

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

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2014

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 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, the financial statements of Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority, which comprise the statement of net position as of September 30, 2014, and the related statements of revenues, expenses, and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NMHC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of NMHC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-002 to be a material weakness.

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 2014-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMHC's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-006 and 2014-010.

NMHC's Responses to Findings

NMHC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. NMHC's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLC

April 22, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

Board of Directors
Northern Marianas Housing Corporation:

Report on Compliance for Each Major Federal Program

We have audited Northern Marianas Housing Corporation's (NMHC's) 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, 2014. NMHC's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of NMHC's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of NMHC's compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in Findings 2014-003 through 2014-011 in the accompanying Schedule of Findings and Questioned Costs, NMHC did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-003	14.195	Section 8 Housing Assistance Payments Program	Eligibility
2014-004	14.195	Section 8 Housing Assistance Payments Program	Reporting
2014-005	14.195	Section 8 Housing Assistance Payments Program	Special Tests and Provisions
2014-006	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Equipment and Real Property Management
2014-007	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Reporting
2014-008	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Subrecipient Monitoring
2014-009	14.239	HOME Investment Partnerships Program	Eligibility
2014-010	14.239	HOME Investment Partnerships Program	Special Tests and Provisions
2014-011	14.871	Section 8 Housing Choice Vouchers	Eligibility

Compliance with such requirements is necessary, in our opinion, for NMHC to comply with the requirements applicable to each program.

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, NMHC complied, in all material respects, with the types of 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, 2014.

Report on Internal Control Over Compliance

Management of NMHC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NMHC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 2014-003 through 2014-011 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 did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies.

NMHC's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. NMHC's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of NMHC as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise NMHC's basic financial statements. We issued our report thereon dated April 22, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Deloitte & Touche LLC

April 22, 2015

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2014

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
Direct Programs:		
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Section 8 Housing Assistance Payments Program	14.195	\$ 1,394,877
Community Development Block Grants/Special Purpose Grants/Insular Area	14.225	1,202,434
Emergency Solutions Grant Program	14.231	117,841
HOME Investment Partnerships Program	14.239	4,883,608
Community Development Block Grants/Brownsfields Economic Development Initiative	14.246	196,023
Section 8 Housing Choice Vouchers	14.871	<u>3,624,988</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		<u>11,419,771</u>
TOTAL FEDERAL AWARDS		<u>\$ 11,419,771</u>
Reconciliation of Statement of Revenues, Expenses and Changes in Net Position to expenditures:		
Operating expenses:		
Section 8 rental		\$ 3,063,935
HOME Investment Partnership Program Grant		155,465
NSP Grant		47,599
CDBG Program		1,154,835
HOME Investment Partnership Grant program income		233,039
EDI Program		196,024
ESG Program		117,841
Section 8 HAP expenditures included in operations		1,955,930
HOME Investment Partnerships Program loans included in loans receivable		<u>4,495,103</u>
Federal award expenditures per above		<u>\$ 11,419,771</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, 2014

(1) Scope of Review

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 Commonwealth of the Northern Mariana Islands (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 Housing and Urban Development is NMHC's oversight 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 2014 and administers the funds and is responsible for compliance with laws and regulations.

U.S. Department of Housing and Urban Development - Section 8 Housing Assistance Payments Program/Section 8 Housing Choice Vouchers - NMHC records federal rental assistance as Section 8 income.

d. Indirect Costs

NMHC does not have an indirect cost negotiation agreement and does not allocate indirect costs to programs.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards, Continued Year Ended September 30, 2014

(3) Loan Funds

NMHC, on behalf of the CNMI, has been designated the responsibility of implementing and carrying out the objective of the HOME program. The purpose of the program is to provide no cost or low cost financing assistance to very low and low-income families. Under NMHC's policies and procedures, HOME loan applicants that have been determined to be eligible for financial assistance are required to comply with the terms of the homeowner rehabilitation assistance including the NMHC affordability period and principal residency requirements. As of September 30, 2014, the HOME Program expenditures include \$388,505 in current year disbursements and \$4,495,103 in outstanding HOME loans from previous years with continuing compliance requirements. Of \$6,559,042 in HOME Investment Partnerships grant loans recorded by NMHC, \$4,719,453 have continuing compliance requirements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | |
|--|------------|
| 1. Type of auditors' report issued: | Unmodified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | Yes |
| 4. Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | |
|---|-----------|
| Internal control over major federal programs: | |
| 5. Material weakness(es) identified? | Yes |
| 6. Significant deficiency(ies) identified? | No |
| 7. Type of auditors' report issued on compliance for major federal programs: | Qualified |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |
| 9. Identification of major federal programs: | |
| CFDA
<u>Numbers</u> <u>Name of Federal Program</u> | |
| 14.195 Section 8 Housing Assistance Payments Program | |
| 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area | |
| 14.239 HOME Investment Partnerships Program | |
| 14.871 Section 8 Housing Choice Vouchers | |
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$342,593 |
| 11. Auditee qualified as low-risk auditee? | No |

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Finding</u>
2014-001	Loans Receivable
2014-002	Loan Guarantee Agreements
2014-010	Deferred Loans Receivable

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CFDA Numbers</u>	<u>Finding</u>	<u>Questioned Costs</u>
2014-003	14.195	Eligibility	\$ 24,648
2014-004	14.195	Reporting	25,277
2014-005	14.195	Special Tests and Provisions - Housing Quality Standards (HQS)	1,099
2014-006	14.225	Equipment and Real Property Management	-
2014-007	14.225	Reporting	-
2014-008	14.225	Subrecipient Monitoring	-
2014-009	14.239	Eligibility	-
2014-010	14.239	Special Tests and Provisions	-
2014-011	14.871	Eligibility	<u>13,668</u>
			\$ <u>64,692</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-001
Area: Loans Receivable

Criteria: An effective system of internal control includes procedures to determine 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, 2014. This analysis revealed that loans, including interest, which are over one hundred twenty (120) days past due amounted to \$3,267,518 or 33.49% of \$9,755,989 in total loans and interest outstanding, excluding HOME deferred loans receivable as of September 30, 2014. An audit adjustment of \$124,725 was proposed to increase the allowance for loans receivable as of September 30, 2014.

Cause: NMHC failed to implement collection efforts over delinquent loans.

Effect: There is an increased potential for loan losses due to nonpayment.

Recommendation: NMHC should adhere to follow-up procedures, perform evaluations of loans, and develop and document corrective action. 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 years 2009 through 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Christopher B. Pangelinan, Mortgage and Credit Division Manager and Roger A. Dris, Chief Accountant

Corrective Action: In the past year, NMHC's Fiscal and Mortgage and Credit Divisions (MCD) have reviewed, analyzed and compiled delinquency reports for the NMHC Board of Directors for action pertaining to delinquent accounts that are more than 120 days past due. As a result, necessary updates (such as to the HOME policies and procedures) were incorporated to specifically address the handling of delinquent accounts.

Currently, the new HOME policies and procedures are in a comment period in publication before officially being implemented. To address this finding, NMHC will continue to review loans and forward these accounts to the attorney for further collection efforts and, if necessary, foreclosure.

Once the qualified loans have been identified, MCD and the Fiscal Division will work collaboratively to determine the appropriate allowance for doubtful accounts.

Proposed Completion Date: To be determined. Currently being assessed.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-002

Area: Loan Guarantee Agreements

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, 2014, NMHC's related loan guarantees amounted to \$13,006,323. Of that total, approximately \$5,704,766 is delinquent and past due. NMHC has received demand notices of \$4,104,170; 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: NMHC lacks established policies and procedures to assess the adequacy of the reserve for guaranteed loans and lacks relevant and sufficient information from financial institutions to estimate probable losses.

Effect: Misstatements of the reserve for loan guarantees and related accounts could go undetected and uncorrected.

Recommendation: NMHC should periodically assess and review the adequacy of the reserve for guaranteed loans. Additionally, NMHC should establish policies and procedures to assess the adequacy of the reserve for guaranteed loans, both past due and current. Furthermore, NMHC should 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 years 2009 through 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Christopher B. Pangelinan, Mortgage and Credit Division Manager and Roger A. Dris, Chief Accountant

Corrective Action: NMHC receives monthly reports from the financial institutions on the loan guarantees which are then inputted into spreadsheets for updating and monitoring of each account. These loan guarantee reports as well as any new information that is provided are submitted monthly to the NMHC Board of Directors for their review during the regularly scheduled meetings.

Furthermore, the Chief Accountant and the MCD Manager will properly define and establish a desk reference or working policies and procedures to assess and review all relevant NMHC loan guarantees and the status or adequacy of the reserve for guaranteed loans.

Proposed Completion Date: To be determined. Work in process.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award No.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$24,648

Criteria: In accordance with applicable eligibility requirements, the Public Housing Agency (PHA) or owner must:

1. Verify the eligibility of applicants by (a) obtaining signed applications that contain the information needed to determine eligibility (including designation as elderly, disabled, or homeless, if applicable), income, rent, and order of selection; (b) conducting verifications of family income and other pertinent information (such as assets, full time student and immigration status, and unusual medical expenses) through third parties; (c) documenting inspections and tenant certifications, as appropriate; and, (d) determining that tenant income did not exceed the maximum limit set by HUD for the PHA's jurisdiction, as shown in HUD's published notice transmitting the Limits for Low-Income and Very Low-Income Families Under the Housing Act of 1937.
2. Determine the total tenant rent payment in accordance with the housing assistance payments contract.
3. Reexamine family income and composition at least once every 12 months and adjust the total rent payment and housing assistance payment, as necessary.

Condition: Of sixty-seven tenant files tested, we noted the following:

1. For seventeen (or 25%), required eligibility verification documents were either lacking or unsigned, as follows:
 - a. For one (or 1%), the Document Package for Applicant's/Tenant's Consent to the Release of Information was not signed by NMHC; i.e., NMHC did not acknowledge reading or understanding the purpose of the consent form and its uses and understanding that misuse of the consent can lead to personal penalties.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Calculation</u>	<u>HAP Amount</u>
R15	10/01/13	08/01/13	\$ 1,208 x 14 months	\$ 16,912

No questioned cost is presented for this condition because the form was signed by the tenant, allowing access to income information. The condition is reportable as it indicates a deficiency in controls that may have also contributed to Finding No. 2014-004, Condition 2.

- b. For two (or 3%), the fraud affidavit was not signed by the tenant.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award No.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$24,648

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Calculation</u>	<u>HAP Amount</u>
R29	12/01/13	08/01/13	\$ 933 x 14 months	\$ 13,062
R05	05/01/14	08/01/13	\$ 975 x 8 months plus \$33 for 04/01/14	\$ 7,833

No questioned cost is presented for this condition as we are unable to quantify the extent of noncompliance.

- c. For one (or 1%), the affidavit as to assets was not signed by an adult member.

<u>Unit No.</u>	<u>Household Member No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
R29	2	12/01/13	08/01/13	\$ 933

No questioned cost is presented for this condition as the amount is questioned at Condition 1d below. The condition is reportable as it indicates deficiencies in controls related to the same case file as Conditions 1e and 1f and for which questioned costs are cited at Condition 1d.

- d. For two (or 3%), the completed and signed *Declaration of Section 214 Status* form for certain household members was not signed or was signed after the HAP assistance was provided.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Form HUD 50059 Effective Date</u>	<u>Household Member No.</u>	<u>Discrepancy Noted</u>	<u>HAP Calculation</u>	<u>HAP Amount</u>	<u>Questioned Cost</u>
M29	10/01/13	09/01/13	6	Subsequently signed on 12/05/14	\$ 1,117 x 13 mos.	\$ 14,521	\$ -
R29	12/01/13	08/01/13	2	Not signed	\$ 933 x 14 mos.	\$ 13,062	\$ 13,062

No questioned cost is presented for M29 because the birth certificate was documented to substantiate eligible citizenship and/or the form was subsequently completed and signed.

- e. For one (or 1%), a copy of the birth certificate was not on file.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member No.</u>	<u>HAP Amount</u>
R29	12/01/13	08/01/13	2	\$ 933

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award No.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$24,648

Condition, Continued:

No questioned cost is presented for this condition as the amount is already questioned at Condition 1d above. The condition is reportable as it indicates deficiencies in controls related to the same case file as Conditions 1c and 1f and for which questioned costs are cited at Condition 1d.

- f. For one (or 1%), a copy of the social security card was not on file.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member No.</u>	<u>HAP Amount</u>
R29	12/01/13	08/01/13	2	\$ 933

No questioned cost is presented for this condition as the amount is already questioned at Condition 1d above. The condition is reportable as it indicates deficiencies in controls related to the same case file as Conditions 1c and 1e and for which questioned costs are cited at Condition 1d.

- g. For one (or 1%), the affidavit of zero income of adult member was not documented.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member No.</u>	<u>HAP Amount</u>
T02	04/01/14	08/01/13	1	\$ 1,125

No questioned cost is presented for this condition as the adult member signed the statement of unemployment form. This condition is reportable as it indicates deficiencies in the eligibility process.

- h. For one (or 1%), documentation on the validity of the immigration status of a household member, who is a non-U.S. citizen and is receiving federal benefits, was not on file.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Calculation</u>	<u>HAP Amount</u>	<u>Questioned Cost</u>
T04	08/01/14	08/01/14	\$ 918 x 2 months	\$ 1,101 x 2 months	\$ 366

This condition is reportable as it results in known questioned costs.

- i. For ten (or 15%), the Enterprise Income Verification (EIV) was either not in file or was performed after the 90-day grace period from the new admission and/or annual certification effective date.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award No.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$24,648

Condition, Continued:

Unit No.	Period Tested	Certification Effective	Discrepancies Noted	HAP Amount	Questioned Cost
M11	01/01/14	11/12/13	Subsequently performed on 07/16/14	\$ 1,819	\$ -
K15	12/01/13	10/01/13	Subsequently performed on 06/18/14	\$ 2,132	-
R03	02/01/14	09/01/13	Subsequently performed on 05/13/14	\$ 1,099	-
R05	05/01/14	08/01/13	Subsequently performed on 02/25/14	\$ (975)	-
R09	06/01/14	11/01/13	Subsequently performed on 10/01/14	\$ 1,099	-
R18	07/01/14	10/01/13	Subsequently performed on 08/29/14	\$ 1,099	-
R22	10/01/13	08/01/13	Not in file	\$ 1,099	1,099
T05	09/01/14	08/04/14	Subsequently performed on 01/15/15	\$ 1,113	-
T16	08/01/14	08/01/14	Not in file	\$ 982	982
T17	10/01/13	09/01/13	Subsequently performed on 08/04/14	\$ 1,277	-
					<u>\$ 2,081</u>

No questioned costs result for discrepancies where the EIV was subsequently performed.

2. For three (or 4%), the HAP contract and lease amendment were not signed by both the tenant and NMHC.

Unit No.	Period Tested	Certification Effective	HAP Calculation	Discrepancy Noted	HAP Amount	Questioned Cost
R05	05/01/14	08/01/13	\$ 975 x 8 mos. plus \$33 for 04/01/14	Not signed by Tenant and NMHC	\$ 7,833	\$ 7,833
R22	10/01/13	08/01/13	\$ 1,099 x 14 mos.	Not signed by NMHC	\$ 15,386	\$ -
R29	12/01/13	08/01/13	\$ 933 x 14 mos.	Not signed by Tenant and NMHC	\$ 13,062	\$ -

No questioned cost is presented for R22 because the form was signed by the tenant. No questioned cost is presented for R29 as the amount is already questioned at Condition 1d above.

3. For two (or 3%), the assigned unit size is larger than the household/family size, and there is no written justification for such discrepancy.

Unit No.	Period Tested	Form HUD 50059 Effective Date	Unit Size	Household Size	HAP Amount Per General Ledger	HAP Amount Expected	Variance	Questioned Cost
T12	05/01/14	02/01/14	3	1	\$ 1,198	\$ 1,073	\$ 125 x 8 months	\$ 1,000
T14	08/01/14	08/01/14	3	1	\$ 1,108	\$ 1,054	\$ 54 x 2 months	<u>108</u>
								<u>\$ 1,108</u>

4. For one (or 1%), the effective utility allowance for the period from September 1, 2013 through August 31, 2014 was for \$193; however, \$196 was reported on form HUD 52670 for each respective month, resulting in an overage in HAP assistance of \$36.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award No.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Eligibility
 Questioned Costs: \$24,648

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Effective Date of Utility Allowance Change</u>	<u>Effective Utility Allowance</u>	<u>Period Covered</u>	<u>HAP Requested Per Form HUD 52670</u>	<u>Excess in Assistance of Utility Allowance</u>
M29	02/01/14	09/01/13	\$ 193	09/01/13 to 08/31/14	\$ 196	\$ 36

No questioned cost is presented for this condition as an adjustment was made in February 2015's HAP claim to return the \$36 overage to HUD. This condition is reportable as it would have resulted in questioned costs if subsequent adjustments, based on our finding, had not been made.

- For one (or 1%), the tenant declared \$1,200 in total household annual income, however, the EIV report that was subsequent performed on January 15, 2015 reflects an additionally \$6,360 in annual income. This resulted in a miscalculation of the tenant's monthly HAP assistance.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Form HUD 50059 Effective Date</u>	<u>Period Covered</u>	<u>HAP Requested Per Form HUD 52670</u>	<u>HAP Amount Expected</u>	<u>Variance</u>
T05	09/01/14	08/04/14	08/04/14 to 09/30/14	\$ 2,345	\$ 2,147	\$ 198

Cause: NMHC did not effectively apply controls over compliance with applicable eligibility requirements.

Effect: NMHC is in noncompliance with applicable eligibility requirements, and questioned costs of \$24,648 exist, as follows:

<u>Condition</u>	<u>Questioned Costs</u>
1d	\$ 13,062
1h	366
1i	2,081
2	7,833
3	1,108
5	<u>198</u>
	<u>\$ 24,648</u>

Recommendation: NMHC should strengthen controls over compliance with applicable eligibility requirements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award No.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Eligibility
Questioned Costs: \$24,648

Prior Year Status: Noncompliance with applicable eligibility requirements was reported as a finding in the Single Audit of NMHC for fiscal year 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: NCP Housing Specialist, Tinian Field Office Representative and Rota Field Office Representative

Corrective Action:

CONDITION 1a:

R15 - FINDING DISPUTED: Consent form was valid and expires fifteen months after being signed.

CONDITION 1b:

R29 - Rota Field Office Representative oversight
R05 - Rota Field Office Representative oversight

CONDITION 1c:

R29 - Rota Field Office Representative oversight

CONDITION 1d:

M29 - FINDING DISPUTED: Document was located and placed in file.
R29 - Rota Field Office Representative oversight

CONDITION 1e:

R29 - Rota Field Office Representative oversight

CONDITION 1f:

R29 - Rota Field Office Representative oversight

CONDITION 1g:

T02 - FINDING DISPUTED: Document in question is not required since the head of household is receiving SSI payments for her daughter who is also a household member.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award No.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Eligibility
Questioned Costs: \$24,648

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

CONDITION 1h:

T04 - FINDING DISPUTED: Document was located and placed in file.

CONDITION 1i:

M11 - NCP Housing Specialist oversight
K15 - NCP Housing Specialist oversight
R03 - Rota Field Office Representative oversight
R05 - Rota Field Office Representative oversight
R09 - Rota Field Office Representative oversight
R18 - Rota Field Office Representative oversight
R22 - Rota Field Office Representative oversight
T05 - EIV was subsequently performed on 01/15/15.
T16 - Tinian Field Office Representative oversight
T17 - EIV was subsequently performed on 08/04/14.

CONDITION 2:

R05 - Rota Field Office Representative oversight
R22 - Rota Field Office Representative oversight
R29 - Rota Field Office Representative oversight

CONDITION 3:

T12 - Tinian Field Office Representative oversight
T14 - Tinian Field Office Representative oversight

CONDITIONS 4 AND 5:

M29 - Housing Specialist oversight
T05 - Tinian Field Office Representative oversight

- 1) NMHC requests removal of the disputed findings.
- 2) The NCP Housing Specialist, as well as the Tinian and Rota Field Office Representatives shall follow standing policies and procedures. Failure to adhere to NMHC's policies and procedures will result in appropriate disciplinary actions.
- 3) The NCP Housing Specialist, Tinian Field Office Representative and the Rota Field Office Representative shall ensure all required documents are printed, completed and routed on a timely basis.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-003, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award No.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Eligibility
Questioned Costs: \$24,648

Auditee Response and Corrective Action Plan, Continued:

Proposed Completion Date: Policies and procedures are in place; therefore, the responsible staff is expected to adhere to them immediately.

Auditor Response:

CONDITION 1a: The Document Package for Applicant's/Tenant's Consent form that was signed by the tenant and NMHC on January 18, 2012 expired on April 18, 2013. The updated consent form covering the period tested of October 1, 2013, was not signed by NMHC.

CONDITION 1d: We agree the document for Tenant M29 is in the file. It was signed over a year after the HUD 50059 effective date.

CONDITION 1g: The affidavit of zero income should be completed by the adult household member as the supplemental security income (SSI) benefit payments being received is for the adult member's child.

CONDITION 1h: Documentation reflecting the validity of the household member's immigration status was not in file.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-004
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Reporting
 Questioned Costs: \$25,277

Criteria: The Form HUD 50059 must be submitted electronically to HUD each time the PHA completes an admission, annual reexamination, interim reexamination, move-in, move-out, or other change of unit for a family, among others. The signed Form HUD 50059 should be filed in the tenant file.

The owner must sign and obtain the signature of the head, spouse, co-head, and all adult family members on the copy of the Form HUD 50059 certifying to the information that is transmitted to HUD or the Contract Administrator, whether the Form HUD 50059 was produced on site or received from a service provider. The signed Form HUD 50059 should be filed in the tenant file. In all cases, the computer generated Form 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 Form 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: Of sixty-seven tenant files tested, we noted the following:

1. For three (or 4%), Form HUD 50059 was either not signed by the tenant and/or NMHC.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Discrepancy Noted</u>
R22	10/01/13	08/01/13	Not signed by NMHC
R29	12/01/13	08/01/13	Not signed by tenant and NMHC
R05	05/01/14	08/01/13	Not signed by tenant and NMHC

No questioned cost is presented for this condition as we are unable to quantify the extent of noncompliance.

2. For five (or 7%), Form HUD 50059 is not documented.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Type of Certification</u>	<u>HAP Calculation</u>	<u>HAP Amount</u>	<u>Questioned Cost</u>
R09	06/01/14	11/01/13	New admission	\$1,099 x 11 months	\$ 12,089	\$ 12,089
R15	10/01/13	08/01/13	Gross rent	\$1,208 x 14 months	\$ 16,912	-
R18	07/01/14	10/01/13	New admission	\$1,099 x 12 months	\$ 13,188	13,188
R29	12/01/13	08/01/13	Gross rent	\$ 933 x 14 months	\$ 13,062	-
R05	05/01/14	08/01/13	Gross rent	\$ 975 x 8 months	\$ 7,800	-
						<u>\$ 25,277</u>

No questioned cost is presented for R15, R29 and R05 as the certification relates to gross rent change and the tenants are determined to be eligible

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-004, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Reporting
Questioned Costs: \$25,277

Cause: NMHC did not effectively apply controls over compliance with applicable reporting requirements.

Effect: NMHC is in noncompliance with applicable reporting requirements and questioned costs of \$25,277 exist for Condition 2.

Recommendation: NMHC should strengthen controls over compliance with applicable reporting requirements.

Prior Year Status: The lack of systematic filing of Form HUD 50059 was reported as a finding in the Single Audits of CDA for fiscal year 2008 and NMHC for fiscal years 2009 through 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Rota Field Office Representative

Corrective Action:

CONDITION 1:

R22 - Rota Field Office Representative oversight
R29 - Rota Field Office Representative oversight
R05 - Rota Field Office Representative oversight

CONDITION 2:

R09 - Rota Field Office Representative oversight
R15 - Rota Field Office Representative oversight
R18 - Rota Field Office Representative oversight
R29 - Rota Field Office Representative oversight
R05 - Rota Field Office Representative oversight

The Rota Field Office Representative shall follow standing policies and procedures. Failure to adhere to NMHC's policies and procedures will result in appropriate disciplinary actions.

Proposed Completion Date: Policies and procedures are in place; therefore, the responsible staff is expected to adhere to them immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-005
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
 Area: Special Tests and Provisions - Housing Quality Standards
 Questioned Costs: \$1,099

Criteria: The PHA or owner must provide housing that is decent, safe, and sanitary. To achieve this end, the PHA must perform unit inspections at the time of initial occupancy. Inspection form for move-in inspection must include the statement that the unit is in decent, safe and in sanitary condition. In addition, although annual inspection is not required per HUD's Handbook No.: 4350.3 REV-1 and 24 CFR 880.612, NMHC performs annual inspections to assure that the units are decent, safe, and sanitary. The PHA must document these inspections, as well as actions taken to address deficiencies, if any, noted during inspections. Additionally, the PHA must perform move-out inspections to assure there are no damages to the unit. The PHA should list the damages on the move-out form and compare it with the move-in form to determine if the damage is reasonable wear or tear or excessive damage caused by the tenant's abuse or negligence.

Condition: Of twenty tenants tested, we noted the following:

1. For three (or 15%), the move-in/move-out inspection report was not documented.

<u>Unit No.</u>	<u>Type of Inspection</u>	<u>Move-In/ Move-Out Date</u>	<u>HAP Amount</u>	<u>Questioned Cost</u>
R09	Move-In	11/01/13	\$ 1,099	\$ -
R07	Move-Out	02/21/14	\$ 1,219	\$ -
R28	Move-Out	11/30/13	\$ 1,099	\$ 1,099

No questioned cost is presented for R09 as the amount is already questioned at 2014-004 nor for R07 as the unit passed the overall inspection requirements when an inspection was subsequently performed on 05/20/14.

2. For one (or 5%), the move-in inspection report did not include the statement that the unit is decent, safe and in sanitary condition.

<u>Unit No.</u>	<u>Date of Inspection</u>	<u>Overall Inspection Results</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
T17	11/01/12	Pass	11/01/12	\$ 1,277

No questioned cost is presented as the unit passed the overall inspection requirements.

Cause: NMHC did not effectively apply controls over compliance with applicable special tests and provisions requirements for housing quality standards.

Effect: NMHC is in noncompliance with applicable special tests and provisions requirements for housing quality standards and questioned costs of \$1,099 exist for Condition 1 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, 2014

Finding No.: 2014-005, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Federal Award Nos.: TQ100011005, TQ100016004, TQ100011001 and TQ100006004
Area: Special Tests and Provisions - Housing Quality Standards
Questioned Costs: \$1,099

Recommendation: NMHC should strengthen controls over compliance with applicable special tests and provisions requirements for housing quality standards. The responsible personnel should monitor housing quality inspection procedures so that any deficiencies noted during inspections are documented and addressed.

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 years 2009 through 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Tinian Field Office Representative and Rota Field Office Representative

Corrective Action:

CONDITION 1:

R09 - Rota Field Office Representative oversight
R07 - Rota Field Office Representative oversight
R28 - Rota Field Office Representative oversight

CONDITION 2:

T17 - FINDING DISPUTED: The certification and move-in inspection effective date of 11/01/12 is for fiscal year 2013 and not fiscal year 2014. The revised Move-In/Move-Out inspection was performed on 10/01/13.

The Tinian and Rota Field Office Representatives shall follow standing policies and procedures. Failure to adhere to NMHC's policies and procedures will result in appropriate disciplinary actions.

Proposed Completion Date: Policies and procedures are in place; therefore, the responsible staff is expected to adhere to them immediately.

Auditor Response:

CONDITION 2: The effective date of the move-in requirement to include the statement that the unit is in decent, safe and sanitary condition on the move-in inspection form was in effect on or prior to 2007 per Section 4, 6-29, C of HUD Handbook 4350.3, issued on June 29, 2007.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued Year Ended September 30, 2014

Finding No.: 2014-006
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 No.: B-10-ST69-0001 and B-11-ST69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Criteria: In accordance with applicable equipment and real property management requirements, a physical inventory of the property must be taken and the results reconciled with the property records at least every two years. In addition, 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 control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property;
3. Adequate maintenance procedures must be developed to keep property in good condition;
4. If the grantee or sub-grantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return; and
5. The grantee must establish and implement property management controls over the transfer of properties to subrecipients.

Condition:

1. There is no documentation that a complete physical inventory of equipment and property and reconciliation with NMHC records were performed over the last two fiscal years.
2. The master file for property and equipment does not contain information on cost, date purchased, location, percentage of federal participation, condition of the equipment, or date of disposal and sales price, if applicable.
3. A vehicle with tag #3824 was not included in the master listing.
4. The Valley Inn property with tag #CDA did not agree to the amount in the master listing.

Cause: NMHC did not effectively apply controls over compliance with applicable equipment and real property management requirements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-006, 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 No.: B-10-ST69-0001 and B-11-ST69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Effect: NMHC is in noncompliance with applicable equipment and real property management requirements. Total capital outlays, or expenditures other than administrative expenses, incurred for recent fiscal years are listed below. No questioned cost is presented due to our inability to assess the cumulative dollar amount of the deficiencies.

<u>Fiscal Year</u>	<u>Total Capital Outlays</u>
2013	\$ 175,768
2012	\$ 281,741
2011	\$ 896,205

Recommendation: NMHC should establish and implement controls over compliance with applicable equipment and real property management requirements. The responsible personnel should maintain and update equipment listings, as well as implement procedures for maintaining and safeguarding equipment against loss, damage or theft.

Prior Year Status: The lack of adequate equipment maintenance control procedures over fixed assets and failure to maintain equipment listings was reported as a finding in the Single Audits of NMHC for fiscal years 2012 and 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Jocelyn C. Seman, Office Manager/Procurement Officer

Corrective Action: The above finding relates to the master listing of real property and equipment purchased for NMHC'S use. The Administrative Division who maintains the master listing containing all the inventory information is in the process of updating the pertinent information (as listed in the Criteria section above) pertaining to real property and equipment purchased with CDBG funds for NMHC use. The Planning Division maintains a separate master listing for all real property and equipment purchased for subrecipients, and its records are currently updated.

The Administrative Division will ensure that inventory records are updated on an annual basis, as inventory counts are being performed and will also ensure that all the required information (as listed in the Criteria section above) are contained in the master listing.

Proposed Completion Date: Currently in effect.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-007
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 No.: B-10-ST69-0001 and B-11-ST69-0001
Area: Reporting
Questioned Costs: \$-0-

Criteria: In accordance with 2 CFR Chapter 1, Part 170 REPORTING SUB-AWARD AND EXECUTIVE COMPENSATION INFORMATION, Prime Awardees awarded a federal grant are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than \$25,000. The reporting requirements are as follows: This requirement is for both mandatory and discretionary grants awarded on or after October 1, 2010. All sub-award information must be reported by the prime awardee. For those new Federal grants as of October 1, 2010, if the initial award is equal to or over \$25,000, reporting of sub-award and executive compensation data is required. If the initial award is below \$25,000 but subsequent grant modifications result in a total award equal to or over \$25,000, the award will be subject to the reporting requirements, as of the date the award exceeds \$25,000. If the initial award equals or exceeds \$25,000 but funding is subsequently de-obligated such that the total award amount falls below \$25,000, the award continues to be subject to the reporting requirements of the Transparency Act and this Guidance.

Condition: NMHC did not perform the required subaward reporting under the Transparency Act for the following subrecipients:

<u>Subrecipient</u>	<u>Award Amount</u>
Department of Public Safety Fire Division	\$ 146,012
Department of Public Safety Rota Fire Division	\$ 120,480
Department of Community and Cultural Affairs Division Youth Services	\$ 279,825
Public School System	\$ 1,405,817

Cause: The cause of the above condition is the lack of awareness of the required sub-award reporting under the Transparency Act.

Effect: NMHC is in noncompliance with the subaward reporting requirements under the Transparency Act. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Recommendation: We recommend that NMHC comply with the subaward reporting under the Transparency Act.

Auditee Response and Corrective Action Plan:

Name of Contact Persons: Jocelyn Seman, Office Manager; Zenie Mafnas, Deputy Corporate Director

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-007, 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 No.: B-10-ST69-0001 and B-11-ST69-0001
Area: Reporting
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action: NMHC will ensure that an FFATA report is completed and submitted at the end of each month following the month in which the prime awardee awards any subgrant equal to or greater than \$25,000.

Proposed Completion Date: Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-008
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 No.: B-10-ST69-0001 and B-11-ST69-0001
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Criteria: In accordance with NMHC's subrecipient agreement, the subrecipient agrees to have an annual agency audit conducted in accordance with current Grantee policy concerning subrecipient audits and OMB Circular A-133.

Condition: NMHC sub-awarded a total of \$1,058,793 to the Public School System (PSS), but did not monitor PSS for compliance with applicable subrecipient monitoring requirements.

Cause: The cause of the above condition is lack of oversight to comply with the subrecipient agreement and applicable subrecipient monitoring requirements.

Effect: The effect of the above condition is noncompliance with the subrecipient agreement and applicable subrecipient monitoring requirements. No questioned cost is presented since we are aware that PSS was subjected to a Single Audit, and there were no findings and questioned costs relative to this major program.

Recommendation: We recommend that NMHC comply with subrecipient monitoring requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Zenie P. Mafnas, Deputy Corporate Director

Corrective Action: NMHC currently has PSS's most recent Single Audit for fiscal year 2013 in file. NMHC also relies on the uploaded Single Audit Reports on the subrecipient's website to keep abreast on the subrecipient's overall financial and compliance performance with relation to the NMHC major program which funded the subrecipient's project(s).

Proposed Completion Date: Currently in effect.

Auditor Response: The condition is reportable as NMHC obtained the PSS Single Audit Report based on the audit finding and relies on PSS to upload its Single Audit on the website.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-009
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award No.: M-08-ST-690203, M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203 and M-13-ST-690203
Area: Eligibility
Questioned Costs: \$-0-

Criteria: Eligibility requirements apply, as follows:

1. The HOME program has income targeting requirements; therefore, NMHC must perform income eligibility and credit worthiness determinations 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, the most recent tax compliance verification 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.
2. 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. Effective October 2013, NMHC implemented an eight hours education and counseling session that approved applicants must attend. Upon completion of the eight hours education and counseling session, the approved applicants must sign the Homeownership/Homebuyer Education worksheet and a certification of completion is issued to the approved applicants.
3. In accordance with the loan agreement, NMHC shall foreclose upon the property in the event of default and breach of the terms and conditions, to take possession of the premises and to incur all expenses which NMHC deems necessary to protect its security interest and such shall be reimbursed to NMHC by the borrower. The borrower is in default of the loan agreement if the borrower fails to insure the mortgaged property, or obtain coverage for fire, typhoon and extended coverage insurance equal to the full replacement costs of the improvements on the mortgaged property without deduction for depreciation.

Condition: Of eight loan files tested, we noted the following:

1. For one (or 12%), the potential income from assets does not agree to the household income from assets per third party verifications in file. No questioned cost is presented as the potential income from assets would still be within the income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
557	HNC-557	\$ 57,000

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-009, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award No.: M-08-ST-690203, M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203 and M-13-ST-690203
 Area: Eligibility
 Questioned Costs: \$-0-

Condition, Continued:

2. For one (or 12%), the Homeownership/Homebuyer Education worksheet and certificate of completion related to the eight hours education and counseling session could not be located in the file. No questioned cost is presented as the applicant was determined to be eligible.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
558	HR-558	\$ 40,000

3. For one (or 12%), the homeowner's property insurance coverage was not timely obtained. No questioned cost is presented because the insurance coverage was subsequently obtained.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Certificate of Occupancy</u>	<u>Date Insurance Policy was Obtained</u>	<u>Effective Date of Insurance Policy</u>
545	HNC-545	\$ 57,000	11/14/13	02/18/14	01/27/14

Cause: NMHC did not effectively apply controls over compliance with applicable eligibility requirements.

Effect: NMHC is in noncompliance with applicable eligibility requirements.

Recommendation: NMHC should strengthen controls over compliance with applicable eligibility requirements.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Christopher B. Pangelinan, Mortgage and Credit Division Manager

Corrective Action:

CONDITION 1:

Upon further review, we have determined that the updated Part 5 Calculation Review Sheet does show a discrepancy between the two sections due to a miscalculation. The review sheet has since been recalculated and now correctly reflects the appropriate amount.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-009, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award No.: M-08-ST-690203, M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203 and M-13-ST-690203
Area: Eligibility
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

CONDITION 2:

IDIS No. 558 - FINDING DISPUTED: The borrower/account was counseled under the prior "standard" Homeownership Counseling session.

The Homeownership/Homebuyer Education counseling session was under revision with HUD and finalized in January 2014. The first NSP session was conducted on October 25, 2013 and the first session for the HOME program was in February 2014.

CONDITION 3:

FINDING DISPUTED: This is a repeat finding from fiscal year 2013 (Finding No. 2013-010). The property insurance coverage was eventually obtained from the borrowers and the borrowers are now current with their insurance requirements.

For Condition No. 1, the MCD will implement improved control measures for future updates to the Part 5 Calculation Review Sheet. The responsible Loan Specialist will diligently prepare and review calculations and will then forward to the MCD Manager and the Corporate Director for final review and concurrence.

For Condition No. 2, corrective actions have been taken to improve counseling sessions through the implementation of a new HOME education curriculum.

For Condition No. 3, the responsible Loan Specialists will ensure that the necessary documents and insurance policy is obtained on a timely manner by maintaining and monitoring submissions through the file checklist.

Proposed Completion Date: Currently in effect.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-009, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award No.: M-08-ST-690203, M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203 and M-13-ST-690203
Area: Eligibility
Questioned Costs: \$-0-

Auditor Response:

CONDITION 2: Per an email correspondence between HUD's CPD Representative and NMHC's Mortgage and Credit Division Manager dated January 8, 2014, the 8 hours Homeownership/Homebuyer Education and Counselling session must be completed before households actually receive the loan. Accordingly, although the applicant(s) have previously attended a counseling session and had signed the Homeownership Counseling Checklist prior to February 2014, NMHC conducts the 8 hours counseling session for those applicant(s) whose loans that have not closed as of February 2014. Upon completion of the session, the applicant(s) must sign the Homeownership/Homebuyer Education worksheet and a certificate of attendance is issued to the applicant(s).

In addition, the 8 hours Homeownership/Homebuyer Education and Counselling session were conducted for two Homeowners (IDIS #566 and IDIS #564) on February 14, 2014 and February 19, 2014, respectively, although the applicants have previously attended a counseling session on June 4, 2013 for IDIS #566 and on May 30, 2013 for IDIS #564. Accordingly, it appears that NMHC conducts the 8 Hours Education and Counselling session to those applicants that have not closed their loans as of February 2014.

CONDITION 3: Although the loan file for IDIS #5 45 was audited in fiscal year 2013, expenditures related to this loan were incurred during fiscal year 2014 and the loan was again selected during sample selection procedure.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-010
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award No.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203 and M-10-ST-690203
 Area: Special Tests and Provisions and Deferred Loans Receivable
 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: Tests of deferred loans noted the following:

1. For eleven (or 52%) of twenty-one deferred loans receivable tested, totaling \$364,006 of a total population of \$3,275,008 in deferred loans receivable as of September 30, 2014, documentation of annual re-certifications performed in fiscal year 2014 could not be provided for the following:

<u>Loan No.</u>	<u>Loan Principal</u>
DHL-182	\$ 25,000
DHL-233	20,500
DHL-250	30,000
DHNC-394	56,000
DHNC-531	48,000
DHR-364	44,758
DHR-454	20,000
PIHL-43	30,000
DHL-228	24,945
HL-001-PI	24,803
DHR-363	<u>40,000</u>
Total	\$ <u>364,006</u>

2. Eight loans totaling \$123,541 have fully complied with the loan terms including the NMHC affordability period and principal residency requirements; however, the mortgage has not been released as of September 30, 2014 or during our fieldwork.

<u>Loan No.</u>	<u>Loan Principal</u>
DHL-241	\$ 30,000
DHL-82-98	3,306
DHL132-00	23,063
HL-43-95B	13,462
HL-46-95D	16,360
HL-85-98	25,000
HPG-10-PI	7,500
HPG-11-PI	<u>4,850</u>
Total	\$ <u>123,541</u>

Cause: NMHC did not implement controls over compliance with established policies and procedures for Homeowner Rehabilitation.

Effect: NMHC is in noncompliance with established policies and procedures for Homeowner Rehabilitation.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-010, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award No.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203 and M-10-ST-690203
 Area: Special Tests and Provisions and Deferred Loans Receivable
 Questioned Costs: \$-0-

Recommendation: NMHC should implement controls over compliance with established policies and procedures for Homeowner Rehabilitation. The responsible personnel should maintain a list of all deferment agreements, plan and schedule annual recertifications, and monitor performance of the annual recertification plan.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Christopher B. Pangelinan, Mortgage and Credit Division Manager and Roger A. Dris, Chief Accountant

Corrective Action:

CONDITION 1:

This finding is being disputed.

Audit Status	Loan No.	Loan Principal	RE-CERTIFICATION			Comments
			Due	Notif. Ltr - Date Sent	Completed	
Disputed	DHL-182	\$ 25,000	02/04/14	01/21/14	12/10/14	(Delayed due to medical/elderly)
Disputed	DHL-233	\$ 20,500	08/29/14	N/A	N/A	Accelerated to attorney for foreclosure
Disputed	DHL-250	\$ 30,000	07/06/14	06/10/14	12/10/14	(Delayed due to medical/elderly)
Disputed	DHNC394	\$ 56,000	06/08/14	05/07/14	12/10/14	(Delayed due to medical/elderly)
Disputed	DHNC-531	\$ 48,000	01/16/14	N/A	12/10/14	(Disabled client/representative off-island)
Disputed	DHR-364	\$ 44,758	01/18/14	01/13/14	12/10/14	(Delayed due to medical and transportation)
Disputed	DHR-454	\$ 20,000	03/15/14	02/05/14	12/10/14	(Delayed due to communication)
Disputed	PIHL-43	\$ 30,000	01/30/14	01/17/14	12/10/14	(Delayed due to medical/elderly)
Disputed	DHL-228	\$ 24,945	06/16/14	N/A	N/A	(Borrower deceased and pending probate)
Disputed	HL-001-PI	\$ 24,803	03/30/14	N/A	N/A	(Borrower deceased and pending probate)
Disputed	DHR-363	\$ 40,000	03/19/14	01/24/14	12/20/14	(Delayed due to info not received from Rota)

From the table above, eight borrower accounts (as highlighted in yellow) have been identified as recertifications that were delayed.

NMHC is disputing these accounts because although the borrowers were not recertified during fiscal year 2014, they were nonetheless recertified and completed within a year and before their next due date. Furthermore, the recertifications did take place and were eventually completed except that the process was delayed due to varying reasons. Finally, recertifications for loan nos. DHL-233, DHL-228 and HI-001 were not on file because the borrowers were deceased and probates are still pending.

In order to prevent future untimely or “delayed” re-certifications, the Mortgage Credit Division has created a monthly tracking sheet of all HOME deferred loans to ensure timely annual recertifications are being conducted and effectively maintained.

CONDITION 2:

Eight borrower accounts have been identified as mortgages that have not been released as of September 30, 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-010, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award No.: M-06-ST-690203, M-07-ST-690203, M-08-ST-690203, M-09-ST-690203 and M-10-ST-690203
Area: Special Tests and Provisions and Deferred Loans Receivable
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

CONDITION 2, Continued:

NMHC is disputing this finding because all of the listed accounts, except for loan no. DHL-82-98, were in fact released through the execution of the *Release of Mortgage and Agreements* (ROMs) and were recorded before the end of fiscal year 2014.

Although ROMs were executed for the respective accounts and were recorded and filed, the necessary general ledger entries and adjustments were not performed and, thus, were not accurately reflected in the accounting system.

As such, NMHC, through coordination with the MCD and the Fiscal Division, will ensure that future ROMs are executed and recorded and that scanned copies are properly routed electronically to the Fiscal Division for the necessary general ledger adjustments and updating of account status in the information system.

Proposed Completion Date: Currently in effect.

Auditor Response:

CONDITION 1: Documentation of recertifications performed within fiscal year 2014 or loan assumption for deceased borrowers was not provided.

CONDITION 2: NMHC was not able to provide documentation supporting that mortgages were released. Additionally, all items noted are still reflected in NMHC's financial statements as of September 30, 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-011
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$13,668

Criteria: Eligibility requirements apply, as follows:

1. 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.

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

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:

- a. Affidavit as to assets and verification of income from assets
- b. Certification of asset disposition
- c. Statement of unemployment
- d. Affidavit of zero income of adult member
- e. Affidavit of child support
- f. Zero income in-kind contribution checklist

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-011, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$13,668

Criteria, Continued:

- g. Food stamp certification
 - h. Authorization for the release of information - Privacy Act Notice
 - i. Family obligation to report interim change
3. 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.
4. To be eligible for Section 8 occupancy and housing assistance, applicants and tenants must meet the following requirements, among others:
- a. Applicants must attest to the accuracy of the Enterprise Income Verification report, or EIV, which shows the partial social security numbers printed for all household members. All adults must sign the form.
 - b. 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.
5. 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 10.2, NMHC currently administers a payment standard that is at 90% of the published FMR set for Guam and the Pacific Islands.

Condition: Of sixty-two tenant files tested, we noted the following:

1. For one tenant (or 2%), the complete application form for new tenants was not on file. Further, the interview sheet was not fully completed and the form was neither signed nor dated by the tenant or the NMHC Housing Specialist.

<u>Household No.</u>	<u>Period Tested</u>	<u>Effective Date</u>	<u>HAP Amount</u>
HR0052A	06/04/14	06/01/14	\$ 990

No questioned cost is presented as amounts are already questioned at Condition 2 below.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-011, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$13,668

Condition, Continued:

2. For one tenant (or 2%), documents supporting income and/or assets for adult members of the household could not be located or was not signed, as follows:

<u>Household No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member Ref. No.</u>	<u>Documents Not Found in Tenant File</u>	<u>HAP Amount</u>	<u>Questioned Cost</u>
HR0052A	06/04/14	06/01/14	Head	Zero income in-kind contribution checklist not completed and no EIV report	\$ 990 x 4	\$ 3,960

3. For one tenant (or 2%), deductions claimed included allowance for a full-time student; however, there was no third party verification noted in file evidencing that the dependent was a full-time student.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member Ref. No.</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>
HO1074A	08/04/14	12/01/13	3	\$ 480	\$ 1,100

No questioned cost is presented since the tenant would remain eligible for the existing HAP amount even without the full-time-student status of the dependent.

4. The dates of birth per Form HUD 50058 for two tenants (or 3%) do not agree with supporting documentation as follows:

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member No.</u>	<u>Deficiencies Noted</u>	<u>HAP Amount</u>
HO1064	04/01/13	6	Birth certificate shows date as 2/29/08; HUD stated 3/01/08	\$ 1,100
HO1045	07/01/13	2	Birth certificate shows date as 11/14/65; HUD stated 11/14/62	\$ 724

No questioned cost is presented as all other identification data is accurate. The discrepancies appear to be typographical errors.

5. Verification of social security information reported on the EIV report was not signed by one member of the household, and no EIV report was filed for HR0052A.

<u>Household No.</u>	<u>Form HUD 50058 Effective Date</u>	<u>Household Member No.</u>	<u>Deficiencies Noted</u>	<u>HAP Amount</u>	<u>Questioned Cost</u>
HO1400	08/01/13	2	Not signed	\$ 809 x 12	\$ 9,708
HR0052A	06/04/14	1	No EIV report on file	\$ 990	-
				Total	\$ <u>9,708</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-011, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$13,668

Condition, Continued:

No questioned cost is presented for HR0052A because the cost is already questioned at Condition 2 above.

Cause: NMHC did not apply monitoring procedures over the performance, review and documentation of required certifications/re-certifications and related forms in a timely manner.

Effect: NMHC is in noncompliance with applicable eligibility requirements, and questioned costs of \$13,668 exist, as follows:

<u>Condition</u>	<u>Questioned Costs</u>
2	\$ 3,960
5	<u>9,708</u>
	\$ <u>13,668</u>

Recommendation: NMHC should establish monitoring procedures over the performance, review, and documentation of required certifications/re-certifications and related forms in a timely manner.

Prior Year Status: Noncompliance with applicable eligibility requirements was reported as a finding in the Single Audits of NMHC for fiscal years 2009 through 2013.

Auditee Response and Corrective Action Plan:

Name of Contact Person: HCVP Housing Inspectors

Corrective Action:

CONDITION 1:

HR0052 - FINDING CORRECTED: Housing Specialist oversight. The application was located on Rota and placed in file. The Housing Specialist completed the interview worksheet.

CONDITION 2:

HR0052A - FINDING DISPUTED: The Zero-Income Checklist was located on Rota and placed in file.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2014

Finding No.: 2014-011, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Federal Award No.: TQ901
Area: Eligibility
Questioned Costs: \$13,668

Auditee Response and Corrective Action Plan, Continued:

CONDITION 3:

HO1074 - Housing Specialist oversight. NMHC efforts to procure the document in question are ongoing due to the personnel in charge of records at the learning institution being on leave.

CONDITION 4:

HO1064 - FINDING CORRECTED: Housing Specialist oversight. The information has been corrected on the Tenmast System and updated with an E-Trans resubmission.

HO1045 - FINDING CORRECTED: Housing Specialist oversight. The information has been corrected on the Tenmast System and updated with an E-Trans resubmission.

CONDITION 5:

HO1400 - Tinian Field Office Representative oversight

- 1) NMHC requests removal of the disputed and corrected findings.
- 2) The PHD Housing Specialists, as well as the Tinian and Rota Field Office Representatives shall follow standing policies and procedures. Failure to adhere to NMHC's policies and procedures will result in appropriate disciplinary actions.

Proposed Completion Date: Policies and procedures are in place; therefore, the responsible staff is expected to adhere to them immediately.

Auditor Response:

CONDITION 1:

The interview sheet was not fully completed and the form was neither signed nor dated by the tenant and NMHC. Finding remains.

CONDITION 2:

HR0052A - Zero income checklist was not completed at the time the application was submitted. Finding remains.

NORTHERN MARIANAS HOUSING CORPORATION

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2014

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, 2014:

Questioned costs as previously reported:

Fiscal year 2013	\$ 42,216
Fiscal year 2012	144,006
Fiscal year 2011	<u>59,297</u>

245,519

Less questioned costs resolved in fiscal year 2014:

Questioned costs of fiscal year 2011 Single Audit (a)	(59,297)
Questioned costs resolved per HUD letter dated May 22, 2014: Fiscal year 2012 Single Audit	<u>(57,000)</u>

129,222

Questioned costs of fiscal year 2014 Single Audit

64,692

Unresolved questioned costs at September 30, 2014

\$ 193,914

- (a) OMB Circular A-133, Section .315(b)(4) - questioned costs are treated as resolved as NMHC considers these findings are no longer valid as 1) two years have passed since the audit report in which the findings occurred was submitted to the Federal Audit Clearinghouse, 2) HUD is not currently following up on the questioned costs, and 3) a management decision was not issued by HUD.

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report.



NORTHERN MARIANAS HOUSING CORPORATION

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINANCIAL STATEMENT FINDINGS

- Finding No. 2011-01 - Not corrected. See corrective action plan to Finding No. 2014-001.
- Finding No. 2011-03 - Not corrected. See corrective action plan to Finding No. 2014-002.
- Finding No. 2011-04 - Corrective action was taken. See corrective action plan to Finding No. 2013-003.
- Finding No. 2011-06 - Corrective action was taken. See corrective action plan to Finding No. 2012-04.

- Finding No. 2012-01 - Not corrected. See corrective action plan to Finding No. 2014-001.
- Finding No. 2012-02 - Not corrected. See corrective action plan to Finding No. 2014-002.
- Finding No. 2012-03 - Corrective action was taken. See corrective action plan to Finding No. 2013-003.
- Finding No. 2012-04 - Corrective action was taken.

- Finding No. 2013-001 - Not corrected. See corrective action plan to Finding No. 2014-001.
- Finding No. 2013-002 - Not corrected. See corrective action plan to Finding No. 2014-002.
- Finding No. 2013-003 - Corrective action was taken.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- Finding No. 2011-07 - Corrective action was taken. See corrective action plan to Finding No. 2012-14.
- Finding No. 2011-08 - Corrective action was taken. See corrective action plan to Finding No. 2012-05.
- Finding No. 2011-09 - Corrective action was taken. See corrective action plan to Finding No. 2012-06.
- Finding No. 2011-10 - Corrective action was taken. See corrective action plan to Finding No. 2012-07.
- Finding No. 2011-11 - Corrective action was taken. See corrective action plan to Finding No. 2012-08.
- Finding No. 2011-12 - Corrective action was taken. See corrective action plan to Finding No. 2012-09.
- Finding No. 2011-13 - Corrective action was taken. See corrective action plan to Finding No. 2012-10.
- Finding No. 2011-14 - Corrective action was taken. See corrective action plan to Finding No. 2012-11.
- Finding No. 2011-15 - Not corrected. See corrective action plan to Finding No. 2014-004.
- Finding No. 2011-16 - Not corrected. See corrective action plan to Finding No. 2014-005.
- Finding No. 2011-18 - Corrective action was taken. See corrective action plan to Finding No. 2012-16.
- Finding No. 2011-36 - Corrective action was taken. See corrective action plan to Finding No. 2012-30.
- Finding No. 2011-37 - Not corrected. See corrective action plan to Finding No. 2014-011.
- Finding No. 2011-38 - Not corrected. See corrective action plan to Finding No. 2014-011.
- Finding No. 2011-39 - Not corrected. See corrective action plan to Finding No. 2014-011.
- Finding No. 2011-40 - Corrective action was taken. See corrective action plan to Finding No. 2012-34.
- Finding No. 2011-42 - Corrective action was taken. See corrective action plan to Finding No. 2013-014.

- Finding No. 2012-05 - Corrective action was taken.
- Finding No. 2012-06 - Corrective action was taken.
- Finding No. 2012-07 - Corrective action was taken.
- Finding No. 2012-08 - Corrective action was taken.
- Finding No. 2012-09 - Corrective action was taken.
- Finding No. 2012-10 - Corrective action was taken.
- Finding No. 2012-11 - Corrective action was taken.
- Finding No. 2012-12 - Corrective action was taken.
- Finding No. 2012-13 - Not corrected. See corrective action plan to Finding No. 2014-004.
- Finding No. 2012-14 - Corrective action was taken.
- Finding No. 2012-15 - Not corrected. See corrective action plan to Finding No. 2014-005.
- Finding No. 2012-16 - Corrective action was taken.
- Finding No. 2012-17 - Corrective action was taken. See corrective action plan to Finding No. 2013-007.
- Finding No. 2012-18 - Corrective action was taken.
- Finding No. 2012-19 - Not corrected. See corrective action plan to Finding No. 2014-006.
- Finding No. 2012-20 - Corrective action was taken.
- Finding No. 2012-21 - Corrective action was taken.
- Finding No. 2012-22 - Corrective action was taken.

"NMHC is an equal employment and fair housing public agency"

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding No. 2012-23 - Corrective action was taken.
 Finding No. 2012-24 - Corrective action was taken.
 Finding No. 2012-25 - Corrective action was taken.
 Finding No. 2012-26 - Corrective action was taken.
 Finding No. 2012-27 - Corrective action was taken.
 Finding No. 2012-28 - Corrective action was taken. See corrective action plan to Finding No. 2013-012.
 Finding No. 2012-29 - Corrective action was taken.
 Finding No. 2012-30 - Corrective action was taken.
 Finding No. 2012-31 - Not corrected. See corrective action plan to Finding No. 2014-011.
 Finding No. 2012-32 - Not corrected. See corrective action plan to Finding No. 2014-011.
 Finding No. 2012-33 - Not corrected. See corrective action plan to Finding No. 2014-011.
 Finding No. 2012-34 - Corrective action was taken.
 Finding No. 2012-35 - Not corrected. See corrective action plan to Finding No. 2014-011.
 Finding No. 2012-36 - Not corrected. See corrective action plan to Finding No. 2014-011.
 Finding No. 2012-37 - Corrective action was taken. See corrective action plan to Finding No. 2013-014.

Finding No. 2013-004 - Not corrected. See corrective action plan to Finding No. 2014-003.
 Finding No. 2013-005 - Not corrected. See corrective action plan to Finding No. 2014-004.
 Finding No. 2013-006 - Not corrected. See corrective action plan to Finding No. 2014-005.
 Finding No. 2013-007 - Corrective action was taken.
 Finding No. 2013-008 - Not corrected. See corrective action plan to Finding No. 2014-006.
 Finding No. 2013-009 - Corrective action was taken.
 Finding No. 2013-010 - Corrective action was taken.
 Finding No. 2013-011 - Corrective action was taken.
 Finding No. 2013-012 - Corrective action was taken.
 Finding No. 2013-013 - Not corrected. See corrective action plan to Finding No. 2014-011.
 Finding No. 2013-014 - Corrective action was taken.

Finding No.	CFDA No.	Program Name	Questioned Costs
Questioned costs of fiscal year 2011 Single Audit:			
2011-07	14.195	Section 8 Housing Assistance Payments Program	\$ 107
2011-08	14.195	Section 8 Housing Assistance Payments Program	240
2011-11	14.195	Section 8 Housing Assistance Payments Program	5,454
2011-12	14.195	Section 8 Housing Assistance Payments Program	24,265
2011-13	14.195	Section 8 Housing Assistance Payments Program	145
2011-35	14.871	Section 8 Housing Choice Vouchers	1,714
2011-36	14.871	Section 8 Housing Choice Vouchers	941
2011-37	14.871	Section 8 Housing Choice Vouchers	6,082
2011-38	14.871	Section 8 Housing Choice Vouchers	18,060
2011-39	14.871	Section 8 Housing Choice Vouchers	<u>2,289</u>
			<u>\$ 59,297</u>

The above questioned costs are considered resolved as 1) two years have passed since the audit report in which the findings occurred was submitted to the Federal Audit Clearinghouse, 2) HUD is not currently following up on the questioned costs, and 3) a management decision was not issued by HUD.