

NORTHERN MARIANAS HOUSING CORPORATION
(A DIVISION OF THE
COMMONWEALTH DEVELOPMENT AUTHORITY)

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2010

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Northern Marianas Housing Corporation:

We have audited the financial statements of the Northern Marianas Housing Corporation (NMHC), as of and for the year ended September 30, 2010, and have issued our report thereon dated October 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NMHC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NMHC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs (pages 9 through 79), we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and one other deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 through 2010-3 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2010-4 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMHC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of NMHC in a separate letter dated October 5, 2011.

NMHC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit NMHC's responses and, accordingly, we express no opinion on it.

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

Deloitte & Touche LLC

October 5, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Directors
Northern Marianas Housing Corporation:

Compliance

We have audited the Northern Marianas Housing Corporation's (NMHC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of NMHC's major federal programs for the year ended September 30, 2010. NMHC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 9 through 79). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of NMHC's management. Our responsibility is to express an opinion on NMHC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NMHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on NMHC's compliance with those requirements.

As described in items 2010-5 through 2010-36 in the accompanying Schedule of Findings and Questioned Costs, NMHC did not comply with requirements regarding eligibility, reporting and special tests and provisions that are applicable to its Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation major program (CFDA 14.195), allowable costs/cost principles, equipment and real property management, period of availability of Federal funds and procurement and suspension and debarment that are applicable to its Community Development Block Grants/Special Purpose Grants/Insular Area major program (CFDA 14.225), eligibility, program income, reporting and special tests and provisions that are applicable to its HOME Investment Partnerships Program major program (CFDA 14.239) and allowable costs/cost principles, eligibility, reporting and special tests and provisions that are applicable to its Section 8 Housing Choice Vouchers major program (CFDA 14.871). Compliance with such requirements is necessary, in our opinion, for NMHC to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, NMHC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

Management of NMHC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NMHC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NMHC's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-5 through 2010-8, 2010-11 and 2010-22 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-9 through 2010-10, 2012-12 through 2010-21, 2010-23 through 2010-36 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of NMHC as of and for the year ended September 30, 2010, and have issued our report thereon dated October 5, 2011. Our audit was performed for the purpose of forming our opinion on NMHC's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (page 6) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

NMHC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit NMHC's responses and, accordingly, we express no opinion on the responses.

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

Deloitte & Touche LLC

October 5, 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2010

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
Direct Programs:		
U.S. Department of Housing and Urban Development:		
Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation:		
TQ10-0011-005 Mihaville	14.195	\$ 584,164
TQ10-0016-004 Koblerville	14.195	323,434
TQ10-0006-004 Rota	14.195	113,007
TQ10-0011-001 Tinian	14.195	<u>221,315</u>
Subtotal CFDA #14.195		<u>1,241,920</u>
Community Development Block Grants/Special Purpose Grants/Insular Area:		
Neighborhood Stabilization Program	14.225	224,416
Tinian Amphitheater Phase II	14.225	27,000
Administrative Fee	14.225	<u>193,084</u>
Subtotal CFDA #14.225		<u>444,500</u>
Emergency Shelter Grants Program	14.231	<u>43,554</u>
HOME Investment Partnerships Program:		
HOME Investment Partnerships Program Entitlement	14.239	171,381
HOME Investment Partnerships Program Income	14.239	<u>432,926</u>
Subtotal CFDA #14.239		<u>604,307</u>
Community Development Block Grants/Special Purpose Grants/Insular Areas - (Recovery Act Funded)	14.254	<u>149,234</u>
Homelessness Prevention and Rapid Re-Housing Program - (Recovery Act Funded)	14.257	<u>451,828</u>
Section 8 Housing Choice Vouchers	14.871	<u>3,846,331</u>
		<u>\$ 6,781,674</u>
Reconciliation of expenditures to Statement of Revenues, Expenses and Changes in Net Assets:		
Federal award expenditures per above:		
U.S. Department of Housing and Urban Development:		
Section 8 Housing Choice Vouchers		\$ 3,846,331
Section 8 New Construction and Substantial Rehabilitation		<u>1,241,920</u>
		<u>\$ 5,088,251</u>
Federal award expenditures per Statement of Revenues, Expenses and Changes in Net Assets:		
U.S. Department of Housing and Urban Development:		
Section 8 Housing Choice Vouchers:		
Section 8 rental		\$ 3,422,919
Utilities		227,763
Salaries and wages		149,301
Employee benefits		<u>46,348</u>
		<u>3,846,331</u>
Section 8 New Construction and Substantial Rehabilitation:		
Repairs and maintenance		497,664
Salaries and wages		225,039
Professional fees		154,406
Utilities		116,721
Travel		57,042
Employee benefits		13,812
Office rent		7,385
Other		<u>169,851</u>
		<u>1,241,920</u>
		<u>\$ 5,088,251</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2010

(1) Scope of Review

The Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), was established under Public Law 5-37 as amended by Public Law 5-67. The purpose of NMHC is to develop and administer low cost residential housing in the CNMI. All significant operations of NMHC are included in the scope of the OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as NMHC's cognizant agency for the Single Audit.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

For purposes of this report, certain accounting procedures were followed, which help illustrate the authorizations and expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. All authorizations represent the total allotment or grant award received. Disbursements made to subrecipients related to grant agreements are reported as expenditures. Disbursements made to subrecipients related to loan agreements are reported within applicable loan portfolios, and are subject to the Single Audit.

b. Subgrantees

Certain program funds are passed through NMHC to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees outside of NMHC's control utilized the funds.

c. Funds Received

U.S. Department of Housing and Urban Development - Community Development Block Grants/Special Purpose Grants/Insular Area/HOME Investment Partnerships Program/Neighborhood Stabilization Program - Housing and Economic Recovery Act (HERA)/Emergency Shelter Grants Program - NMHC received these funds in a direct capacity in fiscal year 2010 and administers the funds and is responsible for ensuring compliance with laws and regulations.

U.S. Department of Housing and Urban Development - Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation/Section 8 Housing Choice Vouchers - NMHC records federal rental assistance as Section 8 income.

U.S. Department of Housing and Urban Development - Community Development Block Grants/Special Purpose Grants/Insular Areas (Recovery Act Funded)/Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) - NMHC received these funds in a direct capacity in fiscal year 2010 through the American Recovery and Reinvestment Act (ARRA) of 2009, and administers the funds and is responsible for ensuring compliance with laws and regulations.

d. Indirect Cost Allocation

NMHC does not receive an indirect cost allocation.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2010

(3) Loan Funds

NMHC (formerly the Mariana Islands Housing Authority (MIHA)) received economic development loan funds from the former Northern Mariana Islands Economic Development Loan Fund pursuant to a Memorandum of Understanding transferring funds received under Section 702(c) of the Covenant to MIHA. These funds are used for a revolving fund for a special program of low interest housing loans for low-income families. As of September 30, 2010, \$904,799 (net of the related allowance for doubtful accounts of \$2,946,999 and out of total NMHC net loans receivable of \$2,289,778) of loans originating from this revolving fund were outstanding.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|--|-------------|
| 1. | Type of auditors' report issued: | Unqualified |
| | Internal control over financial reporting: | |
| 2. | Material weakness(es) identified? | Yes |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 4. | Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | Internal control over major programs: | | | | | | | | | | | | | |
|--------------------|--|--------------------|------------------------|--------|---|--------|--|--------|--------------------------------------|--------|--|--------|-----------------------------------|--|
| 5. | Material weakness(es) identified? | Yes | | | | | | | | | | | | |
| 6. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes | | | | | | | | | | | | |
| 7. | Type of auditors' report issued on compliance for major programs: | Qualified | | | | | | | | | | | | |
| 8. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes | | | | | | | | | | | | |
| 9. | NMHC's major programs were as follows: | | | | | | | | | | | | | |
| | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; width: 10%;"><u>CFDA Number</u></th> <th style="text-align: left;"><u>Federal Program</u></th> </tr> </thead> <tbody> <tr> <td>14.195</td> <td>Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation</td> </tr> <tr> <td>14.225</td> <td>Community Development Block Grants/Special Purpose Grants/Insular Area</td> </tr> <tr> <td>14.239</td> <td>HOME Investment Partnerships Program</td> </tr> <tr> <td>14.257</td> <td>Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)</td> </tr> <tr> <td>14.871</td> <td>Section 8 Housing Choice Vouchers</td> </tr> </tbody> </table> | <u>CFDA Number</u> | <u>Federal Program</u> | 14.195 | Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation | 14.225 | Community Development Block Grants/Special Purpose Grants/Insular Area | 14.239 | HOME Investment Partnerships Program | 14.257 | Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) | 14.871 | Section 8 Housing Choice Vouchers | |
| <u>CFDA Number</u> | <u>Federal Program</u> | | | | | | | | | | | | | |
| 14.195 | Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation | | | | | | | | | | | | | |
| 14.225 | Community Development Block Grants/Special Purpose Grants/Insular Area | | | | | | | | | | | | | |
| 14.239 | HOME Investment Partnerships Program | | | | | | | | | | | | | |
| 14.257 | Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) | | | | | | | | | | | | | |
| 14.871 | Section 8 Housing Choice Vouchers | | | | | | | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133: | \$300,000 | | | | | | | | | | | | |
| 11. | NMHC qualified as a low-risk auditee, as that term is defined in OMB Circular A-133? | No | | | | | | | | | | | | |

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

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

<u>Reference Number</u>	<u>Findings</u>	<u>Refer Page #</u>
2010-1	Loans Receivable	11
2010-2	Land	12
2010-3	Loan Guarantee Agreements	13
2010-4	Interfund Transactions and Balances	14

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

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>	<u>Refer Page #</u>
2010-5 - 11	14.195	Eligibility	\$ 203,068	15 - 30
2010-12	14.195	Reporting	\$ -	31 - 33
2010-13 - 14	14.195	Special Tests and Provisions	\$ -	34 - 37
2010-15	14.225	Allowable Costs/Cost Principles	\$ -	38
2010-16	14.225	Equipment and Real Property Management	\$ -	39 - 40
2010-17	14.225	Period of Availability of Federal Funds	\$ -	41
2010-18	14.225	Procurement and Suspension and Debarment	\$ 8,859	42 - 43
2010-19 - 21	14.239	Eligibility	\$ -	44 - 54
2010-22	14.239	Program Income	\$ 291,099	55
2010-23	14.239	Reporting	\$ -	56
2010-24 - 25	14.239	Special Tests and Provisions	\$ -	57 - 58
2010-26	14.871	Allowable Costs/Cost Principles	\$ 42,369	59 - 60
2010-27 - 33	14.871	Eligibility	\$ 25,993	61 - 73
2010-34	14.871	Reporting	\$ -	74
2010-35 - 36	14.871	Special Tests and Provisions	\$ -	75 - 79

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

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

Loans Receivable

Finding No. 2010-1

Criteria: An effective system of internal control includes procedures to ensure that loan payments are received on a timely basis and that actions are taken to address delinquencies.

Condition: An analysis of NMHC's past due loans was performed to determine the propriety of the allowance for doubtful loans as of September 30, 2010. This analysis revealed that loans, including interest, which are over one hundred twenty days past due amounted to \$4,924,041 or 58.46% of total loans and interest outstanding of \$8,422,357 as of September 30, 2010. An audit adjustment of \$74,524 was proposed to increase the allowance for loans receivable as of September 30, 2010.

Cause: The cause of the above condition is the increase in past due loans and the failure to implement collection efforts on delinquent loans.

Effect: The effect of the above condition is the increased possibility of loan losses due to nonpayment.

Recommendation: We recommend that follow-up procedures be adhered to. We recommend that evaluations of these loans be performed and a corrective action plan be developed and documented. Future results may be compared against this plan and actions taken by management as deemed necessary. Legal action should be considered for those loans considered unlikely to be serviceable.

Prior Year Status: NMHC's significant past due loans was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC performed a detailed review of the adequacy of its reserve for seriously defaulted loans and guaranteed loans for these financial institutions and assessed the need to provide additional reserves for defaulted loans which are based on the appraisal value of the property and established a policy that supports reasonable allowance calculations. The Mortgage & Credit and Fiscal Divisions worked together and implemented seriously delinquent accounts.

Proposed Completion Date: FY 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Land

Finding No. 2010-2

Criteria: Long lived assets should be reported at the lower of carrying amount or fair value. Management review of the valuations of real properties should be periodically performed and adjustments made to reflect the lower of carrying amount or fair value.

Condition: As of September 30, 2010, NMHC has ten properties at an aggregate value of \$9,650,313. NMHC did not obtain appraisals of its property in fiscal year 2010. In fiscal year 2008, an appraisal of one lot with a carrying value of \$117,500 resulted in a \$45,500 decrease in recorded value. The last appraisal of the remaining nine properties occurred during fiscal year 2003. Currently, the properties are not for sale and are recorded by NMHC based on the most recent appraisal values. In the event that the land will be marketed, NMHC will adjust to reflect the carrying amount or fair value, whichever is lower.

Cause: The cause of the above condition is the lack of established policies and procedures to periodically review the recorded values of the real property and the high cost of obtaining appraisal services.

Effect: The effect of the above condition is a potential misstatement of land.

Recommendation: We recommend that NMHC determine whether long-lived assets are reported at the lower of carrying amount or fair value. Additionally, we recommend that NMHC establish policies and procedures to periodically evaluate the carrying values of long-lived assets.

Prior Year Status: The lack of established policies and procedures of periodic review of recorded values of real property and the high cost of obtaining appraisal services was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC will establish policies and procedures for periodic review of recorded values of real property and obtain appraisals and/or broker's price opinions depending on market conditions.

Proposed Completion Date: FY 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Loan Guarantee Agreements

Finding No. 2010-3

Criteria: An effective system of internal control includes procedures to periodically assess and review contingent liabilities for probable losses.

Condition: NMHC has existing loan guarantee and purchase agreements with certain financial institutions. As of September 30, 2010, NMHC's related loan guarantees amounted to \$15,207,859. Of the total, approximately \$6,293,327 is delinquent and past due. NMHC has received demand notices of \$1,755,611. However, NMHC is unable to determine if an additional reserve should be established due to limited information provided by the institutions. NMHC is currently working with related institutions to obtain sufficient information to determine a better estimate of the reserve for loan guarantees.

Cause: The cause of the above condition is the lack of established policies and procedures to assess the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses.

Effect: The effect of the above condition is the possible misstatement of the reserve for loan guaranty and related accounts.

Recommendation: We recommend that NMHC periodically assess and review the adequacy of the reserve for guaranteed loans. Further, we recommend NMHC establish policies and procedures to assess the adequacy of the reserve for guaranteed loans, both past due and current. Additionally, we recommend that NMHC continue to obtain sufficient information from financial institutions about the status of defaulted loans and determine which of the defaulted loans will likely result in payment or settlement.

Prior Year Status: The lack of established policies and procedures to assess and review the adequacy of the reserve for guaranteed loans and the lack of relevant and sufficient information from financial institutions to estimate probable losses was reported as a finding in the Single Audits of CDA for fiscal years 2006 through 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Roger Dris, Chief Accountant and Jesse Palacios, Manager, Mortgage & Credit Division

Corrective Action: NMHC will ensure that a reserve for guaranteed loans is assessed and reviewed for adequacy. NMHC will establish internal policies and procedures to assess the value of its properties using comparables of properties sold or leased, or by obtaining information from the Recorder's Office. These assessments and conclusions shall be documented and made readily available. The Accounting Division will work closely with the Loan Division in obtaining appraisals and/or broker's price opinions, depending on market conditions, as per management's recommendation.

Proposed Completion Date: FY 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Interfund Transactions

Finding No. 2010-4

Criteria: Interfund transactions should be monitored, reviewed and balanced.

Condition: NMHC initially records all disbursements as a general expense. On a quarterly basis, NMHC allocates the expenses to various grant expense accounts through interfund transaction accounts. Tests of this process noted the following:

- Personnel costs and travel expenses related to grant awards of \$203,048 and \$15,395, respectively, were not deducted from the general expense accounts.
- The accounts payable general account included a debit balance of \$125,921 as of September 30, 2010 resulting from improper allocation of grant expenses.

An audit adjustment was proposed to correct the above conditions.

Cause: The cause of the above condition is a lack of controls over recording interfund transactions and balances.

Effect: The effect of the above condition is a potential misstatement of shared expenses and interfund balances and transactions.

Recommendation: We recommend that NMHC timely monitor, review and reconcile interfund transactions and balances. NMHC may wish to consider a system of recording grant expenses at the time the expense is incurred.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger Dris, Chief Accountant

Corrective Action: NMHC performed a detailed review, monitored and reconciled interfund transactions and balances on a timely basis. The accounts payable system set-up was corrected for FY 2011.

Proposed Completion Date: FY2011

Auditor Response: The due to/from other fund balances were not reconciled during fiscal year 2010. Accounts payable per the general account also had a debit balance which could not be reconciled as of September 30, 2010. These variances in salaries and employee benefits and accounts payable debit balance were not properly accounted for resulting in an adjustment charged to other income of \$262,239.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

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

Finding No.: 2010-5
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New
 Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$60,178

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. Owners must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: Tests of fifty-seven tenant files noted the following:

1. Deductions claimed include allowances for dependents which are not the legal children of the household head/co-head. Either the household head and/or co-head are in a guardian/caretaker capacity based on a General/Special Power of Attorney (GPA/SPA) executed by the legal/biological parents of the dependent or the relationship of the household head/co-head with the dependent is not evident in the tenant file. We are unable to determine if NMHC performed further verification in addition to obtaining a GPA/SPA to ensure that such are valid dependents as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. #)</u>	<u>Allowance Claimed</u>	<u>Housing Assistance Payment (HAP) Amount</u>	<u>Total Questioned Costs</u>
K19B	11/01/09	05/01/09	2	\$ 480	\$ 829	\$ 5,803
R05	11/01/09	11/01/09	2, 3, 4	\$ 1,440	\$ 903	9,933
M05	07/01/10	11/01/09	3, 4, 5, 6, 7	\$ 2,400	\$ 1,003	11,033
M34	03/01/10	12/01/09	3	\$ 960	\$ 1,085	10,850
M39	12/01/09	07/01/09	7	\$ 1,920	\$ 1,057	9,513
M47	02/01/10	11/01/09	8	\$ 1,920	\$ 1,186	<u>13,046</u>
						<u>\$ 60,178</u>

Cause: The cause of the above condition is the lack of adequate policies and procedures to ensure that deductions claimed by the tenant/applicant are verified.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$60,178.

Recommendation: We recommend the NMHC verify that deductions claimed are valid and agree to relevant supporting documentation.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-5, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New
Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Eligibility
Questioned Costs: \$60,178

Prior Year Status: The lack of adequate policies and procedures to verify that deductions claimed by tenants are valid and agree to relevant supporting documentation was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Correction Actions: NMHC will ensure that only applicable legal documents from the court be accepted and will no longer accept signed/notarized verifications from the legal/biological parent or the head/co-head member of the household; and

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-6
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$63,593

Criteria: Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification; in order of acceptability, third party verification, review of documents, and family certification. When third party verification is not available, owners must document efforts made to obtain the required verification and the reason if the verification was not obtained by including the following documents in the applicant's or tenant's file:

1. A written note to file explaining why third party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party including:
 - a. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
 - b. A written note to file indicating that the request has been outstanding without a response from the third party.

Condition: Tests of fifty-seven tenant files noted the following:

1. The following tenant/applicant reported other income. No third party verification documentation was in file; however, we did observe affidavit/notarized statements signed by tenant/applicant. Further, documentation why a third party verification is not possible or documentation indicating that efforts were made to obtain third party verifications was not evident in file as follows:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member #</u>	<u>Other Income Reported (Monthly Income)</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T02	12/01/09	05/01/09	Head	\$ 450	\$ 1,071	\$ 7,497
T08	10/01/09	03/04/09	Head	\$ 50	\$ 1,054	5,270
T10	10/01/09	06/01/09	Head	\$ 30	\$ 1,145	9,160
T12	10/01/09	02/18/09	Head	\$ 25	\$ 1,054	4,216
T14	12/01/09	08/01/09	Head	\$ 25	\$ 1,054	10,540
T19	08/01/10	06/01/10	Head	\$ 230	\$ 910	3,640
R03	08/01/10	09/01/09	Head	\$ 100	\$ 1,020	11,220
M22	09/01/10	09/01/10	Head	\$ 35	\$ 1,186	1,186
M27	06/01/10	not stated	Head	\$ 20	\$ 1,186	4,744
					Total	\$ <u>57,473</u>

2. Income reported by the applicant/tenant was not included in the HUD 50059 as follows:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-6, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$63,593

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Type</u>	<u>Income Per HUD 50059</u>	<u>Income Per Third Party Verification</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T02	12/01/09	05/01/09	Assets	\$ -	\$ 27	\$ 1,071	\$ 7,497
R05	11/01/09	11/01/09	Food Stamp	\$ -	\$ 480	\$ 903	9,933
R27	05/01/10	04/01/10	Food Stamp	\$ -	\$ 276	\$ 1,020	<u>6,120</u>
Total							23,550
Less amount already questioned in previous findings							<u>(17,430)</u>
Questioned costs this finding							\$ <u>6,120</u>

3. Assets were reported by applicant/tenant; however, a third party verification was not in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member #</u>	<u>Asset Type</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T14	12/01/09	08/01/09	Head	Land	\$ 1,054	\$ 10,540
Less amount already questioned in previous finding						<u>(10,540)</u>
Questioned costs this finding						\$ _____

Cause: The cause of the above condition is failure to obtain third party verifications and failure to document instances when third party verifications cannot be obtained.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$63,593.

Recommendation: We recommend that adequate third party verification be obtained. When third party verification cannot be obtained, NMHC should obtain required documentation and the reason the verification was not obtained and this should be documented in the tenant file or equivalent.

Prior Year Status: Failure to obtain adequate third party verification and failure to document instances when third party verification cannot be obtained was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-6
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Eligibility
Questioned Costs: \$63,593

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Actions: NMHC will ensure that:

- 1) a third party verification be maintained and kept in file to support other income reported by tenant/applicant. In addition, if a third party verification is not obtained, documentation that efforts were made to obtain verification will be supported and filed;
- 2) income reported by the tenant/applicant agree with the income indicated on the HUD 50059 form and the third party verification. For R05 and R27, this is an oversight on the auditor's part as the income was reported by the tenant/applicant; however, the income was not included on the HUD 50059 form because the income was from the Supplemental Nutrition Assistance Program and therefore, is excluded from the total household income; and
- 3) assets reported by the tenant/applicant are supported by third party verifications and placed in file.

Proposed Completion Date: Immediately

Auditor Response: Annual gross income includes all amounts anticipated to be received by the household including public assistance benefits. Food stamp benefits was included in the family's annual gross income in the items tested except as those noted above.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-7
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$26,613

Criteria: Owners must include verification documentation in the tenant file. Further, NMHC accepts the following notarized statement or signed affidavit from the tenant/applicant as support of income and assets for all adult members of the household.

1. Affidavit as to assets
2. Statement of unemployment
3. Affidavit of zero income of adult member
4. Affidavit of child support
5. Certification of asset disposition

Condition: Tests of fifty-seven tenant files noted the following:

Unit No.	Month Tested	Recertification Effective	Household Member #	Documents Not Found in Tenant File	HAP Amount	Total Questioned Costs
K15	12/01/09	New tenant	Head, 2	Certification of asset disposition	\$ 825	\$ 8,250
T05	09/01/10	06/01/10	2	Statement of unemployment	\$ 1,145	4,580
T10	10/01/09	06/01/09	2	Affidavit of zero income	\$ 1,145	9,160
T16	12/01/09	12/01/09	Head	Statement of unemployment, Affidavit of zero income	\$ 733	7,330
R03	08/01/10	09/01/09	Head	Affidavit of child support	\$ 1,020	11,220
R30	06/01/10	07/24/09	Head, 2	Certification of asset disposition	\$ 717	6,453
M05	07/01/10	11/01/09	2	Affidavit as to assets	\$ 1,003	11,033
M09	09/01/10	09/01/10	Head	Notice of disposition from NAP for food stamp benefits of \$680/mo.	\$ 1,220	1,220
M44	09/01/10	02/01/10	Head	Notice of disposition from NAP for food stamp benefits of \$680/mo.	\$ 1,058	8,464
					Total	67,710
					Less amount already questioned in previous findings	(41,097)
					Questioned costs this finding	\$ 26,613

Cause: The cause of the above condition is the lack of adequate monitoring procedures to obtain and file required documentation.

Effect: The effect of the above condition is inadequate documentation of the eligibility determination and questioned costs of \$26,613.

Recommendation: We recommend that all relevant documentation supporting eligibility determinations are obtained and included in file.

Prior Year Status: The lack of adequate monitoring procedures to ensure that required documentation is obtained and filed was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-7, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New
Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Eligibility
Questioned Costs: \$26,613

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will ensure that all documentation and verifications for adult household members are obtained and filed.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-8
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$43,612

Criteria: Owners must conduct a certification/re-certification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual re-certification. Owners must then recompute the tenant rents and assistance payments, if applicable, based on information gathered.

NMHC uses a “Certification/Re-certification Interview Sheet” to document certifications and re-certification performed. NMHC also uses a “Tenant Obligation to Report Interim Change” form to be signed by tenants. A Housing Assistance Payment (HAP) contract and lease agreement is signed by the tenant and NMHC.

Condition: Tests of the fifty-seven tenant files noted the following:

- The following annual re-certifications were not timely performed:

Unit No.	Period Tested	Previous Annual Certification		Current Annual Certification	
		Effective Date	Date Performed	Effective Date	Date Performed
R15	11/01/09	02/01/07	12/04/06	02/01/09	10/28/09
R22	04/01/10	not on file	not on file	04/01/10	01/04/10
R27	05/01/10	04/01/08	not on file	04/01/10	02/19/10

- The following certification/re-certification interview sheets could not be located in file:

Unit No.	Period Tested	Effective Date of Certification Per HUD 50059	HAP Amount	Total Questioned Costs
M27	06/01/10	06/01/10	\$ 1,186	\$ 4,744
M36	04/01/10	03/01/10	\$ 1,085	7,595
M44	09/01/10	02/01/10	\$ 1,058	<u>8,464</u>
Total				20,803
Less amount already questioned in previous findings				<u>(13,208)</u>
Questioned costs this finding				\$ <u>7,595</u>

- The HUD 50059, HAP contract and lease amendment, verification documents supporting income, assets and allowances and other documents supporting eligibility could not be located in file:

Unit No.	Period Tested	HAP Amount	Total Questioned Costs
R15	11/01/09	\$ 1,084	\$ <u>11,924</u>
Questioned costs this finding			\$ <u>11,924</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-8, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$43,612

Condition, Continued:

4. The tenant obligation to report interim change form was not in file:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Findings Noted</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
K01	06/01/10	11/01/09	None in tenant file	\$ 728	\$ 8,008
K15	12/01/09	New tenant	None in tenant file	\$ 825	<u>8,250</u>
Total					16,258
Less amount already questioned in previous findings					<u>(8,250)</u>
Questioned costs this finding					\$ <u>8,008</u>

5. The HAP contract and lease amendment was not signed by either NMHC or the tenant, or was signed after the effective date of certification:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
R03	08/01/10	09/01/09	\$ 1,020	\$ 11,220
R05	11/01/09	11/01/09	\$ 903	9,933
R22	04/01/10	04/01/10	\$ 655	3,930
M12	04/01/10	09/01/09	\$ 1,036	11,396
M38	09/01/10	09/01/10	\$ 1,021	1,021
M39	12/01/09	07/01/09	\$ 1,057	9,513
M41	11/01/09	03/01/09	\$ 1,052	5,260
M45	12/01/09	04/01/09	\$ 979	5,874
M47	02/01/10	11/01/09	\$ 1,186	<u>13,046</u>
Total				71,193
Less amount already questioned in previous findings				<u>(55,108)</u>
Questioned costs this finding				\$ <u>16,085</u>

6. The contract rent amount per the HUD contract/lease agreement does not agree to the HUD approved contract rent.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Contract Rent Amount Per HAP Contract/Lease Agreement</u>	<u>HUD Approved Contract Rent</u>
M22	09/01/10	09/01/10	\$ 1,060	\$ 1,140
M44	09/01/09	Not on file	\$ 1,060	\$ 1,140

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-8, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Eligibility
Questioned Costs: \$43,612

Cause: The cause of the above condition is the lack of adequate monitoring procedures to require certification/re-certification and related forms are not filed timely.

Effect: The effect of the above condition is noncompliance with program eligibility requirements and questioned costs of \$43,612.

Recommendation: We recommend NMHC establish adequate monitoring procedures to ensure that required certification/re-certification and related forms are performed and filed in a timely manner.

Prior Year Status: The lack of adequate monitoring procedures requiring certification/re-certification and timely filing of all related forms was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Actions: NMHC will ensure that:

- 1) future annual re-certifications be performed within twelve months of the previous re-certification;
- 2) certification/re-certification interview sheets are completed and filed;
- 3) the HUD 50059 form, HAP contract and lease amendment, verification documents supporting income, assets, allowances, and other documents supporting eligibility will be maintained and kept in file;
- 4) the tenant obligation to report interim change is completed and kept in file; and
- 5) NMHC will improve its monitoring procedures to ensure that all forms and documents necessary for annual re-certifications are obtained, signed and filed in a timely manner.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-9
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing required verifications so that if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

Condition: Tests of fifty-seven tenant files noted that the assigned unit for the following does not appear reasonable based on the size of the household/family:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HUD 50059 Effective Date</u>	<u>Unit Size</u>	<u>No. of Household</u>	<u>HAP Amount</u>	<u>HAP Amount</u>	<u>Variance</u>
T14	12/01/09	08/01/09	3	1	\$ 1,054	\$ 941	\$ 113
			Less amount already questioned in previous findings				<u>(113)</u>
			Questioned costs this finding				\$ <u>-</u>

Justification for the larger unit size assigned was not noted in file.

Cause: The cause of the above condition is the lack of adequate monitoring procedures to document that all units assigned to tenants are in accordance with established occupancy standards.

Effect: The effect of the above condition is noncompliance with program eligibility requirements.

Recommendation: We recommend that NMHC strictly adhere to established program occupancy standards.

Prior Year Status: The lack of adequate monitoring procedures to ensure that units assigned are in accordance with established occupancy standards was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will ensure that strict adherence to the established program occupancy standards are followed and applied during new admissions and unit transfers. In addition, if a household requires a larger unit than the one set forth by the program occupancy standards, NMHC will ensure that justification for a larger unit is indicated and filed.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-10
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: Adult members of a family must sign consent forms as required verification documents, so the owner can verify sources of family income and family size. The owner must consider a family ineligible if the adult members refuse to sign applicable consent and verification forms. Consent forms must be signed by:

1. The head of household (regardless of age);
2. The spouse or co-head of household (regardless of age); and
3. Any other family member who is 18 years old or older.

NMHC uses the “Document Package for Applicant’s/Tenant’s Consent to the Release of Information” (the Document Package) form to document compliance with this requirement.

Condition: Tests of fifty-seven tenant files noted the following:

1. The “Document Package” was not signed by NMHC’s representative:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
R03	08/01/10	09/01/09	\$ 1,020	\$ 11,220
			Less amount already questioned in previous finding	(11,220)
			Questioned costs this finding	\$ _____

2. The “Document Package” could not be located:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T05	09/01/10	06/01/10	\$ 1,145	\$ 4,580
			Less amount already questioned in previous finding	(4,580)
			Questioned costs this finding	\$ _____

Cause: The cause of the above condition is the lack of adequate monitoring procedures to require that documentation is obtained and filed.

Effect: The effect of the above condition is inadequate documentation supporting eligibility determination and requirements and questioned costs.

Recommendation: We recommend that relevant documentation supporting eligibility determination is obtained and included in file.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-10, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New
Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Eligibility
Questioned Costs: \$-0-

Prior Year Status: The lack of adequate monitoring procedures to ensure that required documentation is obtained and filed was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Actions: NMHC will ensure that:

- 1) the “Document Package for Applicant’s/Tenant’s Consent to the Release of Information” is signed by one or more adult members of a household; and
- 2) the “Document Package for Applicant’s/Tenant’s Consent to the Release of Information” is maintained and filed.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-11
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$9,072

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Applicants must provide documentation of social security numbers (SSN) for family members at least 6 years of age and older. Adequate documentation means a social security card issued by the Social Security Administration or other acceptable evidence of the SSN.
2. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a "Declaration of Section 214 Status" form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in file.

Condition: Tests of fifty-seven tenant files noted the following:

1. The birth certificate for one household member could not be located:

<u>Unit No.</u>	<u>HUD 50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T12	10/01/09	2	\$ 1,054	\$ 12,648
T14	08/01/09	Head	\$ 1,054	10,540
M30	01/01/10	2, 4	\$ 1,008	9,072
M39	12/01/09	Head	\$ 1,057	10,570
R30	06/01/10	3, 4, 6, 7	\$ 717	<u>2,868</u>
Total				45,698
Less amount already questioned in previous finding				<u>(36,626)</u>
Questioned costs this finding				\$ <u>9,072</u>

2. A copy of the social security card (or other acceptable evidence of the SSN) for the following household member(s) could not be located:

<u>Unit No.</u>	<u>HUD 50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T14	08/01/09	Head	\$ 1,054	\$ 10,540
Less amount already questioned in previous finding				<u>(10,540)</u>
Questioned costs this finding				\$ <u>-</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-11, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Eligibility
 Questioned Costs: \$9,072

Condition, Continued:

3. The completed and signed “Declaration of Section 214 Status” form for the following household members either could not be located or was signed after the effective date of certification:

<u>Unit No.</u>	<u>HUD 50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>	<u>Total Questioned Costs</u>
T12	08/01/09	1, 2, 3	\$ 1,054	\$ 10,540
T14	08/01/09	Head	\$ 1,054	10,540
T16	12/01/09	2, 6	\$ 733	7,330
R03	09/01/09	1, 2, 3	\$ 1,020	<u>11,220</u>
Total				39,630
Less amount already questioned in previous finding				<u>(39,630)</u>
Questioned costs this finding				\$ <u> -</u>

Cause: The cause of the above condition is the lack of systematic filing of relevant documentation supporting social security numbers and citizenship.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$9,072.

Recommendation: We recommend NMHC file relevant documentation supporting social security numbers and citizenship.

Prior Year Status: The lack of systematic filing of relevant documentation supporting social security numbers and citizenship was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Actions: NMHC will ensure that:

- 1) copies of birth certificates for all household members are obtained and filed;
- 2) copies of social security cards (or other acceptable evidence of SSN) will be obtained and filed; and

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-11, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New
Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Eligibility
Questioned Costs: \$9,072

Auditee Response and Corrective Action Plan, Continued:

Corrective Actions, Continued:

- 3) the "Declaration of Section 214 Status" form is completed for all household members and filed. For R03, the "Declaration of Section 214 Status" form was not obtained during the annual re-certification because they had already been provided previously during the initial certification for move-in.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-12
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Reporting
 Questioned Costs: \$-0-

Criteria: The form HUD 50059 must be submitted electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, move-in, or other change of unit for a family, among others. The signed HUD 50059 should be filed in the tenant file. Additionally, information reported in form HUD 50059 must be consistent with underlying records or supporting documentation.

The owner must sign and obtain the signature of the head, spouse, co-head, and all adult family members on the copy of the HUD 50059 certifying to the information that is transmitted to HUD or the Contract Administrator, whether the HUD 50059 was produced on site or received from a service provider. The signed HUD 50059 should be filed in the tenant file. In all cases, the computer generated HUD 50059 must include the required tenant signatures and owner signatures prior to submitting the data to the Contract Administrator or HUD. The owner may consider extenuating circumstances when an adult family member is not available to sign the HUD 50059; for example, an adult serving in the military, students away at college, adults who are hospitalized for an extended period of time, or a family member who is permanently confined to a nursing home or hospital. The owner must document in the file why the signature(s) was not obtained and, if applicable, when the signature(s) will be obtained.

Condition: Tests of form HUD 50059 for fifty-seven tenants noted the following:

1. Copies of HUD 50059 effective for the selected period examined were not signed by NMHC for one tenant:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>
R03	09/01/09

2. The HUD 50059 for the following was not signed either by the tenant or NMHC prior to the effective date of certification/re-certification:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Date Signed by Tenant or NMHC</u>
R22	04/01/10	05/03/10
M03	11/01/09	12/09/09
M12	09/01/09	09/28/09, 10/01/09
M14	12/01/09	12/09/09
M39	07/01/09	10/01/09
M41	03/01/09	form not dated
M45	04/01/09	05/29/09
M47	11/01/09	12/09/09

3. The form HUD 50059 for the following could not be located in file:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-12, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Reporting
 Questioned Costs: \$-0-

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Requested Per Form HUD 52670</u>
R15	11/01/09	\$ 1,084

4. For “Section C. Household Information” of form HUD 50059, the following were noted wherein the household member’s name did not agree to the name reflected on the social security card:

<u>Unit No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household #</u>	<u>Inconsistent Information</u>
K18	10/01/09	6	Last name
K25	01/01/10	2	Last name
T16	12/01/09	6	First, Last
R30	07/02/09	3, 4, 6, 7	First, Last
M09	09/01/10	4	Last name
M14	12/01/09	1, 3	Last name
M30	09/01/09	2, 4	Middle name

5. The HAP payment per form HUD 52670 did not agree to form HUD 50059 and a reconciliation of the variance was not provided. No questioned costs result as the HAP amount requested for reimbursement is lower than the HAP amount per HUD 50059.

<u>Unit No.</u>	<u>Period Tested</u>	<u>HAP Requested Per Form HUD 52670</u>	<u>HAP Per Form HUD 50059</u>	<u>Variance</u>
R22	04/01/10	\$ 655	\$ 1,020	\$ 365

Cause: The cause of the above condition is a lack of oversight by NMHC personnel when preparing form HUD 50059.

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

Recommendation: We recommend that program reporting requirements be adhered to. Further, we recommend that a signed final copy of the form HUD 50059 be on file.

Prior Year Status: The lack of oversight by NMHC personnel when preparing form HUD 50059 was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-12, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New
Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Actions: NMHC will ensure that:

- 1) For conditions 1, 2 and 3, HUD 50059 forms are timely signed and dated by NMHC and the tenants and kept in file;
- 2) For condition 4, the names indicated in the "Section C. Household Information" on the HUD 50059 form agree to the names reflected on the social security cards; and
- 3) For condition 5, the HAP payment per form HUD 52670 agrees to the HAP payment per form HUD 50059. In addition, NMHC will ensure that reconciliation of the variance is provided and justified.

Proposed Completion Date: Immediately, FY 2010

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-13
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Special Tests and Provisions
 Questioned Costs: \$-0-

Criteria: The PHA or owner must provide housing that is decent, safe, and sanitary. To achieve this end, the PHA must perform housing quality inspections at the time of initial occupancy and at least annually thereafter to assure that the units are decent, safe, and sanitary. Owners must document these inspections, as well as actions taken to address deficiencies, if any, noted during inspections.

Condition: Tests of NMHC's compliance with the housing quality standards requirement noted the following:

1. The completed unit inspection form, if any, evidencing unit inspections performed during fiscal year 2010 could not be located for the following twenty items:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Unit No.</u>	<u>Period Tested</u>
K09B	03/01/10	M05	07/01/10
K25	09/01/10	M06	10/01/09
K28	11/01/09	M10	01/01/10
T10	10/01/09	M20	06/01/10
T16	12/01/09	M28	10/01/09
R03	08/01/10	M32	02/01/10
R15	11/01/09	M34	03/01/10
R22	04/01/10	M44	09/01/10
R30	06/01/10	M45	12/01/09
M03	02/01/10	M47	02/01/10

We are unable to determine if the required housing quality inspections were performed.

2. The housing quality inspections performed during fiscal year 2010 were not conducted within twelve months from the previous housing quality inspections for the following:

<u>Unit No.</u>	<u>HQS Inspections Performed During FY 2010</u>	<u>Prior HQS Inspection Date</u>	<u>Unit No.</u>	<u>HQS Inspections Performed During FY 2010</u>	<u>Prior HQS Inspection Date</u>
K01	June 2010	November 2006	T07	May 2010	March 2009
K02B	July 2010	July 2008	T14	May 2010	April 2009
K04	May 2010	August 2007	R27	March 2010	March 2007
K07A	April 2010	December 2008	M02	May 2010	June 2006
K08	April 2010	June 2007	M09	May 2010	May 2008
K13	April 2010	June 2006	M18	January 2010	November 2005
K18	June 2010	July 2006	M22	April 2010	February 2009
K19B	April 2010	Apr 2008	M27	June 2010	July 2008
K21	June 2010	July 2008	M38	May 2010	June 2006
K23	April 2010	Mar 2009	M39	April 2010	June 2006

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-13, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
 Area: Special Tests and Provisions
 Questioned Costs: \$-0-

Condition, Continued:

3. The NMHC inspector reports for the following indicated deficiencies; however, relevant documentation indicating whether the deficiencies were addressed and/or whether needed repairs were timely completed could not be located in file:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>	<u>Overall Inspection Results</u>
K01	June 2010	fail
K02B	July 2010	fail
K04	May 2010	pass
K15	May 2010	pass
K18	June 2010	pass
K21	June 2010	pass
T02	February 2010	pass
T05	August 2010	pass
T07	May 2010	pass
T08	January 2010	not indicated
T19	February 2010	pass
R05	October 2009	not indicated
M02	May 2010	pass
M09	May 2010	pass
M12	May 2010	pass
M14	July 2010	inconclusive
M25	May 2010	pass
M27	June 2010	pass
M36	April 2010	pass
M38	May 2010	pass

4. There was no prior year inspection report in the tenant's file and we could not determine if the current year inspection report was performed within 12 months for the following:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>	<u>Overall Inspection Results</u>
K11	April 2010	pass
M25	May 2010	pass

5. The NMHC inspector did not complete the overall inspection results/summary decision section of the report for the following:

<u>Unit No.</u>	<u>Date of HQS Inspection</u>
T08	January 2010
R05	October 2009
R27	March 2010

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-13, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New
Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to unit inspections.

Effect: The effect of the above condition is noncompliance with housing quality standards requirements.

Recommendation: We recommend adherence to existing policies and procedures relating to unit inspections. Additionally, we recommend that HQS procedures performed, as well as actions taken to address deficiencies noted during inspections, be documented in file.

Prior Year Status: The lack of adherence to established policies and procedures relating to unit inspections was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Actions: NMHC will ensure that:

- 1) all inspection forms are completed, maintained and filed;
- 2) inspections are conducted within the twelve months of the previous inspection;
- 3) inspector reports for deficiencies are completed and filed.
- 4) when a deficiency is identified, a follow-up inspection is conducted within reasonable time to confirm whether or not the deficiency was addressed. NMHC inspectors will maintain a follow-up inspection report and keep it in file; and
- 5) inspectors complete all sections of the report and file.

Proposed Completion Date: Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-14
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Lower Income Housing Assistance Program_Section 8 New Construction/Substantial Rehabilitation
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Federal Award Periods: 09/01/06 through 08/31/11 and 08/01/09 through 07/31/10
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: In accordance with federal regulations, the PHA or owner must (a) establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units, structure types, and fuel types, (b) make an annual review of tenant utility allowances to determine their reasonableness, and (c) adjust the allowances, when appropriate.

Condition: During fiscal year 2010, utility allowances were based on the previous years' utility allowance schedule. An annual review of the utility allowance schedule has not been performed.

Cause: The cause of the above condition is lack of monitoring to ensure that the required annual review of the utility allowance schedule is performed.

Effect: The effect of the above condition is noncompliance with federal regulations. Since an updated utility schedule is not available, the amount of questioned costs, if any, that arise from the audit is not determinable.

Recommendation: We recommend that NMHC implement monitoring procedures to perform the required annual review of the utility allowance schedule.

Prior Year Status: The lack of monitoring to ensure that the required annual review of the utility allowance schedule is being performed was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will ensure that an annual review of the utility allowance is conducted and changes be implemented when required.

Proposed Completion Date: Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-15
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001 and B-09ST-69-001
Federal Award Period: 10/01/07 through 09/30/10
Area: Allowable Costs/Cost Principles
Questioned Costs: \$-0-

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

Condition: NMHC initially records salaries and benefits for all employees to a general account. On a quarterly basis, NMHC uses the employee timesheet for one payroll period to allocate salaries and benefits paid during the quarter to federal programs. Based on the selected timesheet percentages of hours worked by program are calculated and are used to allocate salaries and benefits for the entire quarter. NMHC prepares journal entries to transfer calculated allocations from the general account to federal program expense accounts. Grantor approval of this allocation process was not provided.

Tests of administrative expenses totaling \$193,084 noted salaries expense and retirement benefits charged to the CDBG Program of \$134,918 and \$25,007, respectively, for the fiscal year ended September 30, 2010, were allocated based on a quarterly hours worked certification and supporting timesheets signed by employees, which was approved by the employees' immediate supervisor. Salaries expense and retirement benefits charged to the grant are lower by \$16,049 and \$112, respectively, than the expected amounts based on quarterly allocation percentages.

Cause: The cause of the above condition is the lack awareness of the requirements of OMB Circular A-87, attachment B, Section 11.h (4).

Effect: The effect of the above condition is noncompliance with the allowable costs/cost principles. No questioned costs result since the actual expenditures charged per the general ledger were lower than expected amounts.

Recommendation: We recommend NMHC ensure that necessary approval from the grantor agency is obtained for all expenses allocated to the program. We further recommend NMHC verify that salaries charged to the program are based on approved quarterly hours worked certification.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger Dris, Chief Accountant

Corrective Action: NMHC implemented quarterly timesheets which was agreed during the grantor's on-site monitoring from March 12, 2007 through March 16, 2007 and from March 10, 2008 through March 14, 2008 and May 2011. For the FY 2011 calculation, NMHC will verify the average percentage within the four quarterly timesheet certifications for accuracy.

Proposed Completion Date: FY 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-16
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001 and B-09ST-69-001
Federal Award Period: 10/01/07 through 09/30/10
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: 24 CFR, Part 84.34, Equipment, states that procedures for managing equipment, whether acquired in whole or in part with grant funds, will 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, the 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;
4. Adequate maintenance procedures must be developed to keep property in good condition; and
5. If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return.

Further, the grantee must establish and implement property management controls over the transfer of properties to subrecipients.

Condition: NMHC does not maintain a listing of equipment purchased using federal funds. NMHC performed a physical count of certain equipment during fiscal year 2010; however, reconciliation to the property records was not made. As fixed asset records are not effectively maintained and updated, NMHC has not effectively developed a means to ensure that equipment are adequately safeguarded from loss, damage, theft, or that investigations of such losses could reasonably occur. Total capital outlays, or expenses other than administrative expenses, incurred for the fiscal year ended September 30, 2010 amounted to \$27,000. Total expenses incurred for the fiscal years ended September 30, 2009 and 2008 amounted to \$1,312,828 and \$2,118,535, respectively (capital outlays were not provided for those years).

Cause: The cause of the above condition is the lack of adequate procedures to ensure property management controls are maintained and implemented.

Effect: The effect of the above condition is a lack of compliance with federal regulations.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-16, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose
Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001 and B-09ST-69-001
Federal Award Period: 10/01/07 through 09/30/10
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Recommendation: We recommend that equipment maintenance controls over fixed assets be effectively established and implemented. We further recommend that equipment listings are maintained and updated and adequate procedures for equipment maintenance and safeguards against loss, damage or theft of equipment are implemented.

Prior Year Status: The lack of adequate equipment maintenance control procedures over fixed assets and failure to maintain equipment listing was reported as a finding in the Single Audit of NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zenie P. Mafnas, Grant Writer/Planner

Corrective Action: Listing for Marianas High School (MHS) Building J inventory equipment funded by CDBG, which was provided to NMHC in December 2010, was provided to the auditor on August 26, 2011. NMHC has requested for the most recent listing, since a few of the technological equipment had yet to be installed in the classrooms and MHS communicated the most recent inventory listing was updated in June 2011 but such updated listing may probably be provided in a period of one week. NMHC is also requesting an updated inventory listing from Tinian Elementary School (TES) since the complete information requested by the auditor could not be provided at this time. TES is currently conducting their inventory and is requesting for a period of one week to provide the document.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-17
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose
Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001 and B-09ST-69-001
Federal Award Period: 10/01/07 through 09/30/10
Area: Period of Availability of Federal Funds
Questioned Costs: \$-0-

Criteria: Pursuant to the grant agreement the CDBG program must be carried out timely. The grantee can have no more than 2.0 times its annual grant remaining in its line-of-credit within 60 days prior to the end of the program year.

Condition: NMHC has an October 1st program start year. When the 60-day test was conducted by HUD on August 2, 2010, it was calculated that NMHC had a balance in its line-of-credit of 2.13 times its annual grant.

Cause: The cause of the above condition is the lack of procedures to carry out the CDBG program in a timely manner.

Effect: The effect of the above condition is noncompliance with period of availability requirements.

Recommendation: We recommend that NMHC develop procedures to carry out the CDBG program in a timely manner.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zenie P. Mafnas, Grant Writer/Planner

Corrective Action: NMHC will strengthen internal control procedures to ensure that the CDBG program is carried out in a timely manner. To achieve this, NMHC will work closely with the subrecipients to address any set-backs with the projects, impose more stringent deadlines for the subrecipients to submit documents and reprogram funds from slow-moving projects in order to adhere to federal expenditure guidelines.

Proposed Completion Date: by the next timeliness test, August 2, 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-18
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001 and B-09ST-69-001
Federal Award Period: 10/01/07 through 09/30/10
Area: Procurement and Suspension and Debarment
Questioned Costs: \$8,859

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources. Further, brand names should not be indicated in the request of proposals or solicitations so as not to limit competition. Specifically, the CNMI's Procurement Regulations state the following:

- Price quotations should be obtained from at least three vendors for purchases between \$2,500 and \$9,999.99. Any price quotations obtained must be written, documented and submitted for approval. Bidding is not required for procurement under \$2,500.
- Procurements amounting to \$10,000 and above should be procured using competitive sealed bidding. The invitation for bids shall be publicized in order to increase competition and broaden industry participation. A bidding period of at least thirty days shall be provided unless a shorter period is determined to be reasonable and necessary, but shall never be less than fifteen days.
- For procurement methods that permit contracting without using full and open competition, a written justification memo should be prepared and submitted by the expenditure authority and be approved by the Procurement and Supply Director.
- For change orders, the agency shall thoroughly assess whether or not it would be more prudent to seek competition before adding significant new work to existing contracts. Change orders on construction and A&E contracts, which exceed 25% of the cumulative contract price, shall automatically be procured through competitive procedures, except when the procurement of the additional work to be performed is authorized without using full and open competition.

Condition: Of ten expenses tested totaling \$228,199 from a population of \$444,500, there was only one quote in file for one item (reference no. PO124899) amounting to \$8,859. Copies of "no-quote" responses from available potential vendors could not be provided.

Cause: The cause of the above condition is inadequate documentation to support procurement procedures.

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$8,859 since the projected questioned costs exceed the threshold of \$10,000.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-18, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose
Grants/Insular Area
Federal Award Nos.: B-07ST-69-0001, B-08ST-69-0001 and B-09ST-69-001
Federal Award Period: 10/01/07 through 09/30/10
Area: Procurement and Suspension and Debarment
Questioned Costs: \$8,859

Recommendation: We recommend that NMHC strengthen procedures on procurement file maintenance.

Prior Year Status: Inadequate documentation and weak controls over ensuring that all procurement policies and procedures are implemented was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jocelyn Kaipat, Office Manager/Procurement Officer

Corrective Action: NMHC will strengthen internal control over procurement to maximize competition and procurement file maintenance

Proposed Completion Date: FY 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-19
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Criteria: NMHC shall refer to the *Technical Guide for Determining Income and Allowances for the HOME Program, Third Edition* in verifying household's assets and income. NMHC shall adopt the guide and make use of the Part 5 income and asset calculation worksheets including any forms required in determining an applicant's annual and adjusted income. Part 5 defines gross income as income of all adult household members that is anticipated to be received during the coming 12-month period. The income limits are adjusted by household size; therefore, determining size of the applicant household is an important step in determining eligibility. Once the applicant is determined to be eligible, the household gross income is adjusted to determine the interest rate for the requested loan. The adjusted income determines a borrower's interest rate and/or grant being requested. NMHC must verify all deductions claimed by the applicant to determine the level of federal assistance and/or interest rate.

In addition, NMHC must determine an applicant's credit worthiness and repayment ability. NMHC shall request and obtain a written credit report from a recognized credit bureau. Poor repayment of credit obligations shall be considered a credit risk and shall be a reason for denial of assistance. On a case by case basis, NMHC may reconsider the denial if the applicant has reestablished his/her credit standing and submits a letter justifying the delinquency. Finally, NMHC shall use forty percent (40%) of the household's gross monthly income to determine the amount of available debt-service or repayment ability. Any remaining debt-service or repayment ability after existing monthly obligations is subtracted from the total available debt service, which shall not exceed thirty percent (30%) of household gross monthly income, will be used to determine the applicant's repayment ability.

Condition: Tests of eighteen loan files noted the following:

1. Birth certificates of household members are not in file. Birth certificates or equivalent acceptable documentation should be obtained to determine the household size. Further, this documentation also determines adult household members, whose income must be included in the household's gross income, and verifies allowances claimed for dependents deducted from gross income to determine adjusted income. Specifically, the following were noted:
 - a. The number of household members used did not agree with the number of household members on the eligibility review sheet; or
 - b. The number of household members per the eligibility review sheet did not agree with the number of household members in the application form and/or conclusion documentation; or
 - c. The spouse or co-applicant is not a US citizen and there is no marriage certificate or equivalent acceptable document in file.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-19, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Condition, Continued:

Details are as follows:

<u>Loan No.</u>	<u>Loan Amount</u>	<u>Deficiencies Noted</u>
HR-2010-356	\$ 40,000	Household size per eligibility review sheet and application form was four but only two members were enumerated in file and the co-applicant was not a US citizen but no marriage certificate or equivalent was in file.
HR-2010-399	\$ 40,000	Household size per eligibility review sheet was five but only three household members were enumerated in file.
HR-2010-364	\$ 40,000	Household size per eligibility review sheet was four but only two household members were enumerated in file.
HR-2010-362	\$ 39,200	Co-applicant was not a US citizen but no marriage certificate or equivalent was in file.
HR-2010-359	\$ 40,000	Household size per eligibility review sheet was two but three household members were enumerated in file.
HR-2010-394	\$ 56,000	Household size was seven per loan conclusion write-up but only three were noted in the eligibility review sheet.

2. The potential repayment ability from assets such as bank accounts were not included in the household income determination on the eligibility review sheet for all loan files tested.

Cause: The cause of the above condition is the lack of adequate policies and procedures to ensure that gross and adjusted income, household size, income deductions and repayment ability are properly calculated, verified and documented.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs result since applicants were determined to be eligible.

Recommendation: We recommend NMHC properly calculate, verify and document gross and adjusted income, household size, income deductions and repayment ability.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesse S. Palacios, Mortgage & Credit Manager

Corrective Actions:

1. The home regulation at 92.2 defines a household as “one or more persons occupying a housing unit.” It is not required that household members be related. The application form has a section for housing composition. This is where the applicant lists down all household members. When the application is signed, the applicant is attesting to the truthfulness and completeness of the application to the best of their knowledge and belief.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-19, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Actions, Continued:

2. Loan Officers have begun ensuring that clients do provide the most recent savings and checking statements. In cases where clients are unable to provide the most recent statements because of account inactivity, then we will have clients provide some certification from the bank of such statement reported to NMHC.

Proposed Completion Date: Immediately

Auditor Response:

1. The Technical Guide for Determining Income and Allowances for the HOME Program states the following:
 - Once the household and income information has been verified, a participating jurisdiction must compare the information to the appropriate HUD income limits to determine if the household is eligible for participation in the HOME program.
 - The income limits are adjusted by the household size; therefore, one of the first steps in determining eligibility is to determine the size of the applicant household.

NMHC must revisit its policies and procedures to include household verification and such verification should be documented.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-20
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
 Federal Award Period: 10/01/06 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: NMHC must perform eligibility determination prior to providing HOME loan assistance. Specifically, the NMHC HOME Program Policies and Procedures state the following:

- NMHC uses a “Home Rehabilitation Loan Application” form and a “Uniform Residential Loan Application” form for rehabilitation loans and new construction loans, respectively. Loan application forms shall be completed and signed by applicants requesting assistance. Completed application forms must be submitted together with a checklist of necessary information and copies of required supporting documents.
- A pre-qualification worksheet must be completed by the interviewing loan specialist prior to the actual eligibility determination review.
- The responsible Loan Specialist shall review and/or verify the applicant’s credit, income, assets and liabilities, documented in a “Review Eligibility Worksheet” form. If the applicant is deemed to have met all requirements based on the Loan Specialist’s analysis, a Loan Review Conclusion Write-up is prepared for review and approval by the Loan Manager and Corporate Director. Final approval of any loan application request shall be made by the NMHC Board of Directors.
- Once the loan application is approved by the NMHC Board of Directors, the responsible Loan Specialist shall prepare the Commitment Letter for the Corporate Director’s signature.
- All approved applicants must attend a counseling session that will be provided by NMHC. The counseling session must be scheduled after the NMHC Board of Directors has approved the requested loan amount and shall coincide with the day that NMHC issues a Commitment Letter to the applicant.

Condition: Tests of eighteen loan files noted the following:

1. The updated application form was either not signed by both the applicant and co-applicant or not signed by at least one of them.

<u>Loan No.</u>	<u>Loan Amount</u>	<u>Deficiencies Noted on the Application Form</u>
HR-2010-401	\$ 57,000	Not signed by co-applicant
HR-2010-399	\$ 40,000	Not signed by co-applicant
HR-2010-360	\$ 40,000	Updated application form not signed by both applicant and co-applicant.
HR-2010-359	\$ 40,000	Updated application form not signed by co-applicant.
HNC-2010-392	\$ 40,000	Not signed by co-applicant

2. A pre-qualification worksheet could not be located in file for all loan files tested.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-20, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of adequate control procedures to adhere to the loan eligibility application, determination and approval process.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs result as applicants were determined to be eligible.

Recommendation: We recommend that control procedures be implemented to adhere to the HOME loan eligibility application, determination and approval process.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesse S. Palacios, Mortgage & Credit Manager

Corrective Actions:

1. Either spouse could apply on his/her own. It is not a requirement that if the husband is applying for a loan then the wife must be the co-applicant. Only if the husband's repayment ability or credit history is not sufficient is when we will require the wife to be the co-applicant.
2. When the applicants applied, the old policies and procedures were still in effect. These applicants were already approved but at the time, there was no funding available to rehabilitate or construct their homes.

Proposed Completion Date: Immediately

Auditor Response:

1. The Technical Guide for Determining Income and Allowances for the HOME Program states the following:
 - Once the household and income information has been verified, a participating jurisdiction must compare the information to the appropriate HUD income limits to determine if the household is eligible for participation in the HOME program.
 - The income limits are adjusted by the household size; therefore, one of the first steps in determining eligibility is to determine the size of the applicant household.

NMHC must revisit its policies and procedures to include household verification process and such verification should be documented.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-20, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Auditor Response, Continued:

2. It is our understanding that the loan program was delayed for a number of years as the grantor was waiting on NMHC to develop acceptable revised policies and procedures. If the applicants applied before the implementation of the policies and procedures then the forms should have been updated to reflect adherence to the revised policies and procedures. Further, the loan review sheet, loan recommendation write-up and Board approval in file were made after the effective date of the revised policies and procedures of July 23, 2009.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-21
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
 Federal Award Period: 10/01/06 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: The HOME program has income targeting requirements; therefore, NMHC must perform income eligibility determination prior to providing HOME loan assistance. NMHC must use verification methods that are acceptable to HUD. Verification must be made in writing, from a reliable third party, and such verification shall be considered for a period of 180 days from the date the verification was completed. Prior to verification, NMHC shall obtain written authorization from the applicant. For purposes of calculating income from assets (e.g. bank accounts), copies of bank statements for the last six (6) months for checking accounts and most recent statement for savings account must be obtained as third party verification of assets. NMHC is responsible for determining if the verification documentation is adequate and credible. If a written third party verification is not used, notarized statements or signed affidavits by the applicant shall be an acceptable form of verification, but only in situations where a more acceptable form of verification cannot be obtained.

In addition, the Home Program permits income verification not more than six (6) months prior to receipt of assistance. NMHC is not required to re-examine family's income at the time the HOME assistance is provided, unless more than six (6) months has elapsed since NMHC determined that the family qualified as income eligible.

Condition: Tests of eighteen loan files noted the following:

1. The Home Eligibility Release Form, required to be signed by all adult household members, was either not in file or was not signed by all adult members as follows:

<u>Loan No.</u>	<u>Loan Amount</u>	<u>Deficiencies Noted on the Home Eligibility Release Form</u>
HR-2010-399	\$ 40,000	Not in file
HR-2010-364	\$ 40,000	Not in file
HR-2010-357	\$ 40,000	Not in file
HNC-2010-392	\$ 40,000	Not signed by co-applicant
HR-2010-394	\$ 56,000	Not signed by one adult member (member #5)

2. The Use of Funds Certification form, which must be signed by both the applicant and co-applicant, was not signed by the co-applicant for the following:

<u>Loan No.</u>	<u>Loan Amount</u>
HR-2010-401	\$ 57,000
HR-2010-399	\$ 40,000
HNC-2010-392	\$ 40,000

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-21, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
 Federal Award Period: 10/01/06 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

3. Tests of third party income verification noted:
- a. The total gross income noted in the eligibility review worksheet did not agree with the gross income per the third party verification; or
 - b. Income earned by other household member(s) was not included in the total household income per the eligibility review worksheet; or
 - c. The third party verification used in file was old or was not updated, as follows:

<u>Loan No.</u>	<u>Loan Amount</u>	<u>Gross Income per Eligibility Review Worksheet</u>	<u>Gross Income per third Party Verification</u>	<u>Deficiencies Noted</u>
HR-2010-360	\$ 40,000	\$ 20,853	\$ 21,322	Variance in gross income; verification from NMI retirement dated 10/07/08 (not within six months); no verification for income from Guam retirement
HR-2010-364	\$ 40,000	\$ 14,844	\$ 16,608	Variance in gross income; gross income used was based on verification dated 08/29/06
HR-2010-359	\$ 40,000	\$ 11,826	\$ 12,368	Variance in gross income; gross income used based on verification dated 12/16/06
HR-2010-394	\$ 56,000	\$ 6,433	\$ 6,433	Verification file dated 11/05/08 (not within six months)

4. The Statement of Unemployment form required to be signed by all unemployed adult household members was either (a) not in file for at least one adult household member, or (b) not updated, as follows:

<u>Loan No.</u>	<u>Loan Amount</u>	<u>Deficiencies Noted on Statement of Unemployment Form</u>
HR-2010-360	\$ 40,000	Latest form in file was not updated (i.e. dated 10/28/08)
HR-2010-359	\$ 40,000	Not signed by applicant and co-applicant
HNC-2010-392	\$ 40,000	None for co-applicant

5. Only one monthly bank statement is being obtained for both savings and checking accounts. Specifically, we noted the following:
- a. No third party verification as to assets was in file; or
 - b. Bank statements in file were old or not updated; or

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-21, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
 Federal Award Period: 10/01/06 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

- c. Tax compliance third party verification was not in file for the co-applicant as follows:

<u>Loan No.</u>	<u>Loan Amount</u>	<u>Deficiencies Noted</u>
HR-2010-401	\$ 57,000	No tax compliance verification for co-applicant
HNC-2010-420	\$ 57,000	No verification in file for one savings account declared
HR-2010-356	\$ 40,000	No verification in file for one savings account declared
HR-2010-399	\$ 40,000	No tax compliance verification for co-applicant
HR-2010-359	\$ 40,000	No tax compliance verification for co-applicant
HNC-2010-392	\$ 40,000	No tax compliance verification for co-applicant
HNC-2010-402	\$ 57,000	Only one monthly bank statement in file for one checking account
HR-2010-363	\$ 40,000	Bank statements in file were dated 09/08.

6. HOME assistance was provided (i.e. loan agreement was signature date) after six months from the date of income eligibility determination.

<u>Loan No.</u>	<u>Loan Amount</u>	<u>Date Income Eligibility was Performed</u>	<u>Loan Agreement Date</u>	<u>No. of Months Lapsed</u>
HNC-2010-420	\$ 57,000	09/22/09	07/07/10	10
HR-2010-356	\$ 40,000	09/10/09	04/14/10	7
HR-2010-364	\$ 40,000	09/10/09	05/07/10	8
HR-2010-362	\$ 39,200	09/22/09	10/06/10	13
HNC-2010-403	\$ 57,000	11/10/09	07/06/10	8
HNC-2010-392	\$ 40,000	11/10/09	07/22/10	8
HR-2010-394	\$ 56,000	11/10/09	06/08/10	7
HNC-2010-402	\$ 57,000	11/10/09	06/22/10	7

Cause: The cause of the above condition is the lack of adequate control procedures to obtain, update and file third party verifications and failure to timely complete income eligibility determination.

Effect: The effect of the above condition is noncompliance with eligibility requirements. No questioned costs result since applicants were determined to be eligible.

Recommendation: We recommend that control procedures be strengthened to obtain, file and timely complete HOME income eligibility determinations and third party verifications.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-21, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesse S. Palacios, Mortgage & Credit Manager

Corrective Actions:

1. When the applicants applied, the old policies and procedures were still in effect. These applicants were already approved but at the time, there was no funding available to rehabilitate or construct their homes. Regarding HR-2010-392, the household size was verified. The application form indicates a household composition of four. The loan conclusion reports a household size of four. The application form only has the applicant's name in the applicant information section.
2. The application form indicates that there was only one applicant and no co-applicant.
3. Regarding HR-2010-364, this applicant was already approved back in 2006 and the loan officer requested for the most recent income information as evidenced by the client's submission. The most recent information was used in the loan conclusion.

Regarding HR-2010-359, the loan officer requested for the most recent income information as evidenced by the submission of check stubs and certification; however, she did not update the loan conclusion.

Regarding HR-2010-394, the loan officer verified with the Northern Mariana Islands Retirement Fund (NMIRF) that the annuity benefit did not change; however, she did not obtain the certification from NMIRF.

4. The loan officer did not have the adult household member fill out the unemployment form.
5. The application form indicates that there was only one applicant and no co-applicant.
6. Loan officers have begun ensuring that clients' financial information are updated every six months to ensure continued eligibility before extension of assistance.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-21, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Auditor Response:

1. It is our understanding that the loan program was delayed for a number of years as the grantor was waiting on NMHC to develop acceptable revised policies and procedures. If the applicants applied before the implementation of the policies and procedures then the forms should have been updated to reflect adherence to the revised policies and procedures. Further, the loan review sheet, loan recommendation write-up and Board approval in file were made after the effective date of the revised policies and procedures of July 23, 2009. Further, NMHC must revisit its policies and procedures to include household verification and such verification should be documented.
2. The application forms noted that the applicant has a spouse which should have been the co-applicant. If the spouse was asked to sign in the loan agreement as a co-applicant, all other documentation that needs signature by a co-applicant must be obtained.
3. NMHC's revised policies and procedures state that to substantiate eligibility, supplemental information submitted with each loan application shall be verified in writing, from a reliable third party and such verification shall be considered valid for a period of one hundred eighty (180) calendar days from the date the verification was completed.
5. The application forms noted that the applicant has a spouse which should have been the co-applicant. If the spouse was asked to sign in the loan agreement as a co-applicant, all other documentation that needs signature by a co-applicant must be obtained.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-22
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Program Income
Questioned Costs: \$291,099

Criteria: Code of Federal Regulations (CFR) Title 24 Part 92.502 (c) (3) requires that HOME funds in the local account of the HOME Investment Trust Fund be disbursed before requests are made for HOME funds in the United States Treasury account. Further, under CFR Title 24 Part 92.2, HOME funds include program income.

Condition: Program income tests noted the following:

1. NMHC receives payments of principal and interest on loans made with HOME funds and deposits them into its local account and reports these receipts in the Information and Disbursement System as program income. As of September 30, 2010, NMHC has \$291,099 of undisbursed program income in its local account.
2. Program income funds are not timely reported in the Integrated Disbursement and Information System (IDIS). Program income reported during the fiscal year 2010 included collections received in July 2009 and September 2009. Further, collections received for the months of August 2010 and September 2010 were reported in the IDIS as October 2010 program income.

Cause: The cause of the above condition is the earmarking of program income received for loan assistance to eligible applicants. NMHC earmarks and commits available program income funds at the time approved loans are set up in the IDIS. Therefore, although there are available program income funds at the time NMHC needs to make a drawdown, NMHC records show that no program income is available. NMHC records allow drawdown from program income only for HOME loans which were originally set up to be funded with program income.

Effect: The effect of the above condition is noncompliance with program income compliance requirements and questioned costs of \$291,099.

Recommendation: We recommend NMHC disburse program income before requests are made for HOME funds in the U.S. Treasury account. Additionally, we recommend NMHC review existing procedures of earmarking program income and design procedures to support compliance with the program requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC will ensure that program income is disbursed before requests are made for HOME funds in the U.S. Treasury account. NMHC has started implementing this procedure in FY 2011.

Proposed Completion Date: FY 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-23
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Reporting
Questioned Costs: \$-0-

Criteria: Total outlays/expenses reported to the grantor should correspond to amounts recorded in the general ledger.

Condition: The SF 272, Federal Cash Transaction reports for the fiscal year ended September 30, 2010 reported total HOME disbursements that were \$16,064 lower than total HOME expenses recorded in the general ledger and reported in the Schedule of Expenditures of Federal Awards.

Cause: The cause of the above condition is the oversight or failure to include two drawdowns in the total amount reported and NMHC's failure to include expenses for which federal funds have already been received as of September 30, 2010.

Effect: The effect of the above condition noncompliance with reporting requirements. No questioned costs result as the amount reported to the grantor was lower than the general ledger amount.

Recommendation: We recommend NMHC reflect actual transactions recorded in the general ledger in the federal cash transaction reports.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: NMHC will ensure that federal cash transaction reports reflect actual transactions recorded in the general ledger and that an IDIS drawdown reconciliation is applied to every quarterly reporting to HUD.

Proposed Completion Date: FY 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-24
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: HOME loans extended to eligible participants should be properly monitored and accounted for.

Condition: Beginning in fiscal year 2006, NMHC established general ledger loans receivable accounts for HOME loans under a deferment agreement. Prior to fiscal year 2006, NMHC did not establish such accounts. At September 30, 2010, NMHC is in the process of determining the cumulative amount of loans under deferment agreements prior to fiscal year 2006.

Cause: The cause of the above condition is that NMHC understood that loans under deferment agreements should not be recorded since repayment of these deferred loans is not expected.

Effect: The effect of the above condition is the possibility that loans under deferment agreements are not properly accounted for and presented in the financial reports.

Recommendation: We recommend NMHC determine with the grantor agency whether NMHC should be recording deferred HOME loans receivable and monitoring HOME loans under deferment agreement.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jesse S. Palacios, Mortgage & Credit Manager and Roger A. Dris, Chief Accountant

Corrective Action: NMHC will take reasonable steps to record deferred HOME loans receivable and monitor HOME loans under deferment agreements by recording all deferred home loans receivable every end of the month. The Loan Accountant will reconcile for check and balance with the Loan Specialist.

Proposed Completion Date: Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-25
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203 and M-09-ST-690203
Federal Award Period: 10/01/06 through 09/30/10
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Criteria: Under NMHC's policies and procedures for Homeowner Rehabilitation, HOME loan applicants that have been determined to be eligible for financial assistance and have proven lack of financial resources for repayment of their direct loan may have their monthly loan payments deferred for a period up to fifteen years. Further, borrowers with a deferment agreement shall be required to be annually re-certified as eligible to continue receiving a deferment during any potential deferment period.

Condition: NMHC did not perform the required annual re-certification for borrowers with deferment agreements.

Cause: The cause of the above condition is an oversight by NMHC management in complying with established policies and procedures for Homeowner Rehabilitation.

Effect: The effect of the above condition is noncompliance with established policies and procedures for Homeowner Rehabilitation.

Recommendation: We recommend NMHC management perform annual recertifications of borrowers with deferment agreements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jesse S. Palacios, Mortgage & Credit Manager

Corrective Action: The Mortgage & Credit Division will create a separate ledger for all deferred loan clients to ensure effective annual re-certification and monitoring. The ledger will include the name of the client, address, contact number(s), effective date of the deferred loan agreement, amount of the deferment, and the re-certification compliance date. A separate report will then be shared with the Fiscal Division upon completion of the re-certification process. The Mortgage & Credit Division has performed the required annual re-certifications, letters were sent out and field visits were conducted. The Mortgage & Credit Division has a master list of deferred borrowers and is performing the re-certifications.

Proposed Completion Date: Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-26
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Allowable Costs/Cost Principles
Questioned Costs: \$42,369

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

Condition: NMHC initially records salaries and benefits for all employees to a general account. On a quarterly basis, NMHC uses the employee timesheet for one payroll period to allocate salaries and benefits paid during the quarter to federal programs. Based on the selected timesheet percentages of hours worked by program are calculated and are used to allocate salaries and benefits for the entire quarter. NMHC prepares journal entries to transfer calculated allocations from the general account to federal program expense accounts. Grantor approval of this allocation process was not provided.

Tests of administrative expenses totaling \$195,649 noted salaries expense and retirement benefits charged to the Section 8 Housing Choice Voucher Program of \$149,300 and \$37,219, respectively, for the fiscal year ended September 30, 2010, were allocated based on a quarterly hours worked certification and supporting timesheets signed by employees, which was approved by the employees' immediate supervisor. Salaries expense and retirement benefits charged to the grant are higher by \$21,147 and \$21,222, respectively, than the expected amounts based on quarterly allocation percentages.

Cause: The cause of the above condition is the lack of control procedures to comply with OMB Circular A-87, Attachment B, Section 11.h (4).

Effect: The effect of the above condition is noncompliance with allowable costs/cost principles and questioned cost of \$42,369.

Recommendation: We recommend NMHC obtain necessary approvals from the grantor agency for all expenses allocated to the program. We further recommend NMHC charge salaries to the program based on approved quarterly hours worked certifications.

Prior Year Status: The lack of awareness of requirements of OMB Circular A-87, Attachment B, Section 11.h (4) was reported as a finding in the Single Audit of NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-26, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Allowable Costs/Cost Principles
Questioned Costs: \$42,369

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: NMHC implemented timesheet certifications for quarterly calculations which has been approved by the grantor during the grantor's on-site monitoring from March 12, 2007 through March 16, 2007 and from March 10, 2008 through March 14, 2008 and May 2011. For the FY 2011 calculation, NMHC will verify the average percentage within the four quarterly timesheet certifications for accuracy.

Proposed Completion Date: FY 2011

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-27
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$1,774

Criteria: The amount of federal assistance paid on behalf of a family is calculated using the family's annual income less allowable deductions. PHAs must verify all deductions claimed by the tenant/applicant to determine the level of federal assistance.

Condition: Tests of seventy tenant files noted that deductions claimed included an allowance for dependent(s) which is (are) not biological or legal children of the household head/co-head. The household head/co-head are in a guardian/caretaker capacity based on either a general power of attorney, a notarized affidavit or an appointment of guardianship executed by the biological or legal parents of the dependent (s). We are unable to determine if NMHC performed further verification to determine whether such are indeed valid dependents. Details are as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed That are not Legal Children (Household Member Ref. #)</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>
H01159A	03/04/10	06/01/09	4, 5	\$ 960	\$ 850
HO1315	07/02/10	07/01/10	5, 6, 8	\$ 2,800	<u>924</u>
					\$ <u>1,774</u>

Cause: The cause of the above condition is a lack of adequate policies and procedures to verify and document all claimed deductions.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$1,774.

Recommendation: We recommend that NMHC strengthen policies and procedures in verifying claimed deductions and that such verification be documented in the tenant file.

Prior Year Status: The lack of adequate policies and procedures to verify and document all claimed deductions was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will ensure that only documents provided by the court will be accepted as appointment of guardianship and that all allowances and deductions are supported by third party verification.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-28
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$10,316

Criteria: Owners must use verification methods that are acceptable to HUD. The owner is responsible for determining if the verification documentation is adequate and credible. HUD accepts three methods of verification. These are, in order of acceptability, third party verification, review of documents, and family certification. When third party verification is not available, owners must document, in the file, efforts made to obtain the required verification and the reason if the verification was not obtained. The owner must include the following documents in the applicant's or tenant's file:

1. A written note to the file explaining why third party verification is not possible; or
2. A copy of the date-stamped original request that was sent to the third party;
3. Written notes or documentation indicating follow-up efforts to reach the third party to obtain verification; and
4. A written note to the file indicating that the request has been outstanding without a response from the third party.

Condition: Tests of seventy tenant files noted the following:

1. For the following tenants that reported gross income, the third party verification documentation could not be located in file. Documentation indicating why third party verification was not available, and documentation indicating efforts that were made to obtain third party verification was not in file. Details are as follows:

Household No.	Period Tested	Certification Effective	(Household Member Ref. #)	Third Party Verification Documentation Not Found in Tenant File	HAP Amount
HO1264	05/04/10	08/01/09	Head	Employment verification	\$ 1,100
HO1224	10/01/09	05/01/09	Head	Employment verification (w/pay stubs)	1,269
HO1042	11/02/09	05/01/09	Head	Employment verification (w/pay stubs)	853
HO1025A	03/04/10	07/01/09	Head	Employment verification (w/pay stubs)	1,200
HO1320	12/03/09	09/01/09	Head	Employment verification	1,200
HO1239	01/04/10	08/01/09	Head	Notice of disposition for food stamp benefits of \$348/mo.	564
HO1239	02/04/10	08/01/09	Head	Notice of disposition for food stamp benefits of \$348/mo.	564
HO1239	03/04/10	08/01/09	Head	Notice of disposition for food stamp benefits of \$348/mo.	564
HO1225	07/02/10	07/01/10	Head	Other income for \$266/mo.	1,021
HO1225	08/04/10	07/01/10	Head	Other income for \$266/mo.	1,021
HR0019A	07/02/10	07/01/10	Head	Other income for \$200/mo.	763
HR002A	02/04/10	02/01/10	Head	Other income for \$100/mo.	1,050
Total					11,169
Less costs already questioned in previous finding					(853)
Questioned costs this finding					\$ 10,316

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-28, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$10,316

Condition, Continued:

2. The income reported in HUD Form 50058 did not agree with the income noted in the third party verification and there was no documentation in file supporting the variance. Details are as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Income Type</u>	<u>Income Per HUD Form 50058</u>	<u>Income Per Third Party Verification</u>	<u>HAP Amount</u>
HO1315	07/02/10	07/01/10	Food stamp	\$ 3,996	\$ 4,104	\$ 924
			Less costs already questioned in previous finding			<u>(924)</u>
			Questioned costs this finding			\$ <u>—</u>

Cause: The cause of the above condition is lack of adequate policies and procedures to perform and document third party verifications for reported income and assets.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$10,316.

Recommendation: We recommend that NMHC strengthen policies and procedures in performing and documenting third party verifications on income and assets declared by tenants/applicants.

Prior Year Status: The lack of adequate policies and procedures to perform and document third party verifications for reported income and assets was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will ensure that all required documents are submitted prior to completing annual re-certifications and that all reported income is verified.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-29
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$13,321

Criteria: Owners must include verification documentation in file. Further, NMHC accepts the following notarized statement or signed affidavits from the tenant/applicant as support of income and assets for all adult members of the household.

1. Affidavit as to assets and verification of income from assets
2. Certification of asset disposition
3. Statement of unemployment
4. Affidavit of zero income of adult member
5. Affidavit of child support
6. Zero income in-kind contribution checklist

Condition: Tests of seventy tenant files determined that documents supporting income and/or assets for adult members of the household could not be located in file. Specific documents that could not be located are as follows:

Household No.	Period Tested	Certification Effective	Household Member Ref. #	Documents Not Found in Tenant File	HAP Amount
HO1278	02/04/10	01/01/10	Head	Affidavit of zero income, certification of asset disposition (date not signed)	\$ 590
H01190	05/04/10	07/01/09	Head	Zero income in-kind contribution checklist	1,100
HO1090	04/01/10	04/01/10	Head	Affidavit of assets and Verification of income from assets #1, and Certification of asset disposition	1,090
HR0019A	07/02/10	07/01/10	Head	Affidavit of child support	763
H01130	01/04/10	11/01/09	Head, 2	Affidavit of zero income	1,200
H01130	02/04/10	11/01/09	Head, 2	Affidavit of zero income	1,200
HO1309	10/01/09	09/01/09	Head	Statement of unemployment, zero income in-kind checklist	700
HO1326	07/02/10	07/01/10	Head	Zero income in-kind checklist was signed but not filled out; Certification of assets disposition was not dated	750
H01047	10/06/09	04/01/09	Head	Zero income in-kind checklist	750
H01103	07/02/10	10/01/09	2	Affidavit of zero income	1,300
H01017A	06/03/10	07/01/09	2, 3	Affidavit of zero income #2, Affidavit as to assets #3, Certification of assets disposition was not dated	583
HO1042	11/02/09	05/01/09	2, 3	Statement of unemployment #3; Affidavit of zero income #2 and #3,	853
HR002A	02/04/10	02/01/10	Head	Zero income in-kind checklist	1,050
HO1179	12/03/09	01/01/09	Head	Zero income in-kind checklist	1,100
HO1171	06/03/10	01/01/10	Head	Zero income checklist not in file	1,100
H01048A	10/01/09	04/01/09	Head	Zero income checklist partially completed	1,100
H01048A	04/01/10	04/01/10	Head	Zero income checklist not in file	1,100
HO1324	09/03/10	09/01/10	Head	Zero income in-kind checklist partially completed	750
				Total	17,079
				Less costs already questioned in previous finding	(3,758)
				Questioned costs this finding	\$ 13,321

Cause: The cause of the above condition is a lack of adequate policies and procedures to prepare and maintain documentation supporting income and assets in the tenant file.

Effect: The effect of the above condition is noncompliance with eligibility requirements and questioned costs of \$13,321.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-29, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Eligibility
Questioned Costs: \$13,321

Recommendation: We recommend that NMHC strengthen policies and procedures to ensure declared income and assets are supported and documented.

Prior Year Status: The lack of adequate policies and procedures to prepare and maintain documentation supporting income and assets in the tenant file was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will ensure that the Housing Specialists complete the zero-income checklist. Follow-up and compliance will be reinforced by the PHD Manager. In addition, NMHC will ensure that documents such as the statement of unemployment, affidavit of child support, affidavit as to assets and the verification of income from assets are documented and filed.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-30
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$582

Criteria: To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:

1. Applicants must provide documentation of social security numbers (SSN) for family members at least 6 years of age and older. Adequate documentation includes a social security card issued by the Social Security Administration or other acceptable evidence of the SSN.
2. Only U.S. citizens or eligible noncitizens may receive assistance under Section 8 programs. All family members, regardless of age, must declare their citizenship or immigration status. Owners must obtain proof of citizenship. NMHC's policy is to require all family members to complete and sign a "Declaration of Section 214 Status" form and obtain copies of birth certificates or other acceptable evidence of citizenship and include such in file.

Condition: Tests of seventy tenant files noted the following:

1. The completed and signed "Declaration of Section 214 Status" form for the following household members could not be located. No questioned costs result as the citizenship status was verified.

<u>Household No.</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
HO1315	07/01/10	None for member #3	\$ 924

2. A birth certificate or other acceptable evidence of citizenship for one or more of the following household members could not be located:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
HO1259	08/01/10	1	\$ 582
HR002A	02/01/10	1, 2, 3, 4, 5, 6	<u>1,050</u>
Total			1,632
Less cost already questioned in previous finding			<u>(1,050)</u>
Questioned costs this finding			\$ <u>582</u>

3. A copy of the social security card (or other acceptable evidence of the SSN) for the following household member(s) could not be located:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member #</u>	<u>HAP Amount</u>
HR002A	02/01/10	All	\$ 1,050
Less cost already questioned in previous finding			<u>(1,050)</u>
Questioned costs this finding			\$ <u>-</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-30, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Eligibility
Questioned Costs: \$582

Cause: The cause of the above condition is the lack of adequate procedures to ensure tenant citizenship and social security numbers are verified, reconciled and maintained.

Effect: The effect of the above conditions is noncompliance with eligibility requirements and questioned costs of \$582.

Recommendation: We recommend that NMHC strengthen procedures in the verification of tenants' citizenship and social security numbers and improve file maintenance.

Prior Year Status: The lack of adequate procedures to ensure tenant citizenship and social security number are verified, reconciled and maintained was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will ensure that the "Declaration of Section 214 Status" form, social security numbers and other documents supporting proof of citizenship are signed and filed in a timely manner.

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-31
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: Owners must conduct a certification/re-certification of family income and composition (a) prior to move-in; (b) at least annually; and (c) if there are changes in income, allowances or family characteristics reported between annual re-certifications. Owners must then recalculate the tenant rents and assistance payments, if applicable, based on information gathered.

A full "Application Form" must be submitted and signed by all adult members and NMHC for new admissions. NMHC uses a "Certification/Re-certification Interview Sheet" to document certifications and re-certifications performed. NMHC also uses a "Tenant Obligation to Report Interim Change" form to be signed by tenants. A HAP contract and lease agreement is signed by the tenant and NMHC.

Condition: Tests of seventy tenant files noted the following:

1. For fifty-four tenants tested, the quality control worksheet was not signed by the Housing Manager or could not be located in file. Thus, there was no evidence of review of the eligibility determination or re-determination performed by the housing specialist prior to commencement of the housing assistance.
2. The re-certification interview sheets for the following was either (a) not completed; (b) incomplete; (c) not properly filled out; or (d) not signed:

<u>Household No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per Certification/Recertification Interview Sheet</u>	<u>Sections of the Re-certification Interview Sheet that are Incomplete/Not Completed or Other Deficiencies Noted</u>
HO1278	02/04/10	01/01/10	effective date, 4/not signed by tenant
HO1074A	11/02/09	07/01/09	3, 4, 5, 6
H01200	11/02/09	10/01/09	date, 1, 2, 3/not signed by tenant
HO1090	04/01/10	04/01/10	date, 4, 5
HO1144	01/04/10	12/01/09	date, 4, 5
H01130	01/04/10	11/01/09	1, 2, 3, 4
HO1036A	06/03/10	10/01/09	4, 5
HO1309	10/01/09	09/01/09	4, 5, 6/NMHC did not sign
HO1326	07/02/10	07/01/10	1, 2, 3, 4, 5, 6
HO1239	01/04/10	08/01/09	1
H01103	07/02/10	10/01/09	1, 2, 3, 4, 5/tenant did not sign
HO1324	09/03/10	09/01/10	1, 2, 3, 4, 5, 6/ not signed by NMHC

3. Some sections of the Application Form, certification interview sheet were either (a) not completed; (b) incomplete; or (c) not properly filled out for the following:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-31, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

<u>Household No.</u>	<u>Period Tested</u>	<u>Effective Date of Certification per Certification/Recertification Interview Sheet</u>	<u>Deficiencies Noted</u>
HO1036A	06/03/10	10/01/09	Application form not completely filled; Sections 4, 5 not completed

4. HUD 50058 was not signed by one or all of adult household members or signed after the effective date of certification/re-certification or the original was not in file for the following:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>HUD 50058 Not Signed By</u>	<u>HAP Amount</u>
HO1278	02/04/10	Head, 2, NMHC	\$ 590
HO1074A	11/02/09	Head	\$ 1,100
HR0049	11/02/09	NMHC	\$ 750
HO1200	11/02/09	NMHC	\$ 678
HO1090	04/01/10	NMHC	\$ 1,090
HO1239	01/04/10	NMHC	\$ 564
HO1103	07/02/10	NMHC	\$ 1,300
HO1188	01/04/10	NMHC	\$ 1,093
HO1287	02/04/10	Head, NMHC	\$ 1,100
HO1179	12/03/09	NMHC	\$ 1,100
HO1048A	10/01/09	Head, 2, NMHC	\$ 1,100
HO1185	11/02/09	Not in file	\$ 736
HO1320	12/03/09	NMHC	\$ 1,200

5. The HAP contract and lease amendment agreement was not signed by one or all adult household members, or signed after the effective certification date for the following:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>HAP Contract/Lease Agreement Not Signed By</u>	<u>HAP Amount</u>
HO1278	01/01/10	Head, 2, Owner, NMHC	\$ 590
HO1074A	07/01/09	Head, Owner	\$ 1,100
HR0049	11/02/09	NMHC	\$ 750
HO1200	10/01/09	NMHC	\$ 678
HO1090	04/01/10	Owner, NMHC	\$ 1,090
HO1239	08/01/09	NMHC	\$ 564
HO1103	10/01/09	NMHC	\$ 1,300
HO1136	06/01/09	Owner	\$ 1,130
HO1188	12/01/09	NMHC	\$ 1,093
HO1287	07/01/09	Head, Owner, NMHC	\$ 1,100
HO1025A	07/01/09	Owner	\$ 1,200
HO1179	07/01/09	NMHC	\$ 1,100

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-31, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>HAP Contract/Lease Agreement Not Signed By</u>	<u>HAP Amount</u>
H01048A	07/01/09	Head, 2, Owner, NMHC	\$ 1,100
HO1150A	09/01/09	Owner	\$ 800
H01185	11/02/09	Head, Owner, NMHC	\$ 736
HO1320	09/01/09	Owner, NMHC	\$ 1,200

Cause: The cause of the above condition is lack of adequate monitoring procedures to perform, review, document and file required certifications/re-certifications and related forms in a timely manner

Effect: The effect of the above condition is noncompliance with program eligibility requirements and questioned costs of \$-0- from condition 1 which was previously questioned. For the rest of the conditions, no questioned costs arise since the documents were available but were not properly completed and/or signed.

Recommendation: We recommend that NMHC establish adequate monitoring procedures to perform, review, document and file required certifications/re-certifications and related forms in a timely manner.

Prior Year Status: The lack of adequate monitoring procedures to perform, review, document and file required certification/ re-certifications and related forms in a timely manner was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Actions: NMHC will ensure that:

1. the quality control worksheet is signed, completed and filed;
2. certification/re-certification interview sheets are completed, signed and filed;
3. all sections of the application form and certification interview sheet are completed, signed and filed;
4. all required members of the household sign and date the HUD Form 50058 in a timely manner;

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-31, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

5. the HAP contract and lease agreement are signed on or prior to the effective certification date by all required members of the household and filed; and

Proposed Completion Date: Immediately

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-32
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: Owners apply their occupancy standards before assigning the family to a unit. Owners should review family size and occupancy standards prior to completing required verifications so that if the property cannot accommodate the family, the owner may immediately inform the family of its ineligibility. Additionally, owners also compare family composition to occupancy standards when there is a change in family size. Owners should use the occupancy standards established for the property to determine whether the unit is still the appropriate size for the tenant.

Condition: Tests of seventy tenant files determined that the assigned unit for the following did not appear reasonable based on the household size:

<u>Household No.</u>	<u>Period Tested</u>	<u>HUD 50058 Effective Date</u>	<u>No. of Household</u>	<u>Unit Size</u>	<u>HAP Amount</u>
H01188	01/04/10	12/01/09	3	4	\$ 1,093
HO1044A	08/04/10	10/01/09	2	3	<u>745</u>
Total					1,838
Less cost already questioned in previous finding					<u>(1,838)</u>
Questioned costs this finding					\$ <u> -</u>

Justification for the larger unit size assigned was not noted in file.

Cause: The cause of the above condition was lack of procedures to adhere to occupancy standards.

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

Recommendation: We recommend that NMHC implement strict policies to adhere to occupancy standards. Any exceptions should be approved and documented in the tenant file.

Prior Year Status: The lack of procedures to adhere to occupancy standards was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will review its policies on occupancy standards and implement strict procedures to ensure compliance.

Proposed Completion Date: FY 2010

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-33
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Eligibility
Questioned Costs: \$-0-

Criteria: Adult members of a family must sign consent forms as required verification documents, so the owner can verify sources of family income and family size. The owner must consider a family ineligible if adult members refuse to sign applicable consent and verification forms. Consent forms must be signed by:

1. The head of household (regardless of age);
2. The spouse or co-head of household (regardless of age); and
3. Any other family member who is 18 years old or older.

NMHC's uses the "Authorization for the Release of Information - Privacy Act Notice" form to document compliance with this requirement.

Condition: Of seventy tenant files tested, the "Authorization for the Release of Information - Privacy Act Notice" form was either not in the tenant file, was not signed by one or more household adult members, or an original copy could not be located for the following:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Deficiencies Noted</u>
HO1278	02/04/10	01/01/10	\$ 590	Not signed by household member #s 1, 2
H01047	10/06/09	04/01/09	\$ 750	Not signed by all adult members
H01017A	06/03/10	07/01/09	\$ 583	Not signed by household member # 3
H01185	11/02/09	07/01/09	\$ 736	Not in tenant file

Cause: The cause of the above condition is the lack of policies and procedures to require signed consent forms.

Effect: The effect of the above condition was noncompliance with eligibility requirements. No questioned costs arise as the participant was determined to be eligible.

Recommendation: We recommend that NMHC strengthen and implement compliance with the above requirement.

Prior Year Status: The lack of policies and procedures to require signed consent forms was reported as a finding in the Single Audit of NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action: NMHC will ensure that the "Authorization for the Release of Information - Privacy Act Notice" form is completed, signed by all required members of the household and filed.

Proposed Completion Date: FY 2010

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-34
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Reporting
Questioned Costs: \$-0-

Criteria: Total expenses reported to the grantor per HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169), should correspond to amounts recorded in the general ledger.

Condition: The HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement reports for the year ended September 30, 2010 reported total program expenses that were \$38,304 lower than expenses recorded in the general ledger and reported in the Schedule of Expenditures of Federal Awards.

Cause: The cause of the above condition is failure to report subsequent adjustments made in the general ledger and lack of coordination between NMHC's fiscal and grant divisions.

Effect: The effect of the above condition is noncompliance with reporting requirements. No questioned costs result since drawdown of funds was not based on amounts recorded in the general ledger but were based on monthly notifications to the federal grantor agency.

Recommendation: We recommend NMHC reconcile the HUD-52681-B, Voucher for Payment of Annual Contributions and Operating Statement, reports to actual transactions recorded in the general ledger.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Roger A. Dris, Chief Accountant

Corrective Action: As per FASPHA online reporting, HAP Equity and ADMIN Equity is required for this kind of transaction. The only difference is instead of closing to retained earnings, it will be closed to HAP Equity and ADMIN Equity, whichever equity is applicable. Due to grantor should be the same amount for the HAP and ADMIN Equity balances.

Proposed Completion Date: Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-35
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Special Tests and Provisions
 Questioned Costs: \$-0-

Criteria: In accordance with 24 CFR Part 982.503(a)(1), the PHA must adopt a payment standard schedule that establishes voucher payment standard amounts for each fair market rent (FMR) area in the PHA jurisdiction. Under NMHC’s Section 8 Administrative Plan for Rental Assistance Program Section 10.1, NMHC currently administers a payment standard that is at 90% of the published FMR set for Guam and the Pacific Islands. In addition, the PHA’s administrative plan must state the method used by the PHA to determine that the rent to the owner is reasonable in comparison to rent for other comparable unassisted units. The PHA determination must consider unit attributes such as the location, quality, size, unit type, and age of the unit, and any amenities, housing services, maintenance and utilities provided by the owner.

Condition: Tests of the payment standard and reasonable rent noted the following:

1. For two items tested, one or more assisted units were included in the rent reasonableness determination. No questioned costs are raised since we could not assess the monetary value of the deficiency noted.

<u>Household No.</u>	<u>Date of Rent Reasonableness</u>	<u>Certification Effective</u>	<u>Unit Size</u>
HO1247	10/30/09	11/01//09	3
HO1061	07/29/10	08/01/10	3

2. The FMRs applicable in fiscal year 2010 were not used for rent reasonableness determination for five items tested. No questioned costs are raised as the correct rate that should have been used to pay rent exceeded the utilized rate.

<u>Household No.</u>	<u>Date of Rent Reasonableness</u>	<u>Certification Effective</u>	<u>Unit Size</u>	<u>FMR per NMHC</u>	<u>FMR per HUD</u>	<u>Variance in FMR</u>
HO1247	10/30/09	11/01/09	3	\$ 1,308	\$ 1,501	\$ (193)
HO1187	01/29/10	02/01/10	1	\$ 735	\$ 844	\$ (109)
HO1193	03/29/10	04/01/10	2	\$ 898	\$ 1,030	\$ (132)
HO1008A	05/26/10	06/01/10	3	\$ 1,308	\$ 1,501	\$ (193)
HO1061	07/29/10	08/01/10	3	\$ 1,308	\$ 1,501	\$ (193)

Cause: The cause of the above condition is lack of strict monitoring procedures over updating payment standard schedules and weak controls over performing rent reasonableness.

Effect: The effect of the above condition is the potential misstatement of payment standard amounts. No questioned costs result as noted in the condition above.

Recommendation: We recommend that payment standard schedules be updated to reflect current fair market rents published by HUD. We further recommend that NMHC strengthen controls over rent reasonableness determination.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-35, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Prior Year Status: The lack of monitoring procedures to ensure that payment standard schedules are updated was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zerlyn A. Taimanao, Program and Housing Manager

Corrective Action:

1. NMHC will ensure that when conducting rent reasonableness only units that are unassisted will be compared to the unit that is to be occupied.
2. The Program and Housing Division is currently using the updated 2010 payment standard schedules that reflect current fair market rents published by HUD. NMHC will ensure that future rates agree to the updated fair market rent.

Proposed Completion Date: Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-36
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Special Tests and Provisions
 Questioned Costs: \$-0-

Criteria: Under 24 CFR Part 982.405(a), the Public Housing Agency (PHA) must inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the Housing Quality Standards (HQS). Further, under 24 CFR Part 982.158(d), the PHA must prepare a unit inspection report.

Condition: Of seventy items tested for HQS inspections, the following were noted:

1. The housing quality inspections performed for the following were not conducted within twelve months from the previous housing quality inspections in the tenant file. Details are as follow:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspections Performed During FY 2010</u>	<u>Prior HQS Inspection Date</u>
HR0019A	07/02/10	05/14/10	06/24/08
HO1188	01/04/10	11/10/09	01/14/08
HO1171	06/03/10	12/14/09	11/20/08
HO1048A	10/01/09	03/16/10	03/12/09
HO1048A	04/01/10	03/16/10	03/12/09
HO1179	12/03/09	12/04/09	11/20/08

2. The 2010 inspection report in file was not completely filled out or some sections were not completed and were not signed by the inspector for the following.

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspections Performed During FY 2010</u>	<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspections Performed During FY 2010</u>
HO1278	02/04/10	12/14/09	HO1333	03/04/10	12/14/09
HO1225	07/02/10	08/23/10	HO1224	10/01/09	06/03/10
HO1225	08/04/10	08/23/10	HO1042	11/02/09	03/01/10
HO1074A	11/02/09	10/29/09	HO1220	11/02/09	03/11/10
HO1074A	06/03/10	10/29/09	HO1220	05/04/10	03/11/10
HO1264	05/04/10	07/08/10	HO1025A	03/04/10	09/23/10
HO1130	01/04/10	10/06/09	HO1263	04/01/10	10/15/09
HO1130	02/04/10	10/06/09	HO1322	02/04/10	09/23/10
HO1202	04/01/10	10/22/09	HO1322	04/01/10	09/23/10
HO1345	06/03/10	12/21/09	HO1334	05/04/10	12/14/09
HO1324	09/03/10	08/20/10	HO1171	06/03/10	12/14/09
HO1071	12/03/09	01/21/10	HO1048A	10/01/09	03/16/10
HO1239	01/04/10	07/06/10	HO1048A	04/01/10	03/16/10
HO1239	02/04/10	07/06/10	HO1289	10/01/09	07/08/10
HO1239	03/04/10	07/06/10	HO1233	08/04/10	04/27/10
HO1259	08/04/10	07/07/10	HO1116	01/04/10	10/07/09
HO1188	01/04/10	11/10/09	HO1026A	09/03/10	03/09/10
HO1338	05/04/10	12/15/09	HO1185	11/02/09	10/29/09

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-36, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Vouchers
 Federal Award No.: TQ901
 Federal Award Period: 10/01/09 through 09/30/10
 Area: Special Tests and Provisions
 Questioned Costs: \$-0-

Condition, Continued:

3. The completed unit inspection form evidencing unit inspections performed during fiscal year 2010 could not be located in file for five items. We are unable to determine if the required housing quality inspections were performed. Details are as follow:

<u>Household No.</u>	<u>Period Tested</u>
HR0049	11/02/09
HO1144	01/04/10
HO1287	02/04/10
HO1159A	03/04/10
HO1320	12/03/09

4. The NMHC inspector did not complete the overall inspection results/summary decision section of the inspection report for one tenant:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2010</u>
HR0002A	02/04/10	12/07/09

5. The inspection deficiency report was not signed by the Tenant/Owner, therefore, acknowledgment by the owner of deficiencies noted was not made evident for one tenant:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2010</u>
HO1233	08/04/10	04/27/10

6. One failed inspection was not included in the Failed Inspection Log Sheet covering fiscal year 2010 as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>HQS Inspection Performed During FY 2010</u>
HO1333	03/04/10	12/14/09

Cause: The cause of the above condition is the lack of systematic filing of HQS inspection reports and the lack of monitoring to ensure that all HQS inspections are timely performed.

Effect: The effect of the above condition is possible noncompliance with the HQS inspections requirement.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2010

Finding No.: 2010-36, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Federal Award Period: 10/01/09 through 09/30/10
Area: Special Tests and Provisions
Questioned Costs: \$-0-

Recommendation: We recommend that all HQS inspections are supported with HQS inspection reports and are at least performed annually. Additionally, we recommend that all HQS inspection reports are maintained in the tenant files.

Prior Year Status: The lack of systematic filing of HQS inspection reports and the lack of monitoring to timely perform all HQS inspections was reported as a finding in the Single Audits of CDA for fiscal years 2007 and 2008 and NMHC for fiscal year 2009.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Zerlyn A. Taimanao, Program and Housing Manager, Carlos Pua, Housing Preservation Technician and Bryan Bocago, Special Assistant for Housing

Corrective Action: NMHC will ensure that HQS inspections are performed within twelve months of the previous inspection date. In addition, NMHC will ensure that all sections of the inspection form are completed, signed and dated by the inspector. All inspections that require a follow-up will be conducted, documented and filed in a timely manner.

Proposed Completion Date: Ongoing

NORTHERN MARIANAS HOUSING CORPORATION

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2010

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2010:

Questioned costs as previously reported	\$ 1,179,101
Questioned costs of fiscal year 2010 Single Audit	<u>571,388</u>
Unresolved questioned costs at September 30, 2010	\$ <u>1,750,489</u>

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 9 through 79).



NORTHERN MARIANAS HOUSING CORPORATION

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Summary of Schedule of Prior Audit Findings

Status of audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2009:

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

- Finding No. 2009-1 - Not corrected. See corrective action plan to Finding No. 2010-1.
- Finding No. 2009-2 - Not corrected. See corrective action plan to Finding No. 2010-2.
- Finding No. 2009-3 - Not corrected. See corrective action plan to Finding No. 2010-3.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

- Finding No. 2009-4 - Not corrected. See corrective action plan to Finding No. 2010-5.
- Finding No. 2009-5 - Not corrected. See corrective action plan to Finding No. 2010-6.
- Finding No. 2009-6 - Not corrected. See corrective action plan to Finding No. 2010-7.
- Finding No. 2009-7 - Not corrected. See corrective action plan to Finding No. 2010-10.
- Finding No. 2009-8 - Not corrected. See corrective action plan to Finding No. 2010-8.
- Finding No. 2009-9 - Not corrected. See corrective action plan to Finding No. 2010-9.
- Finding No. 2009-10 - Not corrected. See corrective action plan to Finding No. 2010-11.
- Finding No. 2009-11 - Corrective action was taken.
- Finding No. 2009-12 - Not corrected. See corrective action plan to Finding No. 2010-12.
- Finding No. 2009-13 - Not corrected. See corrective action plan to Finding No. 2010-12.
- Finding No. 2009-14 - Corrective action was taken.
- Finding No. 2009-15 - Corrective action was taken.
- Finding No. 2009-16 - Not corrected. See corrective action plan to Finding No. 2010-13.
- Finding No. 2009-17 - Not corrected. See corrective action plan to Finding No. 2010-14.

“NMHC is a fair housing agency and an equal opportunity provider, lender and employer.”

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT, CONTINUED**

- Finding No. 2009-18 - Corrective action was taken.
- Finding No. 2009-19 - Not corrected. See corrective action plan to Finding No. 2010-16.
- Finding No. 2009-20 - Not corrected. See corrective action plan to Finding No. 2010-18.
- Finding No. 2009-21 - Corrective action was taken.
- Finding No. 2009-22 - Corrective action was taken.
- Finding No. 2009-23 - Corrective action was taken.
- Finding No. 2009-24 - Not corrected. See corrective action plan to Finding No. 2010-26.
- Finding No. 2009-25 - Not corrected. See corrective action plan to Finding No. 2010-27.
- Finding No. 2009-26 - Not corrected. See corrective action plan to Finding No. 2010-28.
- Finding No. 2009-27 - Not corrected. See corrective action plan to Finding No. 2010-29.
- Finding No. 2009-28 - Not corrected. See corrective action plan to Finding No. 2010-31.
- Finding No. 2009-29 - Not corrected. See corrective action plan to Finding No. 2010-30.
- Finding No. 2009-30 - Not corrected. See corrective action plan to Finding No. 2010-32.
- Finding No. 2009-31 - Not corrected. See corrective action plan to Finding No. 2010-33.
- Finding No. 2009-32 - Corrective action was taken.
- Finding No. 2009-33 - Corrective action was taken.
- Finding No. 2009-34 - Corrective action was taken.
- Finding No. 2009-35 - Not corrected. See corrective action plan to Finding No. 2010-35.
- Finding No. 2009-36 - Corrective action was taken.
- Finding No. 2009-37 - Not corrected. See corrective action plan to Finding No. 2010-36.
- Finding No. 2009-38 - Corrective action was taken.
- Finding No. 2009-39 - Not corrected. See corrective action plan to Finding No. 2010-24.
- Finding No. 2009-40 - Not corrected. See corrective action plan to Finding No. 2010-25.