued:

- Department of Finance shows over expenditure of \$825,116. This occurred as the result of a year end adjustment of \$1,101,256 to record credit card fees as a DOF expense.
- Joeten-Kiyu Library shows over expenditure of \$29,643 which resulted from a \$30,000 year end reprogramming being entered twice.
- Unallocated utilities shows over expenditure of \$978,051 due to an audit adjustment of the same amount to agree DOF and CUC records.
- The above amounts could have been corrected through reprogramming or Public law 15-71 expense transfers if noted prior to audit.
- The Washington Representative's office shows an over expenditure of \$55,440. Legislation prevented the Governor from reprogramming from other accounts to cover this amount.

Proposed Completion Date: Budget control is ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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

Allowable Costs/Cost Principles

Finding No. 2007-12

| 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 - 2007 Appropriations Act / Federal Award Period Available Until Expended | <p><u>Criteria:</u> Expenditures and disbursements should be supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p><u>Condition:</u> Of sixty-two non-payroll expenditures of the DOI Capital Projects Fund tested, aggregating \$7,370,412, we noted the following:</p> <ul style="list-style-type: none"> • We could not verify the payee for the following as the cancelled check image on the bank statement was blank or the check had not cleared as of our test date; and the carbon copy was not provided: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>BU#</u></th> <th style="text-align: center;"><u>Check #</u></th> <th style="text-align: center;"><u>APV #</u></th> <th style="text-align: center;"><u>General Ledger Amount Tested</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">5602</td> <td style="text-align: center;">3840</td> <td style="text-align: center;">636626</td> <td style="text-align: right;">\$ 90,000</td> </tr> <tr> <td style="text-align: center;">5605</td> <td style="text-align: center;">3860</td> <td style="text-align: center;">638770</td> <td style="text-align: right;">105,112</td> </tr> <tr> <td style="text-align: center;">5175</td> <td style="text-align: center;">3856</td> <td style="text-align: center;">638765</td> <td style="text-align: right;">147,384</td> </tr> <tr> <td style="text-align: center;">5220</td> <td style="text-align: center;">3777</td> <td style="text-align: center;">631625</td> <td style="text-align: right;"><u>64,900</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;"><u>\$ 407,396</u></td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Unit costs for two items (ref. EQ-4 and EQ-11) per invoice (ref. APV #618924 for BU#5018) were more than the unit costs stipulated in the related contract (ref. 405-OS) by \$16,286. | <u>BU#</u> | <u>Check #</u> | <u>APV #</u> | <u>General Ledger Amount Tested</u> | 5602 | 3840 | 636626 | \$ 90,000 | 5605 | 3860 | 638770 | 105,112 | 5175 | 3856 | 638765 | 147,384 | 5220 | 3777 | 631625 | <u>64,900</u> | | | | <u>\$ 407,396</u> | <p style="text-align: right;">\$ 16,286</p> |
| <u>BU#</u> | <u>Check #</u> | <u>APV #</u> | <u>General Ledger Amount Tested</u> | | | | | | | | | | | | | | | | | | | | | | | |
| 5602 | 3840 | 636626 | \$ 90,000 | | | | | | | | | | | | | | | | | | | | | | | |
| 5605 | 3860 | 638770 | 105,112 | | | | | | | | | | | | | | | | | | | | | | | |
| 5175 | 3856 | 638765 | 147,384 | | | | | | | | | | | | | | | | | | | | | | | |
| 5220 | 3777 | 631625 | <u>64,900</u> | | | | | | | | | | | | | | | | | | | | | | | |
| | | | <u>\$ 407,396</u> | | | | | | | | | | | | | | | | | | | | | | | |
| | <p><u>Cause:</u> The cause of the above condition is the lack of timely follow up with financial institutions of blank images of cancelled checks and lack of proper analysis of vendor invoices submitted.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$16,286. While the cancelled checks were not available for the \$407,396, no question costs result as the related expenditures are properly supported with invoices and other relevant documents.</p> <p><u>Recommendation:</u> We recommend the CNMI's Department of Finance ensure all expenditures and disbursements recorded in the general ledger are properly supported by invoices, checks, contracts and other relevant documents.</p> <p><u>Prior Year Status:</u> Lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Virginia Villagomez, CIP Coordinator, Office of the Governor</p> | | | | | | | | | | | | | | | | | | | | | | | | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-12, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|--|-----------------------------|------------------|
| <u>Auditee Response and Corrective Action Plan, Continued:</u> | | |
| Corrective Action: | | |
| <ul style="list-style-type: none"> <li data-bbox="511 535 1323 735">• The CIP Program Office is not provided copies of the checks by the CNMI Treasury Office for funds paid out from the CIP account. The CIP Program Office will maintain a printout of the transactions processed by the CNMI Treasurer reflecting the payee, the check number, check date, check amount and payment voucher number. The CNMI Treasurer is encouraged to provide copies of the checks to the CIP Program Office on a weekly basis if the printout of transactions from the general ledger is insufficient for compliance. <li data-bbox="511 756 1323 966">• The unit costs for two items invoiced above the costs stipulated in contract # 405-OS resulted in an offset of other items not invoiced. The items were certified by the CNMI's Project Manager (Azuma Ltd.) and they should have recommended that any offset be reflected in a change order instead of a direct offset in the invoice. The CIP Administrator will issue a notice to the agencies that any changes in units to be delivered specified in the contract must be processed in a written form of a change order. | | |
| Proposed Completion Date: September 1, 2008 | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-13

| Program | Reason for Questioned Costs | | | | Questioned Costs |
|---|--|----------------------------------|----------------------|---------------|------------------|
| U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/06 through 09/30/07 | <p><u>Criteria:</u> Part 3 of the Revised Operation Plan, delineates types of services that are allowed under the Medicaid Program. Part 4 establishes the basis for determining propriety of rates by service providers.</p> <p><u>Condition:</u> Of total program expenditures of \$4,713,098 at September 30, 2007, professional services of \$3,098,902 and other program expenses of \$157,162 were tested. Of ninety-three items tested, items totaling \$2,807,812 were not completely reviewed for propriety of rates charged and accuracy of billings prior to payment. Based on our tests, the eligibility of services was in accordance with Part 3 of the revised Operational Plan; therefore, no questioned costs result from this condition. Details follow:</p> | | | | |
| | General Ledger <u>Date</u> | General Ledger <u>Account</u> | <u>Reference No.</u> | <u>Amount</u> | |
| | 02/08/07 | 62060 | PV460686 | \$ 43,208 | |
| | 02/08/07 | 62060 | PV460687 | 30,138 | |
| | 10/11/06 | 62060 | PV447026 | 20,836 | |
| | 12/13/06 | 62060 | PV453361 | 26,876 | |
| | 12/13/06 | 62060 | PV453366 | 19,344 | |
| | 12/13/06 | 62060 | PV453382 | 20,324 | |
| | 12/13/06 | 62060 | PV453388 | 25,761 | |
| | 06/20/07 | 62060 | PV472929 | 24,343 | |
| | 12/13/06 | 62060 | PV453364 | 16,068 | |
| | 12/13/06 | 62060 | PV453373 | 14,084 | |
| | 12/13/06 | 62060 | PV453384 | 12,405 | |
| | 12/27/06 | 62060 | PV454851 | 16,591 | |
| | 12/27/06 | 62060 | PV454867 | 13,048 | |
| | 12/27/06 | 62060 | PV454872 | 15,192 | |
| | 02/26/07 | 62060 | PV462687 | 12,634 | |
| | 02/26/07 | 62060 | PV462711 | 12,132 | |
| | 02/26/07 | 62060 | PV462714 | 12,042 | |
| | 02/26/07 | 62060 | PV462717 | 13,122 | |
| | 02/26/07 | 62060 | PV462719 | 12,607 | |
| | 02/26/07 | 62060 | PV462722 | 10,770 | |
| | 02/26/07 | 62060 | PV462724 | 13,297 | |
| | 02/26/07 | 62060 | PV462727 | 12,140 | |
| | 02/26/07 | 62060 | PV462728 | 11,300 | |
| | 02/27/07 | 62060 | PV462747 | 12,536 | |
| | 02/27/07 | 62060 | PV462750 | 10,558 | |
| | 02/27/07 | 62060 | PV462751 | 13,092 | |
| | 02/27/07 | 62060 | PV462755 | 12,723 | |
| | 02/27/07 | 62060 | PV462758 | 11,846 | |
| | 03/05/07 | 62060 | PV463363 | 13,986 | |
| | 03/05/07 | 62060 | PV463365 | 11,355 | |
| | 03/05/07 | 62060 | PV463366 | 10,484 | |
| | 03/05/07 | 62060 | PV463368 | 15,916 | |
| | 03/05/07 | 62060 | PV463370 | 12,406 | |
| | 03/20/07 | 62060 | PV465681 | 13,447 | |
| | 04/11/07 | 62060 | PV467222 | 13,911 | |
| | 04/11/07 | 62060 | PV467225 | 10,841 | |
| | 04/11/07 | 62060 | PV467227 | 11,769 | |
| | 04/11/07 | 62060 | PV467230 | 10,591 | |
| | 04/11/07 | 62060 | PV467234 | 11,478 | |
| | 04/11/07 | 62060 | PV467247 | 11,743 | |
| | 04/25/07 | 62060 | PV468339 | 15,406 | |
| | 04/25/07 | 62060 | PV468341 | 12,356 | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13, Continued

| Program | Reason for Questioned Costs | | | Questioned Costs |
|------------------------------|--------------------------------|-----------------------------------|----------------------|---------------------|
| <u>Condition, Continued:</u> | | | | |
| | <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>Amount</u> |
| | 04/25/07 | 62060 | PV468343 | 13,605 |
| | 05/02/07 | 62060 | PV468847 | 12,579 |
| | 05/02/07 | 62060 | PV468851 | 11,987 |
| | 06/07/07 | 62060 | PV471850 | 14,187 |
| | 06/20/07 | 62060 | PV472938 | 11,454 |
| | 06/20/07 | 62060 | PV472941 | 11,667 |
| | 06/20/07 | 62060 | PV472944 | 11,105 |
| | 07/17/07 | 62060 | PV475307 | 14,082 |
| | 08/20/07 | 62060 | PV478555 | 12,854 |
| | 08/20/07 | 62060 | PV478560 | 12,734 |
| | 08/20/07 | 62060 | PV478566 | 14,922 |
| | 08/20/07 | 62060 | PV478569 | 10,616 |
| | 08/20/07 | 62060 | PV478583 | 11,211 |
| | 08/20/07 | 62060 | PV478588 | 12,592 |
| | 08/20/07 | 62060 | PV478591 | 11,540 |
| | 08/20/07 | 62060 | PV478594 | 13,673 |
| | 09/06/07 | 62060 | PV480783 | 12,004 |
| | 09/06/07 | 62060 | PV480785 | 14,809 |
| | 09/20/07 | 62060 | PV643641 | 24,000 |
| | 09/20/07 | 62060 | PV643658 | 24,574 |
| | 09/20/07 | 62060 | PV643664 | 23,493 |
| | 09/20/07 | 62060 | PV643670 | 25,619 |
| | 09/20/07 | 62060 | PV643671 | 22,186 |
| | 06/06/07 | 62060 | JE137728 | 256,271 |
| | 06/06/07 | 62060 | JE138114 | 58,768 |
| | 08/21/07 | 62060 | JE140555 | 1,123,500 |
| | 08/21/07 | 62060 | JE140556 | 255,506 |
| | 09/30/07 | 62060 | JE144075 | <u>121,568</u> |
| | | | | \$ <u>2,807,812</u> |

Additionally for some items, there was no evidence of rate verification and review of accuracy of billings resulting in either double charges or incorrect rates paid. Details are as follows:

- For twenty-four prescription and 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>Amount</u> |
| | 12/27/06 | 62060 | PV454872 | \$ 13 |
| | 02/26/07 | 62060 | PV462717 | 18 |
| | 02/26/07 | 62060 | PV462719 | 17 |
| | 02/27/07 | 62060 | PV462747 | 17 |
| | 02/27/07 | 62060 | PV462751 | 5 |
| | 02/27/07 | 62060 | PV462755 | 24 |
| | 03/05/07 | 62060 | PV463363 | 3 |
| | 03/05/07 | 62060 | PV463365 | 4 |
| | 03/05/07 | 62060 | PV463366 | 16 |
| | 04/11/07 | 62060 | PV467222 | 26 |
| | 04/11/07 | 62060 | PV467230 | 16 |
| | 05/02/07 | 62060 | PV468847 | 7 |
| | 05/02/07 | 62060 | PV468851 | 8 |
| | 06/07/07 | 62060 | PV471850 | 20 |
| | 06/20/07 | 62060 | PV472938 | 84 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13, Continued

| Program | Reason for Questioned Costs | | | | Questioned Costs |
|------------------------------|---|---------------------------|---------------|---------------|---------------------|
| <u>Condition, Continued:</u> | | | | | |
| | General Ledger Date | General Ledger Account | Reference No. | Amount | |
| | 08/20/07 | 62060 | PV478560 | 23 | |
| | 08/20/07 | 62060 | PV478569 | 26 | |
| | 08/20/07 | 62060 | PV478583 | 8 | |
| | 08/20/07 | 62060 | PV478591 | 34 | |
| | 08/20/07 | 62060 | PV478594 | 51 | |
| | 09/20/07 | 62060 | PV643641 | 15 | |
| | 09/20/07 | 62060 | PV643658 | 106 | |
| | 09/20/07 | 62060 | PV643664 | 72 | |
| | 09/20/07 | 62060 | PV643671 | 36 | |
| | | | | \$ <u>649</u> | 649 |
| | <ul style="list-style-type: none"> For three prescription and pharmacy claims, the rate 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. Details follow: | | | | |
| | General Ledger Date | General Ledger Account | Reference No. | Amount | |
| | 02/26/07 | 62060 | PV462724 | \$ 197 | |
| | 06/20/07 | 62060 | PV472941 | 67 | |
| | 08/20/07 | 62060 | PV478566 | 76 | |
| | | | | \$ <u>340</u> | 340 |
| | <ul style="list-style-type: none"> For one prescription and pharmacy claim (PV447026 amounting to \$123), the rate could not be verified as the attached printed summary spreadsheet did not include information on the NDC number and/or drug name. | | | | |
| | <ul style="list-style-type: none"> For thirteen optometrist expenses, the rate charged and paid by Medicaid was higher than the established Medicare rate for similar service. Details follow: | | | | |
| | General Ledger Date | General Ledger Account | Reference No. | Amount | |
| | 02/08/07 | 62060 | PV460686 | \$ 4 | |
| | 12/13/06 | 62060 | PV453361 | 202 | |
| | 12/13/06 | 62060 | PV453366 | 23 | |
| | 06/20/07 | 62060 | PV472929 | 3 | |
| | 12/13/06 | 62060 | PV453364 | 3 | |
| | 12/13/06 | 62060 | PV453373 | 16 | |
| | 12/13/06 | 62060 | PV453384 | 4 | |
| | 03/05/07 | 62060 | PV463368 | 6 | |
| | 03/05/07 | 62060 | PV463370 | 2 | |
| | 03/20/07 | 62060 | PV465681 | 18 | |
| | 04/25/07 | 62060 | PV468339 | 15 | |
| | 04/25/07 | 62060 | PV468343 | 1 | |
| | 09/06/07 | 62060 | PV480785 | 249 | |
| | | | | \$ <u>546</u> | 546 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13, Continued

| Program | Reason for Questioned Costs | | | | Questioned Costs |
|---|-------------------------------|----------------------------------|----------------------|---------------|---------------------|
| <u>Condition, Continued:</u> | | | | | |
| <ul style="list-style-type: none"> For two optometrist expenses, rates could not be verified as the optometrist services were not included in the established Medicare rates maintained by Medicaid. Further, rates did not agree with the rates listed in the service provider agreement. Details follow: | | | | | |
| | General Ledger <u>Date</u> | General Ledger <u>Account</u> | <u>Reference No.</u> | <u>Amount</u> | |
| | 12/13/06 | 62060 | PV453382 | \$ 301 | |
| | 12/13/06 | 62060 | PV453388 | <u>30</u> | |
| | | | | \$ <u>331</u> | 331 |

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 and possible misuse of federal expenditures and questioned costs of \$1,989 since the projected costs exceeded \$10,000.

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

Prior Year Status: The lack of clearly defined and communicated procedures for verification of billings prior to reimbursement was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. Due to the high volume of claims and limited resources, the staff randomly reviews the claims. I have instructed the staff to initial the claims once they have reviewed rates and eligibility date. If the drugs were not included in the Average Wholesale Price list that we maintain to compute EAC or any CPT codes for other services that are not available as per what our negotiated rate on our contract, we will only pay 50% of the charges. This was the instruction of the Hawaii Medicaid Program, Dr. Lynette Hombo and our former legal counsel, Ms. Debra Knapp that in case there is no rate available based on either the Hawaii Medicaid rate or Medicare rate that we should only pay 50% of the charges. For optometrists' expenses, there are some CPT codes that we pay at the negotiated rate based on our contract agreement and not the Medicare rate. For duplicate payments, we will adjust on the current claims.

Proposed Completion Date: N/A

Auditor Response: We did not note any evidence of review (tickmarks, initials, etc.) in the claims tested and noted above. The Medicaid Revised Operational Plan requires that Medicaid reimbursement are claimed based on the established CHC rates or should not exceed combined payments the provider receives from beneficiaries and carriers or intermediaries for providing comparable services under comparable circumstances under Medicare. Complete rate verification should be performed on claims to ensure that rates paid are in accordance with CHC or Medicare rates.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles/Activities Allowed or Unallowed

Finding No. 2007-14

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | |
|---|---|---------------------|------------------------|---------------|--------|----------|-------|----------|-----------|----------|-------|----------|---------------|----------|-------|----------|------------------|--------|--|--|------------------|--------|
| U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/06 - 09/30/07 | <p><u>Criteria:</u> Expenditures recorded in the general ledger should be authorized, supported by certified accounts payable vouchers, invoices and other relevant documents, and approved prior to incurrence.</p> <p><u>Condition:</u> Of total program expenditures of \$4,713,098 at September 30, 2007, professional services of \$3,098,902 and other program expenses of \$157,162 were tested. Out tests noted the following:</p> <ul style="list-style-type: none"> The supporting accounts payable vouchers, invoices, transmittal, and relevant documents for the following were not available: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Account</th> <th style="text-align: center;">Reference No.</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">02/06/07</td> <td style="text-align: center;">62500</td> <td style="text-align: center;">PV460248</td> <td style="text-align: right;">\$ 2,835</td> </tr> <tr> <td style="text-align: center;">12/06/06</td> <td style="text-align: center;">62500</td> <td style="text-align: center;">PV616641</td> <td style="text-align: right;">1,376</td> </tr> <tr> <td style="text-align: center;">08/30/07</td> <td style="text-align: center;">62500</td> <td style="text-align: center;">PV480987</td> <td style="text-align: right;"><u>456</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>4,667</u></td> </tr> </tbody> </table> | General Ledger Date | General Ledger Account | Reference No. | Amount | 02/06/07 | 62500 | PV460248 | \$ 2,835 | 12/06/06 | 62500 | PV616641 | 1,376 | 08/30/07 | 62500 | PV480987 | <u>456</u> | | | | \$ <u>4,667</u> | 4,667 |
| General Ledger Date | General Ledger Account | Reference No. | Amount | | | | | | | | | | | | | | | | | | | |
| 02/06/07 | 62500 | PV460248 | \$ 2,835 | | | | | | | | | | | | | | | | | | | |
| 12/06/06 | 62500 | PV616641 | 1,376 | | | | | | | | | | | | | | | | | | | |
| 08/30/07 | 62500 | PV480987 | <u>456</u> | | | | | | | | | | | | | | | | | | | |
| | | | \$ <u>4,667</u> | | | | | | | | | | | | | | | | | | | |
| | <ul style="list-style-type: none"> For one travel related expense (PV452444), the supporting travel authorization was not available. | 1,977 | | | | | | | | | | | | | | | | | | | | |
| | <ul style="list-style-type: none"> The supporting medical referral could not be located for the following off-island expenditures: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Account</th> <th style="text-align: center;">Reference No.</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">06/08/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">PV471897</td> <td style="text-align: right;">\$ 63,756</td> </tr> <tr> <td style="text-align: center;">03/13/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">PV464475</td> <td style="text-align: right;"><u>33,204</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>96,960</u></td> </tr> </tbody> </table> | General Ledger Date | General Ledger Account | Reference No. | Amount | 06/08/07 | 62060 | PV471897 | \$ 63,756 | 03/13/07 | 62060 | PV464475 | <u>33,204</u> | | | | \$ <u>96,960</u> | 96,960 | | | | |
| General Ledger Date | General Ledger Account | Reference No. | Amount | | | | | | | | | | | | | | | | | | | |
| 06/08/07 | 62060 | PV471897 | \$ 63,756 | | | | | | | | | | | | | | | | | | | |
| 03/13/07 | 62060 | PV464475 | <u>33,204</u> | | | | | | | | | | | | | | | | | | | |
| | | | \$ <u>96,960</u> | | | | | | | | | | | | | | | | | | | |
| | <ul style="list-style-type: none"> For three off-island expenditures, the medical referral was provided; however, there was no evidence of approval by at least two committee members. <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">General Ledger Date</th> <th style="text-align: center;">General Ledger Account</th> <th style="text-align: center;">Reference No.</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">03/13/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">PV464451</td> <td style="text-align: right;">\$ 32,678</td> </tr> <tr> <td style="text-align: center;">03/13/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">PV464453</td> <td style="text-align: right;">18,574</td> </tr> <tr> <td style="text-align: center;">03/13/07</td> <td style="text-align: center;">62060</td> <td style="text-align: center;">PV464454</td> <td style="text-align: right;"><u>15,448</u></td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">\$ <u>66,700</u></td> </tr> </tbody> </table> | General Ledger Date | General Ledger Account | Reference No. | Amount | 03/13/07 | 62060 | PV464451 | \$ 32,678 | 03/13/07 | 62060 | PV464453 | 18,574 | 03/13/07 | 62060 | PV464454 | <u>15,448</u> | | | | \$ <u>66,700</u> | 66,700 |
| General Ledger Date | General Ledger Account | Reference No. | Amount | | | | | | | | | | | | | | | | | | | |
| 03/13/07 | 62060 | PV464451 | \$ 32,678 | | | | | | | | | | | | | | | | | | | |
| 03/13/07 | 62060 | PV464453 | 18,574 | | | | | | | | | | | | | | | | | | | |
| 03/13/07 | 62060 | PV464454 | <u>15,448</u> | | | | | | | | | | | | | | | | | | | |
| | | | \$ <u>66,700</u> | | | | | | | | | | | | | | | | | | | |
| | <ul style="list-style-type: none"> Of total payroll expenditures of \$75,476, the supporting timesheet for one employee tested did not have evidence of approval. | | | | | | | | | | | | | | | | | | | | | |
| | <ul style="list-style-type: none"> Cancelled check copy could not be provided for two disbursements: | | | | | | | | | | | | | | | | | | | | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-14, Continued

| Program | Reason for Questioned Costs | | | | | | Questioned Costs |
|------------------------------|---|------------------|---------------|-------------------------------|----------------------|------------------------------|------------------|
| <u>Condition, Continued:</u> | | | | | | | |
| | <u>Check Date</u> | <u>Check No.</u> | <u>Amount</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>General Ledger Amount</u> | |
| | 02/06/07 | 304269 | \$ 26,622 | 62060 | PV454867 | \$ 13,048 | |
| | 09/25/07 | 314433 | \$ 130,922 | 62060 | PV478351 | <u>18,949</u> | |
| | | | | | | \$ <u>31,997</u> | 31,997 |
| | <ul style="list-style-type: none"> For two disbursements, check payment was made payable to CNMI Treasury instead of the service provider as recorded in the general ledger. | | | | | | |
| | <u>Check Date</u> | <u>Check No.</u> | <u>Amount</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>General Ledger Amount</u> | |
| | 08/07/07 | 311673 | \$ 80,529 | 62060 | PV472944 | \$ 11,105 | |
| | 05/17/07 | 308827 | \$ 84,007 | 62060 | PV467247 | <u>11,743</u> | |
| | | | | | | \$ <u>22,848</u> | 22,848 |
| | <u>Cause:</u> The cause of the above condition is failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to submit all supporting documents for complete filing. | | | | | | |
| | <u>Effect:</u> The effect of the above condition is the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of \$225,149. | | | | | | |
| | <u>Recommendation:</u> We recommend that the Medicaid office and Department of Finance obtain all necessary approvals/authorizations prior to incurrence/payment of expenditures and ensure that supporting documents are on file. | | | | | | |
| | <u>Prior Year Status:</u> Failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to have all supporting documents on file was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 and 2006. | | | | | | |
| | <u>Auditee Response and Corrective Action Plan:</u> | | | | | | |
| | Name of Contact Person: Helen C. Sablan, Medicaid Administrator | | | | | | |
| | Corrective Action: We disagree with the finding. If we do have the supporting documents at our office, then the Department of Finance should have a copy of the accounts payable vouchers. The Medical Referral authorizations are maintained at the Medical Referral Office. We do not feel that the cause is lack of approvals and/or authorizations but rather that documents are filed in several offices. 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. | | | | | | |
| | Proposed Completion Date: N/A | | | | | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-14, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|--|---------------------|
| | <p><u>Auditor Response:</u> Documents supporting Medicaid program expenditures should be maintained both in the Medicaid Office and CNMI Finance Office. However, requested documents supporting expenditures for items noted above were not made available by either of the offices. For off-island treatments, we asked the Medicaid office to request copies of medical referrals from the Medical Referral Committee office; however, copies of approved medical referrals could not be provided for the two items noted above. Further, for the three off-island expenditures noted above, the medical referrals were not signed by at least two committee members.</p> | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-15

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|------------------|--------|------------------|-----|--------|------|----|-----|--------|-----------|------|----|-----|--------|-------|------|-----|-----|--------|--------------|-------|--|--|--|------------------|----|------|---------|-----|--------|------|---|--------|--------|-----------|------|-----|--------|--------|-------|------|----|--------|--------|---------------|-------|--|--|--|------------------|-------|
| U.S. Department of Homeland Security / Disaster Grants - Public Assistance (Presidentially Declared Disasters) / CFDA #97.036 / Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion | <p><u>Criteria:</u> Expenditures recorded in the general ledger should be supported by certified accounts payable vouchers, invoices and other relevant documents.</p> <p><u>Condition:</u> Of \$922,758 in non-payroll expenditures of the Disaster Grants - Public Assistance (Presidentially Declared Disasters) tested, we noted the following:</p> <ul style="list-style-type: none"> Local share was reimbursed to one subrecipient (PSS) for the following: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">DR</th> <th style="text-align: center;">PW #</th> <th style="text-align: center;">Subrecipient</th> <th style="text-align: center;">APV</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1447</td> <td style="text-align: center;">80</td> <td style="text-align: center;">PSS</td> <td style="text-align: center;">622851</td> <td style="text-align: right;">\$ 68,000</td> </tr> <tr> <td style="text-align: center;">1447</td> <td style="text-align: center;">91</td> <td style="text-align: center;">PSS</td> <td style="text-align: center;">622851</td> <td style="text-align: right;">8,447</td> </tr> <tr> <td style="text-align: center;">1447</td> <td style="text-align: center;">212</td> <td style="text-align: center;">PSS</td> <td style="text-align: center;">633520</td> <td style="text-align: right;"><u>9,222</u></td> </tr> <tr> <td colspan="4" style="text-align: right;">Total</td> <td style="text-align: right;">\$ <u>85,669</u></td> </tr> </tbody> </table> <p>As a result of the above, \$8,567, which represents the subrecipient's share, should be returned back to the CNMI. The CNMI properly recorded this as local share in their records. Therefore, no questioned cost results from this item.</p> <ul style="list-style-type: none"> We could not verify the payee for the following as the cancelled check image was blank or the check had not cleared as of our test date; and the carbon copy was not provided for our review: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">DR</th> <th style="text-align: center;">PW #</th> <th style="text-align: center;">Check #</th> <th style="text-align: center;">APV</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1447</td> <td style="text-align: center;">3</td> <td style="text-align: center;">312558</td> <td style="text-align: center;">635726</td> <td style="text-align: right;">\$ 21,195</td> </tr> <tr> <td style="text-align: center;">1447</td> <td style="text-align: center;">196</td> <td style="text-align: center;">315801</td> <td style="text-align: center;">640085</td> <td style="text-align: right;">9,063</td> </tr> <tr> <td style="text-align: center;">1532</td> <td style="text-align: center;">52</td> <td style="text-align: center;">316314</td> <td style="text-align: center;">642462</td> <td style="text-align: right;"><u>21,000</u></td> </tr> <tr> <td colspan="4" style="text-align: right;">Total</td> <td style="text-align: right;">\$ <u>51,258</u></td> </tr> </tbody> </table> <ul style="list-style-type: none"> We were not provided the project worksheet for one accounts payable voucher (APV #632154) in the amount of \$9,304. | DR | PW # | Subrecipient | APV | Amount | 1447 | 80 | PSS | 622851 | \$ 68,000 | 1447 | 91 | PSS | 622851 | 8,447 | 1447 | 212 | PSS | 633520 | <u>9,222</u> | Total | | | | \$ <u>85,669</u> | DR | PW # | Check # | APV | Amount | 1447 | 3 | 312558 | 635726 | \$ 21,195 | 1447 | 196 | 315801 | 640085 | 9,063 | 1532 | 52 | 316314 | 642462 | <u>21,000</u> | Total | | | | \$ <u>51,258</u> | 9,304 |
| DR | PW # | Subrecipient | APV | Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1447 | 80 | PSS | 622851 | \$ 68,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1447 | 91 | PSS | 622851 | 8,447 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1447 | 212 | PSS | 633520 | <u>9,222</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | | | \$ <u>85,669</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DR | PW # | Check # | APV | Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1447 | 3 | 312558 | 635726 | \$ 21,195 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1447 | 196 | 315801 | 640085 | 9,063 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1532 | 52 | 316314 | 642462 | <u>21,000</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | | | \$ <u>51,258</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p><u>Cause:</u> The cause of the above condition is the lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents.</p> <p><u>Effect:</u> The effect of the above condition is questioned costs of \$9,304. This matter is reportable as the projected questioned costs exceed the threshold.</p> <p><u>Recommendation:</u> 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><u>Prior Year Status:</u> Lack of proper systematic filing of certified accounts payable vouchers, invoices and other relevant documents was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-15, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|------------------------------------|-------------------------|
|----------------|------------------------------------|-------------------------|

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The Public Assistance Program Office will maintain a printout of the transactions processed by the CNMI Treasurer reflecting the payee, the check number, check date, check amount and payment voucher number. The CNMI Treasurer is encouraged to provide copies of the checks to the CIP Office on a weekly basis if the printout of transactions from the general ledger is insufficient for compliance. The Governor's Authorized Representative will issue a memorandum to the Public Assistance Program staff to verify all payments being processed will not exceed the authorized project worksheet approved for the Federal and local shares and at the correct cost share ratio.

Proposed Completion Date: September 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Cash Management

Finding No. 2007-16

| 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 - 2007 Appropriations Act / Federal Award Period Available Until Expended | <p><u>Criteria:</u> 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><u>Condition:</u> Of sixty-two samples tested relating to the DOI Capital Projects Fund, forty-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> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th style="text-align: center;">APV #</th> <th style="text-align: center;">Drawdown Amount</th> <th style="text-align: center;">Cash Receipts Date</th> <th style="text-align: center;">Check Clearance Date</th> <th style="text-align: center;">Days Elapsed After the Allowable Clearance Pattern</th> </tr> </thead> <tbody> <tr><td>613616</td><td>\$ 62,847</td><td>11/14/06</td><td>12/06/06</td><td>19</td></tr> <tr><td>613623</td><td>\$ 158,732</td><td>11/13/06</td><td>11/29/06</td><td>13</td></tr> <tr><td>613843</td><td>\$ 207,881</td><td>11/16/06</td><td>12/26/06</td><td>37</td></tr> <tr><td>613870</td><td>\$ 71,106</td><td>12/06/06</td><td>02/09/07</td><td>62</td></tr> <tr><td>614493</td><td>\$ 206,947</td><td>12/01/06</td><td>12/19/06</td><td>15</td></tr> <tr><td>615658</td><td>\$ 157,174</td><td>12/13/06</td><td>01/09/07</td><td>24</td></tr> <tr><td>616053</td><td>\$ 91,325</td><td>12/13/06</td><td>01/18/07</td><td>33</td></tr> <tr><td>616774</td><td>\$ 218,099</td><td>01/31/07</td><td>02/08/07</td><td>5</td></tr> <tr><td>617868</td><td>\$ 191,870</td><td>01/24/07</td><td>01/31/07</td><td>4</td></tr> <tr><td>617868</td><td>\$ 74,398</td><td>01/24/07</td><td>01/31/07</td><td>4</td></tr> <tr><td>618751</td><td>\$ 104,746</td><td>12/13/06</td><td>01/10/07</td><td>25</td></tr> <tr><td>618922</td><td>\$ 62,524</td><td>01/11/07</td><td>01/29/07</td><td>15</td></tr> <tr><td>618924</td><td>\$ 80,929</td><td>01/03/07</td><td>01/19/07</td><td>13</td></tr> <tr><td>619149</td><td>\$ 85,356</td><td>01/11/07</td><td>01/22/07</td><td>8</td></tr> <tr><td>619150</td><td>\$ 144,922</td><td>01/11/07</td><td>01/25/07</td><td>11</td></tr> <tr><td>619152</td><td>\$ 294,255</td><td>01/11/07</td><td>01/18/07</td><td>4</td></tr> <tr><td>619152</td><td>\$ 117,702</td><td>01/11/07</td><td>01/18/07</td><td>4</td></tr> <tr><td>619895</td><td>\$ 84,093</td><td>01/24/07</td><td>01/31/07</td><td>4</td></tr> <tr><td>619898</td><td>\$ 152,986</td><td>01/24/07</td><td>02/13/07</td><td>17</td></tr> <tr><td>620023</td><td>\$ 120,964</td><td>01/31/07</td><td>02/16/07</td><td>13</td></tr> <tr><td>620023</td><td>\$ 144,428</td><td>01/31/07</td><td>02/16/07</td><td>13</td></tr> <tr><td>622843</td><td>\$ 62,290</td><td>02/28/07</td><td>03/09/07</td><td>6</td></tr> <tr><td>622956</td><td>\$ 121,521</td><td>02/28/07</td><td>03/09/07</td><td>6</td></tr> <tr><td>626173</td><td>\$ 200,900</td><td>03/14/07</td><td>03/19/07</td><td>2</td></tr> <tr><td>626173</td><td>\$ 80,360</td><td>03/14/07</td><td>03/19/07</td><td>2</td></tr> <tr><td>627109</td><td>\$ 43,126</td><td>03/21/07</td><td>03/29/07</td><td>5</td></tr> <tr><td>627344</td><td>\$ 108,692</td><td>05/01/07</td><td>05/17/07</td><td>13</td></tr> <tr><td>627344</td><td>\$ 89,447</td><td>05/01/07</td><td>05/17/07</td><td>13</td></tr> <tr><td>627462</td><td>\$ 152,986</td><td>03/28/07</td><td>04/13/07</td><td>13</td></tr> <tr><td>629092</td><td>\$ 98,551</td><td>04/13/07</td><td>04/23/07</td><td>7</td></tr> <tr><td>631625</td><td>\$ 64,900</td><td>06/01/07</td><td>06/12/07</td><td>8</td></tr> <tr><td>632271</td><td>\$ 79,083</td><td>07/02/07</td><td>07/06/07</td><td>1</td></tr> <tr><td>633178</td><td>\$ 71,045</td><td>06/11/07</td><td>07/02/07</td><td>18</td></tr> <tr><td>633179</td><td>\$ 109,688</td><td>06/06/07</td><td>06/19/07</td><td>10</td></tr> <tr><td>633181</td><td>\$ 68,933</td><td>06/11/07</td><td>06/18/07</td><td>4</td></tr> <tr><td>634732</td><td>\$ 76,492</td><td>06/27/07</td><td>07/06/07</td><td>6</td></tr> <tr><td>635394</td><td>\$ 57,568</td><td>07/02/07</td><td>07/06/07</td><td>1</td></tr> <tr><td>635723</td><td>\$ 197,896</td><td>07/11/07</td><td>08/03/07</td><td>20</td></tr> <tr><td>636626</td><td>\$ 90,000</td><td>07/27/07</td><td>08/16/07</td><td>17</td></tr> <tr><td>636850</td><td>\$ 98,038</td><td>07/26/07</td><td>08/10/07</td><td>12</td></tr> <tr><td>638765</td><td>\$ 147,384</td><td>08/20/07</td><td>08/29/07</td><td>6</td></tr> <tr><td>638769</td><td>\$ 64,839</td><td>08/20/07</td><td>09/28/07</td><td>36</td></tr> <tr><td>638770</td><td>\$ 105,112</td><td>08/20/07</td><td>09/18/07</td><td>26</td></tr> <tr><td>640054</td><td>\$ 107,991</td><td>09/06/07</td><td>09/13/07</td><td>4</td></tr> </tbody> </table> | APV # | Drawdown Amount | Cash Receipts Date | Check Clearance Date | Days Elapsed After the Allowable Clearance Pattern | 613616 | \$ 62,847 | 11/14/06 | 12/06/06 | 19 | 613623 | \$ 158,732 | 11/13/06 | 11/29/06 | 13 | 613843 | \$ 207,881 | 11/16/06 | 12/26/06 | 37 | 613870 | \$ 71,106 | 12/06/06 | 02/09/07 | 62 | 614493 | \$ 206,947 | 12/01/06 | 12/19/06 | 15 | 615658 | \$ 157,174 | 12/13/06 | 01/09/07 | 24 | 616053 | \$ 91,325 | 12/13/06 | 01/18/07 | 33 | 616774 | \$ 218,099 | 01/31/07 | 02/08/07 | 5 | 617868 | \$ 191,870 | 01/24/07 | 01/31/07 | 4 | 617868 | \$ 74,398 | 01/24/07 | 01/31/07 | 4 | 618751 | \$ 104,746 | 12/13/06 | 01/10/07 | 25 | 618922 | \$ 62,524 | 01/11/07 | 01/29/07 | 15 | 618924 | \$ 80,929 | 01/03/07 | 01/19/07 | 13 | 619149 | \$ 85,356 | 01/11/07 | 01/22/07 | 8 | 619150 | \$ 144,922 | 01/11/07 | 01/25/07 | 11 | 619152 | \$ 294,255 | 01/11/07 | 01/18/07 | 4 | 619152 | \$ 117,702 | 01/11/07 | 01/18/07 | 4 | 619895 | \$ 84,093 | 01/24/07 | 01/31/07 | 4 | 619898 | \$ 152,986 | 01/24/07 | 02/13/07 | 17 | 620023 | \$ 120,964 | 01/31/07 | 02/16/07 | 13 | 620023 | \$ 144,428 | 01/31/07 | 02/16/07 | 13 | 622843 | \$ 62,290 | 02/28/07 | 03/09/07 | 6 | 622956 | \$ 121,521 | 02/28/07 | 03/09/07 | 6 | 626173 | \$ 200,900 | 03/14/07 | 03/19/07 | 2 | 626173 | \$ 80,360 | 03/14/07 | 03/19/07 | 2 | 627109 | \$ 43,126 | 03/21/07 | 03/29/07 | 5 | 627344 | \$ 108,692 | 05/01/07 | 05/17/07 | 13 | 627344 | \$ 89,447 | 05/01/07 | 05/17/07 | 13 | 627462 | \$ 152,986 | 03/28/07 | 04/13/07 | 13 | 629092 | \$ 98,551 | 04/13/07 | 04/23/07 | 7 | 631625 | \$ 64,900 | 06/01/07 | 06/12/07 | 8 | 632271 | \$ 79,083 | 07/02/07 | 07/06/07 | 1 | 633178 | \$ 71,045 | 06/11/07 | 07/02/07 | 18 | 633179 | \$ 109,688 | 06/06/07 | 06/19/07 | 10 | 633181 | \$ 68,933 | 06/11/07 | 06/18/07 | 4 | 634732 | \$ 76,492 | 06/27/07 | 07/06/07 | 6 | 635394 | \$ 57,568 | 07/02/07 | 07/06/07 | 1 | 635723 | \$ 197,896 | 07/11/07 | 08/03/07 | 20 | 636626 | \$ 90,000 | 07/27/07 | 08/16/07 | 17 | 636850 | \$ 98,038 | 07/26/07 | 08/10/07 | 12 | 638765 | \$ 147,384 | 08/20/07 | 08/29/07 | 6 | 638769 | \$ 64,839 | 08/20/07 | 09/28/07 | 36 | 638770 | \$ 105,112 | 08/20/07 | 09/18/07 | 26 | 640054 | \$ 107,991 | 09/06/07 | 09/13/07 | 4 | |
| APV # | Drawdown Amount | Cash Receipts Date | Check Clearance Date | Days Elapsed After the Allowable Clearance Pattern | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 613616 | \$ 62,847 | 11/14/06 | 12/06/06 | 19 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 613623 | \$ 158,732 | 11/13/06 | 11/29/06 | 13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 613843 | \$ 207,881 | 11/16/06 | 12/26/06 | 37 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 613870 | \$ 71,106 | 12/06/06 | 02/09/07 | 62 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 614493 | \$ 206,947 | 12/01/06 | 12/19/06 | 15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 615658 | \$ 157,174 | 12/13/06 | 01/09/07 | 24 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 616053 | \$ 91,325 | 12/13/06 | 01/18/07 | 33 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 616774 | \$ 218,099 | 01/31/07 | 02/08/07 | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 617868 | \$ 191,870 | 01/24/07 | 01/31/07 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 617868 | \$ 74,398 | 01/24/07 | 01/31/07 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 618751 | \$ 104,746 | 12/13/06 | 01/10/07 | 25 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 618922 | \$ 62,524 | 01/11/07 | 01/29/07 | 15 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 618924 | \$ 80,929 | 01/03/07 | 01/19/07 | 13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 619149 | \$ 85,356 | 01/11/07 | 01/22/07 | 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 619150 | \$ 144,922 | 01/11/07 | 01/25/07 | 11 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 619152 | \$ 294,255 | 01/11/07 | 01/18/07 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 619152 | \$ 117,702 | 01/11/07 | 01/18/07 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 619895 | \$ 84,093 | 01/24/07 | 01/31/07 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 619898 | \$ 152,986 | 01/24/07 | 02/13/07 | 17 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 620023 | \$ 120,964 | 01/31/07 | 02/16/07 | 13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 620023 | \$ 144,428 | 01/31/07 | 02/16/07 | 13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 622843 | \$ 62,290 | 02/28/07 | 03/09/07 | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 622956 | \$ 121,521 | 02/28/07 | 03/09/07 | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 626173 | \$ 200,900 | 03/14/07 | 03/19/07 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 626173 | \$ 80,360 | 03/14/07 | 03/19/07 | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 627109 | \$ 43,126 | 03/21/07 | 03/29/07 | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 627344 | \$ 108,692 | 05/01/07 | 05/17/07 | 13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 627344 | \$ 89,447 | 05/01/07 | 05/17/07 | 13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 627462 | \$ 152,986 | 03/28/07 | 04/13/07 | 13 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 629092 | \$ 98,551 | 04/13/07 | 04/23/07 | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 631625 | \$ 64,900 | 06/01/07 | 06/12/07 | 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 632271 | \$ 79,083 | 07/02/07 | 07/06/07 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 633178 | \$ 71,045 | 06/11/07 | 07/02/07 | 18 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 633179 | \$ 109,688 | 06/06/07 | 06/19/07 | 10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 633181 | \$ 68,933 | 06/11/07 | 06/18/07 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 634732 | \$ 76,492 | 06/27/07 | 07/06/07 | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 635394 | \$ 57,568 | 07/02/07 | 07/06/07 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 635723 | \$ 197,896 | 07/11/07 | 08/03/07 | 20 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 636626 | \$ 90,000 | 07/27/07 | 08/16/07 | 17 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 636850 | \$ 98,038 | 07/26/07 | 08/10/07 | 12 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 638765 | \$ 147,384 | 08/20/07 | 08/29/07 | 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 638769 | \$ 64,839 | 08/20/07 | 09/28/07 | 36 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 638770 | \$ 105,112 | 08/20/07 | 09/18/07 | 26 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 640054 | \$ 107,991 | 09/06/07 | 09/13/07 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-16, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|--|------------------|
| | <p><u>Condition, Continued:</u></p> <p>The CNMI has not recognized the potential interest liability of \$8,773 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.</p> <p>The results of cash management tests indicated that the terms set forth in the CMIAA are not being followed.</p> <p><u>Cause:</u> The cause of the above condition is due to the delays in which internal payment requests are routed.</p> <p><u>Effect:</u> The effect the above condition is lack of compliance with grant requirements relating to cash management, a potential interest liability and questioned costs of \$8,773. This matter is reportable as the projected questioned costs exceed the threshold.</p> <p><u>Recommendation:</u> We recommend that the Department of Finance ensure strict compliance with the clearance pattern as approved and specified in the CMIAA.</p> <p><u>Prior Year Status:</u> The lack of compliance with grant requirements relating to cash management was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2006.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Persons: Antoinette Calvo, CNMI Treasurer and Eloy S. Inos, Secretary of Finance</p> <p>Corrective Action: The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007. The vouchers in this finding relate to DOI Capital Improvement Project Grants which had a net overall receivable balance of \$7,578,412 as of the audit date.</p> <p>We feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures. We reviewed each project with checks clearing more than 30 days after the drawdown was received noted in the findings. In each case the project still had a net receivable balance after the drawdown was received. Since the Federal agencies also have responsibilities to disburse requested funds in a timely manner under the CMIA, we think the audit testing should include the date the drawdown was requested as well as when it was received.</p> | 8,773 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-16, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|--|-----------------------------|------------------|
| <u>Auditee Response and Corrective Action Plan, Continued:</u> | | |
| <p>Corrective Action, Continued: We have been working with U.S. Treasury regarding implementation of the Cash Management Improvement Act (CMIA) for CNMI. Federal agencies would owe interest under the CMIA for drawdowns not remitted within the time frame shown in the Treasury-State agreement as well as CNMI owing interest if we do not disburse Federal Funds within the agreed period. There seem to be different expectations between U.S. Treasury and our grantor agencies that needs to be resolved. A particular problem for us relates to the dollar amounts being disbursed. The invoices selected all relate to large construction projects where substantial payments were due to the vendor. Many of the payments selected also include a local share that must be drawn down from our bond trustees. DOI has instructed us not to release the Federal portion of the payment until the local matching bond draw down is received. Advance payment in these cases would disrupt our cash flow for normal payments and payroll. We try to time our disbursement to receipt of the Federal and bond drawdown cash but do wait for the cash to be deposited in the CIP drawdown account before releasing the check</p> | | |
| <p>Proposed Completion Date: Ongoing</p> | | |
| <p><u>Auditor Response:</u> The CNMI shall be liable for interest on federal funds from the date the federal funds are credited to the CNMI's bank account until those funds are paid out and are deducted from that bank account for program purposes. Audit tests are applied to specific draw downs since each drawdown represents a specific request for a particular identified group of payments/disbursements. The interest from the time elapsed between the date the funds are received in the bank account and the date those funds are removed from the bank account, after considering the clearance pattern specified in the CMIAA, represents the basis for calculating the interest liability due the grantor agency.</p> | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Eligibility

Finding No. 2007-17

| Program | Reason for Questioned Costs | Questioned Costs |
|--|---|------------------|
| U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/06 - 09/30/07 | <p><u>Criteria:</u> In accordance with Part 2 of the Medicaid Revised Operational Plan, applicants must be eligible based on the criteria set forth in the Revised Operational Plan prior to receiving Medicaid assistance.</p> <p><u>Condition:</u> Our tests of forty eligibility files noted the following:</p> <ul style="list-style-type: none"> • One recipient (case file #30-20924) whose countable income exceeded the maximum Social Security Income Federal Benefit Rate but was considered eligible. • One recipient's (case file #15-14410) eligibility was not determined within sixty days from date of application. • For one recipient's spouse (case file #13-02336), marriage certificate or any equivalent documentation was not on file. <p><u>Cause:</u> The cause of the above condition is lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and the possible use of federal funds to ineligible individuals and questioned costs of \$503 since the projected costs exceeded \$10,000.</p> <p><u>Recommendation:</u> We recommend that CNMI Medicaid establish strict procedures to ensure that only eligible individuals receive Medicaid assistance and benefits. Further, we recommend that CNMI Medicaid strengthen record keeping controls to ensure that case files supporting eligibility determination are completely maintained.</p> | 503 |
| <p><u>Auditee Response and Corrective Action Plan:</u></p> | | |
| <p>Name of Contact Person: Helen C. Sablan, Medicaid Administrator</p> | | |
| <p>Corrective Action: We agree with this finding. For case file #30-20924, a copy of the Notice of Decision denial letter was sent to the recipient informing them that we have denied Medicaid eligibility because of excess income. For case file #15-14410, the recipient delayed the determination because we were waiting for the Social Security benefit amount statement. For case file #13-02336, this recipient is an SSI recipient and therefore, we do not require the submission of supporting documents since the Social Security Office reviews and maintains the supporting documents.</p> | | |
| <p>Proposed Completion Date: N/A</p> | | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Period of Availability

Finding No. 2007-18

| 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 - 2007 Appropriations Act / Federal Award Period Available Until Expended | Criteria: Projects should be completed within the allowable time frame. | | | | | | |
| | Condition: For five (5) grant awards, projects were completed after the grant expiration date and no grantor approval of the extension was provided. Details are as follows: | | | | | | |
| | | | | | <u>Unexpended</u> | | |
| | <u>Business Unit</u> | <u>Grant Award Reference No.</u> | <u>Expiration Date</u> | <u>Project Status as of 9/30/07</u> | <u>Balance at Expiration Date</u> | <u>Balance at 09/30/07</u> | |
| | 5018 | CIP-CNMI-2005-2 (1993) | 01/01/07 | Closed, 6/30/07 | \$ 455,008 | \$ - | 455,008 |
| | 5009 | CIP-CNMI-2005-2 (1994) | 01/01/06 | Closed, 12/31/06 | \$ 126,771 | \$ 78,267 | 48,504 |
| 5834 | CIP-CNMI-2006-2 | 01/01/07 | Ongoing | \$ 104,268 | \$ 104,268 | | |
| 5837 | CIP-CNMI-2006-2 | 01/01/07 | Ongoing | \$ 82,059 | \$ 1,911 | 80,148 | |
| 5822 | CIP-CNMI-2006-2 | 01/01/07 | Ongoing | \$ 120,900 | \$ 120,900 | | |

Although the above questioned amounts have been drawdown as of September 30, 2007, they were expended after the grant expiration date.

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

Effect: The effect of the above condition is the lack of compliance with period of availability requirements and questioned costs of \$583,660.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of the Governor

Corrective Action: The CIP Program Office will notify the agencies within ninety days of the expiration of any project funding. The notice will also request the agencies to submit a request for an extension if the project will not be completed by the initial expiration date. The notice and request for extension will be executed utilizing the templates developed.

Proposed Completion Date: September 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-19

| Program | Reason for Questioned Costs | Questioned Costs |
|---|--|------------------|
| <p>U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended</p> | <p>Criteria: 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>Condition: One contract (# 381-OS) was procured using sole source procurement. Although justification was provided for the procurement method utilized, the justification did not contain the specific efforts made to obtain competition and what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. The total related fiscal year 2007 expenditures amounted to \$90,000.</p> <p>Cause: The cause of the above condition is failure to comply with Sec. 3-106 of the CNMI Procurement Regulations.</p> <p>Effect: The effect of the above condition is the lack of compliance with Section 3-106 of the CNMI Procurement Regulation and questioned costs of \$90,000.</p> <p>Recommendation: We recommend that the CNMI adhere to established Procurement Regulations.</p> <p>Prior Year Status: Failure to comply with Sec. 3-106 of the CNMI Procurement Regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply</p> <p>Corrective Action: Sole source justifications will require consideration of whether competition was available and other contractors existed who could do this job. For contract 381-OS, the finding is accepted.</p> <p>Proposed Completion Date: Effective immediately</p> | <p>90,000</p> |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-20

| Program | Reason for Questioned Costs | Questioned Costs |
|--|--|------------------|
| U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended | <p>Criteria: The <i>Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments</i> (43 CFR Section 12.76(d)(3)(iv)(v)) stipulates “that awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; andThe method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort”. In accordance with Section 3-103(5) of the CNMI Procurement Regulations, the request for proposals shall state the relative importance of price and other evaluation factors. Price or cost to the government shall be included as an evaluation factor in every solicitation of proposals. The P&S Director must ensure that the following requirements are complied with in any evaluation of proposals.</p> <p>Condition: Of twenty-three (23) contracts tested, one (1) contract (372-OS) did not include cost as an evaluating factor in evaluating proposals submitted. Evaluating factors for the related contracts are as follows:</p> <ul style="list-style-type: none"> • Contract 372-OS: 1. Qualifications of key personnel/staff - 30%; 2. Project Approach - 30%; 3. Past experience on similar Construction Management - 30%; 4. Current workload of firm and ability to commit staff to the project - 10%. The related fiscal year 2007 costs of \$62,847 are questioned. <p>Cause: The cause of the above condition is failure to include cost as an evaluating factor.</p> <p>Effect: The effect of the above condition is the lack of compliance with Section 3-103(5) of the CNMI Procurement Regulation and questioned costs of \$62,847.</p> <p>Recommendation: We recommend that the CNMI review evaluating factors to ensure inclusion of cost.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply, Joseph M. Inos, Jr., Director of TSD, Department of Public Works and Pedro Sasamoto, Program Manager, Water Task Force</p> <p>Corrective Action: Every evaluation committee’s decision will be reviewed and will be required to demonstrate the effect of the cost factor in its decision.</p> <ol style="list-style-type: none"> 1. 372-OS (DPW04-RFP-015) while cost is stated as a factor in the RFP, there is no evidence of what effect it had on the evaluation committee’s decision. <p>The WTF request for proposal states the relevant importance of price and other evaluation factors. Price is always included as an evaluation factor in every solicitation for proposals. DPW shall ensure compliance with Section 3-103(5) of the CNMI Procurement Regulations and appropriately train evaluation committee members in enforcing the requirement.</p> <p>Proposed Completion Date: Ongoing</p> | 62,847 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-21

| Program | Reason for Questioned Costs | Questioned Costs |
|--|--|------------------|
| U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended | <p><u>Criteria:</u> 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:</p> <ul style="list-style-type: none"> 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. <p><u>Condition:</u> Of sixty-two non-payroll expenditures of the DOI Capital Projects Fund tested aggregating \$7,370,412, one contract (contract # 424-OS) provided for 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. The fiscal year 2007 expenditures tested representing advance payments relating to this contract amounted to \$64,900 (ref. APV #631625).</p> <p><u>Cause:</u> The cause of the above condition is the failure to justify advance payments exceeding 25% of the contract amount.</p> <p><u>Effect:</u> The effect of the above condition is the lack of compliance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulation and questioned costs of \$64,900.</p> <p><u>Recommendation:</u> We recommend that the Division of Procurement and Supply ensure that advance payments in excess of twenty-five percent of the contract amounts are justified and documented in writing.</p> <p><u>Prior Year Status:</u> The lack of compliance with Section 5-101 (2) (a)(ii) of the CNMI Procurement Regulation was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 and 2006.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply</p> <p>Corrective Action: The CNMI Procurement Director will ensure that agencies comply with Section 5-101 (2) (a)(ii) when advance payments are involved.</p> <p>Proposed Completion Date: Effective immediately in all advance payment situations</p> | 64,900 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-22

| 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 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended</p> | <p>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.</p> <p>Condition: Of twenty-two contracts tested, we noted change orders (CO) related to two contracts (contract #s , 201-OS - CO #5 for \$3,616,958 and 358-OS - CO #7 for \$530,857) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement. The fiscal year 2007 expenditures tested relating to these change orders is \$658,149.</p> <p>Cause: The cause of the above condition is the failure to justify sole source procurement.</p> <p>Effect: The effect of the above condition is the lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation and questioned costs of \$658,149.</p> <p>Recommendation: We recommend that the Division of Procurement and Supply review contract change orders to ensure justifications are properly documented, filed and maintained.</p> <p>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 through 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply</p> <p>Corrective Action: Recommendation accepted. Effectively immediately, all change orders which exceed 25% of the cumulative contract price will be bid out, or justified using a non-competitive procurement method.</p> <p>Proposed Completion Date: Immediately</p> | <p>658,149</p> |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-23

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|------------------|-------------------------|-----------|-----------------------|----------|-----------|--------|----------|----------|-----------|--------|-------|----------|-----------|--------|-------|----------|-----------|--------|-------|----------|-----------|--------|-------|----------|-----------|--------|--------------|-------|--|--|------------------|--------|
| 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><u>Criteria:</u> In accordance with 40 CFR Section 31.36 (d)(1), small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.</p> <p><u>Condition:</u> Of thirty-five non-payroll expenditures of the Environmental Protection Consolidated Grants program tested aggregating \$320,208, there is no indication that price or rate quotations were obtained from an adequate number of qualified sources for six items which qualify under small purchase procedures. Details are as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">APV Document No.</th> <th style="text-align: center;">Obligating Document No.</th> <th style="text-align: center;">Check No.</th> <th style="text-align: center;">General Ledger Amount</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">PV629098</td> <td style="text-align: center;">462017-OP</td> <td style="text-align: center;">308675</td> <td style="text-align: right;">\$ 6,000</td> </tr> <tr> <td style="text-align: center;">PV626402</td> <td style="text-align: center;">463839-OP</td> <td style="text-align: center;">308333</td> <td style="text-align: right;">2,438</td> </tr> <tr> <td style="text-align: center;">OV222195</td> <td style="text-align: center;">454674-OA</td> <td style="text-align: center;">294760</td> <td style="text-align: right;">2,150</td> </tr> <tr> <td style="text-align: center;">PV628343</td> <td style="text-align: center;">469233-OA</td> <td style="text-align: center;">307896</td> <td style="text-align: right;">1,740</td> </tr> <tr> <td style="text-align: center;">PV634923</td> <td style="text-align: center;">472876-OP</td> <td style="text-align: center;">312026</td> <td style="text-align: right;">1,152</td> </tr> <tr> <td style="text-align: center;">PV629745</td> <td style="text-align: center;">468863-OP</td> <td style="text-align: center;">307792</td> <td style="text-align: right;"><u>3,547</u></td> </tr> <tr> <td colspan="3" style="text-align: right;">Total</td> <td style="text-align: right;">\$ <u>17,027</u></td> </tr> </tbody> </table> | APV Document No. | Obligating Document No. | Check No. | General Ledger Amount | PV629098 | 462017-OP | 308675 | \$ 6,000 | PV626402 | 463839-OP | 308333 | 2,438 | OV222195 | 454674-OA | 294760 | 2,150 | PV628343 | 469233-OA | 307896 | 1,740 | PV634923 | 472876-OP | 312026 | 1,152 | PV629745 | 468863-OP | 307792 | <u>3,547</u> | Total | | | \$ <u>17,027</u> | 17,027 |
| APV Document No. | Obligating Document No. | Check No. | General Ledger Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PV629098 | 462017-OP | 308675 | \$ 6,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PV626402 | 463839-OP | 308333 | 2,438 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| OV222195 | 454674-OA | 294760 | 2,150 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PV628343 | 469233-OA | 307896 | 1,740 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PV634923 | 472876-OP | 312026 | 1,152 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| PV629745 | 468863-OP | 307792 | <u>3,547</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | | | \$ <u>17,027</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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

Effect: The effect of the above condition is noncompliance with established procurement regulations and questioned costs of \$17,027.

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

Auditee Response and Corrective Action Plan:

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

Corrective Action:

- Obligating document no. 462017-OP for \$6,000 - Sole source procurement of professional services for Next Generation Information Integrators was approved by Procurement and Supply because DEQ met the requirements of the CNMI-PR Section 3-106(2) for approval of a sole source procurement.
- Obligating document no. 463839-OP for \$2,438 - Cumulative expenditure drawn from the \$2,500 open account for repair and maintenance services at Joeten Motors Co., Inc.
- APV document no. OV222195 in the amount of \$2,150 cannot be found in DEQ's records. DEQ will continue to locate the documents.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-23, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|---|------------------|
| | <u>Auditee Response and Corrective Action Plan, Continued:</u> | |
| | Corrective Action, Continued: | |
| | <ul style="list-style-type: none"> • Obligating document no. 469233-OA for \$1,740 - DEQ will continue to seek and obtain rate quotations from an adequate number of available qualified sources. • Obligating document no. 472876-OP in the amount of \$1,152 is for an open account for rental of basic services and broadband internet services at Marianas CableVision. This is a back-up account for DEQ to ensure that email access is available should the DEQ primary internet access from PTI goes down. • Obligating document no. 468863-OP in the amount of \$3,547 is a cumulative expenditure drawn from DEQ's open account with PTI. | |
| | Proposed Completion Date: Ongoing | |
| | <u>Auditor Response:</u> | |
| | <ul style="list-style-type: none"> • Obligating document no. 462017-OP Additional quotations provided were obtained subsequent to the incurrence of the expenditures. There is no evidence that competitive procurement was utilized. Further, the appropriate use of sole source was not demonstrated. • Obligating document nos. 463839-OP, 472876-OP and 468863-OP Relevant documents supporting competitive procurement were not provided. | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-24

| Program | Reason for Questioned Costs | Questioned Costs |
|--|--|---|
| U.S. Department of Homeland Security / Disaster Grants - Public Assistance (Presidentially Declared Disasters) / CFDA #97.036 / Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion | <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> Of \$922,758 in non-payroll expenditures tested, we noted the following:</p> <ul style="list-style-type: none"> • For Typhoon Tingting (DR 1532) PW#118, public advertisement and bids from other contractors for contract 433418-OC were not provided. As such, related costs of \$5,795 are questioned. • For Typhoon Nabi (DR 1611) PW#12, quotations were obtained and a purchase order issued for services amounting to \$39,200 (ref. # 459332 OP) when CNMI Procurement Regulations stipulate that procurements exceeding \$10,000 requires competitive bidding. A justification stating the use of purchase order and not competitive bidding was not provided. As such, related costs of \$18,735 relating to federal share are questioned. • For Typhoon Pongsona (DR 1447) PW#19 (reference # 468650-OP and 469509-OP), PW#121 (reference #450637-OF), and PW#150 (reference #470254-OP), vendor was sole sourced when other vendors with similar capabilities exist. The related expenditures tested amounted to \$18,545. Of this total, \$9,304 relating to PW 150 has already been questioned at Finding No. 2007-19. As such, the remaining costs of \$9,241 relating to federal share are questioned. • For Typhoon Pongsona (DR 1447) PW #19, quotations were obtained and purchase orders issued for services amounting to \$53,396 (465339 OP and 465340 OP) when CNMI Procurement Regulations stipulate that anything exceeding \$10,000 requires competitive bidding. A justification stating the use of purchase orders and not the use competitive bidding was not provided. The related expenditures tested of \$47,156 relating to federal share are questioned. <p><u>Cause:</u> 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><u>Effect:</u> The effect of the above condition is noncompliance with established procurement regulations and questioned costs of \$80,927.</p> <p><u>Recommendation:</u> 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><u>Prior Year Status:</u> 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 through 2006.</p> | <p>5,795</p> <p>18,735</p> <p>9,241</p> <p>47,156</p> |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-24, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|---|-------------------------|
| | <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor</p> <p>Corrective Action: The Governor's Authorized Representative has updated the Public Assistance Guidelines to include procurement guidelines which ensures compliance with local and Federal procurement regulations. The Public Assistance Office will distribute to all agencies the updated Public Assistance Guidelines containing procurement guidelines which instruct the agencies to follow Federal and CNMI Procurement Regulations. Guidelines include but are not limited to provisions requiring: a) uniform solicitations of written quotations from a minimum of three vendors for all purchases under \$10,000, b) competitive, sealed bid procurement for purchases over \$10,000 and purchases of equipment over \$2,500, and c) ratification for any work completed without proper contract documentation.</p> <p>Proposed Completion Date: Ongoing</p> | |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Reporting

Finding No. 2007-25

| Program | Reason for Questioned Costs | | | | | | | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | |
|--|--|--|-------------------|---|---|-------------------------|-----------------|------------------|--------------------------------|--|-------------------|---|---|-------------------------|--|------|------------|------------|-----------|------------|------------|------|-----------------|------|------------|------------|----------|------------|------------|--------|
| U.S. Department of the Interior / Economic, Social, and Political Development of the Territories / CFDA #15.875 / Federal Award # Fiscal Years 1993 and 1996 - 2007 Appropriations Act / Federal Award Period Available Until Expended | <p><u>Criteria:</u> Total outlays reported to the grantor should correspond to amounts reported per the general ledger and amounts submitted to the grantor agency.</p> <p><u>Condition:</u> Of thirty-two business units of the Capital Projects Fund tested, two 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:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Business Unit</th> <th style="text-align: center;">Drawdown Per CIP Status Report</th> <th style="text-align: center;">Expenditure Per CIP Status Report (Federal Portion Only)</th> <th style="text-align: center;">Drawdown Variance</th> <th style="text-align: center;">Amount Per CIP Status Reports (Total Federal and Local)</th> <th style="text-align: center;">Amount Per GL (Total Federal and Local)</th> <th style="text-align: center;">General Ledger Variance</th> <th></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">5135</td> <td style="text-align: right;">\$ 171,170</td> <td style="text-align: right;">\$ 137,474</td> <td style="text-align: right;">\$ 33,696</td> <td style="text-align: right;">\$ 274,947</td> <td style="text-align: right;">\$ 274,947</td> <td style="text-align: right;">\$ -</td> <td rowspan="2" style="text-align: right; vertical-align: bottom;">33,696 7,500</td> </tr> <tr> <td style="text-align: center;">5222</td> <td style="text-align: right;">\$ 331,749</td> <td style="text-align: right;">\$ 324,249</td> <td style="text-align: right;">\$ 7,500</td> <td style="text-align: right;">\$ 324,249</td> <td style="text-align: right;">\$ 324,031</td> <td style="text-align: right;">\$ 218</td> </tr> </tbody> </table> | | | | | | | Business Unit | Drawdown Per CIP Status Report | Expenditure Per CIP Status Report (Federal Portion Only) | Drawdown Variance | Amount Per CIP Status Reports (Total Federal and Local) | Amount Per GL (Total Federal and Local) | General Ledger Variance | | 5135 | \$ 171,170 | \$ 137,474 | \$ 33,696 | \$ 274,947 | \$ 274,947 | \$ - | 33,696 7,500 | 5222 | \$ 331,749 | \$ 324,249 | \$ 7,500 | \$ 324,249 | \$ 324,031 | \$ 218 |
| Business Unit | Drawdown Per CIP Status Report | Expenditure Per CIP Status Report (Federal Portion Only) | Drawdown Variance | Amount Per CIP Status Reports (Total Federal and Local) | Amount Per GL (Total Federal and Local) | General Ledger Variance | | | | | | | | | | | | | | | | | | | | | | | | |
| 5135 | \$ 171,170 | \$ 137,474 | \$ 33,696 | \$ 274,947 | \$ 274,947 | \$ - | 33,696 7,500 | | | | | | | | | | | | | | | | | | | | | | | |
| 5222 | \$ 331,749 | \$ 324,249 | \$ 7,500 | \$ 324,249 | \$ 324,031 | \$ 218 | | | | | | | | | | | | | | | | | | | | | | | | |

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, an overdrawn amount and questioned costs of \$41,196 at September 30, 2007.

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 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of the Governor

Corrective Action: The CIP Administrator prepares the financial reports based on the general ledger transactions posted at the end of each semi-annual reporting period. The report, however, reflects actual drawdowns processed at the end of each semi-annual period which are not posted. The CIP Administrator will no longer include drawdown transactions processed to the grantor in the semi-annual report that are not posted in the general ledger. The CIP Administrator encourages the Division of Treasury to promptly post receipts of the drawdowns processed for transactions to be included in the report.

Proposed Completion Date: June 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Reporting

Finding No. 2007-26

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|--|---|--|--------|------|------------|-----------|--------|------|------------|--------|--------|------|------------|--------|--------|------|-----------|---------------|--|--|--|------------------|--------|
| U.S. Department of Homeland Security / Disaster Grants - Public Assistance (Presidentially Declared Disasters) / CFDA #97.036 / Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion | <p><u>Criteria:</u> Financial Status Reports (FEMA 20-10) and Federal Cash Transaction Reports (SF-272) should reflect actual expenditures at the proper cost share.</p> <p><u>Condition:</u> The State Management Administrative Cost (SMAC) related cost centers are reported as 100% federal share. Per tests of several payroll expenditures posted to the related cost centers, total eligible costs (both local and federal share) are being posted and thus should have been adjusted for the relevant cost share percentages when being reported on the FEMA 20-10 and SF 272 for the following:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>Cost Center</u></th> <th style="text-align: left;"><u>DR</u></th> <th style="text-align: right;"><u>Cumulative Costs at September 30, 2007</u></th> <th style="text-align: right;"><u>Federal share over reported by:</u></th> </tr> </thead> <tbody> <tr> <td>M31447</td> <td>1447</td> <td style="text-align: right;">\$ 294,762</td> <td style="text-align: right;">\$ 29,476</td> </tr> <tr> <td>M30360</td> <td>1532</td> <td style="text-align: right;">\$ 156,013</td> <td style="text-align: right;">15,601</td> </tr> <tr> <td>M40366</td> <td>1541</td> <td style="text-align: right;">\$ 284,035</td> <td style="text-align: right;">28,404</td> </tr> <tr> <td>M60360</td> <td>1611</td> <td style="text-align: right;">\$ 61,337</td> <td style="text-align: right;"><u>15,334</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>\$ 88,815</u></td> </tr> </tbody> </table> | <u>Cost Center</u> | <u>DR</u> | <u>Cumulative Costs at September 30, 2007</u> | <u>Federal share over reported by:</u> | M31447 | 1447 | \$ 294,762 | \$ 29,476 | M30360 | 1532 | \$ 156,013 | 15,601 | M40366 | 1541 | \$ 284,035 | 28,404 | M60360 | 1611 | \$ 61,337 | <u>15,334</u> | | | | <u>\$ 88,815</u> | 88,815 |
| <u>Cost Center</u> | <u>DR</u> | <u>Cumulative Costs at September 30, 2007</u> | <u>Federal share over reported by:</u> | | | | | | | | | | | | | | | | | | | | | | | |
| M31447 | 1447 | \$ 294,762 | \$ 29,476 | | | | | | | | | | | | | | | | | | | | | | | |
| M30360 | 1532 | \$ 156,013 | 15,601 | | | | | | | | | | | | | | | | | | | | | | | |
| M40366 | 1541 | \$ 284,035 | 28,404 | | | | | | | | | | | | | | | | | | | | | | | |
| M60360 | 1611 | \$ 61,337 | <u>15,334</u> | | | | | | | | | | | | | | | | | | | | | | | |
| | | | <u>\$ 88,815</u> | | | | | | | | | | | | | | | | | | | | | | | |

Furthermore, per final report (FEMA 20-10 and SF 272) for the period ended December 31, 2007 submitted for DR 1447, the cumulative SMAC expenditures as of December 31, 2007 is \$298,876 resulting in the federal share being over reported by \$29,888.

Cause: The cause of the above condition is the lack of coordination and communication between the Public Assistance Office (which is responsible for indicating the general ledger accounts to be charged) and the Department of Finance - Federal Grants Division (which is responsible for the preparation of the Federal reports).

Effect: The effect of the above condition is noncompliance with reporting requirements and questioned costs of \$88,815.

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

Prior Year Status: 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 was reported as a finding in the Single Audit of the CNMI for fiscal year 2006.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-26, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|------------------------------------|-------------------------|
|----------------|------------------------------------|-------------------------|

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The Governor's Authorized Representative agrees with this finding. It has been the practice that all state management administrative costs are paid 100% from the associated federal cost centers. Local matching funds are transferred into these cost centers at various times throughout the fiscal year. The budget amount for these cost centers will be amended to reflect the 100% grant amount. The Public Assistance Office will obtain written verification from FEMA Region IX that this established practice is permissible. The Governor's Authorized Representative has submitted a request to the Division of Finance and Accounting and the Office of Management and Budget to show the budget level of the state management administrative cost centers at the 100% level.

Proposed Completion Date: September 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Special Tests and Provisions

Finding No. 2007-27

| Program | Reason for Questioned Costs | Questioned Costs |
|--|--|------------------|
| <p>U.S. Department of Health and Human Services / Medical Assistance Program / CFDA #93.778 / Federal Award # 05-0405CQ5028 / Federal Award Period 10/01/06 - 09/30/07</p> | <p>Criteria: In accordance with Section 4.7 of the Medicaid Operational Plan, Medicaid must maintain agreements with all providers in the CNMI and Guam who furnish reimbursable services. 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>Condition: The service provider agreement with Commonwealth Health Center (CHC) covered only the period from April 1, 2005 to March 31, 2006 and January 1, 2007 to January 1, 2008. The agreement covering the period April 1, 2006 to December 31, 2006 could not be provided. Of total program expenditures of \$4,713,098 at September 30, 2007, professional services of \$3,098,902 were tested. Of ninety-three items tested, twenty-seven items totaling \$251,170 pertain to expenditures incurred during the period not covered by the service agreement.</p> <p>Cause: The cause of the above condition is the lack of file maintenance and the lack of adequate procedures to ensure service agreements are renewed in a timely manner.</p> <p>Effect: The effect of the above condition is questioned costs of \$251,170.</p> <p>Recommendation: We recommend that the Medicaid office ensure all service provider agreements are kept current, are filed and are properly maintained.</p> <p>Prior Year Status: The lack of proper file maintenance was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Helen C. Sablan, Medicaid Administrator</p> <p>Corrective Action: We agree with the finding. The Provider Agreement application form for the Commonwealth Health Center was with the former legal counsel who resigned and was unable to retrieve. However, the Commonwealth Health Center is the only hospital that accepts our Medicaid recipients and therefore, they have no place to go.</p> <p>Proposed Completion Date: N/A</p> | <p>251,170</p> |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Special Tests and Provisions

Finding No. 2007-28

| Program | Reason for Questioned Costs | Questioned Costs |
|--|---|------------------|
| U.S. Department of Homeland Security / Disaster Grants - Public Assistance (Presidentially Declared Disasters) / CFDA #97.036 / Federal Award #s 1532DRMPP00000001, 1541DRMPP00000001 and 1611DRMPP00000001 / Federal Award Periods 07/29/04 through completion, 08/26/04 through completion and 11/08/05 through completion | <p><u>Criteria:</u> In accordance with 44 CRF Section 206.205, the State is required to make an accounting to FEMA of eligible costs for each approved large project. Similarly, the subgrantee must make an accounting to the State. In submitting the accounting, the entity is required to certify that reported costs were incurred in performance of eligible work, that the approved work was completed, that the project is in compliance with the provisions of the FEMA-State Agreement, and that payments for that project were made in accordance with the 44 CFR section 13.21 payment provisions. Each large project shall be submitted as soon as practicable after the subgrantee has completed the approved work and requested payment.</p> <p><u>Condition:</u> Of sixteen large projects tested for Typhoon Pongsona, MP03PA1447, that closed on June 30, 2007, we noted the following:</p> <ul style="list-style-type: none"> We were not provided the individual project completion notices and project status worksheets to test for financial reconciliation with the State's accounting records in ensuring that the appropriate payments have been made for the following: | |

| <u>Applicant</u> | <u>PW #</u> | <u>Project Amount</u> |
|------------------|-------------|-----------------------|
| EMO | 179 | \$ 126,703 |
| CUC | 185 | \$ 129,741 |
| CUC | 197 | \$ 541,704 |
| CUC | 202 | \$ 164,580 |
| NMHC | 2 | \$ 70,702 |
| PSS - ROTA HS | 72 | \$ 302,431 |
| PSS - ROTA HS | 212 | \$ 88,400 |
| DPW - ROTA | 143 | \$ 545,745 |
| DPW - ROTA | 134 | \$ 126,239 |
| PAO | 204 | \$ 298,895 |

Of the above projects, we were not provided the P.4 project certification required to be made to FEMA for PW 179, 185, 197, 202, 2, 143, 134 and 204.

- A portion of actual costs certified to FEMA through the P.4 report for project completion has not been encumbered, accrued, or paid per the State's records as of September 30, 2007, for the following:

| <u>Applicant</u> | <u>PW #</u> | <u>Project Amount</u> | <u>Document Ref (not found in CNMI books)</u> | <u>Amount</u> |
|------------------|-------------|-----------------------|---|-----------------|
| Rota - DLNR | 19 | \$ 69,702 | 465287 OP 466022/466019/427293/43 | \$ 3,167 |
| Rota - DPW | 133 | \$ 141,713 | 4642 OF and 464767 OP | <u>4,165</u> |
| | | | | <u>\$ 7,332</u> |

- We noted under runs for one large project. The amount of expenditures incurred per CNMI records is less than the amount certified to the grantor for project closeout. The CNMI had drawn down remaining funds, which are based on capped amounts certified to FEMA, for this disaster as of October 2007. We were not provided cancelled checks for payment to reimburse FEMA for the underrun or grantor approval waiving the requirement to reimburse any underruns for large projects. Details are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-28, Continued

| Program | Reason for Questioned Costs | | | | | Questioned Costs |
|------------------------------|--|-------------|-----------------------|---------------------------------|-----------------|---------------------|
| <u>Condition, Continued:</u> | | | | | | |
| | <u>Applicant</u> | <u>PW #</u> | <u>Project Amount</u> | <u>Reconciled to CNMI Books</u> | <u>Underrun</u> | |
| | PSS | 91 | \$ 324,157 | \$ 311,043 | \$ (13,114) | 13,114 |
| | <ul style="list-style-type: none"> Amount of unliquidated obligations reported to FEMA per FEMA 20-10 as of 06/30/07 (disaster closing date) is \$100,794. Liquidated expenditures reported per the SF 272 for the quarters ended 09/30/07 and 12/31/07 are \$42,408 and \$12,090 respectively. Due to the lack of project completion notices and/or project status worksheets for the large projects noted above, we are unable to determine if expenditures liquidated after 06/30/07 are compliant with the disaster's close out reconciliation requirements. Of three large projects tested for Typhoon Nabi, 1611DRMPP00000001, for which Category A & B projects should have been completed by year end, we were not provided the project completion notice for PW 12 (Category A; FIPS #110-99110-02) or grantor approval of project period extension, if applicable. | | | | | |
| | <u>Cause:</u> The cause of the above condition is the lack of timely preparation of the necessary project completion notices and project status reports by the Public Assistance Office to ensure compliance of project close-out and reconciliation to State accounting records. | | | | | |
| | <u>Effect:</u> The effect of the above condition is questioned costs of \$13,114. 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. | | | | | |
| | <u>Recommendation:</u> We recommend that the Public Assistance Office implement procedures to ensure that project completion notices and project status reports are prepared on a timely basis to ensure proper financial management and reporting of federal funds. | | | | | |
| | <u>Auditee Response and Corrective Action Plan:</u> | | | | | |
| | Name of Contact Person: Virginia Villagomez, Governor's Authorized Representative, Office of the Governor | | | | | |
| | Corrective Action: The Governor's Authorized Representative agrees with this finding. The Governor's Authorized Representative will review and make revisions to existing procedures regarding Quarterly Reporting and Project Completion Notices procedures. Revised procedures will require timely project status reports and project completion notices from both the grantee and subgrantee. These procedures will then be provided to the Public Assistance Office staff and all agencies and will stipulate timely submissions. | | | | | |
| | Proposed Completion Date: Ongoing | | | | | |
| | Total Questioned Costs | | | | | \$ <u>2,213,809</u> |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Transportation
Allowable Costs/Cost Principles - Highway Planning and Construction
CFDA #20.205, Federal Award # 0075(006)
Federal Award Period Available Until Expended

Finding No. 2007-29

Criteria: OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B, Section 11.h (4) states that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency. Such documentary report will be required where employees work on more than one Federal award or a Federal award and a non-Federal award.

Further, under Section 11.h (5) of OMB Circular A-87 Attachment B, personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee;
- (b) They must account for the total activity, for which each employee is compensated;
- (c) They must be prepared at least monthly and must coincide with one or more pay periods;
and
- (d) They must be signed by the employee.

Condition: During tests of payroll expenditures charged to the Federal-Aid Highway Program, the personnel activity reports for three of eight employees tested were not available. Details are as follows:

| <u>Employee No.</u> | <u>Payroll Period Ending</u> |
|---------------------|------------------------------|
| 478529 | 10/14/06 and 11/25/06 |
| 516208 | 04/14/07 |

Fifty percent of the total salaries and wages of the above employees were charged to the Federal-Aid Highway Program.

Cause: The cause of the above condition is the lack of monitoring procedures to ensure that employees working on more than one federal award or a federal award and a non-federal award prepare the required payroll activity report.

Effect: The effect of the above condition is noncompliance with the provisions of OMB Circular A-87 Attachment B sections 11.h (4) and (5) and questioned costs of \$2,590. The \$2,590 has been included in the questioned costs of \$132,468 in Finding No. 2007-17.

Recommendation: We recommend the Department of Public Works ensure that personnel activity reports or equivalent documentation to reflect after-the-fact distributions of the actual activity of each employee are prepared and maintained for all employees who work on more than one federal award or on a federal award and a non-federal award.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-29, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Winnie P. Taitano, Program Coordinator

Corrective Action: We will enforce the required documentation, preparation and filing procedures of activity reports for all employees who perform work on one or more federally funded award or on a federal award and a non-federal award to meet the required standards. Further, we will issue a memo to all DPW employees to comply with the required documentation.

Proposed Completion Date: June 5, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Cash Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-30

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

Condition: For seven of ten nonpayroll samples tested, the following were paid out between eight to one hundred twenty-six days after the allowable clearance pattern from the date federal funds were credited to the CNMI's account:

| <u>Document No.</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> |
|---------------------|---------------|---------------------|-----------------------------|---------------------------|---|
| PV615164 | \$ 17,788 | 304433 | 06/01/07 | 11/28/06 | 126 |
| PV618237 | \$ 2,615 | 302701 | 01/18/07 | 12/28/06 | 8 |
| PV590705 | \$ 13,212 | 303542 | 01/30/07 | 12/28/06 | 16 |
| | | 304402 | 03/30/07 | 12/28/06 | 59 |
| | | 305799 | 03/30/07 | 12/28/06 | 59 |
| PV590707 | \$ 7,200 | 310522 | 07/11/07 | 04/27/07 | 46 |
| | | 311667 | 08/08/07 | 04/27/07 | 66 |
| | | 313166 | 09/07/07 | 04/27/07 | 88 |
| PV619384 | \$ 1,090 | 304491 | 03/23/07 | 02/01/07 | 29 |
| PV590706 | \$ 4,800 | 308963 | 05/29/07 | 04/27/07 | 15 |
| | | 309411 | 06/28/07 | 04/27/07 | 37 |
| PV590126 | \$ 1,057 | 301186 | 02/08/07 | 11/28/06 | 45 |

In addition, during fiscal year 2007, the CNMI remitted the employer shares of retirement contributions of \$1,753,374. Of the total amount, the Food Stamps program's retirement contribution totaling \$132,105 was tested. The following were paid after the allowable clearance patterns from the date federal funds were credited to the CNMI's account:

| <u>PPE No.</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> |
|----------------|---------------|---------------------|-----------------------------|---------------------------|---|
| 10/14/06 | \$ 4,566 | 310054 | 6/27/07 | 11/29/06 | 203 |
| 10/28/06 | \$ 4,571 | 310055 | 6/26/07 | 11/29/06 | 202 |
| 11/11/06 | \$ 4,523 | 310056 | 6/26/07 | 11/29/06 | 202 |
| 11/25/06 | \$ 4,890 | 310057 | 6/26/07 | 01/04/07 | 166 |
| 12/09/06 | \$ 4,673 | 310058 | 6/26/07 | 01/04/07 | 166 |
| 12/23/06 | \$ 4,697 | 310059 | 6/26/07 | 01/04/07 | 166 |
| 01/06/07 | \$ 4,709 | 310060 | 6/26/07 | 02/02/07 | 137 |
| 01/20/07 | \$ 4,722 | 310061 | 6/26/07 | 02/02/07 | 137 |
| 02/03/07 | \$ 4,709 | 310062 | 6/26/07 | 03/30/07 | 81 |
| 02/17/07 | \$ 4,678 | 310063 | 6/26/07 | 03/30/07 | 81 |
| 03/03/07 | \$ 4,718 | 310064 | 6/26/07 | 03/30/07 | 81 |
| 03/17/07 | \$ 4,843 | 310065 | 6/26/07 | 03/30/07 | 81 |
| 03/31/07 | \$ 4,862 | 310066 | 6/26/07 | 04/30/07 | 50 |
| 04/14/07 | \$ 8,288 | 311833 | 8/14/07 | 04/30/07 | 50 |
| 04/28/07 | \$ 4,862 | 311834 | 8/14/07 | 05/24/07 | 99 |
| 05/12/07 | \$ 5,402 | 311835 | 8/14/07 | 05/24/07 | 75 |
| 05/26/07 | \$ 4,913 | 311836 | 8/14/07 | 07/09/07 | 29 |
| 06/09/07 | \$ 5,887 | 311837 | 8/14/07 | 07/09/07 | 29 |
| 06/23/07 | \$ 5,108 | 311838 | 8/14/07 | 07/09/07 | 29 |
| 07/07/07 | \$ 5,272 | 311839 | 8/14/07 | 08/06/07 | 1 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-30, Continued

| <u>PPE No.</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> |
|----------------|---------------|---------------------|-----------------------------|---------------------------|---|
| 07/21/07 | \$ 5,340 | 311840 | 8/14/07 | 08/06/07 | 1 |
| 08/04/07 | \$ 4,955 | 317757 | 12/4/07 | 09/04/07 | 26 |
| 08/18/07 | \$ 5,734 | 317758 | 12/4/07 | 09/04/07 | 26 |
| 09/01/07 | \$ 4,775 | 317759 | 12/04/07 | 09/18/07 | 12 |

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

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$1,790 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Agriculture is less than \$10,000.

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

Auditee Response and Corrective Action Plan:

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

Auditee Response and Corrective Action Plan, Continued:

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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows deferred revenue balances as of the audit date of \$41,458 for CFDA #10.551 (U.S. Department of Agriculture).

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, 2007

U.S. Department of Transportation
Cash Management - Highway Planning and Construction
CFDA #20.205, Federal Award # 0075(006)
Federal Award Period Available Until Expended

Finding No. 2007-31

Criteria: In accordance with OMB Circular A-133, Part III, Compliance Requirements - Cash Management, when entities 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 three of seven samples tested related to the Federal-Aid Highway Program, the following disbursements were cleared after the allowable clearance pattern from the date funds were received from the grantor agency:

| <u>APV No.</u> | <u>Check No.</u> | <u>Amount</u> | <u>Cash Receipts Date</u> | <u>Check Clearance Date</u> | <u>Days Elapsed After the Allowable Clearance Pattern</u> |
|----------------|------------------|---------------|---------------------------|-----------------------------|---|
| 613537 | 300975 | \$ 351,348 | 11/03/06 | 11/27/06 | 21 |
| 613535 | 300976 | \$ 123,290 | 11/03/06 | 11/27/06 | 21 |
| 623607 | 308087 | \$ 41,738 | 03/15/07 | 05/01/07 | 44 |

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

Effect: The effect of the above condition is noncompliance with grant requirements relating to cash management. An interest liability of \$1,644 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Transportation is less than \$10,000.

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: 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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-31, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$734,571 for CFDA #20.205 (U.S. Department of Transportation).

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, 2007

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

Finding No. 2007-32

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

Condition: For seven of thirty-five nonpayroll samples tested, the following were paid out 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> |
|-------------------|---------------|---------------------|-----------------------------|---------------------------|---|
| OV222195 | \$ 2,150 | 294760 | 09/30/07 | 06/15/07 | 97 |
| PV589644 | \$ 2,683 | 303175 | 09/30/07 | 02/20/07 | 212 |
| PV616502 | \$ 1,224 | 304310 | 03/05/07 | 02/20/07 | 3 |
| PV626402 | \$ 2,438 | 308333 | 07/02/07 | 06/15/07 | 7 |
| PV634923 | \$ 1,153 | 312026 | 09/05/07 | 08/06/07 | 20 |
| PV634951 | \$ 22,416 | 311382 | 08/06/07 | 06/15/07 | 42 |
| PV640209 | \$ 4,339 | 315190 | 10/08/07 | 09/19/07 | 9 |

In addition, during fiscal year 2007, the CNMI remitted the employer share of retirement contributions of \$1,753,374. Of the total amount, the Environmental Protection Consolidated Grants-Program Support retirement contribution totaling \$266,984 was tested. The following were paid after the allowable clearance patters from the date federal funds were credited to the CNMI's account:

| <u>PPE No.</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> |
|----------------|---------------|---------------------|-----------------------------|---------------------------|---|
| 10/14/06 | \$ 10,360 | 310054 | 6/27/07 | 02/20/07 | 117 |
| 10/28/06 | \$ 10,734 | 310055 | 6/26/07 | 02/20/07 | 116 |
| 11/11/06 | \$ 10,758 | 310056 | 6/26/07 | 02/20/07 | 116 |
| 11/25/06 | \$ 10,756 | 310057 | 6/26/07 | 02/20/07 | 116 |
| 12/09/06 | \$ 10,647 | 310058 | 6/26/07 | 02/20/07 | 116 |
| 12/23/06 | \$ 5,650 | 310059 | 6/26/07 | 02/20/07 | 116 |
| 01/06/07 | \$ 10,127 | 310060 | 6/26/07 | 06/15/07 | 1 |
| 01/20/07 | \$ 11,062 | 310061 | 6/26/07 | 06/15/07 | 1 |
| 02/03/07 | \$ 10,628 | 310062 | 6/26/07 | 06/15/07 | 1 |
| 02/17/07 | \$ 10,470 | 310063 | 6/26/07 | 06/15/07 | 1 |
| 03/03/07 | \$ 10,495 | 310064 | 6/26/07 | 06/15/07 | 1 |
| 03/17/07 | \$ 10,375 | 310065 | 6/26/07 | 06/15/07 | 1 |
| 03/31/07 | \$ 10,265 | 310066 | 6/26/07 | 06/15/07 | 1 |
| 08/18/07 | \$ 10,778 | 317757 | 12/4/07 | 09/19/07 | 11 |
| 08/18/07 | \$ 10,762 | 317758 | 12/4/07 | 09/19/07 | 11 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-32, Continued

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

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$1,065 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Environmental Protection Agency is less than \$10,000.

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: 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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$45,973 for CFDA #66.600 (U.S. Environmental Protection Agency).

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, 2007

U.S. Department of Health and Human Services
Cash Management - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-33

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

Condition: For sixty-four of ninety-three samples tested, disbursement checks were released and cleared from five to two hundred forty days after cash was received from the grantor agency, 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> |
|-------------------|---------------|---------------------|-----------------------------|---------------------------|---|
| 460686 | \$ 43,208 | 305468 | 03/09/07 | 02/22/07 | 5 |
| 460687 | \$ 30,138 | 305468 | 03/09/07 | 02/22/07 | 5 |
| 464451 | \$ 32,678 | 311859 | 08/30/07 | 03/29/07 | 144 |
| 464475 | \$ 33,205 | 311786 | 12/04/07 | 03/29/07 | 240 |
| 467081 | \$ 45,458 | 308234 | 06/13/07 | 04/25/07 | 39 |
| 447026 | \$ 20,836 | 302228 | 01/04/07 | 10/24/06 | 62 |
| 453361 | \$ 26,876 | 306902 | 03/30/07 | 12/20/06 | 90 |
| 453364 | \$ 16,068 | 306902 | 03/30/07 | 12/20/06 | 90 |
| 453366 | \$ 19,344 | 306902 | 03/30/07 | 12/20/06 | 90 |
| 453373 | \$ 14,084 | 306902 | 03/30/07 | 12/20/06 | 90 |
| 453382 | \$ 20,324 | 306902 | 03/30/07 | 12/20/06 | 90 |
| 453384 | \$ 12,405 | 308232 | 05/03/07 | 12/20/06 | 124 |
| 453388 | \$ 25,761 | 308232 | 05/14/07 | 12/20/06 | 135 |
| 454851 | \$ 16,591 | 303551 | 02/05/07 | 01/09/07 | 17 |
| 454867 | \$ 13,048 | 304269 | 02/19/07 | 01/09/07 | 31 |
| 454872 | \$ 15,192 | 305590 | 03/15/07 | 01/09/07 | 55 |
| 462687 | \$ 12,634 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462711 | \$ 12,132 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462714 | \$ 12,042 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462717 | \$ 13,122 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462719 | \$ 12,607 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462722 | \$ 10,770 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462724 | \$ 13,297 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462727 | \$ 12,140 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462728 | \$ 11,300 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462747 | \$ 12,536 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462750 | \$ 10,558 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462751 | \$ 13,092 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462755 | \$ 12,723 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 462758 | \$ 11,846 | 308214 | 05/04/07 | 03/29/07 | 26 |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-33, Continued

Condition, Continued:

| <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> |
|-------------------|---------------|---------------------|-----------------------------|---------------------------|---|
| 463363 | \$ 13,986 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 463365 | \$ 11,355 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 463366 | \$ 10,484 | 308214 | 05/04/07 | 03/29/07 | 26 |
| 463368 | \$ 15,916 | 308232 | 05/14/07 | 03/29/07 | 36 |
| 463370 | \$ 12,406 | 308232 | 05/14/07 | 03/29/07 | 36 |
| 464453 | \$ 18,574 | 311859 | 08/30/07 | 03/29/07 | 144 |
| 464454 | \$ 15,448 | 311859 | 08/30/07 | 03/29/07 | 144 |
| 465681 | \$ 13,447 | 308232 | 05/14/07 | 03/29/07 | 36 |
| 467078 | \$ 20,314 | 308234 | 06/13/07 | 04/25/07 | 39 |
| 467222 | \$ 13,911 | 309459 | 06/08/07 | 04/25/07 | 34 |
| 467225 | \$ 10,841 | 309459 | 06/08/07 | 04/25/07 | 34 |
| 467227 | \$ 11,769 | 309459 | 06/08/07 | 04/25/07 | 34 |
| 467230 | \$ 10,591 | 309459 | 06/08/07 | 04/25/07 | 34 |
| 467234 | \$ 11,478 | 309459 | 06/08/07 | 04/25/07 | 34 |
| 467247 | \$ 11,743 | 308827 | 05/22/07 | 04/25/07 | 17 |
| 468339 | \$ 15,406 | 311877 | 08/20/07 | 06/12/07 | 59 |
| 468341 | \$ 12,356 | 311877 | 08/20/07 | 06/12/07 | 59 |
| 471850 | \$ 14,187 | 310026 | 06/27/07 | 06/12/07 | 5 |
| 472944 | \$ 11,105 | 311673 | 08/21/07 | 07/31/07 | 11 |
| 478351 | \$ 18,949 | 314433 | 1/9/2008 | 08/31/07 | 121 |
| 478455 | \$ 19,962 | 313025 | 12/04/07 | 08/31/07 | 85 |
| 478555 | \$ 12,854 | 314006 | 9/19/2007 | 08/31/07 | 9 |
| 478560 | \$ 12,734 | 314006 | 9/19/2007 | 08/31/07 | 9 |
| 478566 | \$ 14,922 | 314006 | 9/19/2007 | 08/31/07 | 9 |
| 478569 | \$ 10,616 | 314006 | 9/19/2007 | 08/31/07 | 9 |
| 478583 | \$ 11,211 | 314006 | 9/19/2007 | 08/31/07 | 9 |
| 478588 | \$ 12,592 | 314006 | 9/19/2007 | 08/31/07 | 9 |
| 478591 | \$ 11,540 | 314006 | 9/19/2007 | 08/31/07 | 9 |
| 478594 | \$ 13,673 | 314006 | 9/19/2007 | 08/31/07 | 9 |
| 447342 | \$ 16,240 | 300563 | 11/27/06 | 10/24/06 | 24 |
| 617120 | \$ 18,450 | 302607 | 01/18/07 | 12/20/06 | 19 |
| 460248 | \$ 2,835 | 308424 | 05/11/07 | 02/22/07 | 68 |
| 616641 | \$ 1,376 | 302373 | 01/08/07 | 12/08/06 | 21 |
| 462417 | \$ 5,208 | 305904 | 03/14/07 | 02/22/07 | 10 |

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 in accordance with the requirement of the Cash Management Improvement Act Agreement.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$7,160 exists. However, no question costs result as the projected interest liability to the U.S. Department of Health and Human Services is below \$10,000.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-33, Continued

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: 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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$522,490 for CFDA #93.778 (U.S. Department of Health and Human Services).

In the case of Medicaid, we disagree that we receive advance funds. Due to insufficient funding because of the cap on the Federal share, the Commonwealth Health Center (CHC) does not receive Medicaid reimbursements so that grant funds can be utilized to pay non governmental providers. When draw downs are requested, CHC has already spent many times more than the drawdown amount on Medicaid services. Rather than reimburse CHC, grant and matching funds are used to pay non CNMI Government vendors.

Proposed Completion Date: 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, 2007

U.S. Department of Homeland Security

Cash Management - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

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

Finding No. 2007-34

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

Condition: Of total disbursements of \$932,923 related to large projects, funds advanced were not disbursed within the allowable clearance pattern after receipt of drawdown for the following:

| <u>Document Number</u> | <u>DR Reference</u> | <u>Cost Center</u> | <u>Cash Receipt Date</u> | <u>Check Clearance Date</u> | <u>Days Elapsed After the Allowable Clearance Pattern</u> |
|------------------------|---------------------|--------------------|--------------------------|-----------------------------|---|
| 613575 | 1447 | M3544G | 12/28/06 | 02/13/07 | 34 |
| 627008 | 1447 | M3544J | 04/02/07 | 08/09/07 | 116 |
| 629807 | 1447 | M3544J | 05/10/07 | 09/28/07 | 128 |
| 630412 | 1447 | M3544J | 05/10/07 | 09/28/07 | 128 |
| 635726 | 1447 | M3544J | 07/31/07 | 09/28/07 | 46 |
| 615797 | 1541 | M4036E | 12/28/06 | 04/30/07 | 110 |
| 622989 | 1541 | M4036E | 04/02/07 | 06/21/07 | 67 |
| 630785 | 1541 | M4036E | 05/10/07 | 09/13/07 | 113 |
| 628789 | 1541 | M4036S | 05/10/07 | 08/09/07 | 78 |
| 625507 | 1611 | M6036F | 04/02/07 | 06/25/07 | 71 |
| 590133 | 1611 | M6036M | 12/28/06 | 02/21/07 | 42 |

Cause: The cause of the above condition is lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner and that drawdown balances for projects are updated in a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$3,878 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Homeland Security is less than \$10,000.

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

Prior Year Status: The lack of compliance with federal cash management rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-34, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: 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 (FY2007) shows receivables from Federal agencies of \$10,370,308 for categorical grants and \$7,786,696 for capital improvement projects as of September 30, 2007.

We will review our procedures with appropriate staff to minimize the timing differences, however, we feel the audit technique of selecting specific invoices is flawed in that the overall program expenditures versus draw downs is not considered. The federal agency may not have made payments for other expenditures in the program. The audit report shows receivable balances as of the audit date of \$127,133 for CFDA #97.036 (U.S. Department of Homeland Security).

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, 2007

U.S. Department of Transportation
Davis-Bacon Act - Highway Planning and Construction
CFDA #20.205, Federal Award #s 0036(002) and 3000(003)
Federal Award Period Available Until Expended

Finding No. 2007-35

Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements – Davis-Bacon Act, when required by the Davis-Bacon Act, the Department of Labor’s (DOL) government-wide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL . Further, non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance

Also, the CNMI Department of Public Works (DPW) has implemented project monitoring procedures in that selected DPW personnel will perform random interviews of the contractor’s employees at job sites to ascertain contractor’s compliance with the Davis-Bacon Act.

Condition: For two construction contracts tested, reports or equivalent evidencing that DPW personnel performed interviews of contractor’s employees at jobsites (contract #s 434541-OC and 438454-OC) were not available.

Cause: The cause of the condition is the lack of adherence to established policies and procedures to ensure that contractors and subcontractors are complying with the Davis-Bacon Act.

Effect: The effect of the above condition is potential noncompliance with Davis-Bacon Act requirements and potential noncompliance with established project monitoring policies and procedures.

Recommendation: We recommend that the Department of Public Works ensure that the requirements of the Davis-Bacon Act are met. Further, we recommend that established policies and procedures to monitor compliance with Davis-Bacon act are followed.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Mark W. Flores, Project Coordinator

Corrective Action: All future project interviews will be conducted by Mr. Mark Flores or a designated representative of the Department of Public Works. Training with the Department of Labor on the policies and procedures of the Davis-Bacon Act will be coordinated and scheduled by the Department of Public Works. Interview reports and forms shall be properly filed and maintained for each project.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Health and Human Services
Eligibility - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-36

Criteria: Sufficient controls should be in place to ensure that a complete, updated and reliable eligibility database is maintained and 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. Updates to the database are made by eligibility workers. Independent reviews or verification of the information posted to the database is performed during the annual renewal or new application eligibility determination process. However, there is no evidence that changes in the database subsequent to issuance of Medicaid cards are reviewed and approved by the Program Director.

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 all changes in the eligibility database are approved by the Program Director. We also recommend that the Medicaid Program consider conducting a spot check on a sample of posted information and trace such to original manual documents in addition to the verification performed during the annual eligibility determination or renewal process to deter possible unauthorized changes made subsequent to eligibility determination. 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 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We agree with the finding. All changes in the eligibility database will be reviewed and approved by the Program Director. We will create the policies and procedures.

Proposed Completion Date: September 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Equipment and Real Property Management - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-37

Criteria: 7 CFR Section 3016.32 (d) states that procedures for managing equipment, whether acquired in whole or in part with grant funds will meet the following requirements, among others:

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

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

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

- Property records maintained by NAP did not indicate the acquisition date of the properties.
- Reconciliation of property records was not performed by P&S after the biennial physical inventory was taken.
- Unit cost information on certain fixed asset items is not consistent between the NAP records and the P&S records.

Further, physical inventory was not performed annually as required by the CNMI Property Management Policies and Procedures.

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

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-37, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Herman S. Sablan, Director, Division of Procurement and Supply and Eleanor Cruz, Administrator, Nutrition Assistance Program, Department of Community & Cultural Affairs

Corrective Action:

- We have submitted our inventory of all the property items at NAP with the date of acquisition for every item.
- We will be working with the Procurement and Supply Office to ensure that the reconciliation of the NAP properties will be done for the latest inventory that we complete on June 30, 2008. A request has been sent to Procurement and Supply to conduct their reconciliation.
- As indicated on the latest inventory conducted by NAP in June 2008, all unit costs of NAP fixed asset items are consistent with the Procurement and Supply Office.
- The annual inventory for FY08 will be conducted by NAP no later than September 30, 2008 to comply with Section III page 10 of the CNMI Property Management Policies and Procedures.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Transportation
Equipment and Real Property Management - Highway Planning and Construction
CFDA #20.205, Federal Award # 3000(003)
Federal Award Period Available Until Expended

Finding No. 2007-38

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

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

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

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

- DPW does not maintain property records of equipment and property held within the department.
- P&S maintained records of equipment and property held by DPW. However, the property records did not include information as to the cost, use and condition of the property and who holds title to the property.
- A physical inventory was not performed during fiscal year 2007. The physical inventory was last performed during fiscal year 2002.
- Of eight items tested for physical existence, one item (ref. US-30776CM) cannot be located.

While there were no expenditures relating to equipment purchases during fiscal year 2007, equipment was purchased in prior years with Federal-aid Highway Program funds.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-38, Continued

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

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 the required inventory procedures of its fixed assets and ensure compliance with applicable federal and local rules and regulations.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Herman S. Sablan, Director, Division of Procurement and Supply and Gerald P. Reyes, Fiscal Specialist, Department of Public Works

Corrective Action:

Division of Procurement and Supply: Recommendation accepted. Effectively immediately.

Department of Public Works: We will conduct a physical inventory of equipment and property maintained by the Department of Public Works, reconcile detailed listing of property records/data and establish control procedures for monitoring and maintenance of property files and equipment.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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

Finding No. 2007-39

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

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

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

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

- DEQ and P&S did not reconcile their property records. The property records maintained by DEQ are lower by \$528,960 compared to the property records maintained by P&S.
- Property records maintained by DEQ have incomplete information as to acquisition cost and property number. Further, DEQ's listing did not include the acquisition date and the location of the property.
- Property records maintained by P&S have incomplete information as to acquisition cost and did not include the location of the property.
- DEQ and P&S did not conduct a physical count during fiscal year 2007. The last physical inventory was conducted during fiscal year 2006.
- Of 20 items tested for physical existence, two (ref. CNMI-FA00100, US-32284CM) items were not tagged to indicate ownership of the property.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-39, Continued

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Herman S. Sablan, Director, Division of Procurement and Supply and Frank M. Rabauliman, Director, Division of Environmental Quality

Corrective Action:

Division of Procurement and Supply: Recommendation accepted. Effectively immediately.

Division of Environmental Quality: The Division of Environmental Quality (DEQ) submitted an updated inventory listing to the Division of Procurement and Supply (P&S) on March 20, 2008. DEQ informed P&S that several items that were surveyed in the past still appear on their list. P&S conducted a physical inventory of all DEQ properties at DEQ in April 2008. P&S will reconcile the listings with DEQ once P&S finalizes their inventory listing.

DEQ will work with P&S in completing information as to acquisition cost, acquisition date, property number and location of property.

DEQ did conduct a physical count during fiscal year 2007.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Equipment and Real Property Management - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

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

Finding No. 2007-40

Criteria: 44 CFR Section 13.32 (d) 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 that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;
- c. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
- d. Adequate maintenance procedures must be developed to keep the property in good condition; and
- e. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

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

Condition: Although a property listing is maintained at the Public Assistance Office (PAO), this listing has not been provided for examination. Additionally, reconciliation between property records maintained by the Division of Procurement and Supply (P&S) and PAO was not made available.

Cause: The cause of the above condition is the lack of reconciliation between the equipment master listing maintained by P&S and that of PAO.

Effect: The effect of the above condition is noncompliance with federal equipment and property management requirements.

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-40, Continued

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 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The Governor's Authorized Representative has implemented a procedure to maintain a property listing at the Public Assistance Office. Property records were obtained from the Division of Procurement and Supply to reconcile the list. The Public Assistance Office will continue to maintain a property inventory listing of items purchased under the Public Assistance program in compliance with 44 CFR 13.32(d). The listing will include the disaster report number (DR), the agency, the project worksheet (PW), description, vendor, model, serial number, tag number, date of purchase, purchase order number, purchase amount and the business unit charged. The Public Assistance property listing will be reconciled on a semi-annual basis every January 1 and July 1 with the property listing available with the Division of Procurement and Supply to ensure all property is accounted for. A notice will be issued by the Governor's Authorized Representative to the Director of the Division of Procurement and Supply if any of the property found in the Public Assistance listing is not listed in the Division's property inventory listing.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of the Interior
Matching - Economic, Social, and Political Development of the Territories
CFDA #15.875, Federal Award # Fiscal Years 1996 - 2007 Appropriations Act
Federal Award Period Available Until Expended

Finding No. 2007-41

Criteria: Grant Number CIP-CNMI-2005-2 requires that federal funds for FY 1994 projects are to be matched by local funds at the ratio of 73.30% federal share and 26.70% local share.

Condition: In analyzing the CNMI's accounting records and related Capital Improvement Projects (CIP) financial reports for one project (business unit #4980), we noted the following improper cost allocations:

| Share | FY07 Expenditures Per CIP Reports | FY07 Matching Ratio Per CIP Reports | FY07 Expenditures Per General Ledger | FY07 Matching Ratio Per General Ledger | FY07 Cumulative Expenditures Per CIP Reports | FY07 Matching Ratio Per Cumulative CIP Reports |
|---------|-----------------------------------|-------------------------------------|--------------------------------------|--|--|--|
| FEDERAL | \$ 607,862 | 77.60% | \$ 545,521 | 69.64% | \$ 2,705,903 | 74.23% |
| LOCAL | <u>175,480</u> | 22.40% | <u>237,821</u> | 30.36% | <u>939,331</u> | 25.77% |
| | <u>\$ 783,342</u> | | <u>\$ 783,342</u> | | <u>\$ 3,645,234</u> | |

Reconciliation and justification for the differences in matching ratio was not made available.

Cause: The cause of the above condition is the improper allocation of federal and local share when recording expenditures in the general ledger and when preparing CIP financial reports.

Effect: The effect of the above condition is lack of compliance with grant requirements relating to matching. This may also have cash management implications. However, no questioned costs result from the condition as the actual local share is higher than the required local match.

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Virginia Villagomez, CIP Administrator, Office of the Governor

Corrective Action: I agree with the finding on the differences with the matching ratio on the expense side for the construction object code; however, the obligations were properly allocated at the correct cost share of 73/27 (Federal/local) percent share. Therefore, at the closeout of all obligations, the expense allocation would equal the obligated cost share. The CIP Administrator will ensure at project closeout that the matching ratio is properly allocated with ninety days of the fund expiration. The project funds will expire on June 30, 2008.

Proposed Completion Date: September 30, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Health and Human Services
Matching, Level of Effort or Earmarking - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-42

Criteria: The Compliance Supplement Part 4 requires a grantee to pay part of the costs of providing health care to the poor and of administering the program. Specifically, pursuant to grant terms and 42CFR Section 433.10, Federal Medical Assistance Percentage (FMAP) for the Northern Mariana Islands is set by statute at 50 percent.

Condition: Recorded federal expenditures did not equate to local expenditures recorded in the general ledger, with the federal expenditures being higher by \$261,667. We noted that \$73,389 of local match expenditures were recorded as federal expenditures. Since requests for reimbursements are based on expenditures recorded in the general ledger, these expenditures have been included in the request for reimbursements submitted to the grantor agency. We were informed that these expenditures will be adjusted in the next reimbursement request to be submitted. For the period ended September 30, 2007, this matter was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is management oversight and lack of procedures to ensure that matching requirements are complied with.

Effect: The effect of the above condition is noncompliance with matching requirements. No questioned costs result from this condition since this matter was corrected through a proposed audit adjustment at September 30, 2007.

Recommendation: We recommend that CNMI Medicaid implement adequate procedures to ensure that matching requirements are adhered to.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The misposted local match expenditures will be adjusted on the next reimbursement request submitted as noted. CNMI does not have to match the first \$200,000 of the grant which would account for the difference in federal versus local expenditures.

Proposed Completion Date: 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Matching, Level of Effort, Earmarking - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

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

Finding No. 2007-43

Criteria: Per OMB Circular A-133, costs must be on a shared basis, as specified in the FEMA-State agreement. The matching split between the State and the subgrantee will vary. The accountability for meeting the matching requirement is determined at the time of project accounting as part of project closeout, (e.g., the State match does not have to be provided until the end of the project).

Condition: Although it is specified in the above criteria that the CNMI does not have to provide matching until a project close-out, the CNMI provides matching as related expenditures are incurred. The local match for each disaster is not assigned to one cost center established for the disaster, but is posted in several general fund accounts assigned to each applicant. As the CNMI's accounting system does not monitor funds on a project-by-project basis, we are unable to determine the cumulative amount that should be transferred in from the general fund.. Except for the State Management Administrative Cost (SMAC) related cost centers that had incorrect matching reported, our detailed tests of expenditures totaling \$1,287,627 did not note any instances of noncompliance with cost share for expenditures tested.

Cause: The cause of the above condition is the lack of procedures in place to ensure that the correct matching is transferred in from the general fund.

Effect: The effect of the above condition is the possibility of non-compliance with matching requirements.

Recommendation: We recommend that the Department of Finance implement procedures to ensure that the correct amount of matching is transferred in from the general fund and that consideration be given to setting up one cost center in the general fund for each disaster to facilitate better monitoring and reconciliation.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-43, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The Governor's Authorized Representative (GAR) agrees with this finding that the CNMI provides the matching as expenditures are incurred. The GAR will not authorize an obligation to be incurred without the proper match in place. For each disaster declared, the CNMI establishes a business unit for each of the applicant to properly account for expenditures that are incurred. The budget allocation for each of the applicants is only allocated at the Federal share. The matching share remains with the applicant and is charged directly to the applicant's account. Only the state management administrative cost is expensed at 100% requiring the match to be transferred to the SMAC account. The GAR will request OMB to transfer the match requirement to the SMAC account at the beginning of the new fiscal year upon approval of the Federal share for each of the disaster open. For the previous fiscal years, the GAR has requested OMB to transfer the match for the FY2006, FY2007 and FY2008 for part of DR-1541-MP and DR-1611-MP.

Proposed Completion Date: October 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2007-44

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

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

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

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

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

Effect: The effect of the above condition is lack of full and open competition on federal funded purchases. 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 through 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-44, Continued

Auditee Response and Corrective Action Plan:

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

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

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

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

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

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

Proposed Completion Date: 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, 2007

Procurement and Suspension and Debarment - All Major Programs

Finding No. 2007-45

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

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

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

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

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

Prior Year Status: The lack of a written procurement policy on travel and related expenditures was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

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

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-45, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

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

Proposed Completion Date: 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, 2007

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 - 2007 Appropriations Act

Federal Award Period Available Until Expended

Finding No. 2007-46

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-three (23) contracts relating to expenditures of the Capital Improvement Projects, we noted the following:

- Sixteen (16) contracts (#s 201-OS, 227-OS, 282-OS, 311-OS, 325-OS, 358-OS, 372-OS, 374-OS, 375-OS, 381-OS, 394-OS, 401-OS, 405-OS, 411-OS, 415-OS and 419-OS) did not contain provisions of compliance under Section 306 of the Clean Air Act.
- Twenty-two (22) contracts (#s 201-OS, 227-OS, 282-OS, 311-OS, 325-OS, 334-OS, 358-OS, 372-OS, 374-OS, 375-OS, 381-OS, 394-OS, 395-OS, 401-OS, 405-OS, 411-OS, 415-OS, 419-OS, 424-OS, 425-OS, 428-OS and 429-OS) did not contain provisions of federal access to contractor's records.
- Nine (9) contracts (#s 227-OS, 372-OS, 394-OS, 395-OS, 401-OS, 411-OS, 415-OS, 419-OS and 425-OS) did not contain provisions for compliance with all Section 103 and 107 of Contract Hours and Safety Standards Act or its equivalent.
- Four (4) contracts (#s 227-OS, 372-OS, 394-OS and 419-OS) did not contain provisions indicating compliance requirement on the Equal Opportunity (Executive Order 11246).

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

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

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

Prior Year Status: The lack of compliance with the federal regulations relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-46, Continued

Auditee Response and Correction Action Plan:

Name of Contact Person: Herman S. Sablan, Director, Division of Procurement and Supply, Joseph M. Inos, Jr., Director of TSD, Department of Public Works and Pedro Sasamoto, Water Task Force

Corrective Action: Recommendation accepted. We will ensure that all contracts we process which are funded in whole or in part by U.S. Capital Improvement Funds contain provisions of Section 305 of the Clean Air Act, provisions for federal access to the contractor's records, compliance with Sections 103 and 107 of the Contract Hours and Safety Standards Act and EEO/Executive Order 11246.

It is recommended that the Office of the Attorney General review the types of contract formats and provisions used in the government to ensure that the agencies use the proper contract forms when executing contracts. The CIP Program Office under the Office of the Governor is in the process of hiring a Contracting Officer to ensure performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the government of the Commonwealth of the Northern Mariana Islands in its contractual relationships.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Reporting - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-47

Criteria: Section 20 of the Memorandum of Understanding (MOU) with Food and Nutrition Service (FNS) requires CNMI's Food Stamp Program to submit reports and retailer compliance reviews within thirty days following the end of each quarter.

Condition: Reports and retailer compliance reviews were not submitted to FNS for the four quarters of the fiscal year 2007.

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

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

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

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, Administrator, Nutrition Assistance Program, Department of Community & Cultural Affairs

Corrective Action: First and second quarter reports for 2007 were submitted on September 20, 2007 and third and fourth quarters were submitted on March 18, 2008. This is an area we need to work on and improve and we have put in place timelines for the responsible units to submit timely reports in order for us to be in compliance with our MOU. We are submitted the transmittal dates and copies of the reports for you information.

Proposed Completion Date: Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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. 2007-48

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

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

- The SF-269 for the year ended September 30, 2007 reported total accumulated expenditures that were \$38,329 more than the total accumulated expenditures recorded in the general ledger as of September 30, 2007.
- 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> |
| Over 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, 2007 did not reflect total accumulated expenditures at that date. Additionally, the SF-269 was not updated to reflect fiscal year 2003 expenditures erroneously carried over in fiscal year 2007.

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 2006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-48, Continued

Auditee Response and Corrective Action Plan:

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

Corrective Action: Corrections will be made to the SF-269 and SF-270 for the reporting period ending June 30, 2008.

Proposed Completion Date: 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Health and Human Services
Reporting - Medical Assistance Program
CFDA #93.778, Federal Award # 05-0405CQ5028
Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-49

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

Condition: Based on total expenditures reported to the grantor for the period ended September 30, 2007 using the CMS 64 Certification, total federal expenditures reported amounted to \$4,486,722. The actual expenditures per the general ledger amounted to \$4,713,098 resulting in a variance of \$226,376. 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 the CNMI's 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 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. Every end of each quarter, we request the detail expenditures report from the Department of Finance and therefore, the information reported to the grantor is based on the CNMI's financial records.

Proposed Completion Date: N/A

Auditor Response: The total expenditures recorded in the general ledger provided by CNMI Finance office did not agree with the total expenditures reported in the CMS-64. The CNMI Finance office and Medicaid office should coordinate on a regular basis to ensure that any adjustments made in the general ledger are communicated to the Medicaid office for the latter to prepare and submit revised CMS-64 reports to the grantor agency based on adjusted general ledger expenditures.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Reporting - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

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

Finding No. 2007-50

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. The Public Assistance Office manually accounts for expenditures on a project-by-project basis on the Project Status Reports prepared on a quarterly basis. Of three disasters tested, we noted the following:

- Variances between cumulative expenditures per the quarter ended 09/30/07 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 | \$ (6,495) |
| Chaba | DR 1541 | \$ 94,046 |
| Tingting | DR 1532 | \$ 65,999 |

- Variances between total cash drawn from grantor for the year ended 9/30/07 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 | \$ (25,001) |
| Chaba | DR 1541 | \$ 37,951 |
| Tingting | DR 1532 | \$ 289,124 |

- Total cumulative Federal funding as of September 30, 2007 was reported differently per the FEMA 20-10, the Project Status Report, and the P.5 Grant Summary (updated by grantor periodically) provided as follows:

| <u>Disaster</u> | <u>DR #</u> | <u>Per FEMA 20-10</u> | <u>Per Project Status Report</u> | <u>Per Grant Summary (P.5 Report)</u> |
|-----------------|-------------|-----------------------|----------------------------------|---------------------------------------|
| Nabi | DR 1611 | \$ 1,181,190 | \$ 1,130,290 | \$ 1,181,087 |
| Tingting | DR 1532 | \$ 1,931,028 | \$ 1,956,747 | \$ 1,931,835 |

As expenditures reported on the FEMA 2010 and reimbursed per the SF-272 are based on actual amounts expended and paid per CNMI records, the variances are an issue of non-reconciliation and do not indicate that the grantor agency was overcharged.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-50, Continued

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 noncompliance with reporting requirements and inadequate monitoring of funds on a project-by-project basis.

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 Audits of the CNMI for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: The Governor's Authorized Representative (GAR) and the Secretary of Finance have updated the Public Assistance Drawdown Procedures to ensure that the Public Assistance Office is provided copies of all drawdown requests transmitted to the Division of Treasury. These drawdown documents will relate to specific project expenditures and will be included in each project file. The Public Assistance Office will distribute to the Division of Finance and Accounting Federal Grants Section and the Division of Treasury, the updated Public Assistance Drawdown Procedure. The Division of Finance and Accounting will provide the Public Assistance Office with all drawdown requests submitted to the Division of Treasury. The Division of Treasury will execute drawdowns as mandated by Federal guidelines. These documents will be filed in the associated project files and provide reconciliation between project expenditures and drawdowns.

Proposed Completion Date: July 1, 2008

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Special Tests and Provisions - Food Stamps
CFDA #10.551, Federal Award # 7NM4004NM
Federal Award Period 10/01/06- 09/30/07

Finding No. 2007-51

Criteria: 7 CFR, Section 272.10 states that, "All State agencies are required to sufficiently automate their food stamp program operations and computerize their systems for obtaining, maintaining, utilizing and transmitting information concerning the food stamp program. Sufficient automation levels are those which result in effective programs or in cost effective reductions in errors and improvements in management efficiency, such as decreases in program administrative costs. Thus, for those State agencies which operate exceptionally efficient and effective programs, a lesser degree of automation may be considered sufficient than in other State agencies. In order to determine a sufficient level of automation in each State, each State agency shall develop an ADP/CIS plan. Food and Nutrition Service (FNS) may withhold State agency funds under §276.4(a) for failure to submit an ADP/CIS plan in accordance with the deadlines for submission, for failure to make appropriate changes in their ADP/CIS plan within 60 days of their receipt of FNS comments, or for failure to implement the approved ADP/CIS plan in accordance with the dates specified therein, unless extensions of time or deviations from the plan or schedules have been approved by FNS."

Condition: The CNMI has not developed an ADP/CIS plan nor has it obtained waivers from the grantor agency to be exempted from the requirements of 7 CFR Section 272.10.

Cause: The cause of the above condition is lack of funding to initiate the ADP/CIS program and shortage of manpower to formulate an ADP/CIS plan.

Effect: The effect of the above condition is noncompliance with the provisions of 7 CFR, Section 272.10.

Recommendation: We recommend that the CNMI comply with the provisions of 7 CFR Section 272.10.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Eleanor Cruz, Administrator, Nutrition Assistance Program, Department of Community and Cultural Affairs

Corrective Action: We have attempted within the last couple of years to hire an IT consultant to do a needs assessment for the automation system at NAP and we have several companies that have submitted their proposals and we are closer than ever before in complying with 7 CFR Section 272.10.

Proposed Completion Date: Upon availability of funds for fiscal year 2009 budget

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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 10/01/06 - 09/30/07

Finding No. 2007-52

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

Condition: The Medicaid Office performs backups of the ADP system; however, regular back ups are not performed. Further, back up files are stored on flash drives, which have limited capacity. Thus, some back up files were deleted when flash drive memory was no longer sufficient, resulting in incomplete back up files for the fiscal year. Additionally, periodic risk analyses are not performed.

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

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

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

Prior Year Status: Lack of required policies and procedures regarding ADP was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2006.

Auditee Response and Corrective Action Plan:

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

Corrective Action: We disagree with the finding. We have a weekly and a quarterly backup. Weekly backups are stored in the flash drive and later burned on a CD. However, the quarterly backup is stored at the Department of Finance - EDP Office. An RFP has just recently closed. We will be reviewing the vendors that submitted their proposal for the implementation of the Medicaid Computer Data System. Once we have a system in place, a periodic risk analysis will be performed in the system.

Proposed Completion Date: January 2009

Auditor Response: Our finding was on the lack of periodic risk analyses performed on the EDP system. We noted weekly back ups were performed and stored in a flash drive; however, such weekly back ups were not completed for the entire fiscal year tested due to limited capacity. Further, CD files for weekly back ups were not available. The Medicaid office should consider other back up facilities to ensure that complete back ups of program records are stored and maintained for at least three years.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security

Subrecipient Monitoring - Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

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

Finding No. 2007-53

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: Of \$1,890,191 expenditures of the Disaster Grants - Public Assistance (Presidentially Declared Disasters) program, we noted total program expenditures of \$767,353 incurred by subrecipients reflected in the CNMI's records. However, we are unable to determine if the CNMI performed monitoring of subrecipients.

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

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

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

Prior Year Status: The lack of compliance with federal subrecipient monitoring rules and regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2006.

Auditee Response and Corrective Action Plan:

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

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-53, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: The Public Assistance program is aware that the subrecipients are required to have Single Audits performed. The subrecipients are informed during the applicant's briefing and kickoff meetings that they must comply with the audit requirements. The Public Assistance Office incorporated the audit requirements in the Public Assistance guidelines to ensure the Public Assistance staff is aware of the requirements. The Public Assistance Office will send a letter to all subrecipients ninety days after the beginning of each fiscal year requesting information in meeting the necessary audit and reconciliation requirements. In addition, a letter is sent to subrecipients at close-out reminding them of the audit requirements.

Proposed Completion Date: Ongoing

Commonwealth Development 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 : 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), 3/17/08 (CDA) (NMHC), 9/16/08 (CDA) (NMHC) (Deloitte re: CDA response)

Date(s) of response letter(s) received : 10/12/06 (NMHC), 3/6/07 (NMHC), 6/23/08 (CDA)

See pages 154 and 155 for recommendations issued by the Independent Auditor and page 156 for CDA's and NMHC's Corrective Action Plans to Questioned Costs and Findings. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH DEVELOPMENT AUTHORITY

Schedule of Findings and Questioned Costs
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.

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, 2006
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 9/16/08

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

See pages 158 to 163 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.

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Commonwealth Ports Authority

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2007
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 9/16/08

Date(s) of response letter(s) received : 10/1/08

See pages 166 to 173 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, 2007

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

Revenue Bonds Payable

Finding No. 2007-1

Criteria: Section 6.11 of the Airport and Seaport Bond Indenture Agreement states that CPA shall impose, levy, enforce and collect such fees, tariffs, lease rentals, licensing fees and other fees and charges in aggregate amount with respect to each fiscal year to produce gross revenues to comply with subsections (A)(1), (A)(2), (A)(3) and (A)(4) of Section 6.11 of the Indenture Agreement.

Condition: The required gross revenues for Airport and Seaport to be in compliance with Section 6.11 amount to \$12,631,243 and \$6,425,600, respectively. Actual gross revenues for the Airport amounted to \$10,491,657, resulting in a variance of \$2,139,586. Actual gross revenues for the Seaport amounted to \$6,197,064, resulting in a variance of \$228,536.

Cause: The cause of the above condition is insufficient revenues were generated during the year.

Effect: The effect of the above condition is noncompliance with Section 6.11 of the Airport and Seaport Bond Indenture Agreements. The Indenture specifies certain actions of CPA when this condition occurs. If, after such actions are taken and required gross revenues continue to be insufficient, the deficiency shall constitute an event of default as specified in Section 7.01 of the Airport Bond Indenture Agreement.

Recommendation: We recommend that CPA review all revenue generating sources to ensure amounts collected will be sufficient to meet requirements of Section 6.11.

Prior Year Status: Noncompliance with Section 6.11 of the Airport Bond Indenture Agreement was reported as a finding in the Single Audit of CPA for fiscal year 2006.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: CPA hired an independent financial consultant, Ricondo and Associates, to review all revenue collection measures and to submit an Airport Rate Study report outlining recommendations necessary for CPA to comply with the revenue requirements of Section 6.11.

Proposed Completion Date: FY 2008

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

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

Allowable Costs/Cost Principles

Finding No. 2007-2

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|--------------------|-------------------------|--------------------|---|-----------------------|---|-----------------------|-----------------|------------|-----------------------|------------------------------|-----------------------|------------------------------|--------------|----------|------------------------------|-----------------------|-----------|--|--------------|-----------------------|-------------------------------|--------------|-----------|--|---|--------------|--------------------------|--------------|---------|---|--------------|---------------|-----------|------------|---|--------------------|-----------|-----------|------------|--|
| U.S. Department of Transportation / Airport Improvement Program / CFDA # 20.106 / Federal Award Available Until | <p><u>Criteria:</u> Administrative costs charged to projects and recorded in the general ledger should be properly supported.</p> <p><u>Condition:</u> CPA recorded administrative costs related to ongoing/completed projects amounting to \$512,152. Of \$512,152 tested, the following items were noted:</p> <ul style="list-style-type: none"> • Certified timesheets and justification for 25% of gross salaries claimed were not properly supported for the following: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Project</th> <th style="text-align: center;">AIP No.</th> <th style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr><td>Saipan Rehabilitation - Phase I, II, III & IV</td><td>3-69-0002-31/32/50/53</td><td style="text-align: right;">\$ 51,011</td></tr> <tr><td>Runway Apron/Taxilane</td><td>3-69-0002-43/56</td><td style="text-align: right;">20,241</td></tr> <tr><td>Airport Runway Safety</td><td>3-69-0002-45/49</td><td style="text-align: right;">20,610</td></tr> <tr><td>ARFF Vehicle/Typhoon Repairs</td><td>3-69-0002-51</td><td style="text-align: right;">11,093</td></tr> <tr><td>Security Enhancement Phase I</td><td>3-69-0002-38/41/52/55</td><td style="text-align: right;">10,563</td></tr> <tr><td>Terminal Building Passenger Loading Bridge</td><td>3-69-0002-48</td><td style="text-align: right;">10,302</td></tr> <tr><td>Expand ARFF Building (Design)</td><td>3-69-0002-54</td><td style="text-align: right;">9,884</td></tr> <tr><td>Airport Parallel T^way Strengthening - I, II</td><td>3-69-0011-15/17/19</td><td style="text-align: right;">33,929</td></tr> <tr><td>Passenger Loading Bridge</td><td>3-69-0011-16</td><td style="text-align: right;">10,638</td></tr> <tr><td>Relocate ARFF Building Phase I (Design)</td><td>3-69-0011-18</td><td style="text-align: right;"><u>11,543</u></td></tr> <tr><td></td><td></td><td style="text-align: right;">\$ <u>189,814</u></td></tr> </tbody> </table> | Project | AIP No. | Amount | Saipan Rehabilitation - Phase I, II, III & IV | 3-69-0002-31/32/50/53 | \$ 51,011 | Runway Apron/Taxilane | 3-69-0002-43/56 | 20,241 | Airport Runway Safety | 3-69-0002-45/49 | 20,610 | ARFF Vehicle/Typhoon Repairs | 3-69-0002-51 | 11,093 | Security Enhancement Phase I | 3-69-0002-38/41/52/55 | 10,563 | Terminal Building Passenger Loading Bridge | 3-69-0002-48 | 10,302 | Expand ARFF Building (Design) | 3-69-0002-54 | 9,884 | Airport Parallel T ^w ay Strengthening - I, II | 3-69-0011-15/17/19 | 33,929 | Passenger Loading Bridge | 3-69-0011-16 | 10,638 | Relocate ARFF Building Phase I (Design) | 3-69-0011-18 | <u>11,543</u> | | | \$ <u>189,814</u> | \$ 189,814 | | | | |
| Project | AIP No. | Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Saipan Rehabilitation - Phase I, II, III & IV | 3-69-0002-31/32/50/53 | \$ 51,011 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Runway Apron/Taxilane | 3-69-0002-43/56 | 20,241 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Airport Runway Safety | 3-69-0002-45/49 | 20,610 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ARFF Vehicle/Typhoon Repairs | 3-69-0002-51 | 11,093 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Security Enhancement Phase I | 3-69-0002-38/41/52/55 | 10,563 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Terminal Building Passenger Loading Bridge | 3-69-0002-48 | 10,302 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Expand ARFF Building (Design) | 3-69-0002-54 | 9,884 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Airport Parallel T ^w ay Strengthening - I, II | 3-69-0011-15/17/19 | 33,929 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Passenger Loading Bridge | 3-69-0011-16 | 10,638 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Relocate ARFF Building Phase I (Design) | 3-69-0011-18 | <u>11,543</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | \$ <u>189,814</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <ul style="list-style-type: none"> • Authorization to charge AIP grants for board travel totaling \$15,797 was not made available. | 15,797 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <ul style="list-style-type: none"> • In addition, we noted differences between the administrative expenses reported per the general ledger and the supporting detailed schedules as follows: <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;">Project</th> <th style="text-align: center;">AIP No.</th> <th style="text-align: center;">Per General Ledger</th> <th style="text-align: center;">Per Supporting Schedule</th> <th style="text-align: center;">Variance</th> </tr> </thead> <tbody> <tr><td>Saipan Rehabilitation - Phase I, II, III & IV</td><td>3-69-0002-31/32/50/53</td><td style="text-align: right;">\$ 123,323</td><td style="text-align: right;">\$ 134,307</td><td style="text-align: right;">\$ (10,984)</td></tr> <tr><td>Security Enhancement Phase I</td><td>3-69-0002-38/41/52/55</td><td style="text-align: right;">\$ 36,106</td><td style="text-align: right;">\$ 26,559</td><td style="text-align: right;">\$ 9,547</td></tr> <tr><td>Runway Apron/Taxilane</td><td>3-69-0002-43/56</td><td style="text-align: right;">\$ 66,272</td><td style="text-align: right;">\$ 57,816</td><td style="text-align: right;">\$ 8,456</td></tr> <tr><td>Airport Runway Safety</td><td>3-69-0002-45/49</td><td style="text-align: right;">\$ 67,172</td><td style="text-align: right;">\$ 67,133</td><td style="text-align: right;">\$ 39</td></tr> <tr><td>Terminal Bldg. Passenger Loading Bridge</td><td>3-69-0002-48</td><td style="text-align: right;">\$ 28,010</td><td style="text-align: right;">\$ 28,087</td><td style="text-align: right;">\$ (77)</td></tr> <tr><td>ARFF Vehicle/Typhoon Repairs</td><td>3-69-0002-51</td><td style="text-align: right;">\$ 45,824</td><td style="text-align: right;">\$ 49,946</td><td style="text-align: right;">\$ (4,122)</td></tr> <tr><td>Strengthen Parallel Taxiway Phase I, II</td><td>3-69-0011-15/17/19</td><td style="text-align: right;">\$ 64,806</td><td style="text-align: right;">\$ 72,439</td><td style="text-align: right;">\$ (7,633)</td></tr> </tbody> </table> | Project | AIP No. | Per General Ledger | Per Supporting Schedule | Variance | Saipan Rehabilitation - Phase I, II, III & IV | 3-69-0002-31/32/50/53 | \$ 123,323 | \$ 134,307 | \$ (10,984) | Security Enhancement Phase I | 3-69-0002-38/41/52/55 | \$ 36,106 | \$ 26,559 | \$ 9,547 | Runway Apron/Taxilane | 3-69-0002-43/56 | \$ 66,272 | \$ 57,816 | \$ 8,456 | Airport Runway Safety | 3-69-0002-45/49 | \$ 67,172 | \$ 67,133 | \$ 39 | Terminal Bldg. Passenger Loading Bridge | 3-69-0002-48 | \$ 28,010 | \$ 28,087 | \$ (77) | ARFF Vehicle/Typhoon Repairs | 3-69-0002-51 | \$ 45,824 | \$ 49,946 | \$ (4,122) | Strengthen Parallel Taxiway Phase I, II | 3-69-0011-15/17/19 | \$ 64,806 | \$ 72,439 | \$ (7,633) | |
| Project | AIP No. | Per General Ledger | Per Supporting Schedule | Variance | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Saipan Rehabilitation - Phase I, II, III & IV | 3-69-0002-31/32/50/53 | \$ 123,323 | \$ 134,307 | \$ (10,984) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Security Enhancement Phase I | 3-69-0002-38/41/52/55 | \$ 36,106 | \$ 26,559 | \$ 9,547 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Runway Apron/Taxilane | 3-69-0002-43/56 | \$ 66,272 | \$ 57,816 | \$ 8,456 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Airport Runway Safety | 3-69-0002-45/49 | \$ 67,172 | \$ 67,133 | \$ 39 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Terminal Bldg. Passenger Loading Bridge | 3-69-0002-48 | \$ 28,010 | \$ 28,087 | \$ (77) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ARFF Vehicle/Typhoon Repairs | 3-69-0002-51 | \$ 45,824 | \$ 49,946 | \$ (4,122) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Strengthen Parallel Taxiway Phase I, II | 3-69-0011-15/17/19 | \$ 64,806 | \$ 72,439 | \$ (7,633) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p><u>Cause:</u> The cause of the above condition is estimates are being used to determine costs charged to federally funded projects and the lack of grantor approval of such estimates. In addition, timely reconciliation of the related accounts is not being performed.</p> <p><u>Effect:</u> The effect of the above condition is the possible misstatement of expenditures reported and claimed to the grantor and questioned costs of \$251,112.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-2 Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|--|------------------|
| | <p>Recommendation: We recommend that grantor approval be obtained for estimated percentages and hours utilized in CPA's administrative expense calculations. We also recommend reconciliation of accounts be performed in a timely manner.</p> <p>Prior Year Status: The lack of grantor approval of cost estimates charged to projects and lack of timely reconciliation was reported as a finding in the Single Audits of CPA for fiscal years 2005 and 2006.</p> <p>Auditee Response and Corrective Action Plan:</p> <p>Name of Contact Person: Frances C. Mafnas, Acting Comptroller</p> <p>Corrective Action: We agree with the recommendation. Currently, CPA submits all requests with proper supporting documentation (payroll and other certification) for all administrative costs for FAA approval. CPA is currently working on completing the Cost Allocation Plan to be submitted to FAA for approval.</p> <p>Proposed Completion Date: FY 2009</p> | |

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-3

| Program | Reason for Questioned Costs | Questioned Costs |
|--|---|------------------|
| U.S. Department of Transportation / Airport Improvement Program / CFDA # 20.106 / Federal Award #s AIP No. 3-69-0011-15, 3-69-0011-17 and 3-69-0011-19 / Federal Award Period Available Until Expended | <p><u>Criteria:</u> Expenditures should be incurred subsequent to the execution of the related contraction.</p> <p><u>Condition:</u> Our tests of project expenditures, totaling \$5,307,132, noted \$191,591, relating to the Strengthen Parallel Taxiway project, incurred prior to the execution of the related contract. The contract was executed on August 31, 2007. Federal expenditures incurred prior to August 31, 2007 amounted to \$141,010.</p> <p><u>Cause:</u> The cause of the above condition is lack of adherence to program requirements.</p> <p><u>Effect:</u> The effect of the above condition is the possibility of disallowed costs and questioned costs of \$141,010.</p> <p><u>Recommendation:</u> We recommend CPA ensure all grant funded contracts be approved and executed prior to expenditures being incurred.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Frances C. Mafnas, Acting Comptroller</p> <p>Corrective Action: We agree with the recommendation. FAA approved this project in September 2005. The contract was executed in August 2007 and approved by FAA in December 2007. Due to the expiration of the grant, FAA allowed drawdowns of funds in 2007 since expenditures had already been incurred. For future projects, CPA will ensure that all federal grant requirements are met prior to incurring any costs on any project.</p> <p>Proposed Completion Date: FY 2008</p> | 141,010 |

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-4

| Program | Reason for Questioned Costs | Questioned Costs |
|---|--|-------------------|
| <p>U.S. Department of Homeland Security / Port Security Grant Program / CFDA # 97.056 / Federal Award # HSTS04-04-G-GPS308 / Federal Award Available Until 07/31/07</p> | <p><u>Criteria:</u> Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and sub-grantees will use their own procurement procedures, which reflect applicable state and local laws regulations provided that the procurements conform to applicable federal law.</p> <p><u>Condition:</u> CPA procured a professional service contract for construction management as a sole source. The sole source justification, dated and approved by management on December 22, 2005, indicated time constraints in meeting the grant deadline. The actual contract, however, was executed in July 2006. Total expenditures incurred on the contract in fiscal year 2007 amounted to \$79,932.</p> | 79,932 |
| <p>U.S. Department of Homeland Security / Law Enforcement Terrorist Prevention Program / CFDA # 97.074 / Federal Award # HSTS04-G-GPS561 / Federal Award Available Until 07/31/07</p> | <p><u>Cause:</u> The cause of the above condition is failure to follow established procurement procedures.</p> <p><u>Effect:</u> The effect of the above condition is the lack of full and open procurement competition in the applicable procurement transaction.</p> <p><u>Recommendation:</u> We recommend that all procurement regulations be strictly adhered to.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>Name of Contact Person: Frances C. Mafnas, Acting Comptroller</p> <p>Corrective Action: We agree with the recommendation. Due to changes in management (including Board members), there were delays in the execution of the contract.</p> <p>Proposed Completion Date: FY 2008</p> | |
| Total Questioned Costs | | \$ <u>426,553</u> |

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security
Cash Management - Port Security Grant Program
CFDA #97.056, Federal Award # HSTS04-04-G-GPS308
Federal Award Period Available Until 07/31/07

Finding No. 2007-5

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 allowable clearance pattern is thirty days.

Condition: Of forty-eight expenditure items tested, the disbursement for two items (4%) were issued thirty-one and eleven days, respectively, after cash was received from the grantor agency, as follows:

| <u>Check No.</u> | <u>Drawdown Amount</u> | <u>Cash Receipt Date</u> | <u>Check Clearance Date</u> | <u>Days Elapsed After the Allowable 30 Day Clearance Pattern</u> |
|------------------|------------------------|--------------------------|-----------------------------|--|
| 29141 | \$ 235,735 | 10/12/06 | 12/12/06 | 31 |
| 29142 | \$ 30,402 | 10/12/06 | 11/22/06 | 11 |

Cause: The cause of the above condition is due to delays in processing payment requests.

Effect: The effect of the above condition is noncompliance with grant requirements relating to cash management and a possible interest liability of \$932. 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 procedures be established to ensure drawdown of federal funds are disbursed within a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: We disagree with the audit finding, although we agree with the recommendation. Form SF-270, Advances Payment or Request Reimbursement, is required to be used under the Homeland Security Grant.

Proposed Completion Date: FY 2008

Auditor Response: As stated in the grant award, "Payment under this award will be authorized by the advance or reimbursement payment method using SF270, "Request for Advance or Reimbursement". The recipient shall submit the request no more frequently than monthly and advances shall be approved for periods to cover only expenses anticipated over the next 30 days. Advances shall be limited to the minimum amounts necessary to meet immediate disbursement needs."

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security
Special Tests and Provisions - Port Security Grant Program
CFDA #97.056, Federal Award # HSTS04-04-G-GPS308
Federal Award Period Available Until 07/31/07

Finding No. 2007-6

Criteria: Section O, Special Award Conditions of the grant award, includes the following compliance requirements applicable to CPA:

- a) All lighting must meet Occupational Safety and Health Administration (OSHA) requirements.
- b) All screening equipment must meet TSA standards.

Condition: The Occupational Safety and Health Administration requirements documentation was not made available. In addition, the TSA standard certification for screening equipment, was not made available.

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting compliance with the above requirements.

Effect: The effect of the above condition is noncompliance with Section O, Special Award Conditions, the General Terms and Conditions of the grant award.

Recommendation: We recommend CPA ensure compliance with all grant conditions and ensure that relevant supporting documentation is properly maintained.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: We partially agree with the finding, although we agree with the recommendation. Although CPA did not get the clearance from DHS on the NEPA and the Historic Preservation Act, we did obtain the earthmoving and erosion control permit from the local permitting agency.

Proposed Completion Date: FY 2008

COMMONWEALTH PORTS AUTHORITY

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Homeland Security
Special Tests and Provisions - Port Security Grant Program
CFDA #97.056, Federal Award # HSTS04-04-G-PS561
Federal Award Period Available Until 07/31/07

Finding No. 2007-7

Criteria: Section O, Special Award Conditions of the grant award, includes the following compliance requirements applicable to CPA:

- a) Environmental Consideration- No construction or installation of equipment may commence until the National Environmental Policy Act (NEPA) and Historical Preservation Act review and clearance has been processed by the Department of Homeland Security (DHS). Grantees are encouraged to coordinate with the DHS Environmental Office in complying with NEPA and Historic Preservation Act requirements prior to incurring or obligating costs.
- b) All screening equipment must meet DHS standards.

Condition: Clearance documentation from DHS related to NEPA and the Historical Preservation Act was not made available. In addition, the DHS standard certification for screening equipment, was not made available.

Cause: The cause of the above is the lack of systematic filing of relevant documentation.

Effect: The effect of the above is noncompliance with Section O, Special Award Conditions, of the General Terms and Conditions of the grant award.

Recommendation: We recommend CPA ensure compliance with all grant conditions and ensure that relevant supporting documentation is maintained.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Frances C. Mafnas, Acting Comptroller

Corrective Action: See response to Finding No. 2007-6. We agree with the recommendation. CPA will ensure that grant conditions are met prior to incurring any cost on any project.

Proposed Completion Date: FY 2008

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**Report on Compliance & Internal Control over
Compliance with Requirements Applicable to the
Passenger Facility Charge Program
Year Ended September 30, 2005
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 3/17/08, 9/16/08

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

See pages 176 to 179 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
Year Ended September 30, 2005

Passenger Facility Charge Expenditures/Reimbursements

Finding No. 2005-1

Criteria: Passenger Facility Charge (PFC) reimbursements should be applied to qualifying expenditures on approved projects. In addition, the Airport Improvement Program grant funded projects are not eligible for PFC reimbursements.

Condition: Of total PFC's collected of \$1,335,183 during the year ended September 30, 2005, disbursements/reimbursements of \$1,324,376 were tested and the following exceptions were noted:

- PFC reimbursement of \$93,682 was applied to two projects, Radio Communication Upgrade and Flight Information Display, for which funding was subsequently reprogrammed to fund other projects.
- The Tinian Runway Improvement project, amounting to \$22,794,467 at September 30, 2005, was 100% funded by two grantors and the local government. PFC's of \$1,107,684 were approved for the project. At September 30, 2005, PFC reimbursements of \$55,384 were applied to the project.
- Variances between the general ledger and supporting progress billings were noted for the following three projects:

| <u>Project</u> | <u>Per Supporting Progress Billings</u> | <u>Per General Ledger</u> | <u>Variance</u> |
|-----------------------------------|---|-------------------------------|-----------------|
| Runway 7/25 Rehab Phase I & II | \$ 2,133,213 | \$ 2,193,551 | \$ (60,338) |
| ARFF Training Facility (Burn Pit) | \$ 5,827,021 | \$ 5,945,594 | \$ (118,573) |
| Airport Terminal Roof Replacement | \$ 4,393,223 | \$ 4,362,090 | \$ 31,133 |

Cause: The cause of the above conditions is as follows:

- Projects originally budgeted and planned have been canceled and the related funding reprogrammed to other projects.
- The inclusion of a grantor funded project in the initial PFC application.
- The variances noted are caused by the lack of timely reconciliation of construction in progress accounts during the year. The variances were subsequently corrected via audit adjustment, however, were not allocated to individual general ledger accounts.

Effect: The effect of the above conditions is the application of PFC reimbursement to cancelled projects and the misstatement of project expenditures.

COMMONWEALTH PORTS AUTHORITY

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

Finding No. 2005-1, Continued

Recommendation: We recommend CPA review the approved PFC projects to ensure all PFC reimbursements are applied to valid qualifying project expenditures. We also recommend CPA review its PFC approved projects to ensure the exclusion of projects that are 100% funded by a grantor and amend its PFC application in the event such projects are included.

Auditee Response and Corrective Action Plan: The Radio Communication and Flight Information Display projects were deferred due to other urgent and priority projects that need to be addressed and implemented at this time. However, CPA considers the project to be critical and implementation of the Radio Communication and Flight Information Display will be contingent on future PFC revenue collection.

The expenditures for A & E Design Services for the Tinian Runway Improvement Project were paid using CPA local funds. Whereas, construction management and construction costs were paid through the Airport Improvement Project (AIP) and CNMI 702 Capital Improvement Project (CIP) funds. Please note that upon completion of A & E Design, expenditures from the A & E Design was transferred to fixed assets before completion of the Tinian Runway Project.

COMMONWEALTH PORTS AUTHORITY

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

Reporting

Finding No. 2005-2

Criteria: In accordance with Section 158.65 of 14 CFR Part 158, each carrier collecting Passenger Facility Charges (PFC's) for a public agency shall file quarterly reports to the public agency providing an accounting of funds collected and funds remitted. The report shall be filed on or before the last day of the calendar month following the calendar quarter or other period agreed by the collecting carrier and public agency for which funds were collected.

Condition: During the year ended September 30, 2005, none of the twenty air carriers collecting PFC's submitted quarterly reports to CPA.

Cause: The cause of the above condition is the lack of follow-up by CPA.

Effect: The effect of the above condition is noncompliance with Section 158.65 of 14 CFR Part 158.

Recommendation: We recommend CPA follow-up with air carriers to ensure quarterly reports are received in accordance with Section 158.65 of 14 CFR Part 158.

Auditee Response and Corrective Action Plan: CPA will ensure that all air carriers collecting PFC's will submit quarterly reports in a timely manner to be in line with Section 158.65 of 14 CFR Part 158.

COMMONWEALTH PORTS AUTHORITY

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

Reporting

Finding No. 2005-3

Criteria: In accordance with Section 158.63 of 14 CFR Part 158, the public agency shall provide quarterly reports to carriers collecting PFCs for the public agency with a copy to the appropriate FAA Airports office. The quarterly report shall include PFC's received from collecting carriers, interest earned, and expenditures for the quarter; cumulative PFC's received, interest earned, expenditures, and the amount committed for use on currently approved projects, including the quarter; the PFC level for each project; and the current project schedule.

Condition: The expenditures reported on the quarterly reports submitted by CPA represent the allocation of PFC's received and applied to approved projects.

Cause: The cause of the above condition is due to the unfamiliarity of PFC reporting requirements.

Effect: The effect of the above condition is noncompliance with the requirements of Section 158.63 of 14 CFR Part 158.

Recommendation: We recommend CPA ensure that the reporting requirements of Section 158.63 of 14 CFR Part 158 are adhered to.

Auditee Response and Corrective Action Plan: CPA agrees with the recommendation made by Deloitte & Touche in regards to the adherence of Section 158.63 of 14 CFR Part 158.

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Commonwealth Utilities Corporation

**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 : 9/16/08

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

See pages 182 to 204 for recommendations issued by the Independent Auditor. These pages were included in the Independent Auditors Report. For audit tracking purposes, OPA assigned new page numbers to these pages and therefore they do not correspond with the page numbers in the original report.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings

Revenue/Receipts

Finding No. 2006-1

Criteria:

All recorded revenues and receivables should reflect collectible balances.

Condition:

Included in my testing of material long outstanding accounts with dispute are six (6) accounts amounting to \$520,154.08 that were not to be disconnected. Although these accounts are substantially supported, the explanation given for not disconnecting these accounts was that these customers had CUC wells, poles, pumps, etc., on their property, and therefore in-lieu of CUC rental payments for use of these customers' properties they are not paying for utility usage.

Cause:

The cause of the above condition is the lack of formal agreements with landowners.

Effect:

The effect of the above condition is the potential uncollectibility of accounts receivable and understatement of rental expense. Additionally, there could be inequalities in the consideration paid for certain parcels depending on the value of utilities used.

Recommendation:

CUC should execute formal agreements with all landowners for the use of land and ensure compliance to established policies and procedures.

Prior Year Status:

Lack of formal agreements with landowners for the use of land was reported as a finding in the audits of CUC for fiscal years 1996 through 2005. During 2007, CUC adopted a policy requiring all agreements to be prepared prior to using private properties. CUC also established procedures for easement claims.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Monitoring of Work Orders

Finding No. 2006-2

Criteria:

Construction-in-progress general ledger and subsidiary ledgers should be timely reconciled and costs accumulated for completed or cancelled work orders should be properly reclassified to capital assets or recorded as expenditure in a timely manner.

Condition:

In fiscal year ending September 30, 2006, CUC made a net adjustment of \$2,581,732 to record as prior year expenditures, several long outstanding open work orders and the difference between construction-in-progress subsidiary ledgers and general ledger balances.

Cause:

The cause of the above condition is the catch-up reconciliation made by CUC in fiscal year 2006 to reconcile capital expenditures with the CNMI Government Capital Improvement Projects Coordinator.

Effect:

The effect of the above condition is the restatement of beginning net assets to record decrease in capital assets and increase in prior year expenditures.

Recommendation:

CUC should ensure that reconciliations of construction-in-progress general ledger and subsidiary ledger are performed monthly to avoid material restatement of previously reported financial statements and to ensure that capital expenditures are properly recorded.

Prior Year Status:

Lack of reconciliation of capital expenditures with the CNMI Government Capital Improvement Projects Coordinator and lack of procedures in place to ensure that payment requests made to the CNMI Government are forwarded on a timely basis to CUC accounting for recording was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Purchases/Disbursements

Finding No. 2006-3

Criteria:

Disbursements should be properly supported with approved requisition vouchers and purchase orders as evidence that the purchase of goods or performance of services is authorized. Such supporting documentation should be maintained and filed accordingly.

Conditions:

- a. The requisition voucher was not properly signed by requisitioner for 21 or 52.5% of the 40 purchase order files tested.

| <u>No.</u> | <u>Date</u> | <u>Purchase Order Number</u> | <u>Amount</u> |
|------------|-------------|--------------------------------------|---------------------|
| 1. | 10/14/2005 | 06 0054 | \$ 300.00 |
| 2. | 10/14/2005 | 06 0077 | 2,000.00 |
| 3. | 10/18/2005 | 06 0110 | 124.00 |
| 4. | 10/21/2005 | 06 0123 | 250.00 |
| 5. | 10/25/2005 | 06 0171 | 305.00 |
| 6. | 11/2/2005 | 06 0191 | 643.03 |
| 7. | 1/3/2005 | 06 0215 | 890.06 |
| 8. | 11/9/2005 | 06 0234 | 722.50 |
| 9. | 11/25/2005 | 06 0306 | 3,799.60 |
| 10. | 3/1/2006 | 06 0425 | 512.82 |
| 11. | 3/6/2006 | 06 0437 | 3,050.00 |
| 12. | 03/17/06 | 06 0468 | 1,500.00 |
| 13. | 03/30/06 | 06 0494 | 362.50 |
| 14. | 04/10/06 | 06 0530 | 534.38 |
| 15. | 06/26/06 | 06 0675 | 440.00 |
| 16. | 06/26/06 | 06 0676 | 1,010.45 |
| 17. | 07/11/06 | 06 0709 | 550.00 |
| 18. | 08/24/06 | 06 0813 | 276.00 |
| 19. | 09/12/06 | 06 0887 | 810.94 |
| 20. | 09/13/06 | 06 0915 | 2,210.00 |
| 21 | 09/30/06 | 06 0991 | 900.00 |
| | | | <u>\$ 21,191.28</u> |

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Purchases/Disbursements, Continued

Finding No. 2006-3

b. The purchase order files were not provided for my examination for 3 or 7.5% of the 40 purchase order files selected for testing.

| <u>Date</u> | <u>Purchase Order Number</u> | <u>Amount</u> |
|-------------|--------------------------------------|------------------|
| 10/17/2005 | 06 0091 | \$ 279.50 |
| 2/23/2006 | 06 0414 | 307.10 |
| 4/7/2006 | 06 0523 | <u>150.00</u> |
| | | <u>\$ 736.60</u> |

Cause:

The cause of the above condition is failure to ensure completeness of relevant supporting documents prior to processing of purchase orders, a lack of strict compliance with established policies and procedures and a lack of proper and systematic filing of relevant supporting documents.

Effect:

The effect of the above condition is the potential for unauthorized/invalid expenditures and waste, fraud and abuse.

Recommendation:

I recommend that CUC ensure all expenditures are properly supported and properly authorized. Additionally, CUC should ensure that established policies and procedures regarding the processing of requisitions and purchase orders are strictly adhered to.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Payroll

Finding No. 2006-4

Criteria:

Personnel independent of the payroll process should perform the input of employee pay rates.

Condition:

During my testing of payroll expenses, I noted that the Payroll Department inputs the approved pay rate into the system.

Cause:

CUC's Human Resources (HR) Office does not have access to CUC's current payroll system and CUC is still in the process of sourcing for an HR module that will be able to address the requirements of CUC and at the same time facilitate the proper segregation of duties.

Effect:

The effect of the above condition is the potential for payroll personnel to alter pay rates.

Recommendation:

To compensate for the lack of segregation of duties, I recommend that an edit report should be printed on a bi-weekly basis detailing any changes made to the payroll master file. This report should be forwarded directly to the HR office by the IT department. The authorized payroll status change form used by Payroll Department as the source document to initiate changes to the payroll master file should also be forwarded to the HR office. The HR Office can then compare the report against the payroll status change form to determine whether changes were authorized and properly made.

Prior Year Status:

Lack of established policies and procedures over proper segregation of duties of payroll processing was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Accounts Receivable/Disconnection

Finding No. 2006-5

Criteria:

Pursuant to the CUC Electric Service Regulation, Part 17, CUC may disconnect past due accounts after 14 calendar days of second disconnection notice, which is sent 45 days after the first disconnection notice. The customer may seek remedy against disconnection by filing a formal dispute or execute a promissory note subject to the CUC approval.

Condition:

From the aging of receivables provided by CUC, I summarized active accounts with over due amounts and noted that 573 accounts totaling \$3,739,242.78, are over 75 days past due. Of these, only 84 accounts totaling \$2,032,515.72 are included in the summary of accounts under dispute and 7 accounts with totaling \$20,715.99, are included in the listing of promissory notes. Therefore, 482 accounts totaling \$1,686,011.07, should have been subject to disconnection.

Cause:

The cause of the above condition is the lack of monitoring to ensure that all accounts that are 75 days past due are disconnected, unless supported by promissory notes or formal customer dispute.

Effect:

The effect of the above condition is the accumulation of past due accounts that are doubtful of collectability and could be bad debts.

Recommendation:

CUC should comply with established policies and procedures for termination/disconnection of service. Furthermore, monitoring should be performed to ensure that accounts that are 75 day past due are timely disconnected, unless supported by promissory notes or formal customer dispute.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory

Finding No. 2006-6

Criteria:

Perpetual inventory records should, at all times reflect the total inventory quantity on-hand.

Condition:

The inventory valuation report as of September 30, 2006 showed several inventory items with negative quantities on-hand. Although the ending inventory was adjusted to actual physical count, the adjustment of \$455,255.13 may be overstated for these items with credit balances (See Finding No. 2006-7).

Cause:

CUC's computer system records inventory when Accounts Payable personnel post vendor invoices into the system. Receiving reports prepared and posted by CUC's warehouse personnel are matched by the system with the corresponding vendor invoices posted. Consequently, if corresponding invoices have not been posted by the Accounting Department or cannot be identified, inventory per books is not adjusted for warehouse receipts. As a result, inventory per books may be zero even though there may be inventory on-hand. Since the computer system allows for issuance even when there is not enough inventory items per books, inventory issuances by warehouse personnel may result in negative inventory per books.

Effect:

The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance and related expenses.

Furthermore, inaccurate inventory valuation report is not useful to management in making inventory purchase decisions.

Recommendation:

CUC should ensure that all inventory transactions are posted timely. A properly functioning perpetual inventory system will help generate more accurate interim financial statements and minimize the likelihood of making large physical inventory adjustments.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory Reconciliation

Finding No. 2006-7

Criteria:

A reconciliation of inventory balances between the general ledger and subsidiary ledgers should be performed regularly and discrepancies, if any, should be investigated.

Condition:

For fiscal year ending September 30, 2006, CUC adjusted as a credit to administrative expenses \$455,255.13, for the net understatement of the inventory general ledger balance control account against adjusted inventory valuation report without detailed investigation.

Cause:

The cause of the above condition is the lack of established policies and procedures over inventory reconciliations.

Effect:

The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance and related expenses.

Recommendation:

The adjustment should only be made by a responsible person after a reasonable explanation for the discrepancies have been obtained. Thus, before making the adjustment, someone with no access to the inventory should investigate the discrepancies between the inventory valuation report (subsidiary ledger) and physical count and attempt to determine whether they are due to clerical or counting errors, improper purchase and issuance cutoff during the physical count, theft, intentional misstatement of the records or count, etc. Steps should then be taken to address the causes so that they do not recur.

To ensure that the purchase and issuance cutoffs are proper, someone should control purchase and sales invoices received/issued shortly before and after the physical count. This person should determine that the subsidiary ledger as of the physical inventory date include purchase invoices for all goods received before, but not after, the physical count and should exclude issuances for all goods used/transferred before, but not after, the count.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory Reconciliation, Continued

Finding No. 2006-7

Recommendation, Continued:

Monthly inventory reconciliations should be prepared in a timely manner to identify reconciling items between the general ledger and subsidiary ledgers in order to test the accuracy of both systems and, therefore, provide more accurate financial information.

CUC should also consider performing periodic cycle counts of the fast moving inventory items and compare the results with the perpetual records. This will enable CUC to identify inventory shortages and errors on a timely basis.

Prior Year Status:

Lack of established policies and procedures over inventory reconciliations was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory Valuation

Finding No. 2006-8

Criteria:

When the moving average unit cost method of inventory costing is utilized, unit cost is updated for new purchases and issuances are valued based on the most recent average unit cost.

Condition:

Certain inventory items have negative unit costs as of September 30, 2006 and, accordingly, related issuances have negative values. Therefore, operating expenses maybe understated. Furthermore, costs of inventory adjustments were not based on the most recent average unit costs.

Cause:

The cause of the above condition may be due to the following:

- Untimely posting of inventory purchases, receipts and issuances;
- Lack of coordination between accounts payable and warehouse personnel for input of purchases and issuances; and
- Lack of monitoring and review of inventory adjustments.

Effect:

The effect of the above condition is a possible misstatement of inventory resulting in an opinion qualification on the account balance and related expenses.

Recommendation:

CUC should establish policies and procedures to ensure timely posting of inventory purchases, receipts and issuances; establish a formal review process and monitoring procedures for inventory adjustments; ensure coordination between responsible personnel; and ensure that these policies and procedures are strictly adhered to. Even with the bar-coding system that CUC is planning to implement, coordination between Warehouse and Accounts Payable accountant would still be necessary. Although the bar-coding system may facilitate the receiving and issuance function of the warehouse, if the accounts payable section does not timely record the purchases, issuances will still result in credit balances in the inventory valuation report.

Prior Year Status:

Untimely posting of inventory purchases, receipts and issuances, the lack of coordination between Warehouse and Accounts Payable personnel for input of purchases and issuances and monitoring and review of inventory adjustments

COMMONWEALTH UTILITIES CORPORATION

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs

Year Ended September 30, 2006

was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Inventory Obsolescence

Finding No. 2006-9

Criteria:

Inventories should be reviewed regularly for possible obsolescence and generally accepted accounting principles in the United States of America requires inventory to be recorded at lower of cost or net realizable values.

Condition:

Inventory review to determine or identify old, obsolete or overstock was not performed until after fiscal year end.

Cause:

The cause of the above condition is the lack of established policies and procedures for reviewing and monitoring of obsolete and non-moving inventories.

Effect:

The effect of the above condition is a possible misstatement of inventory balances resulting in an opinion qualification on the account balance.

Recommendation:

A periodic inventory turnover analysis or formal obsolescence evaluation throughout the year should be performed to identify slow moving and obsolete items. The timely disposal of these items will eliminate the additional carrying costs associated with inventory.

Carrying costs of slow-moving and obsolete items should be compared with their net realizable value. Should the carrying value exceed net realizable values, CUC should adjust the valuation to reflect the lower of cost or net realizable value.

Prior Year Status:

Lack of established policies and procedures for the review and monitoring of obsolete and non-moving inventories was reported as a finding in the audits of CUC for fiscal years 2002 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Review Inventory Requirements

Finding No. 2006-10

Criteria:

Inventory should be kept at a reasonable level to support operations.

Condition:

Analysis of materials and supplies inventory (except fuels and lubes) is as follows:

| | |
|----------------------------|---------------------|
| Inventory | <u>\$ 8,048,672</u> |
| Issuances: | |
| Repairs and Maintenance | \$ 3,812,540 |
| Supplies Expense | <u>350,495</u> |
| | <u>\$ 4,163,035</u> |
| Average inventory turnover | <u>2 years</u> |

Cause:

The inventory system is not maintained timely, resulting in having items showing credit balances. Therefore, reported inventory levels may be inaccurate. Furthermore, CUC is experiencing cash flow difficulties and are unable to follow the inventory levels defined in the inventory system.

Effect:

The effect of the above condition is that the CUC sometimes faces unanticipated and undesirable stock-out situations, while levels of other inventory items are too high.

Recommendation:

CUC should evaluate its inventory levels, consider disposing of certain obsolete and slow-moving items.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Utility Plant

Finding No. 2006-11

Criteria:

Adequate presentation and control of fixed assets is essential in preparing accurate financial statements. Unless all fixed assets are recorded, depreciation used in determining utility rates could be misstated.

Condition:

CUC has not taken a physical inventory of its capital assets. The following was noted:

- Completed projects are not closed and transferred to capital assets in a timely manner and often remain in Construction work-in-progress for several years. These assets, although already in use, are not being depreciated resulting in material misstatements of depreciation expense. This condition contributed to large variances between the net book values of assets tested and net book value derived through calculation of accumulated depreciation based on the respective estimated useful lives. This also resulted to a restatement increasing prior year expenses by \$2,581,732 as a result of the reconciliation of construction work-in-progress subsidiary ledgers and general ledger;
- CUC has not conducted physical count of capital assets in over 4 years and has no basis to determine if the carrying value of its capital assets is recoverable. In accordance with generally accepted accounting principles in the United States of America, long lived assets should be evaluated for impairments. Since a physical count has not been conducted, the asset listing may still include assets that have been retired, broken, destroyed or stolen; and
- Capital assets lapsing schedules and the general ledger balances were reconciled only at year end. This also resulted to a restatement decreasing prior year expenses by \$1,356,840.

Cause:

The causes of the above conditions are as follows:

- No physical count of capital assets has been performed;
- Lack of timely coordination and reconciliations between CUC's departments responsible for project oversight and the accounting department; and
- Lack of timely reconciliations between the general ledger and subsidiary ledgers;

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Utility Plant, Continued

Finding No. 2006-11

Effect:

The effect of the above conditions is a possible misstatement of capital asset balances resulting in an opinion qualification on the account balance and related depreciation expense. Additionally, a control deficiency exists over the safeguarding of capital assets.

Recommendation:

CUC should perform a physical inventory of all fixed assets on hand, agree the count with its records and make necessary adjustments. CUC should also consider evaluating capital assets for impairments and recoverability of carrying values. An asset should be tested for recoverability if events or changes in circumstances, such as the following among others, indicate that its carrying amount may not be fully recoverable:

- a. Significant adverse change in the asset's use or in its physical condition;
- b. Significant adverse changes in legal factors or business climate, including an adverse action or assessment by a regulator; and
- c. Costs to acquire or construct an asset that significantly exceed original expectations.

When a long-lived asset is tested for recoverability, a review of depreciation or amortization estimates may be required. Any revision to the remaining useful life should then be considered in developing estimates of future cash flows used to test the asset's recoverability.

Prior Year Status:

The lack of control over capital assets was reported as a finding in the audits of CUC for fiscal years 1988 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Insurance Coverage

Finding No. 2006-12

Criteria:

Insurance coverage should be maintained to protect an organization from potential perils and material losses.

Condition:

CUC has not obtained insurance for its capital assets.

Cause:

The CNMI government is a self-insured entity. The government has limited its general liability to individuals to \$100,000 by statute. For this reason, the CNMI government does not maintain any insurance on its buildings, or its employees. CUC follows the CNMI's government of self-insurance policy.

Effect:

The effect of the above condition is the possibility of material losses.

Recommendation:

CUC should implement a policy with respect to required insurance coverage levels.

Prior Year Status:

The lack of insurance coverage was reported as a finding in the audits of CUC for fiscal years 1989 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Obligations under Capital Lease

Finding No. 2006-13

Criteria:

Financial Accounting Standards Board (FASB) Statement No. 13, *Accounting for Leases*, requires that the lessee record a capital lease as an asset and an obligation at an amount equal to the present value of minimum lease payments during the lease term. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the asset and liability shall be fair value.

Emerging Issues Task Force (EITF) Issue No. 01-8, "*Determining Whether an Arrangement Contains a Lease*", states that in certain circumstances energy-related contracts may represent lease transactions, and the evaluation of whether an arrangement contains a lease within the scope of FASB Statement No. 13 should be based on the substance of the arrangement and whether the use of specific property, plant and equipment is necessary in the fulfillment of the arrangement.

Condition:

CUC entered into an agreement with a contractor for the construction, maintenance and operation, and transfer of ownership of a 10 megawatt power plant on the island of Tinian. The agreement is for a guaranteed price of \$9,959,000 plus interest and fees of \$11,641,000 payable over ten years. During this period, the contractor will maintain and operate the power plant and be paid operation, production and maintenance fees in addition to the guaranteed price. The power plant will be turned over to CUC at the end of the ten year period.

CUC determined that this agreement is, in fact, a capital lease and payments made under the agreement are lease payments. As such, CUC recorded \$9,959,000 as Plant and obligations under capital lease.

CUC has been unable to determine whether the guaranteed price of \$9,959,000, constitutes the fair value of the leased property.

Cause:

The cause of the above condition is that CUC's management believes that the guaranteed price approximates fair value; however, a sound basis for determination of fair value such as the actual cost of the power plant or an appraisal report was not obtained.

Effect:

The effect of the above condition is the possible misstatement of obligations under capital lease resulting in an opinion qualification on the account balance.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Obligations under Capital Lease, Continued

Finding No. 2006-13

Recommendation:

CUC should determine the actual cost of the Plant, or obtain an appraisal of the plant for purposes of compliance with the EITF.

Prior Year Status:

The inability to determine whether the recording of the plant and obligation under capital lease are in accordance with FASB No. 13 and EITF No. 01-8 was reported as a finding in the audits of CUC for fiscal years 2000 through 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Accrued Annual Leave

Finding No. 2006-14

Criteria:

CUC's policy on annual leave states that the Section Head or Division Manager may approve advanced annual leave of up to 40 hours per calendar year with the approval of the Executive Director or his/her designee.

Condition:

I noted that there were 7 employees with advanced annual leave over 40 hours amounting to \$4,157.19 as of September 30, 2006.

Cause:

There is a lack of timely review of accrued annual leave.

Effect:

CUC is not in compliance with its policies and procedures for advance annual leave.

Recommendation:

CUC should ensure that advance leave approved for an employee does not exceed 40 hours.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Security Deposits

Finding No. 2006-15

Criteria:

Electric Service Regulations Part 6.8, as amended in July 20, 2005 (Commonwealth Register Volume 27 No 06) states that,

- a. The Corporation shall be liable for all security deposits received. The Corporation shall maintain an account indicating customer name, date of security deposit and amount of deposit. Effective January 15 of each year, each account shall be credited an amount equal to the average "passbook" savings interest rate payable during the past year based on rates from at least three local FDIC insured banks.
- b. The Corporation's Comptroller shall prepare for the Board of Directors an annual report in January of each year which explicitly details amounts of deposits received, interest rate to be paid for the previous year and total account liabilities.

Condition:

Although annual interest owed on deposits received from customers are calculated annually, CUC did not recognized the liability for such interest in its financial statements.

As of September 19, 2007, the annual report on deposits for calendar year 2006 that is required to be prepared in January of each year was not yet available.

Cause:

The cause of the above condition is the lack of timely reconciliation of deposits per subsidiary ledgers to the general ledger balance.

Effect:

Although immaterial to CUC's financial statement taken as a whole, CUC's liabilities and expenses may be understated for the interest owed to customers for their deposits.

Recommendation:

CUC should accrue its liability for customer deposit interests.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Security Deposits

Finding No. 2006-16

Criteria:

Based on a Memorandum issued September 29, 2005 to all Division Managers by the Executive Director regarding "Assessing Electric Security Deposits":

- a. New customers who apply for service at a location where no prior service was provided, the electric security deposit will be \$200 for residential and \$365 for commercial.
- b. Customers whose security deposits are to be calculated based on actual or estimated usage stated in kilowatt-hours, depending on the applicable circumstances (i.e. certified load calculations provided by the electrical engineer, the 2 highest monthly usage during the past 12-month period, or average monthly usage for the last 6 months for the prior customer), the number of kilowatt-hours shall be multiplied by the applicable electric rate plus the current fuel surcharge fee.

Additional criteria for computation of required deposits from Part 6.4 of the Electric Service Regulations, which states that "after one year of established use and annually thereafter, the CUC may also recalculate security deposit".

Condition:

Of the 40 customer deposits selected for testing 32 or 80% and 24 or 60% have security deposits that are insufficient to the highest usage for the past 12-month period and average monthly usage for the past 6 months, respectively.

Cause:

CUC failed to assess customer security deposits in accordance with its policies and procedures.

Effect:

The effect of this condition is in case certain customers default in paying its billings, CUC does not have enough deposits from these customers to recover its receivable. This may result to potentially high uncollectable accounts.

Recommendation:

CUC should assess customer deposits in accordance with its policies.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section II - Financial Statement Findings, Continued

Debt

Finding No. 2006-17

Criteria:

Section 7.2 of a loan agreement with a contractor requires CUC to establish and maintain an escrow account of not less than \$360,000 as part of their security agreement.

Condition:

As of September 30, 2006, CUC does not have an escrow fund account pursuant to the loan agreement.

Cause:

The cause of the above condition is lack of sufficient funds and a tight cash flow position.

Effect:

The effect of the above condition is noncompliance with the loan agreement.

Recommendation:

CUC should re-establish the escrow account to ensure compliance with debt requirements.

Prior Year Status:

The lack of escrow fund account was noted as finding for fiscal year 2005.

COMMONWEALTH UTILITIES CORPORATION
(A Component Unit of the CNMI Government)

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

Section III - Federal Award Findings and Questioned Costs

There was no Federal award finding noted for the fiscal year ending September 30, 2006.

Section IV - Prior Year Findings and Questioned Costs

Questioned Costs

The prior year Single Audit report on compliance with the laws and regulations noted the following costs and comments that were unresolved at September 30, 2006:

| | |
|---|--------------------|
| Questioned cost as previously reported | \$1,245,922 |
| Questioned costs of fiscal year 2006 Single Audit | <u>-</u> |
| Unresolved questioned costs at September 30, 2006 | <u>\$1,245,922</u> |

Unresolved Findings

The status of unresolved prior year findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 48 through 70).

There were no findings on direct funding for the fiscal years ended September 30, 2006 and 2005.

Section V - Schedule of Findings and Auditee Responses

CUC will provide a separate letter in response to my findings as discussed in the Schedule of Findings and Questioned Costs section of this report (pages 48 through 70).

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2002
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 9/21/04, 2/15/05, 8/9/05, 3/13/06, 9/29/06, 2/6/07, 8/28/07,
3/17/08, 8/25/08

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

See pages 206 to 208 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, 2007
Conducted By: Deloitte.**

Date(s) of follow-up letter(s) sent : 9/16/08

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

See pages 210 to 248 for recommendations issued by the Independent Auditor and pages 248 to 252 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, 2007

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

Expenditures

Finding No. 2007-1

Criteria: An effective system of internal control includes policies and procedures to ensure that expenses are recorded in the appropriate period. Further, expenditures should be authorized, supported and approved prior to incurrence.

Condition: Our examination of expenditures indicated the following:

- Nine expenditures totaling \$94,448 were not recorded in the period incurred. These are as follows:

| <u>Document Number</u> | <u>General Ledger Amount</u> | <u>Amount Recorded In Incorrect Period</u> |
|----------------------------|----------------------------------|--|
| CR-113297 | \$ 49,559 | \$ 49,559 |
| PS-2956jul07 | 25,000 | 25,000 |
| PO-110663 | 6,845 | 738 |
| PO-110733 | 6,547 | 6,547 |
| 32156 | 4,600 | 4,600 |
| CR-113018 | 3,949 | 1,974 |
| 100233549 | 2,768 | 2,768 |
| 1015 | 2,748 | 976 |
| 34151488001 | <u>2,286</u> | <u>2,286</u> |
| | <u>\$ 104,302</u> | <u>\$ 94,448</u> |

- Pertinent documents such as contracts or invoice, to support incurrence of expenditure for seven items (Document Nos. AJE-7, 1074, PS-060010-1, MLSS-047-07, PS-2956jul07, CR-111872 and 27105) were not provided for examination.

Cause: The cause of the above condition is the lack of appropriate cut-off procedures and controls over expenditures.

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

Recommendation: We recommend that the College implement appropriate policies and procedures to ensure recording of expenditures in the appropriate period. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-1, Continued

Auditee Response and Corrective Action Plan:

We partially agree with this finding. Generally items are recorded as expenses when paid and at times such items are not received or services rendered are not completed until after the end of the financial year. We agree that reclassification adjustments were not made to reflect items which were either received subsequent to the end of the financial year or where goods were not rendered until the next financial period. The College will review inter-period transactions and make appropriate reclassifications at the end of each fiscal period.

Name of Contact Person:

Ms. Solita Barnes, Chief Accountant

Corrective Action:

All reclassification of expenses will be completed as of the end of the financial year to ensure that items are recorded in the current financial period.

Proposed Completion Date:

September 30, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Receivables

Finding No. 2007-2

Criteria: Receivables should be periodically assessed for validity and collectibility. Additionally, through this review process, the adequacy of the allowance for doubtful accounts should be assessed and collection efforts pursued.

Condition: Our examination of the College's receivables indicated the following:

- Various receivables have been outstanding since 1999 to 2006 amounting to approximately \$2,100,000.
- The aging schedule indicated various credit balances which made it difficult to assess current and past due accounts.
- An analysis of the allowance for doubtful accounts was not performed during the fiscal year 2007. An audit adjustment was proposed as a result of our analysis.

Cause: The cause of the above condition is the lack of procedures in place to monitor and analyze receivables.

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 inadequate 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 allowance 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 2006.

Auditee Response and Corrective Action Plan:

We disagree with this finding. The College conducted an extensive exercise to review and write off balances outstanding since 1999 which were deemed uncollectible. Approximately \$1.6 million dollars in undocumented or unsupported balances were removed from the financial statements as a result. The proposed level of allowance for FY2007 appears to be excessive based on the College's experience. However, due to time constraints, the College has agreed to accept the auditors' report and finding and intends to conduct a thorough review of its allowance of doubtful account and make appropriate adjustments in FY2008.

Name of Contact Person:

Ms. Solita Barnes, Chief Accountant

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-2, Continued

Corrective Action:

Detailed analysis of the adequacy of the allowance for doubtful accounts and all receivable balances.

Proposed Completion Date:

September 30, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Investments

Finding No. 2007-3

Criteria: Investments should be recorded at fair value and investment activities should be accounted for in the general ledger.

Condition: The College did not record investment activities in the general ledger totaling \$511,650.

Cause: The cause of the above condition is lack of adequate personnel to perform record keeping.

Effect: The effect of the above condition is the misstatement of investment balances. An audit adjustment was proposed to correct this condition.

Recommendation: We recommend that the College record investment activities in the general ledger.

Auditee Response and Corrective Action Plan:

We agree with this finding. The College will make appropriate adjustments to the investment balances periodically to record any appreciation or depreciation in such. This was not done as of September 30, 2007 but the financial statements now correctly reflect the investment balances as of at date.

Name of Contact Person:

Ms. Marylou Ada, Interim Chief Financial and Administrative Officer

Corrective Action:

Periodic adjustments for investment performance.

Proposed Completion Date:

September 30, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Inventory

Finding No. 2007-4

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: Our tests of inventory noted the following:

- Inventories included negative balances amounting to \$7,810.
- Variances were noted in quantities between year-end inventory test counts and the final inventory valuation report for two items.
- Two saleable items and one used item had zero average unit cost in the final inventory valuation report. Further, one inventory item has an erroneous unit cost resulting in overstatement of inventory of approximately \$198,000. This condition was corrected through a proposed audit adjustment.
- The supporting vendor invoices for two items could not be located. Further, unit costs in the final inventory valuation report differed from underlying invoices for five items.

Cause: The cause of the above condition is weak internal controls over inventories.

Effect: The effect of the above condition is misstatement of inventory balances.

Recommendation: We recommend that the College establish adequate internal control procedures over inventory. We further recommend that the College ensure that inventories are properly valued and reconciled with physical counts in a timely basis.

Prior Year Status: Lack of internal controls over inventories was reported as a finding in the audit of the College for fiscal year 2006.

Auditee Response and Corrective Action Plan:

We agree with this finding. Although, measurable progress has been made in the addressing the issue with inventory at the Bookstore, the issues noted in the finding continue to exist. It is noted however, again that in prior years the auditors' opinion has been qualified relative to inventory balances and as such the condition has improved significantly. We expect full resolution of all issues in FY2008.

Name of Contact Person:

Ms. Bernie Sablan, Bookstore Manager

Corrective Action:

Detailed and accurate accounting of Bookstore inventory and physical counts at year-end will be conducted and training will be provided to staff conducting the annual inventory counts.

Proposed Completion Date:

September 30, 2008

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-5

| Program | Reason for Questioned Costs | Questioned Costs |
|--|---|------------------|
| U.S. Department of Agriculture / Payments to Agricultural Experiment Stations Under the Hatch Act / CFDA # 10.203 / Federal Award #s 2007-3110006095 and # 2006-3110006095 / Federal Award Periods 10/01/06 - 09/30/07 and 10/01/05 - 09/30/06 | <u>Criteria:</u> Expenditures should be authorized, supported and approved prior to incurrence. | |
| | <u>Condition:</u> Of \$441,629 nonpayroll expenditures, thirty-two items, totaling \$211,959 were tested. The following were noted during our testing: | |
| | • For one disbursement (Document No. SC00462688) amounting to \$1,391, there was no evidence of receipt for one item amounting to \$170. | 65 |
| | • For one disbursement (Document No. PO-109666) amounting to \$1,085, the supporting purchase order date was later than the invoice date. Further, there was no evidence of receipt of items. | 1,085 |
| | • For one travel expense (Document No. A-102579) amounting to \$2,803, boarding passes, trip report, supporting receipts and other travel related documents could not be provided. | 2,803 |
| | • For one disbursement (Document No. PO-110305) amounting to \$4,314, items purchased have not been received to date. | 4,314 |
| | • For two disbursements (Document Nos. PO-110288 and PO-110512) totaling \$5,236, the supporting invoice could not be located and there was no evidence of actual date of receipt of services or items purchased. | 5,236 |
| | • For two telephone expenses (Document Nos. 287-0552jul07 and 287-0552jun07) totaling \$3,319, log sheets to monitor names of persons or companies and dates when long distance cell phone calls are made were not available. Thus, there is no evidence that these long distance calls are reasonable and necessary for the program. | 3,319 |
| • For three employees, actual hours worked in the timesheet did not substantiate the salaries charged to the program by \$971. | <u>971</u> | |
| | | <u>17,793</u> |

Cause: The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures and failure to submit all supporting documents for filing.

Effect: The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$17,793.

Recommendation: We recommend that the College strengthen procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and payment. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-5, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. Although some of the items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency to resolve this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Ms. Solita Barnes, Chief Accountant and Mr. Ross Manglona, CREES Director</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-6

| Program | Reason for Questioned Costs | Questioned Costs |
|--|--|--|
| U.S. Department of Agriculture / Payments to Cooperative Extension Service Under the Smith Lever Act / CFDA # 10.500 / Federal Award #s 2007-41100-05700, # 2007-41530-05700 and # 2007-41510-05700 / Federal Award Period 10/01/06 - 09/30/07 | <p><u>Criteria:</u> Expenditures should be authorized, supported and approved prior to incurrence.</p> <p><u>Condition:</u> Of \$380,249 nonpayroll expenditures, thirty-five items, totaling \$52,557 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> • For one disbursement (Document No. 1081), the supporting invoice was dated earlier than the purchase order, thus, it appears that approval was not obtained prior to incurrence of expenditure. • For one travel expense (Document No. A-101724) amounting to \$2,570, the supporting invoice for airfare could not be provided. Further, the related affidavit of lost documents was dated earlier than the travel period. There was also no evidence of approval on the trip report by the division head. • For one disbursement (Document No. CR-111931) totaling \$2,000, a supporting purchase order and contract were not made available and there was no evidence of the actual date of receipt of services or items purchased. • For one disbursement (Document No. PO-110512) totaling \$1,915, a supporting invoice was not made available and there was no evidence of the actual date of receipt of services or items purchased. • For five employees, actual hours worked per the timesheet did not substantiate the salaries charged to the program by \$1,889. • For one employee, the salary in the personnel action form did not agree with the salary rate per the payroll system resulting in overpayment of \$580. | <p>3,500</p> <p>2,570</p> <p>2,000</p> <p>1,915</p> <p>1,889</p> <p><u>580</u></p> |
| | <p><u>Cause:</u> The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures and failure to submit all supporting documents for filing.</p> <p><u>Effect:</u> The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$12,454.</p> <p><u>Recommendation:</u> We recommend that the College strengthen procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and payment. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.</p> | <p><u>12,454</u></p> |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-6, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. Although some of the items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency to resolve this finding. Further the College does not agree with the auditors conclusions on some of the items noted in the finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Ms. Solita Barnes, Chief Accountant and Mr. Ross Manglona, CREES Director</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-7

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|---|---|--|
| U.S. Department of Education / Adult Basic Education / CFDA # 84.002 / Federal Award #s V002A050055 and V002A060059 / Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07 | <p><u>Criteria:</u> Expenditures should be authorized, supported and approved prior to incurrence.</p> <p><u>Condition:</u> Of \$256,143 nonpayroll expenditures, twenty-six items, totaling \$120,268 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> • For one disbursement (Document no. CR-111621) amounting to \$1,050, there was no evidence of approval prior to incurrence of expenditures. • For two disbursements (Document no. CR-112992 and 3018-00014-0000) totaling \$2,475, the supporting purchase order or a service contract was not provided for examination. | <p>1,050</p> <p><u>2,475</u></p> <p><u>3,525</u></p> |

Cause: The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures and failure to submit all supporting documents for filing.

Effect: The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$3,525. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.

Recommendation: We recommend that the College strengthen procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and payment. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.

Auditee Response and Corrective Action Plan:

We disagree with this finding. Although some of the items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency to resolve this finding. Further the College does not agree with the auditors' conclusion on some of the issues raised in this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented. We will work with the auditors or the grantor agency to resolve these.

Name of Contact Person:

Ms. Solita Barnes, Chief Accountant and Ms. Lorraine Cabrera, ABE Director

Corrective Action:

See above.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-7, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|---|-----------------------------|
| | Proposed Completion Date: September 30, 2008. Auditors' Response: We are ready to work with the College and reaudit documentation as it becomes available. | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-8

| Program | Reason for Questioned Costs | Questioned Costs |
|--|---|----------------------|
| <p>U.S. Department of Education / Adult Education / CFDA # 84.002 / Federal Award #s V002A050055 and V002A060059 / Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07</p> | <p><u>Criteria:</u> Per the terms of the grant agreement, the College is permitted to charge a maximum of 8% in indirect costs to the Adult Education Program. The College determines the amount charged for indirect costs by applying the allowable percentage to the total expenditures incurred under the program for the program year.</p> <p><u>Condition:</u> Of \$337,450 in program expenditures of the Adult Education Program, \$36,629 was charged as indirect cost. Allowable indirect costs that should have been charged amounted to \$24,066. Thus, an overcharge of indirect cost by \$12,563 occurred.</p> <p><u>Cause:</u> The cause of the above condition is the lack of adequate procedures to ensure that all specific grant terms and conditions are adhered to.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with grant terms and conditions and a possible questioned cost of \$12,563.</p> <p><u>Recommendation:</u> We recommend that the College implement appropriate policies and procedures to ensure recording of expenditures in the appropriate period.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. The College does not charge over 8% for indirect costs for grants that have a restricted rate of indirect cost recovery. If such a charge was made it probably relates to the continuation of the grant expenditures where indirect costs were not previously recovered. As we do not have access to the auditors' details, we cannot determine the cause of such. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented and will meet with the auditor to resolve this issue or reverse any charges that exceed the 8% limit or work directly with the grantor agency to effect resolution of the same.</p> <p>Name of Contact Person:</p> <p>Ms. Solita Barnes, Chief Accountant and Ms. Lorraine Cabrera, ABE Director</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | <p><u>12,563</u></p> |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Allowable Costs/Cost Principles

Finding No. 2007-9

| Program | Reason for Questioned Costs | Questioned Costs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|-------------------------------|-------------------------------------|----------------------------|-------------------------------------|---------------------|-------|-----------|----------|---------|-------|-------|-----------|----------|---------|-------|-------|-------|----------|--------|-------|-------|-----------|----------|---------|-------|------------------|------------------------|----------------------------|-------------------------------------|---------------------|-------|-----------|----------|----------|-------|-------|-------|----------|-----|-------|-------|-----------|----------|--------------|-------|--|--|--|-------|--|--|--|--|----------------|--|--|--|-------------------------------|-----------------|--|
| U.S. Department of Education / Higher Education Institutional Aid / CFDA # 84.031 / Federal Award # P031A020233-06 / Federal Award Period 10/01/06 - 09/30/07 | <p><u>Criteria:</u> Expenditures should be authorized, supported and approved prior to incurrence.</p> <p><u>Condition:</u> Of \$240,997 payroll expenditures, twenty-one items, totaling \$205,958 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> For four disbursements totaling \$10,048, the supporting purchase order or a service voucher were not provided for examination. | 10,048 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Fund Code</u></th> <th style="text-align: left;"><u>Document Number</u></th> <th style="text-align: left;"><u>General Ledger Date</u></th> <th style="text-align: right;"><u>General Ledger Amount Tested</u></th> <th style="text-align: right;"><u>Check Number</u></th> </tr> </thead> <tbody> <tr> <td>ESI07</td> <td>CR-112220</td> <td>04/23/07</td> <td style="text-align: right;">\$3,990</td> <td style="text-align: right;">25062</td> </tr> <tr> <td>ESI07</td> <td>CR-111965</td> <td>02/28/07</td> <td style="text-align: right;">\$3,233</td> <td style="text-align: right;">24451</td> </tr> <tr> <td>ESI07</td> <td>N0512</td> <td>12/18/06</td> <td style="text-align: right;">\$ 900</td> <td style="text-align: right;">23858</td> </tr> <tr> <td>ESI07</td> <td>cr-112797</td> <td>09/24/07</td> <td style="text-align: right;">\$1,925</td> <td style="text-align: right;">26578</td> </tr> </tbody> </table> <ul style="list-style-type: none"> For four disbursements totaling \$8,616, the supporting receiving report or any equivalent document evidencing actual receipt of the item purchased could not be provided. <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Fund Code</u></th> <th style="text-align: left;"><u>Document Number</u></th> <th style="text-align: left;"><u>General Ledger Date</u></th> <th style="text-align: right;"><u>General Ledger Amount Tested</u></th> <th style="text-align: right;"><u>Check Number</u></th> </tr> </thead> <tbody> <tr> <td>ESI07</td> <td>PO-110088</td> <td>06/07/07</td> <td style="text-align: right;">\$ 3,971</td> <td style="text-align: right;">25613</td> </tr> <tr> <td>ESI07</td> <td>N0512</td> <td>12/18/06</td> <td style="text-align: right;">900</td> <td style="text-align: right;">23858</td> </tr> <tr> <td>ESI07</td> <td>cr-112797</td> <td>09/24/07</td> <td style="text-align: right;"><u>1,925</u></td> <td style="text-align: right;">26578</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">6,796</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>(2,825)</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td>Questioned Costs this finding</td> <td style="text-align: right;"><u>\$ 3,971</u></td> <td></td> </tr> </tbody> </table> <ul style="list-style-type: none"> For one disbursement (Document no. CR-112220) amounting to \$3,990, the supporting invoice could not be located. No questioned cost will be raised as this item was already questioned above. | <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | ESI07 | CR-112220 | 04/23/07 | \$3,990 | 25062 | ESI07 | CR-111965 | 02/28/07 | \$3,233 | 24451 | ESI07 | N0512 | 12/18/06 | \$ 900 | 23858 | ESI07 | cr-112797 | 09/24/07 | \$1,925 | 26578 | <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | ESI07 | PO-110088 | 06/07/07 | \$ 3,971 | 25613 | ESI07 | N0512 | 12/18/06 | 900 | 23858 | ESI07 | cr-112797 | 09/24/07 | <u>1,925</u> | 26578 | | | | 6,796 | | | | | <u>(2,825)</u> | | | | Questioned Costs this finding | <u>\$ 3,971</u> | |
| <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | CR-112220 | 04/23/07 | \$3,990 | 25062 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | CR-111965 | 02/28/07 | \$3,233 | 24451 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | N0512 | 12/18/06 | \$ 900 | 23858 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | cr-112797 | 09/24/07 | \$1,925 | 26578 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | PO-110088 | 06/07/07 | \$ 3,971 | 25613 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | N0512 | 12/18/06 | 900 | 23858 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ESI07 | cr-112797 | 09/24/07 | <u>1,925</u> | 26578 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | 6,796 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | <u>(2,825)</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Questioned Costs this finding | <u>\$ 3,971</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Cause: The causes of the above conditions are failure to obtain appropriate approval prior to incurring expenditures and failure to submit all supporting documents for filing.

Effect: The effects of the above conditions are the use of federal funds for unauthorized and unsupported expenditures and questioned costs of \$14,019.

Recommendation: We recommend that the College strengthen procedures to ensure that appropriate approvals are obtained for program expenditures prior to incurrence and payment. Further, we recommend that the College ensure that pertinent documents supporting program expenditures are properly maintained and filed.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-9, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. Although some of items noted were not provided to the auditors or were to their satisfaction before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency to resolve this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Mr. Duane Sablan, Acting Procurement Officer and Mr. Adrian Atalig, Director of Information Technology.</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Eligibility

Finding No. 2007-10

| Program | Reason for Questioned Costs | Questioned Costs |
|---|--|---|
| U.S. Department of Education / TRIO - Student Support Services / CFDA #84.042 / Federal Award # P042A051370-06 / Federal Award Period 09/01/2006 - 08/31/2007 | <p><u>Criteria:</u> It is the College's responsibility to ensure that student awards are made only to eligible participants. Various eligibility requirements concerning citizenship, prior education and similar matters are stipulated in the specific requirements of the program's compliance supplement.</p> <p><u>Condition:</u> Of two Student Support Services student files tested for eligibility, one file (Fall-07 Student No. 21) was missing and one file (Spring-07 Student No. 84) lacked evidence of income verification.</p> <p><u>Cause:</u> The cause of the above condition is the lack of procedures to ensure that adequate documentation is retained by the College to support eligibility of recipients of Student Support Services program.</p> <p><u>Effect:</u> The effect of the above condition is possible noncompliance with respect to eligibility requirements. This matter is reportable as the projected questioned costs exceed the threshold.</p> <p><u>Recommendation:</u> We recommend that the College establish procedures to ensure that files for all students under the program contain adequate documentation to support eligibility requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We agree with this finding. Due to a transition in Directors during financial year 2007 and a relocation of certain offices, files were misplaced or may not have contained the information noted by the auditors. We will conduct a detailed review of all student files and provide the missing documentation to the auditors or the grantor agency to address this finding.</p> <p>Name of Contact Person:</p> <p>Ms. Janice Tenorio, Director of Student Support Services.</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> | <hr style="width: 100px; margin-left: auto; margin-right: 0;"/> 201 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-11

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|------------------|
| <p>U.S. Department of Agriculture / Payments to Agricultural Experiment Stations Under the Hatch Act / CFDA # 10.203 / Federal Award #s 2007-3110006095 and 2006-3110006095 / Federal Award Periods 10/01/06 - 09/30/07 and 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. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only two price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the third quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once a week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000), and the Contractor. <p><u>Condition:</u> Of \$441,629 nonpayroll expenditures, thirty-two items totaling \$211,959 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> • For three disbursements for contract services totaling \$4,103, evidence that the contracted services were not available internally at the College could not be provided. | <p>4,103</p> |

| Fund Code | Document Number | General Ledger Date | General Ledger Amount Tested | Check Number |
|-----------|-----------------|---------------------|------------------------------|--------------|
| AR106 | PS-2909feb07a | 02/27/07 | \$1,125 | 24392 |
| AR107 | PS-2975 | 09/28/07 | \$2,217 | 27103 |
| AR106 | PS-2907jul07 | 07/16/07 | \$ 761 | 25982 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-11, Continued

| Program | Reason for Questioned Costs | | | | | Questioned Costs |
|---------|---|--|----------------------------|-------------------------------------|---------------------|------------------|
| | <ul style="list-style-type: none"> For six airfare expenses totaling \$15,472, price quotations were not obtained from available travel agents or vendors. | | | | | 10,425 |
| | <u>Fund Code</u> | <u>Document Number</u> | <u>General Ledger Date</u> | <u>General Ledger Amount Tested</u> | <u>Check Number</u> | |
| | AR107 | A-102579 | 09/28/07 | \$ 2,803 | 26798 | |
| | AR507 | A-102515 | 07/05/07 | 2,637 | 25883 | |
| | AR107 | A-102800 | 09/18/07 | 2,244 | 26537 | |
| | AR107 | W-102011 | 09/24/07 | 2,676 | 26598 | |
| | AR107 | TA 102014 | 09/24/07 | 2,676 | 26598 | |
| | AR407 | A-102594 | 07/05/07 | <u>2,436</u> | 25883 | |
| | | | | 15,472 | | |
| | | Less amount already questioned at Finding No. 2007-5 | | | (5,047) | |
| | | Questioned Costs this finding | | | \$ <u>10,425</u> | |
| | <ul style="list-style-type: none"> For one purchase, (Document No. 2095) amounting to \$1,153, there was no evidence of competitive procurement. | | | | | 1,153 |
| | <ul style="list-style-type: none"> For two independent services contracts (Document No. PS-2909 and PS-2975) totaling \$3,342, the supporting contract was not signed by all authorized signatories prior to commencement of the contract period. Questioned cost for this condition is already included above. | | | | | - |
| | <ul style="list-style-type: none"> For one independent services contract (Document No. PS-2975) amounting to \$2,217, there was no evidence that the public notice was adequately advertised. Further, there was no documentation of the vendor selection process. Questioned cost for this condition is already included above. | | | | | - |
| | <ul style="list-style-type: none"> For one independent service contract (Document No. PS-2907) amounting to \$761, the supporting scoring sheets and related proposals of other applicants could not be provided. Thus, we could not verify if the selected vendor was indeed the most responsive. Questioned cost for this condition is already included above. | | | | | - |
| | <ul style="list-style-type: none"> For one purchase amounting to \$1,085 (Document No. PO-109666), there was only one price quotation on file. No questioned cost is raised under this criteria as questioned cost is already included in Finding No. 2007-5. | | | | | - |
| | | | | | | <u>15,681</u> |

Cause: The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$15,681.

Recommendation: We recommend that the College strengthen internal controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-11, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|---|------------------|
| | <p><u>Prior Year Status:</u> Noncompliance with local procurement policies was reported as a finding in the Single Audit of the College for fiscal year 2006.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We disagree with this finding. The College procures all professional services for federal programs, especially the CREES program, via a competitive procurement process where all employees of the institution are also allowed to apply to perform the services. The auditor raises the issue of services being available internally not recognizing that services for CREES are for research or extension activities which are unique and special in nature. As we were unable to satisfy the auditors before their deadline for issuance of the audit report by June 30, 2008, the College has located the documents and will provide such to the auditors or the grantor agency for resolution of the finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Mr. Duane Sablan, Acting Procurement Officer, Ms. Solita Barnes, Chief Accountant and Mr. Ross Manglona, CREES Director</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> <p><u>Auditors' Response:</u></p> <p>We are ready to work with the College and reaudit documentation as it becomes available.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-12

| Program | Reason for Questioned Costs | Questioned Costs |
|---|--|------------------|
| <p>U.S. Department of Agriculture / Payments to Cooperative Extension Service Under the Smith Lever Act / CFDA # 10.500 / Federal Award #s 2007-41100-05700, 2007-41530-05700 and 2007-41510-05700 / Federal Award Period 10/01/06 - 09/30/07</p> | <p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once in every week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000), and Contractor. <p><u>Condition:</u> Of \$380,249 nonpayroll expenditures, thirty-five items, totaling \$52,557 were tested. The following were noted during our testing:</p> <ul style="list-style-type: none"> • For ten disbursements for contract services totaling \$9,105, evidence that the contracted services were not available internally at the College could not be provided. | <p>9,105</p> |

| Fund Code | Document Number | General Ledger Date | General Ledger Amount Tested | Check Number |
|-----------|-----------------|---------------------|------------------------------|--------------|
| AB106 | FR011 | 03/13/07 | \$ 1,417 | 24621 |
| AB105 | PS-2922may07 | 05/17/07 | \$ 979 | 25442 |
| AB106 | PS-2896jul07 | 07/31/07 | \$ 848 | 26121 |
| AB105 | 145 | 12/15/06 | \$ 500 | 23844 |
| AB106 | PS-2894-oct06a | 11/28/06 | \$ 1,417 | 23548 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-12, Continued

| Program | Reason for Questioned Costs | | | | | Questioned Costs |
|---------|-----------------------------|---|---------------------|------------------------------|--------------|------------------|
| | Fund Code | Document Number | General Ledger Date | General Ledger Amount Tested | Check Number | |
| | AB106 | PS-2893-3/15 | 03/21/07 | \$ 958 | 24639 | |
| | AB706 | PS-2900jan07a | 02/07/07 | \$ 1,375 | 24165 | |
| | AB907 | PS-2947aug07 | 09/04/07 | \$ 350 | 26413 | |
| | AB106 | PS-2902 | 12/04/06 | \$ 500 | 23634 | |
| | AB106 | PS-2907jun07 | 06/19/07 | \$ 761 | 25752 | |
| | | <ul style="list-style-type: none"> For one disbursement (Document no. 800470636) amounting to \$557, the procurement document supporting the basis for vendor selection were not made available. | | | | 557 |
| | | <ul style="list-style-type: none"> For two independent services contracts (Document No. FR011 and PS-2900) totaling \$2,792, there was no evidence that the public notice were adequately advertised. Further, there was no documentation of the vendor selection process. Questioned cost for this condition is already included above. | | | | - |
| | | <ul style="list-style-type: none"> For five independent services contracts (Document No. FR011, PS-2922, PS-2896, PS-2894 and PS-2900) totaling \$6,035, the supporting contract was not signed by all authorized signatories prior to commencement of the contract period. Questioned cost for this condition is already included above. | | | | - |
| | | <ul style="list-style-type: none"> For one independent services contract (Document No. 145) amounting to \$500, there was no evidence that the public notice was adequately advertised. Questioned cost for this condition is already included above. | | | | - |
| | | <ul style="list-style-type: none"> For two independent service contracts (Document No. PS-2947 and PS-2907) totaling \$1,111, the supporting scoring sheets and related proposals of other applicants could not be provided. Thus, we could not verify if the selected vendor was indeed the most responsive. Questioned cost for this condition is already included above. | | | | - |
| | | <ul style="list-style-type: none"> For one purchase obtained under sole source (Document no. 1081) amounting to \$3,500, justifications documented did not appear to meet the established criteria set. Further, there was no evidence that other available sources were considered prior to using sole source procurement. No questioned cost is raised under this criteria as questioned cost is already included in Finding No. 2007-6. | | | | - |
| | | | | | | <u>9,662</u> |

Cause: The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$9,662. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-12, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|---|------------------|
| | <p><u>Recommendation:</u> We recommend that the College strengthen internal controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We partially agree with this finding. The College procures goods and services based on what it determines as being the best value and benefit for the program. The auditors' conclusions relative to certain justifications is very subjective. We agree, however, that additional documentation is required to meet the auditors' determination that travel procurement via competitive means is not well documented and have implement additional procedures to satisfy the auditors' requirements. Although, certain items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Mr. Duane Sablan, Acting Procurement Officer, Ms. Solita Barnes, Chief Accountant and Mr. Ross Manglona, CREES Director</p> <p>Corrective Action:</p> <p>Corrective Action: See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-13

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|------------------|
| U.S. Department of Education / TRIO - Student Support Services / Talent Search, and Upward Bound Programs / CFDA #s 84.042, 84.044, and 84.047 / Federal Award #s P042A051370-07, P044A060919-07, P047A030695-06 and P047A071200 / Federal Award Periods 09/01/2006 - 08/31/2007 and 09/01/07 - 8/31/2008 | <p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once in every week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000) and Contractor. | |
| | <p><u>Condition:</u> Of total nonpayroll program expenditures of \$338,989 under the TRIO Programs, twenty-seven items amounting to \$89,927 were tested. Instances of noncompliance noted are as follows:</p> | |
| | <ul style="list-style-type: none"> • Price quotes for the procurement of airfare for three items (Doc. Nos. A-102769, A-102802 and a-102761) totaling to \$8,536 were not provided for examination. | 8,536 |
| | <ul style="list-style-type: none"> • Justification of the procurement made for two items (Doc. Nos. A-102700 and A-102783) totaling 5,816 appear insufficient. | 5,816 |
| | <ul style="list-style-type: none"> • Procurement rationale for one item (Doc. No. 800472835) amounting to \$236 was not provided for examination. | 236 |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-13, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|---|------------------|
| | <ul style="list-style-type: none"> Procurement quotes obtained provided for one item (Doc. No. PO-110385) amounting to \$5,596 indicated a name brand preference. Although a justification for the brand name preference was provided, such did not appear to meet the criteria set forth above. | <u>5,596</u> |
| | | <u>20,184</u> |

Cause: The cause of the above condition is noncompliance with established federal procurement regulations.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$20,184.

Recommendation: We recommend that the College comply with federal procurement regulations.

Prior Year Status: Noncompliance with established federal procurement regulations was reported as a finding in the audit of the College for fiscal year 2006.

Auditee Response and Corrective Action Plan:

We partially agree with this finding. The College procures goods and services based on what it determines as being the best value and benefit for the program. The auditors' conclusions relative to certain justifications is very subjective. We agree however that additional documentation is required to meet the auditors' determination that travel procurement via competitive means is not well documented and have implemented additional procedures to satisfy the auditors' requirements. Although, certain items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.

Name of Contact Person:

TRIO Program Directors, Mr. Duane Sablan, Acting Procurement Officer, Ms. and Solita Barnes, Chief Accountant.

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-14

| Program | Reason for Questioned Costs | Questioned Costs |
|---|---|------------------|
| U.S. Department of Education / Adult Education / CFDA # 84.002 / Federal Award #s V002A050055 and V002A060059 / Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07 | <p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once in every week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000) and Contractor. | |
| | <p><u>Condition:</u> Of \$256,143 nonpayroll expenditures, twenty-six items, totaling \$120,268 were tested. The following were noted during our testing:</p> | |
| | <ul style="list-style-type: none"> • For one purchase (Document no. PO-110065) amounting to \$4,600, the solicitation indicated restrictions on competition by specifying a brand name. Justification for name brand preference does not suffice above criteria. | 4,600 |
| | <ul style="list-style-type: none"> • For one purchase (Document no. CR-111621) amounting to \$1,050, the supporting contract was not signed by the College's president, fund certifier, Chief Financial and Administrative Office and legal counsel. No questioned cost will be raised as this was already included in Finding No. 2007-8. | - |
| | | <u>4,600</u> |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-14, Continued

| Program | Reason for Questioned Costs | Questioned Costs |
|---------|--|------------------|
| | <p><u>Cause:</u> The causes of the above conditions are inadequate documentation of small purchases and weak controls over ensuring that all procurement policies and procedures are implemented.</p> <p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$4,600. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.</p> <p><u>Recommendation:</u> We recommend that the College strengthen internal controls over procurement to maximize competition while maintaining the best interests of the College. If exceptions are allowed by procurement regulations, they should be reviewed, approved and documented in the procurement file.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We partially agree with this finding. The College procures goods and services based on what it determines as being the best value and benefit for the program. The auditors' conclusions relative to certain justifications is very subjective. Although certain items noted were not provided or were not to the satisfaction of the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Ms. Lorraine Cabrera, ABE Director and Ms. and Solita Barnes, Chief Accountant.</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Procurement and Suspension and Debarment

Finding No. 2007-15

| Program | Reason for Questioned Costs | Questioned Costs |
|--|--|--|
| U.S. Department of Education / Capacity Building for Traditionally Underserved Populations / CFDA # 84.315 / Federal Award # H315C050012-06 / Federal Award Period 10/01/06 - 09/30/07 | <p><u>Criteria:</u> Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Specifically, the College's Procurement Regulations state the following:</p> <ul style="list-style-type: none"> • Any lease or purchase of vehicles, machinery, and equipment should be procured pursuant to competitive sealed bidding. • Price quotations should be obtained from at least three vendors for purchases between \$1,000 and \$9,999.99. In the event that only 2 price quotations can be obtained, a written statement shall be made by the College official with expenditure authority to indicate the reason(s) for not being able to obtain the 3rd quotation. If only one quotation can be obtained, a Sole Source purchase form must be completed with the reason(s) why the purchase has to be made with the selected vendor indicated on the form. At least one written price quotation is required for purchases less than \$1,000. • Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. A public notice should be publicized at least once in every week over a period of 30 calendar days. • For independent contract services, programs should first determine whether their requirements may be met by available in-house resources or through other employment options authorized by College policy, prior to initiating the acquisition of services via procurement procedures. • All contracts must be signed by the Legal Counsel, College Official with expenditure authority, Director of Finance & Administrative Services, President, Chairman of BOR (if contract amount exceeds \$25,000) and Contractor. <p><u>Condition:</u> Of total nonpayroll program expenditures of \$90,333 under the Capacity Building for Traditionally Underserved Populations program, twenty-six items amounting to \$45,639 were tested. Instances of noncompliance noted are as follows:</p> <ul style="list-style-type: none"> • Price quotes for the procurement of airfare for one item (Document No. A-102792) amounting to \$2,523 was not provided for examination. • Justification of the procurement made for two items (Document Nos. 1166 and A-102790) totaling \$4,253 appear insufficient. | <p>2,523</p> <p><u>4,253</u></p> <p><u>6,776</u></p> |
| <p><u>Cause:</u> The cause of the above condition is noncompliance with established federal procurement regulations.</p> | | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-15, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | <p><u>Effect:</u> The effect of the above condition is noncompliance with federal procurement regulations and possible questioned costs of \$6,776. This matter is reportable as the projected questioned costs exceed the threshold of \$10,000.</p> <p><u>Recommendation:</u> We recommend that the College comply with federal procurement regulations.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>We partially agree with this finding. The College procures goods and services based on what it determines as being the best value and benefit for the program. The auditors' conclusions relative to certain justifications is very subjective. We agree however that additional documentation is required to meet the auditors' determination that travel procurement via competitive means is not well documented and have implemented additional procedures to satisfy the auditors' requirements. Although certain items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.</p> <p>Name of Contact Person:</p> <p>Solita Barnes, Chief Accountant.</p> <p>Corrective Action:</p> <p>See above.</p> <p>Proposed Completion Date:</p> <p>September 30, 2008.</p> | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Matching, Level of Effort, Earmarking

Finding No. 2007-16

| Program | Reason for Questioned Costs | Questioned Costs |
|---|--|---|
| U.S. Department of Education / Adult Education / CFDA # 84.002 / Federal Award # V002A050055 / Federal Award Period 07/01/05 - 09/30/06 | <p><u>Criteria:</u> The Adult Education and Family Literacy Act (the Act) requires the following, among others:</p> <ul style="list-style-type: none"> • An eligible agency may receive funds for any fiscal year if the Secretary finds that the fiscal effort per student or the aggregate expenditures of such eligible agency for adult education and literacy activities, in the second preceding fiscal year, was not less than 90 percent of the fiscal effort per student or the aggregate expenditures of the eligible agency for adult education and literacy activities, in the third preceding fiscal year. • Grants and contracts for eligible providers shall not be less than 82.5 percent of the eligible agency's grant funds. Such earmarking requirement is for each yearly grant award and must be met within the period of its availability (generally 27 months). <p><u>Condition:</u> Our test of the requirements above for the Adult Education program indicated the following:</p> <ul style="list-style-type: none"> • The College's fiscal effort per student or the aggregate expenditures for adult education and literacy activities in fiscal year 2007 was less than 90% of the fiscal effort per student or the aggregate expenditures of the eligible agency for adult education and literacy activities in 2006. • The College's grants and contracts for eligible providers in fiscal year 2006 required an earmarking of funds of \$238,372. Funds earmarked by the College for fiscal year 2006 totaled \$185,669, thus, a deficient earmark of \$52,703. | <p style="text-align: right;"><u>52,703</u></p> <p style="text-align: right;">Total Questioned Costs \$ <u>170,161</u></p> |

Cause: The cause of the above condition is lack of monitoring controls in place to ensure compliance with the above criteria.

Effect: The effect of the above condition is noncompliance with the criteria and a possible questioned cost of \$52,703. No questioned cost was raised for the level of effort requirement as funds expended for these activities were local funds.

Recommendation: We recommend that control policies and procedures be implemented to ensure compliance with the criteria.

Auditee Response and Corrective Action Plan:

We cannot agree or disagree with this finding as adequate information cannot be gathered within reasonable time to determine if the auditors' conclusions are correct. Although, certain items noted were not provided to the auditors before their deadline for issuance of the audit report by June 30, 2008, the documents are available and the College will provide such to the auditors or the grantor agency for resolution of this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-16, Continued

| <u>Program</u> | <u>Reason for Questioned Costs</u> | <u>Questioned Costs</u> |
|----------------|--|-------------------------|
| | Name of Contact Person: Ms. Lorraine Cabrera, ABE Director | |
| | Corrective Action: See above. | |
| | Proposed Completion Date: September 30, 2008. | |
| | <u>Auditors' Response:</u> We are ready to work with the College and reaudit documentation as it becomes available. | |

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Education

Allowable Costs/Cost Principles - TRIO - Upward Bound, Adult Education, and Capacity Building for Traditionally Underserved Populations

CFDA #84.047, Federal Award # P047A030695-06

CFDA # 84.002, Federal Award #s V002A050055 and V002A060059

CFDA # 84.315, Federal Award # H315C050012-06

Federal Award Period 09/01/2006 - 08/31/2007

Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07

Federal Award Period 10/01/06 - 09/30/07

Finding No. 2007-17

Criteria: The grant terms and conditions require that when issuing statements, press releases, requests for proposals, bid solicitations, and other documents describing projects or programs funded in whole or in part with Federal money, all grantees receiving federal funds, shall clearly state the (1) dollar amount of federal funds for the project, (2) the percentage of the total cost of the project that will be financed by federal funds, and (3) the percentage and dollar amount of the total cost of the project that will be financed by non-governmental sources.

Condition: Our examination of the requirement above indicated the following:

- Of total nonpayroll expenditures of \$338,989 under the TRIO Programs, twenty-seven items amounting to \$89,927 were tested. Request for proposals issued for one purchase (Doc. No. PO-110261) did not satisfy the requirements set forth above.
- Of total nonpayroll expenditures of \$256,143 under the Adult Education Program, twenty-six items amounting to \$120,268 were tested. For three expenditures totaling \$6,475, advertising content did not indicate the dollar amount of federal funds for the project and the percentage of the total cost of the project that will be financed with federal funds or non-governmental sources.
- Of total nonpayroll expenditures of \$90,333 under the Capacity Building for Traditionally Underserved Populations program, twenty-six items amounting to \$45,639 were tested. Request for proposals issued for two purchases (Doc. Nos. 1166 and 19135) did not satisfy the requirements set forth above.

Cause: The cause of the above condition is lack of awareness of such provisions.

Effect: The effect of the above condition is noncompliance with grant terms and conditions.

Recommendation: We recommend that the College comply with applicable terms and conditions.

Auditee Response and Corrective Action Plan:

The College federal program personnel were obviously not aware of this requirement. The College will ensure that this requirement is met for all future procurement of services or goods utilizing federal funds. We will work with the federal grantor agencies to bring resolution to this finding. To avoid not meeting the deadline for the completion of the audit, the College elected to finalize the report as presented.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-17, Continued

Name of Contact Person:

Mr. Duane Sablan, Acting Procurement Officer and All Federal Program Directors

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

Auditors' Response:

We are ready to work with the College and reaudit documentation as it becomes available.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Agriculture
Cash Management - Payments to Agricultural Experiment Stations under the Hatch Act
CFDA # 10.203, Federal Award #s 2007-3110006095 and 2006-3110006095
Federal Award Periods 10/01/06 - 09/30/07 and 10/01/05 - 09/30/06

Finding No. 2007-18

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: For seventeen of forty-four transactions tested, the time elapsed between the receipt of federal funds and the clearance of disbursed checks exceeded three days for the following transactions:

| <u>Document Number</u> | <u>Check Number</u> | <u>Amount Tested</u> | <u>Clearance Date</u> | <u>Reimbursement Date</u> | <u>Days Lapsed After 3 Business Days</u> |
|------------------------|---------------------|----------------------|-----------------------|---------------------------|--|
| PO-110720 | 27111 | \$38,897 | 11/15/07 | 10/05/07 | 38 |
| PO-110720 | 27111 | \$95,100 | 11/15/07 | 10/05/07 | 38 |
| A-102515 | 25883 | \$ 2,637 | 07/19/07 | 04/26/07 | 81 |
| W-102011 | 26598 | \$ 2,676 | 11/01/07 | 04/26/07 | 186 |
| TA-102642 | 26303 | \$ 4,200 | 09/05/07 | 04/26/07 | 129 |
| TA 102014 | 26598 | \$ 2,676 | 11/01/07 | 10/05/07 | 24 |
| A-102594 | 25883 | \$ 2,436 | 07/19/07 | 04/26/07 | 81 |
| TA-102594 | 25851 | \$ 3,050 | 07/09/07 | 04/26/07 | 71 |
| PO-110305 | 26036 | \$ 4,314 | 08/27/07 | 04/26/07 | 120 |
| PO-110288 | 25767 | \$ 3,321 | 07/12/07 | 04/26/07 | 74 |
| PO-110335 | 26008 | \$ 1,814 | 08/09/07 | 04/26/07 | 102 |
| PS-2975 | 27103 | \$ 2,217 | 12/26/07 | 10/05/07 | 79 |
| 655 | 27140 | \$ 1,727 | 11/20/07 | 10/05/07 | 43 |
| 287-0552jun07 | 26419 | \$ 1,255 | 09/14/07 | 04/26/07 | 138 |
| PO-110512 | 26242 | \$ 1,915 | 09/05/07 | 04/26/07 | 129 |
| 2095 | 26310 | \$ 1,153 | 09/04/07 | 04/26/07 | 128 |
| CR-113218 | 27104 | \$ 3,240 | 11/26/07 | 10/05/07 | 49 |

Cause: The cause of the above condition is that the College appears to have overestimated its check clearing pattern and is drawing cash prior to actual check clearance.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the grantor agency is less than \$10,000. Interest earned on advances is \$1,042 and an interest liability of \$942 exists.

Recommendation: We recommend that the College update its check clearing study and draw down in accordance with that study.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-18, Continued

Prior Year Status: Lack of regular and timely update of the check clearing study and drawdown was reported as a finding in the audits of the College for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

The College strongly disagrees with this finding. As a result of a similar finding in FY2006, the College amended its drawdown procedures to delay drawdown of federal funds for up to a week after the processing/incurred of the related expenses and/or payment for services. Again when a vendor decides to cash a check is really beyond the control of the institution and this issue is particularly difficult for the College as it is so far removed from the mainland. As a good number of our vendors are from off-island it is practically impossible for NMC to determine accurately the time it would take for a vendor to receive and process a payment. It appears that the College has taken reasonable measures to address this concern by delaying drawdown of federal funds but the issue continues. The College will work with the federal grantor agencies to obtain resolution of this issue and also to resolve the issue of the estimated interest earned such funds and act as directed by the grantor agencies.

Name of Contact Person:

Ms. Marylou Ada, Interim Chief Financial and Administrative Officer

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Education

Cash Management - Higher Education Institutional Aid and Adult Education

CFDA # 84.031, Federal Award # P031A020233-06

CFDA # 84.002, Federal Award #s V002A050055 and V002A060059

Federal Award Period 10/01/06 - 09/30/07

Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07

Finding No. 2007-19

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: Our examination of the requirement above indicated the following:

- For eight of twenty-five transactions tested under the Higher Education Institutional Aid Program, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days for the following transactions:

| <u>Document Number</u> | <u>Check Number</u> | <u>Amount Tested</u> | <u>Clearing Date</u> | <u>Reimbursement Date</u> | <u>Days Lapsed After Three Business Days</u> |
|------------------------|---------------------|----------------------|----------------------|---------------------------|--|
| C-070001 | 23873 | \$45,975 | 01/05/07 | 12/29/06 | 2 |
| C-070001 | 23873 | \$27,163 | 01/05/07 | 12/29/06 | 2 |
| PO-110733 | 26905 | \$ 6,547 | 11/20/07 | 10/02/07 | 32 |
| PO-110137 | 26201 | \$ 8,394 | 09/10/07 | 08/22/07 | 10 |
| PO-110138 | 26359 | \$ 6,282 | 11/13/07 | 08/31/07 | 49 |
| PS-2935final | 25806 | \$ 3,283 | 09/10/07 | 07/20/07 | 33 |
| Cr-112797 | 26578 | \$ 1,925 | 11/19/07 | 10/02/07 | 31 |
| PP#22/2006 | V017395 | \$ 1,352 | 10/27/06 | 10/17/06 | 5 |

- For five of thirty-six transactions tested under the Adult Education Program, the time elapsed between the receipt of Federal funds and the clearance of disbursed checks exceeded three days for the following transactions:

| <u>Document Number</u> | <u>Check No.</u> | <u>Amount Tested</u> | <u>Clearing Date</u> | <u>Reimbursement Date</u> | <u>Days Lapsed After Three Business Days</u> |
|------------------------|------------------|----------------------|----------------------|---------------------------|--|
| PP#12/07 | 9461 | \$ 600 | 06/29/07 | 06/13/07 | 9 |
| PP#17/07 | 9871 | \$ 1,200 | 08/29/07 | 08/22/07 | 2 |
| CR-113297 | 28438 | \$ 49,559 | 03/31/08 | 01/11/08 | 59 |
| CR-111621 | 24042 | \$ 1,050 | 03/07/07 | 02/22/07 | 6 |
| CR-112992 | 26605 | \$ 1,250 | 10/09/07 | 10/02/07 | 2 |

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.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-19, Continued

Effect: The effect of the above condition is noncompliance with federal cash management requirements. However, no questioned costs result from the condition as the estimated interest liability to the grantor agency is less than \$10,000. Interest earned on advances is \$356 and an interest liability of \$156 exists.

Recommendation: We recommend that the College update its check clearing study and draw down in accordance with that study.

Prior Year Status: Lack of regular and timely update of the check clearing study and drawdown was reported as a finding in the audits of the College for fiscal years 2005 and 2006.

Auditee Response and Corrective Action Plan:

The College strongly disagrees with this finding. As a result of a similar finding in FY2006, the College amended its drawdown procedures to delay drawdown of federal funds for up to a week after the processing/incurred of the related expenses and/or payment for services. Again when a vendor decides to cash a check is really beyond the control of the institution and this issue is particularly difficult for the College as it is so far removed from the mainland. As a good number of our vendors are from off-island it is practically impossible for NMC to determine accurately the time it would take for a vendor to receive and process a payment. It appears that the College has taken reasonable measures to address this concern by delaying drawdown of federal funds but the issue continues. The College will work with the federal grantor agencies to obtain resolution of this issue and also to resolve the issue of the estimated interest earned such funds and act as directed by the grantor agencies.

Name of Contact Person:

Ms. Marylou Ada, Interim Chief Financial and Administrative Officer

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Equipment and Real Property Management - All Major Programs

Finding No. 2007-20

Criteria: Title 34 Part 74.34 of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states the following requirements, among others:

- a. Equipment records shall be maintained accurately and shall include a description of the property, manufacturer's serial number or other identification number, the source of property including the award number, whether the title vests in the recipient of the Federal Government, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- b. A physical inventory of the property must be taken and the results reconciled with the property records at least every two years;

In addition, the College's Property Management and Accountability Manual requires that an annual physical inventory of fixed assets be taken.

Condition: The following were noted during our examination of College's compliance with the above requirements:

- The College's property records lack information as to source of the property, whether title vests to the recipient or the Federal government, information from which one can calculate the percentage of Federal participation in the cost of the property, and condition of the property.
- Physical inventory was not performed annually as required by the College's Property Management and Accountability Manual.

Cause: The cause of the above condition is lack of information as required by the federal regulations and lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment.

Effect: The effect of the above condition is that the College is not in compliance with federal property standards and the Property Management and Accountability Manual.

Recommendation: We recommend that the College ensure compliance with applicable federal property rules and regulations and the Property Management and Accountability Manual.

Prior Year Status: Lack of policies and procedures to ensure compliance with federal property management standards was reported as a finding in the audit of the College for fiscal year 2005 and 2006.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

Finding No. 2007-20, Continued

Auditee Response and Corrective Action Plan:

The College partially agrees with this finding. A comprehensive inventory of fixed assets was completed in FY2006 as part of the College's efforts to address the long standing issue relative to the accounting and inventory of all College assets and revaluation of the carrying balances of its real properties. As a result material adjustments were made to the financial statements and the related audit findings and report qualifications were removed. Conducting an annual inventory of fixed assets is both unreasonable and impractical considering the limited human and financial resources at the institution. The College will make adjustments to its local property management manual to have such coincide with the federal requirement of physical inventory of capital assets to be conducted every two years. The College has also invested in the fixed assets module for tracking and accounting for its fixed assets on its accounting system. This should provide for greater accountability of all capital assets of the institution. The College will discuss this issue with affected grantor agency and effectuate the necessary policy changes.

Name of Contact Person:

Ms. Marylou Ada, Interim Chief Financial and Administrative Officer

Corrective Action:

See above.

Proposed Completion Date:

September 30, 2008.

NORTHERN MARIANAS COLLEGE

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2007

U.S. Department of Education
Reporting - Adult Education

CFDA # 84.002, Federal Award #s V002A050055 and V002A060059
Federal Award Periods 07/01/06 - 09/30/07 and 09/01/06 - 08/31/07

Finding No. 2007-21

Criteria: 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 initial SF-269 report were overstated by \$49,559.

Cause: The cause of the above condition is due to an adjustment in expenditures not effected in the SF-269.

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 what was reported as a finding in the audit of the College for fiscal year 2006 and 2005.

Auditee Response and Corrective Action Plan:

We partially agree with this finding. This overstatement of the amounts reported on the SF-269 resulted from a reclassification of an expenditure item which was done as part of the audit process. The SF-269 was correctly stated based on the expenditures when the federal accountant prepared it. The College will file an adjusted SF-269 to reflect this adjustment of expenditures for the period. Such will be filed with the grantor agency with an explanation for the revised filing.

Name of Contact Person:

Ms. Kathy Palacios, Federal Programs Accountant and Ms. Solita Barnes, Chief Accountant.

Corrective Action:

See above.

Proposed Completion Date:

July 31, 2008.

Northern Mariana Islands Retirement Fund

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2007
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 9/16/08

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

See pages 250 to 256 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, 2007

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2007-1 Reconciliation of Employers Contributions

Criteria:

Pursuant to 1 CMC §8423, the NMIRF shall serve in a fiduciary capacity with respect to employer and employee contributions. Thus, NMIRF is responsible to maintain updated individual member subsidiary ledgers reflecting actual employee and employer share.

Conditions:

As of September 30, 2007, the CNMI Central Government has outstanding employer contributions dating from pay period ending May 4, 2002 to pay period ending September 29, 2007 amounting to \$132,183,863.

During fiscal year ending September 30, 2007, the NMIRF received an aggregate of \$2,678,413 from the CNMI Central Government. These contributions were represented by the CNMI Treasurer to be for federally funded employees. These contributions were not accompanied by a listing of individual accounts for which the payments should be applied. Thus the NMIRF is unable to post these contributions to the individual member subsidiary ledgers.

Effect:

The individual member subsidiary ledgers of federally funded employees were not updated to reflect the actual employer contributions. Consequently the statement of account sent to members may not reflect actual employer contributions.

Cause:

The CNMI Treasurer failed to provide NMIRF with the listing of federally funded employees and corresponding employer contributions supporting each of the employer contributions payments received in fiscal year 2007.

Recommendation:

NMIRF should ensure that the individual member subsidiary ledgers are properly updated and reconciliations with the CNMI Treasurer, as applicable should be performed.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2007

SECTION II - FINANCIAL STATEMENTS FINDINGS, continued

Finding No. 2007-2 Underpayment of Contributions

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 \$426,856 in 2006 to \$ 508,727 in 2007 (an \$81,871 or 19% 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. Of the thirteen assessments for underpayment of contributions billed in fiscal year 2007, seven or 54 percent were assessed for retiring members. Usually the assessment for underpayment is only done when members retire, and relevant information such as year of service is computed.

Furthermore, 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.

Cause:

NMIRF does not have any monitoring control to ensure that members are contributing the proper percentage based on their class.

Effect:

The above condition results to increase in receivable balances that for which collectability 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.

Recommendations:

NMIRF should have monitoring controls in place to ensure that members are contributing the proper percentage.

Furthermore, to ensure collectibility of receivables from retirees, NMIRF should require retiring members to personally come to the NMIRF office to sign all necessary documents, including allotment authorization, if any before their first pension payout is released.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2007

SECTION II - FINANCIAL STATEMENTS FINDINGS, continued

Finding No. 2007-3 Overpayment of Benefits

Criteria:

Pursuant to the BD Plan provisions as established by Public Law 6-17, benefit payment of retiree who returns to government service for more than 60 days shall be terminated except those covered by Public Law 11-2 or the Retirees Re-employment Act of 1998 which allows retirees to reenter the government workforce as classroom teachers, doctors, nurses and other medical professionals without losing their retirement benefits for a period not to exceed two years.

Conditions:

Thirty four (34) retirees receiving contribution as of September 30, 2007 are also active members. They were from the following departments, divisions or agencies of the CNMI Government:

| | |
|---|----------|
| Public School System | 18 |
| Northern Marianas College | 5 |
| Dept of Public Health and Environmental Services | 4 |
| Office of the Mayor - Tinian | 2 |
| Commonwealth Health Center | 1 |
| Department of Finance | 1 |
| Dept of Public Safety | 1 |
| Division of Fish and Wildlife | 1 |
| Office of the Governor | <u>1</u> |

34

Of the thirty four (34), four (4) or 12% are from departments, divisions or agencies of the CNMI Government not covered by exception in accordance with Public Law 11-2. Although most of the active employees noted above would qualify for exception under Public Law 11-2, NMIRF could not effectively monitor if they are still within the two year allowable period of re-employment because there is no reemployment date field in the active member database.

Furthermore, receivable from overpayment of benefits increased to \$201,091 as of September 30, 2007 from \$187,582 in 2006. 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.

Effect:

Potential exist that there could be overpayments of benefits that are not yet detected.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2007

SECTION II - FINANCIAL STATEMENTS FINDINGS, continued

Finding No. 2007-3 Overpayment of Benefits

Cause:

NMIRF does not have monitoring controls policies and procedures in place to ensure that there are no overpayments of benefits.

Recommendations:

NMIRF should develop and implement monitoring controls, policies and procedures to ensure that there are no overpayments of benefits.

Collection efforts should also be strengthened. NMIRF may coordinate with employers to obtain allotments from payroll for long outstanding receivables.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2007

SECTION II - FINANCIAL STATEMENTS FINDINGS, continued

Finding No. 2007-4 Bank Reconciliations

Criteria:

Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements.

Conditions:

Bank reconciliations for the bank account maintained for annuity payments were not prepared monthly. Reconciliation for fiscal year ending September 30, 2007 was only complete in June 2008.

Effect:

Not reconciling the accounts on a monthly basis means that errors or other problems might not be recognized and resolved on a timely basis.

Furthermore, errors could accumulate and cannot be identified to a particular period, which makes it harder to perform the reconciliations.

Cause:

The reconciliations are prepared using an in-house developed system that requires uploading of the checks cleared from the bank and the checks to the in-house developed system. The IT Department is responsible for the uploading of the checks cleared by the bank and the Record Sections for the checks issued. These were not timely uploaded to the system resulting to the delays.

Recommendations:

Accounting department should provide a deadline for the IT Department and Records Section to upload the information needed for the reconciliation.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2007

SECTION II - FINANCIAL STATEMENTS FINDINGS, continued

Finding No. 2007-5 Travel Advance

Criteria:

Pursuant to NMIRF travel policies and procedures,

- a. Travel advance liquidation must be filed within 15 days from completion of travel; and
- b. Trip report and applicable documents must be attached to the travel voucher.

Conditions:

I noted the following:

- a. Three (3) of ten (10) or 30% of travel advances selected for testing were not liquidated on time.

| <u>Travel Advance Nos.</u> | <u>Completion of Travel</u> | <u>Liquidation Date</u> |
|--------------------------------|---------------------------------|-----------------------------|
| 07-033 | 05/17/07 | 08/17/07 |
| 07-055 | 07/17/07 | 08/15/07 |
| 07-063 | 09/27/07 | - |

- b. For four (4) of ten (10) or 40% of travel advances selected for testing, the trip report was not attached to the travel voucher.

Cause:

NMIRF did not adhere to its established policies and procedures on travel.

Effect:

Failure to make a strict implementation of the travel policies may results to unauthorized travels, disallowed costs, significant bad debts and non-compliance with the applicable local regulations.

Recommendations:

NMIRF should strictly enforce its established policies and procedures on travel. If the current policy is found to be inadequate to the current needs of the NMIRF as well as the travelers, I recommend that the policy be updated or improved in response to the inadequacies or concerns identified, if any, in accordance with the local requirements.

NORTHERN MARIANA ISLANDS RETIREMENT FUND
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2007

SECTION III - STATUS OF PRIOR YEAR FINDINGS

| <u>Reference Number</u> | <u>Findings</u> | <u>Status</u> |
|------------------------------------|--|-------------------------|
| 2006-01 | Subsidiary ledger balances does not agree with general ledger | Resolved |
| 2006-02 | Underpayment of contributions | Unresolved. See 2007-02 |
| 2006-03 | Overpayment of benefits | Unresolved. See 2007-03 |

**Annual Financial & Compliance Audit
In Accordance with OMB-A-133
Fiscal Year Ended September 30, 2007
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 9/16/08, 11/10/08 (Magliari re: PSS response)
Date(s) of response letter(s) received : 10/21/08

See pages 258 to 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.

**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, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

Timely Liquidation of Travel Advances

Finding No. 07-01

Criteria:

Pursuant to PSS Regulation No. 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:

As of September 30, 2007, outstanding travel advances are as follows:

| | Balance as of September 30, 2007 | No. of Traveler |
|---------------|--|--------------------|
| Old Accounts | \$ 290,216 | 439 |
| Employees | \$ 54,723 | 108 |
| Non-Employees | 36,497 | 120 |
| Students | 4,666 | 42 |
| | <u>95,886</u> | <u>270</u> |
| Total | <u>\$ 386,102</u> | <u>709</u> |

- The \$290,216 old accounts were for travels before PSS implemented its updated travel policies.

| | Balance at 9/30/07 | Current Amount | No. of Traveler | Over 30 days Amount | No. of Traveler |
|---------------|-----------------------|-------------------|--------------------|------------------------|--------------------|
| Employees | \$ 54,723 | \$ 21,248 | 59 | \$ 33,475 | 49 |
| Non-Employees | 36,497 | 2,248 | 14 | 34,249 | 106 |
| Students | 4,666 | 1,345 | 7 | 3,321 | 35 |
| | <u>\$ 95,886</u> | <u>\$ 24,841</u> | <u>80</u> | <u>\$ 71,045</u> | <u>190</u> |

**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, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

Timely Liquidation of Travel Advances, Continued

Finding No. 07-01

Condition, Continued:

- Of the \$95,886 (270 travelers) only \$24,841 (80 travelers or 30% of total travelers) are current.
- 190 travelers or 70% of total travelers with aggregate travel advance balance of \$71,045 or 74% have unliquidated travel advances.

Context:

Audit procedures performed for travel advances in accordance with Government Auditing Standards.

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 liquidation.

Recommendation:

PSS should enforce timely liquidation of travel advances.

PSS should consider reviewing its current travel policies. Current travel policies provide that PSS may deduct from salaries, honorarium or next travel advance, as applicable, any unliquidated travel advances. However, majority of the travelers with unliquidated travel advances are non-employees and are oftentimes one time traveler only, thus PSS may not have any subsequent travel advance to offset the outstanding travel advance to. PSS should consider improving the liquidation/collection policies for this type of travelers.

PSS may also want to consider providing a specific travel policy for travels to attend to board meetings to facilitate the liquidation of travel advances by board members to attend board meetings. PSS' travel policies require for trip report for all travels. I believe that this requirement may not be necessary for travels to attend to board meetings.

**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, 2007

SECTION II - FINANCIAL STATEMENT FINDINGS

Timely Liquidation of Travel Advances, Continued

Finding No. 07-01

Auditee Response and Corrective Action Plan:

PSS management and the Board are considering review of its current travel policy.

PSS Office of Fiscal and Budget, travel section is regularly preparing statement of accounts for travelers with outstanding travel advances and are requiring signed allotment authorization. For Non-PSS employees, the coordinators are held liable for unliquidated travel advances.

**COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
PUBLIC SCHOOL SYSTEM**

(A Component Unit of the CNMI Government)

Schedule of Findings and Questioned Costs
Year Ended September 30, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Procurement - Food and Nutrition Services

Finding No. 07-2

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|---|-----------------------------|
| 10.555 | <p><u>Criteria:</u></p> <p>Actual purchases of government activities for services with deliveries or performance to be scheduled and are valued above \$5,000 but less than \$10,000 must be executed by a purchase order (PO).</p> <p>Also, PO or contract awarded to a sole source should be accompanied by a justification in-lieu of the competitive quotation or bids.</p> | \$ - |

Conditions

Of the 45 samples selected:

1. Three checks or 7%, with aggregate amount of \$7,100 were payable to the same individual for services of similar nature. These checks were supported by emergency/small POs (OL) and therefore were deemed exempt from the procurement policies covering PO.

| <u>OL No.</u> | <u>Check No.</u> | <u>Amount</u> |
|---------------|------------------|-----------------|
| 47705 | 80186 | \$ 2,500 |
| 48921 | 84380 | 2,400 |
| 50935 | 87499 | <u>2,200</u> |
| | | <u>\$ 7,100</u> |

2. Two or 4% of the supporting POs where for sole source providers. Justification for these sole sourced POs were not attached.

| <u>PO No.</u> | <u>Check No.</u> | <u>Amount</u> |
|---------------|------------------|-----------------|
| 47589 | 79704 | \$ 2,500 |
| 49732 | 84482 | <u>4,000</u> |
| | | <u>\$ 6,500</u> |

**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, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Procurement - Food and Nutrition Services, Continued

Finding No. 07-2

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|-------------------------------|-----------------------------|
| 10.555 | | \$ - |

Context:

Based on auditor's judgment, nonstatistically selected 45 POs for the conduct of audit procedures for eligibility requirements.

Effect:

The effect of the above condition is non-compliance with PSS procurement regulations, a violation of the applicable state laws and regulations and federal requirements.

Cause:

1. Due to the understanding that the fees of these services are within the small purchases limit, PSS failed to recognize the need to execute a purchase order on this kind of purchase.
2. Since the service provider was already previously identified as a sole source provider, PSS overlooked the need to attach a justification in the PO.

Recommendation:

PSS should adhere with its procurement policies.

Auditee Response and Corrective Action Plan:

With this condition, PSS Procurement and Supply is considering centralization of the procurement of services with similar nature and execute a single contract for all the schools and programs utilizing the common service. No separate contract or purchase order for the services will be approved.

**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, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Child Care and Development Block Grant

Finding No. 07-3

| | | |
|-----------------|-------------------------------|-----------------------------|
| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
| 93.575 | | \$ - |

Criteria:

Administration for Children and Family (ACF) 801 should be submitted 90 days after end the of each quarter.

Condition:

Of the four quarterly ACF 801 reports, only one report was submitted on time.

| <u>Period</u> | <u>Date Submitted</u> | <u>Due Date</u> | <u>Remarks</u> |
|-----------------|---------------------------|---------------------|----------------|
| Oct to Dec 2006 | 08/31/07 | 02/28/07 | 184 days late |
| Jan to May 2007 | 08/31/07 | 05/31/07 | 92 days late |
| Apr to Jun 2007 | 10/23/07 | 8/31/07 | 53 days late |
| Jul to Sep 2007 | 10/23/07 | 10/30/07 | on time |

Context:

In accordance with A-133 compliance supplement, audit procedures were performed to test PSS' compliance to reporting requirements of the Grant.

Effect:

Noncompliance to the reporting requirements of the Child Care and Development Block Grant.

Cause:

Internal controls and monitoring procedures were not performed to ensure that federal award reporting requirements are adhered.

**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, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Reporting - Child Care and Development Block Grant, Continued

Finding No. 07-3

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|--|-----------------------------|
| 93.575 | <p><u>Recommendation:</u></p> <p>PSS should perform its established monitoring controls to ensure that the requirements and conditions of the grants are met.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>The ACF monthly reports were submitted at six month intervals. This resulted in the fourth quarter reports being submitted on time. In subsequent periods, the monthly reports were submitted on quarterly intervals and were on-time.</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, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program

Finding No. 07-4

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|---|-----------------------------|
| 93.600 | <p><u>Criteria:</u> Pursuant to 45 CFR section 1306.30c, facilities used by Early Head Start and Head Start grantees for regularly scheduled center-based and combination program option classroom activities or home-based group socialization activities must comply with applicable State and local requirements concerning licensing.</p> <p>The local licensing requirements applicable to Head Start are:</p> <ol style="list-style-type: none"> 1. Fire Safety Inspection from the Department of Public Safety. 2. Facilities Inspection by the Bureau of Environmental Health. <p><u>Condition:</u></p> <ol style="list-style-type: none"> a. Six out of eight or 75% of Head Start centers were inspected for fire safety. Of the six Head Start centers inspected, two were conditionally approved until subsequent inspection. b. Seven out of eight or 88% of Head Start centers have certification of facilities and health inspection. <p><u>Context:</u></p> <p>Reviewed the program's contract and grant agreements and related laws and regulations. Identified additional compliance requirements and developed specific audit objective and procedures for the special tests and provision compliance requirements, which could be material to the program. Obtained copies of the inspections made by the Department of Public Safety and Bureau of Environmental Health.</p> | \$ - |

**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, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Head Start Program, Continued

Finding No. 07-4

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|--|-----------------------------|
| 93.600 | <p><u>Effect:</u></p> <p>The effect of the above condition is that Head Start centers may not be considered fully licensed to operate. PSS is in non-compliance with the Federal requirements.</p> <p><u>Cause:</u></p> <p>PSS failed to follow-up and coordinate the required inspection of Head Start facilities.</p> <p><u>Recommendation:</u></p> <p>PSS should ensure that all Head Start centers are properly inspected to ensure that such centers are in compliance with the local and Federal requirements.</p> <p><u>Auditee Response and Corrective Action Plan:</u></p> <p>The Head Start Administrator will ensure that monitoring will be timely conducted to make certain that all the Head Start centers are properly inspected for Fire and Health Safety and that the documentation for these inspections be properly filed and made available to examination.</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, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education

Finding No. 07-5

| | | |
|-----------------|-------------------------------|-----------------------------|
| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
| 84.027 | | \$ - |

Criteria:

Special Education procedural manual requires that PSS must ensure that the Individualized Education Program (IEP) team reviews the child's IEP periodically, but not less frequently than annually, to determine whether the annual goals for the students are being achieved.

Condition:

Of the sixty-five (65) IEP folders selected, nine (9) or 14% did not have their scheduled annual IEP on time.

| | <u>Scheduled IEP Review</u> | <u>Actual IEP</u> | <u>Review</u> |
|----|---------------------------------|-----------------------|---------------|
| 1. | 09/01/07 | 12/20/07 | 110 days late |
| 2. | 09/22/07 | 02/13/08 | 144 days late |
| 3. | 03/31/07 | 09/21/07 | 174 days late |
| 4. | 11/16/06 | 02/08/07 | 84 days late |
| 5. | 11/16/06 | 02/23/07 | 99 days late |
| 6. | 04/26/07 | 10/16/07 | 173 days late |
| 7. | 05/30/07 | - | not on file |
| 8. | 11/09/06 | 05/10/07 | 182 days late |
| 9. | 10/23/06 | 02/16/07 | 116 days late |

Furthermore, for one IEP folder tested, the last eligibility summary on file was dated November 10, 2003 and no updated eligibility summary was on file for review and inspection.

Context:

Selected sixty-five (65) IEP folders to test for compliance with special test and provisions of the requirements pertaining for the Special Education program.

**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, 2007

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Special Tests and Provisions - Special Education, Continued

Finding No. 07-5

| <u>CFDA No.</u> | <u>Findings/Noncompliance</u> | <u>Questioned Costs</u> |
|-----------------|-------------------------------|-----------------------------|
| 84.027 | | \$ - |

Effect:

The PSS Special Education Program is not in compliance with the requirement of the grant. Furthermore, untimely review of the IEP may result to individualized goals and educational curriculum not be suited to the special needs of the children.

Cause:

Internal controls and monitoring procedures were not performed to ensure that federal award special tests and provisions requirements are adhered.

Recommendation:

PSS should ensure compliance to its procedural manuals. Furthermore, monitoring procedures must be strictly followed to ensure that reviews of IEP are performed timely.

Auditee Response and Corrective Action Plan:

PSS Special Education Program will ensure that due IEP review schedules will be monitored to timely evaluate each child under the Special Education Program. If delays are occur cause for such delay is documented and the review schedule is updated.

Total Questioned Costs

\$ -

Workers' Compensation Commission

**Annual Financial & Compliance Audit
In Accordance with OMB-A-I33
Fiscal Year Ended September 30, 2007
Conducted By: J. Scott Magliari & Company**

Date(s) of follow-up letter(s) sent : 9/16/08

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

See page 270 for the recommendation issued by the Independent Auditor. This page was included in the Independent Auditors Report. For audit tracking purposes, OPA assigned a new page number to this page and therefore it does not correspond with the page number in the original report.

CNMI WORKERS' COMPENSATION COMMISSION
(A Component Unit of the CNMI Government)

Schedule of Findings
September 30, 2007

SECTION II - FINANCIAL STATEMENTS FINDINGS

Finding No. 2007-1 No Subsidiary Ledgers 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, 2007, the outstanding notice of assessments amounts to \$914,252.

Effect:

Absences of subsidiary ledgers make collection efforts difficult because WCC cannot generate statements of accounts to remind employers of their outstanding assessments. Receivables 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.

Recommendations:

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.
- 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.

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 |
| CAPR | Categorical Assistance Progress Reports |
| 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 |
| FSR | Financial Status Report |
| FTE | Full Time Employment |
| FY | Fiscal Year |
| GAR | Governor's Authorized Representative |
| 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 |
| ISIP | Initial Strategy Implementation Plan |
| 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 |
| OHS | Office of Homeland Security |
| 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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