

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

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2015

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, 2015, 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 October 11, 2016. Our report was qualified due to our inability to determine the effects of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* on NMHC's financial statements.

### **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.

*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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 through 2015-003 and 2015-008 that we consider to be material weaknesses.

## **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 2015-008 and 2015-013.

## **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*

October 11, 2016

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 Compliance Supplement* that could have a direct and material effect on each of NMHC's major federal programs for the year ended September 30, 2015. 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 Major Federal Programs 14.195, 14.225 and 14.239**

As described in Findings 2015-004, 2015-006, and 2015-008 through 2015-013 in the accompanying Schedule of Findings and Questioned Costs, NMHC did not comply with requirements regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2015-004	14.195	Section 8 Housing Assistance Payments Program	Eligibility
2015-006	14.195	Section 8 Housing Assistance Payments Program	Special Tests and Provisions
2015-008	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Equipment and Real Property Management
2015-009	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Reporting
2015-010	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Special Tests and Provisions
2015-011	14.239	HOME Investment Partnerships Program	Eligibility
2015-012	14.239	HOME Investment Partnerships Program	Reporting
2015-013	14.239	HOME Investment Partnerships Program	Special Tests and Provisions

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

**Qualified Opinion on Major Federal Programs 14.195, 14.225 and 14.239**

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 CFDA 14.195 Section 8 Housing Assistance Payments Program, CFDA 12.225 Community Development Block Grants/Special Purpose Grants/Insular Area, and CFDA 14.239 HOME Investment Partnerships Program for the year ended September 30, 2015.

**Unmodified Opinion on the Other Major Federal Program**

In our opinion, NMHC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2015.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2015-005, 2015-007, and 2015-014 regarding the following:

<b>Finding #</b>	<b>CFDA #</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2015-005	14.195	Section 8 Housing Assistance Payments Program	Reporting
2015-007	14.195	Section 8 Housing Assistance Payments Program	Special Tests and Provisions
2015-014	14.871	Section 8 Housing Choice Vouchers	Eligibility

Our opinion on each major federal program is not modified with respect to these matters.

NMHC's responses to the noncompliance 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.

### **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 2015-004, 2015-006, and 2015-008 through 2015-013 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2015-005, 2015-007, and 2015-014 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, 2015, and have issued our report thereon dated October 11, 2016, which was qualified due to our inability to determine the effects of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* on NMHC's financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards (page 7) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 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 financial statements or to the 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 financial statements as a whole.

*Deloitte & Touche LLC*

October 11, 2016

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2015

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
Direct Programs:		
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		
Section 8 Housing Assistance Payments Program	14.195	\$ 1,346,858
Community Development Block Grants/Special Purpose Grants/Insular Area	14.225	1,073,842
Emergency Solutions Grant Program	14.231	55,914
HOME Investment Partnerships Program	14.239	5,748,265
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	17,104
Section 8 Housing Choice Vouchers	14.871	<u>3,464,350</u>
<b>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>		<u>11,706,333</u>
<b>TOTAL FEDERAL AWARDS</b>		<u>\$ 11,706,333</u>
Reconciliation of Statement of Revenues, Expenses and Changes in Net Position to expenditures:		
Operating expenses:		
Section 8 rental		\$ 2,829,346
CDBG Program		1,069,977
HOME Investment Partnership Program Grant		803,016
HOME Investment Partnership Grant program income		225,796
ESG Program		55,914
EDI Program		17,104
NSP Grant		3,865
HOME Investment Partnerships Program loans included in loans receivable		4,719,453
Section 8 HAP expenditures included in operations		<u>1,981,862</u>
Federal award expenditures per above		<u>\$ 11,706,333</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, 2015

### (1) Scope of Review

Northern Marianas Housing Corporation (NMHC), a division of the Commonwealth Development Authority (CDA), was established to develop and administer low-cost residential housing in the Commonwealth of the Northern Mariana Islands (CNMI). All 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 expenditures of the individual programs. The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. 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; Emergency Solutions Grant Program; HOME Investment Partnerships Program; Community Development Block Grants/Brownfields Economic Development Initiative* - NMHC received these funds in a direct capacity in fiscal year 2015; NMHC 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, 2015

(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, 2015, the HOME Program expenditures include \$1,028,812 in current year disbursements and \$4,719,453 in outstanding HOME loans from previous years with continuing compliance requirements. Of \$6,908,790 in HOME Investment Partnerships grant loans recorded by NMHC, \$5,393,371 have continuing compliance requirements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2015

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |  |               |
|--|---------------|
| 1. Type of auditors' report issued:                      | Qualified     |
| Internal control over financial reporting:               |               |
| 2. Material weakness(es) identified?                     | Yes           |
| 3. Significant deficiency(ies) identified?               | None reported |
| 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?  | Yes        |
| 7. Type of auditors' report issued on compliance for major federal programs:  |            |
| CFDA 14.871   | Unmodified |
| All other major programs  | Qualified  |
| 8. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | Yes        |
| 9. 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:  | \$351,190  |
| 11. Auditee qualified as low-risk auditee?  | No         |

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<u>Reference Number</u>	<u>Finding</u>
2015-001	Loans Receivable
2015-002	Loan Guarantee Agreements
2015-003	Interfund Transactions and Balances
2015-008	Fixed Assets
2015-013	Deferred Loans Receivable

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

<u>Reference Number</u>	<u>CFDA Numbers</u>	<u>Finding</u>	<u>Questioned Costs</u>
2015-004	14.195	Eligibility	\$ 32,175
2015-005	14.195	Reporting	-
2015-006	14.195	Special Tests and Provisions - Housing Quality Standards (HQS)	94,592
2015-007	14.195	Special Tests and Provisions - Contract Rent Adjustments	-
2015-008	14.225	Equipment and Real Property Management	-
2015-009	14.225	Reporting	-
2015-010	14.225	Special Tests and Provisions - Wage Rate Requirements	-
2015-011	14.239	Eligibility	-
2015-012	14.239	Reporting	-
2015-013	14.239	Special Tests and Provisions	49,824
2015-014	14.871	Eligibility	<u>11,880</u>
			<u>\$ 188,471</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-001  
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, 2015. This analysis revealed that loans, including interest, which are over one hundred twenty (120) days past due amounted to \$3,669,644 or 44.16% of \$8,309,592 in total loans and interest outstanding, excluding HOME deferred loans receivable as of September 30, 2015. An audit adjustment of \$678,983 was proposed to correct the allowance for loans receivable as of September 30, 2015.

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 Finding No. 2014-001 in the Single Audit of NMHC for fiscal year 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Chris Pangelinan, Mortgage and Credit Division (MCD) Manager, Roger Dris, Chief Accountant and Rex I. Palacios, Chief Financial Officer

**Corrective Action:** NMHC does have adequate internal controls to receive, account, report and monitor loan payments; and to identify and propose corrective action on delinquent loans on a timely basis. NMHC's Fiscal Division and MCD continue to review and analyze NMHC's delinquent loan portfolios on a monthly basis. Loans that are 90 to 120 days delinquent are flagged for corrective action. Furthermore, delinquency reports are filed with the NMHC Board for policy review to enhance NMHC's loan management capabilities.

The lack of a quorum to conduct Board and committee meetings continues to hamper management's access to the Board policymaking authority and capability. Management has presented to the Board an official request to empower management to pursue accelerated loan collections and foreclosures on delinquent loans.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-001, Continued  
Area: Loans Receivable

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Furthermore, HUD's loan foreclosure prevention program lays the path for HUD's preferred method in dealing with delinquent loans. Under this program, NMHC has to work with delinquent borrowers through consultation and counseling in order to prevent foreclosure. This takes time to execute, further delaying collection on delinquent accounts. This methodology in dealing with delinquency is over and above what is typically expected of private mortgage lenders and is often to be an audit finding when viewed from the lens of a private mortgage lender. However, when viewed from a HOME loan program perspective, NMHC has to comply with HUD's requirements and that may create apparent delinquency.

**Proposed Completion Date:** Mid-year 2017.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-002  
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, 2015, NMHC's related loan guarantees amounted to \$11,427,402. Of that total, approximately \$6,057,195 is delinquent and past due, of which NMHC has received demand notices of \$3,932,646 and recorded liabilities of \$4,564,793; 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.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Chris Pangelinan, MCD Manager, Roger Dris, Chief Accountant and Rex I. Palacios, Chief Financial Officer

**Corrective Action:** NMHC does receive monthly reports from financial institutions on the loan guarantees which are used for updating and monitoring of each account's status. "Loan Guaranty" reports are submitted on a monthly basis to the NMHC Board on their regularly scheduled meetings for review. Furthermore, the Chief Accountant, Chief Financial Officer and the MCD Manager will establish 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:** Mid-year 2017.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-003

Area: Interfund Transactions and Balances

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

Condition: NMHC initially records disbursements for certain expenditures in general fund accounts. NMHC allocates expenditures to applicable accounts in the corresponding funds through interfund transactions. Tests of interfund balances identified an unreconciled amount of \$300,089 at September 30, 2015. The total amount was subsequently corrected by NMHC through a proposed audit adjustment.

Cause: NMHC did not effectively apply monitoring controls over interfund transactions and balances.

Effect: Misstatements of shared expenditures and of interfund balances and transactions could continue undetected and uncorrected.

Recommendation: NMHC should timely monitor, review and reconcile interfund transactions and balances. NMHC may wish to consider a system of recording grant expenditures at the time the expenditure is incurred.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger A. Dris, Chief Accountant and Rex I. Palacios, Chief Financial Officer

**Corrective Action:** The Fiscal Division will aggressively implement proper postings, reconciliations and balancing of interfund transactions and balances.

**Proposed Completion Date:** Fiscal Year 2016



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-004  
 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: \$32,175

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. Have adult members of a family sign consent forms as required verification documents allowing the owner to verify sources of family income and family size. NMHC uses the *Document Package for Applicant's/Tenant's Consent to the Release of Information* (the Document Package) form to document compliance with this requirement.
3. Determine the total tenant rent payment in accordance with the housing assistance payments contract.
4. 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. Nine (or 13%) required eligibility verification documents noted inconsistencies or could not be located, as follows:
  - a. For three (or 4%), the tenant obligation to report interim change could not be located.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
K12	09/01/15	12/01/14	\$ 1,125	\$ -
K12	08/01/15	12/01/14	\$ 1,125	\$ -
R05	04/01/15	03/01/15	\$ 760	\$ 760

No questioned costs result for K12 since the document was in file for the annual certification effective date of 10/01/14.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-004, 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: \$32,175

Condition, Continued:

- b. For one (or 1%), verification of citizenship status of household members indicated in Form HUD-50059 noted inconsistencies in names, birthdates, etc. to supporting documentation (i.e. birth certificate).

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Household Member No.</u>	<u>HAP Amount</u>
M16	11/01/14	01/01/14	2 and 3	\$ 1,114

No questioned costs are presented for this condition as the document was subsequently corrected as a result of the audit.

- c. For one (or 1%), the previous certification/recertification interview sheet could not be located.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Current Certification Effective Date</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
R09	09/01/15	11/01/14	\$ 1,044	\$ 1,044

- d. For four (or 6%), the Enterprise Income Verification (EIV) was not performed at the time of eligibility certification.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Discrepancies Noted</u>	<u>HAP Amount</u>	<u>Questioned Cost</u>
M48	02/01/15	03/07/14	Not in file	\$ 1,116	\$ 1,116
M02	10/01/14	09/01/14	Not in file	\$ 1,245	1,245
K27	10/01/14	09/01/14	Not in file	\$ 1,031	1,031
T14	01/01/15	01/01/15	Not in file	\$ 1,108	<u>1,108</u>
					\$ <u>4,500</u>

2. For one (or 1%), the HAP contract and lease amendment was not signed by NMHC.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Calculation</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
T06	05/01/15	03/01/15	\$ 1,054 x 7 months	\$ 7,378	\$ 7,378

3. For one (or 1%), the assistance payment per Form HUD-50059A (gross rent) did not agree with Form HUD-50059.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-004, 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: \$32,175

Condition, Continued:

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Per Form HUD-50059A</u>	<u>HAP Per Form HUD-50059</u>	<u>HAP Difference</u>	<u>Questioned Costs</u>
M03	09/01/15	09/01/15	\$ 1,008	\$ 812	\$ 196	\$ -

No questioned costs result as the amount was subsequently corrected as a result of the audit.

4. For one (or 1%), the Form HUD-50059 and recertification/certification interview sheet could not be located in file.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
R25	12/01/14	02/01/14	\$ 1,133 x 12	\$ 13,596

5. For five (or 7%), the assigned unit size is larger than the household/family size, and there is no written justification for such discrepancy.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Form HUD-50059 Effective Date</u>	<u>Unit Size</u>	<u>Household Size</u>	<u>HAP Amount Per General Ledger</u>	<u>HAP Amount Expected</u>	<u>Variance</u>	<u>Questioned Costs</u>
M34	06/01/15	12/01/14	3	2	\$ 991	\$ 864	\$ 127 x 10 months	\$ 1,270
T18	09/01/15	09/01/15	4	2	\$ 1,232	\$ 1,067	\$ 165 x 1 month	165
T18	05/01/15	04/01/15	4	2	\$ 1,232	\$ 1,054	\$ 178 x 6 months	1,068
T14	01/01/15	01/01/15	3	1	\$ 1,108	\$ 1,054	\$ 54 x 9 months	486
T18	12/01/14	04/01/14	4	2	\$ 1,232	\$ 1,073	\$ 159 x 12 months	<u>1,908</u>
								\$ <u>4,897</u>

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 \$32,175 exist, as follows:

<u>Condition</u>	<u>Questioned Costs</u>
1a	\$ 760
1c	1,044
1d	4,500
2	7,378
4	13,596
5	<u>4,897</u>
	\$ <u>32,175</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-004, 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: \$32,175

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

Prior Year Status: Noncompliance with applicable eligibility requirements was reported as Finding No. 2014-003 in the Single Audit of NMHC for fiscal year 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Melinda Babauta, Housing Specialist III

**Corrective Action:**

Condition 1: K12 (09/01/15 and 08/01/15), M16 and R09 - The document was located and placed in the tenant's file.

R05 - This was a staff oversight.

M16 - This was a Housing Specialist III oversight.

R09 - This was a staff oversight.

M48 - This was a Housing Specialist oversight. We request for the questioned cost to be removed since the EIV report was subsequently performed on 11/05/14.

M02 - Interim certification was effective 09/01/14 for a gross rent change, which is not considered a new admission or annual re-certification.

K27 and T14 - Interim certifications were effective 09/01/14 and 01/01/15, respectively, which were not considered new admissions or annual re-certifications.

Condition 2: PHD Manager and Tinian Field Office Representative oversight.

Condition 3: This was a Housing Specialist oversight.

Condition 4: This was a staff oversight.

Condition 5: M34 - This was a Housing Specialist III oversight.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-004, 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: \$32,175

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 5, Continued:

T18 (09/01/15, 05/01/15 and 12/01/14) and T14 - This was a Tinian Field Office Representative oversight.

The Program and Housing Division (PHD) will timely prepare EIV reports.

**Proposed Completion Date:** Immediately.

Auditor Response:

Condition 1: K12 (09/01/15 and 08/01/15) - The tenant obligation was not in file for the other members.

M48 - The EIV was not performed at the time of eligibility certification.

M02, K27 and T14 - The EIV is required for both annual and interim re-certifications per 9-8 of the HUD Occupancy Handbook.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-005  
 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: Reporting  
 Questioned Costs: \$-0-

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

Condition: Of sixty-seven tenant files tested, we noted that one (or 1%) Form HUD-50059 is not documented.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Calculation</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
R25	12/01/14	02/01/14	\$ 1,133 x 10 months	\$ 11,330	\$ -

No questioned costs are presented as the amount is already questioned at Finding No. 2015-004, Condition 4.

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

Effect: NMHC is in noncompliance with applicable reporting requirements.

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 Finding No. 2014-004 in the Single Audit of NMHC for fiscal year 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** David Chargualaf, PHD Manager, Melinda Babauta, Housing Specialist III and Arvin Ogo, Rota Field Office Representative

**Corrective Action:** NMHC will correct this finding by reinforcing and improving its monitoring procedures between PHD and the Rota Field Office to ensure that all forms and documents required for certification (i.e. annual, interim, new admission, etc.) are obtained, signed, dated, completed and properly filed in a timely manner. Housing Specialists and Field Office Representatives shall follow standing policies and procedures. Failure to abide by NMHC's policies and procedures will result in appropriate disciplinary actions, including termination (depending on frequency and/or seriousness of staff error).

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

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-006  
 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: \$94,592

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-five tenants tested, we noted the following:

1. For one (or 4%), the inspector did not indicate overall housing quality inspection results in the inspection form. We are unable to determine if NMHC complied with the housing quality standards, whether needed repairs are required and whether actions were taken by NMHC to address such.

<u>Unit No.</u>	<u>Date of Inspection</u>	<u>Type of Inspection</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
M45	04/02/15	Move-Out	\$ 996	\$ -

No questioned costs are presented since the amount is questioned at Condition 3 below.

2. For one (or 4%), the annual inspection report could not be located.

<u>Unit No.</u>	<u>Month Tested</u>	<u>Current Annual Recertification</u>	<u>Previous Annual Recertification</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
M25	01/01/15	09/01/14	09/01/13	\$ 976	\$ 976

3. For nine (or 36%), the NMHC inspector reports for the following indicated deficiencies; however, relevant documentation indicating whether the deficiencies were addressed and/or whether needed repairs were timely completed could not be located.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-006, 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: \$94,592

Condition, Continued:

<u>Unit No.</u>	<u>Certification Effective</u>	<u>Date of Inspection</u>	<u>Overall Inspection Results</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
M05	12/01/14	08/12/14	Inconclusive	\$ 1,245 x 10	\$ 12,450
R25	02/01/14	01/17/14	Inconclusive	\$ 1,133 x 12	13,596
M09	07/01/14	03/11/14	Inconclusive	\$ 1,245 x 12	14,940
M30	01/01/15	09/13/14	Inconclusive	\$ 750 x 9	6,750
M33	08/01/14	04/15/15	Inconclusive	\$ 1,133 x 12	13,596
M45	04/01/14	12/13/13	Inconclusive	\$ 996 x 12	11,952
M03	08/01/15	04/15/15	Inconclusive	\$ 1,008 x 2	2,016
M20	02/01/15	11/17/14	Inconclusive	\$ 932 x 8	7,456
M26	02/01/14	10/10/13	Inconclusive	\$ 905 x 12	10,860
					\$ <u>93,616</u>

4. For one (or 1%), there was no prior year inspection report, and we could not determine if the current year inspection was performed within twelve months or within the 120 days prior to recertification.

<u>Unit No.</u>	<u>Last Inspection Performed</u>	<u>Move-in/ Move-out Date</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
M45	12/13/13	04/02/15	\$ 996 x 12	\$ -

No questioned costs are presented since the amount was questioned at Condition 3 above.

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 \$94,592 exist.

<u>Condition</u>	<u>Questioned Costs</u>
2	\$ 976
3	<u>93,616</u>
	\$ <u>94,592</u>

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.



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-006, 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: \$94,592

Prior Year Status: The lack of adherence to established policies and procedures relating to unit inspections was reported as Finding No. 2014-005 in the Single Audit of NMHC for fiscal year 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Herman Lieto, Housing Preservation Technician, Mihaville Project

**Corrective Action Plan:**

Condition 1: M45 - Document was located and placed in tenant's file.

Condition 2: M25 - This was a Housing Preservation Technician (Mihaville) oversight. We are unable to locate the document in the tenant's file.

Condition 3: M05 - This was a Housing Preservation Technician II oversight.

R25 - This was a staff oversight.

M09 - This was a Housing Preservation Technician II oversight.

M30 - This was a Housing Preservation Technician II oversight.

M33, M45, M03, M20 and M26 - This was a Housing Preservation Technician (Mihaville) oversight. We are unable to locate the document in the tenant's file.

Condition 4: M45 - This was a Housing Preservation Technician (Mihaville) oversight. We are unable to locate the document in the tenant's file.

NMHC will file all required inspection documents accordingly in tenant files.

**Proposed Completion Date:** Immediately.

Auditor Response:

Condition 1: M45 - Overall results of the inspection report was not indicated on the form.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-007  
 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 - Contract Rent Adjustments  
 Questioned Costs: \$-0-

Criteria: In accordance with federal regulations, the initial renewal rent applicable to NMHC projects is determined at the lesser of (a) the annual adjusted rent potential of expiring contracts and (b) the Section 8 contract rent potential from the budget-based rent determination.

Condition: The budgets reported by NMHC in the budget worksheet attached to the contract renewal request forms for the projects below appear to be higher compared to the historical results of NMHC's actual expenditures from prior fiscal years and are inconsistent with established budgets for the related fiscal year.

Project No.	NMHC's Certification Date	Budget Reported in the Contract Renewal Request Form	Per NMHC's Budget Schedule for Fiscal Year 2015	Average Actual Expenditures (from Fiscal Years 2012 thru 2014)	Total Rent Approved by Grantor	Excess of Approved Rent over Average Actual Expenditures	Estimated Project Occupancy Rate during Fiscal Year 2015	Estimated Variance
TQ100011005	05/01/15	\$ 844,149	\$ 565,230	\$ 541,327	\$ 574,608	\$ 33,281	90.99%	\$ 30,280
TQ100016004	05/01/15	\$ 430,225	\$ 399,938	\$ 369,222	\$ 378,792	\$ 9,570	94.82%	9,070
TQ100011001	05/01/15	\$ 279,484	\$ 249,202	\$ 234,813	\$ 255,804	\$ 20,991	88.84%	18,650
								\$ 58,000

Estimated project occupancy rate during fiscal year 2015 represents the percentage of actual housing assistance payments (excluding utility reimbursements) over total contract rent approved by the grantor. No questioned costs are reported as total rent was approved by HUD.

Cause: The cause of the above condition is the lack of established policies and procedures in determining reasonableness of budgets reported.

Effect: The effect of the above condition is the incorrect determination of contract rents.

Recommendation: We recommend NMHC ascertain that reported budgets are reviewed for reasonableness.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** David Chargualaf, PHD Manager

**Corrective Action:** NMHC will establish policies and procedures to serve as a guide to determining reasonableness of budgets reported.

**Proposed Completion Date:** Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-008  
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: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: In accordance with applicable regulations, a State must use, manage and dispose of equipment acquired under a Federal award in accordance with State laws and procedures. Specifically, a physical inventory of the property must be taken and the results reconciled with the property records at least once a year. 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. A reconciliation was not performed between NMHC's records and the Fiscal Division's records. We noted a variance of \$391,775.
2. Property records by NMHC have missing information or did not include certain required information, such as source of the property, acquisition date, 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.
3. A vehicle is listed as tag #3824 in the Fiscal Division's records and the same vehicle is listed as Govt. 35-56 in the master listing.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-008, 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-

Condition, Continued:

4. Two vehicles with description numbers Govt. 36-56 and Govt. 43-10 and the Valley Inn property had no cost information in the master listing.
5. A \$1,050 computer set is listed as three separate items in the master listing.
6. Inventory performed for two subrecipients indicated discrepancies in the counts for one subrecipient. Information was provided that NMHC has followed-up with the sub-grantee as to resolution of the discrepancies, but no response was provided by the sub-grantee.

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

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

<u>Fiscal Year</u>	<u>Total Capital Outlays</u>
2015	\$ 938,301
2014	\$ 1,046,291
2013	\$ 175,768

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 Finding No. 2014-006 in the Single Audit of NMHC for fiscal year 2014.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-008, 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-

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Jocelyn C. Seman, Office Manager and Zenie P. Mafnas, Deputy Corporate Director

**Corrective Action:** The above finding relates to the Master Listing of Equipment and Real Property Management purchased for NMHC's use. The Administrative Division maintains the Master Listing containing all inventory information and continues to update the pertinent information. The Planning Division maintains a separate Master Listing for all Equipment and Real Property Management purchased for subrecipients, which is currently updated.

Periodic reconciliation within NMHC's divisions is essential to update the Administrative Division's Master Listing of all Equipment and Real Property Management and all required information are contained in the Master Listing. NMHC will require the cooperation of each division in order for the Administrative Division to complete its Master Listing as needed.

Condition 6: The subrecipient has not responded to any of our follow-ups regarding the missing inventory. We are currently addressing the issue with the subrecipient and hope to have a resolution by the end of August. The personnel in charge of handling the inventory items is on leave until August.

The Administrative Division will continue to update inventory records on an annual basis as inventory counts are being performed and will also ensure that all required information are contained in the Master Listing.

**Proposed Completion Date:** Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-009  
 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-11-ST69-0001, B-12-ST69-0001, and B-13-ST69-0001  
 Area: Reporting  
 Questioned Costs: \$-0-

Criteria: The Program is required to submit an SF 425, Federal Financial Report that is accurately prepared.

Condition: Of the quarterly SF 425 reports tested, we noted the following:

1. Cash receipts and disbursements reported on page 1, lines 10a and 10b, were based on cash drawdowns and disbursed during the quarter and not based on cumulative amounts, resulting in the following variances.

Quarter Ended 03/31/15:

<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
10a	Cash receipts	\$ 151,602	\$ 2,718,959	\$ (2,567,357)
10b	Cash disbursements	\$ 151,602	\$ 2,718,959	\$ (2,567,357)

Quarter Ended 06/30/15:

<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
10a	Cash receipts	\$ 312,944	\$ 3,031,903	\$ (2,718,959)
10b	Cash disbursements	\$ 312,944	\$ 3,031,903	\$ (2,718,959)

2. Total federal funds authorized and federal share of expenditures reported on page 1, lines 10d and 10e, include expired grant awards for Program Years 1993 through 2009 while grant awards reported on page 2 line 5 covers Program Years 2010 through 2014, resulting in the following variances:

Quarter Ended 03/31/15:

<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
10d	Total federal funds authorized	\$ 24,345,396	\$ 4,431,795	\$ 19,913,601
10e	Federal share of expenditures	\$ 22,567,459	\$ 2,718,959	\$ 19,848,500

Quarter Ended 06/30/15:

<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
10d	Total federal funds authorized	\$ 24,345,396	\$ 4,431,795	\$ 19,913,601
10e	Federal share of expenditures	\$ 22,880,403	\$ 3,031,903	\$ 19,848,500

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-009, 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-11-ST69-0001, B-12-ST69-0001, and B-13-ST69-0001  
 Area: Reporting  
 Questioned Costs: \$-0-

Condition, Continued:

3. Expenditures reported for each grant award on page 2, line 5, were based on expenditures incurred during the quarter and were not based on cumulative amounts, resulting in the following variances:

Quarter Ended 03/31/15:

<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
B-12-ST-690001	\$ 27,983	\$ -	\$ 27,983
B-13-ST-690001	\$ 123,620	\$ 155,856	\$ (32,236)

Quarter Ended 06/30/15:

<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
B-12-ST-690001	\$ 281,189	\$ -	\$ 281,189
B-13-ST-690001	\$ 31,755	\$ 468,000	\$ (436,245)

Cause: The cause of the above condition is SF 425 instruction guidelines are not being followed. Program personnel believe the existing report preparation process is acceptable to the grantor because the Program has not received grantor communications to correct reported data.

Effect: The effect of the above condition is noncompliance with SF 425 instruction guidelines. No questioned costs are presented as cash receipts, disbursements and program income were reported in the quarterly reports.

Recommendation: We recommend that the Program take reasonable steps to effectively comply with SF 425 instruction guidelines.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger Dris, Chief Accountant and Rex I. Palacios, Chief Financial Officer

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-009, 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-11-ST69-0001, B-12-ST69-0001, and B-13-ST69-0001  
Area: Reporting  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** NMHC took reasonable steps to effectively comply with the latest preparation guidelines in preparing SF 425s. The grantor had not informed NMHC of any exceptions in its filings of SF 425s. NMHC will review the auditor's findings against the grantor's instructions to implement corrections as warranted. Furthermore, NMHC will communicate with the grantor regarding this finding. As soon as the grantor points out which corrections are warranted, NMHC will follow their recommendation and make corrections accordingly.

**Proposed Completion Date:** Fiscal Year 2017.



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-010  
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-12-ST69-0001 and B-13-ST69-0001  
Area: Special Tests and Provisions – Wage Rate Requirements  
Questioned Costs: \$-0-

Criteria: In accordance with applicable wage rate requirements, interviews should periodically occur throughout the course of the construction and include a sufficient sample of job classifications represented on the job as well as workers from various companies to allow for a reasonable judgment as to compliance.

Condition: NMHC did not perform the required on-site worker interviews for contract no. NMHC 2014-002.

Cause: The cause of the above condition is the lack of oversight of the required number of on-site job interviews to be performed for the period under construction.

Effect: NMHC is in noncompliance with applicable wage rate requirements. No questioned cost is presented as we are unable to quantify the extent of noncompliance.

Recommendation: We recommend that NMHC comply with on-site job interviews required under applicable wage rate requirements.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Elbert Scott Pinaula, Asset Management Division Manager and Zenie P. Mafnas, Deputy Corporate Director

**Corrective Action:** There were three separate on-site interviews conducted on the renovation of the DYS Shelter (contract # 2014-002) during fiscal year 2014 but none during fiscal year 2015.

**Proposed Completion Date:** Immediately.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-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 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. NMHC must determine an applicant's credit worthiness and repayment ability. NMHC shall request and obtain a written credit report from a recognized credit bureau. Poor repayment of credit obligations shall be considered a credit risk and shall be a reason for denial of assistance. On a case by case basis, NMHC may reconsider the denial if the applicant has reestablished his/her credit standing and submits a letter justifying the delinquency. Finally, NMHC shall use forty percent (40%) of the household's gross monthly income to determine the amount of available debt service or repayment ability. Any remaining debt-service or repayment ability after existing monthly obligations is subtracted from the total available debt service, which shall not exceed thirty percent (30%) of household gross monthly income, will be used to determine the applicant's repayment ability.
3. NMHC uses a Home Rehabilitation Loan Application form and a Uniform Residential Loan Application form for rehabilitation loans and new construction loans, respectively. Loan application forms shall be completed and signed by applicants requesting assistance. Completed application forms must be submitted together with a checklist of necessary information and copies of required supporting documents.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
Area: Eligibility  
Questioned Costs: \$-0-

Criteria, Continued:

4. The responsible Loan Specialist shall review and/or verify the applicant's credit, income, assets and liabilities, documented in a Review Eligibility Worksheet form. If the applicant is deemed to have met all requirements based on the Loan Specialist's analysis, a Loan Review Conclusion Write-up is prepared for review and approval by the Loan Manager and Corporate Director. Final approval of any loan application request prior to May 8, 2015 shall be made by the NMHC Board of Directors.
5. 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 February 2014, 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.
6. 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.
7. HOME rehabilitation activities to be undertaken by NMHC are subject to the environmental review requirements at 24 CFR Part 58. The CNMI is the responsibility entity and is responsible for ensuring that the environmental review process is satisfied before HOME funds are committed to specific project site.

Condition: Of twenty-one loan files tested, we noted the following:

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Eligibility  
 Questioned Costs: \$-0-

Condition, Continued:

1. For two (or 10%), the updated eligibility review worksheet was not in file.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
613	HP-613	\$ 57,000
578	HR-578	\$ 40,000

No questioned costs are presented as the potential household income is within the income limit per the updated income verification obtained from a third party.

2. For one (or 5%), an updated tax compliance letter was not timely obtained.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Date Updated Tax Compliance Letter Obtained</u>	<u>Loan Amount</u>	<u>Household Member Number</u>
605	HP-605	12/01/14	07/21/16	\$ 57,000	1

No questioned costs are presented as the potential household income is within the income limit per the updated income verification obtained from a third party.

3. For one (or 5%), copies of birth certificates for the following members were not timely obtained. Birth certificates or equivalent acceptable documentation should be obtained to determine the household size. Further, this documentation also determines adult household members, whose income must be included in the household's gross income, and verifies allowances claimed for dependents deducted from gross income to determine adjusted income.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Date Birth Certificate Obtained</u>	<u>Loan Amount</u>	<u>Household Member Number</u>
600	HNC-600	03/20/15	07/20/16	\$ 57,000	2 and 3

No questioned costs are presented as household member #2 was listed as an adult member on the HOME loan application form and had also signed the statement of unemployment form. In addition, the applicant would still meet the eligibility requirement if the unidentifiable member #3 were to be excluded from the household size.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Eligibility  
 Questioned Costs: \$-0-

Condition, Continued:

4. For two (or 10%), the updated third party credit reports were not timely obtained. In addition, HR-578 had prior delinquent loans per the third party credit report.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Date Updated Third Party Credit Report Obtained</u>	<u>Loan Amount</u>	<u>Household Member Number</u>
613	HP-613	02/25/15	07/22/16	\$ 57,000	1
578	HR-578	10/14/14	07/21/16	<u>40,000</u>	1
				<u>\$ 97,000</u>	

No questioned costs are presented for HP-613 as the loan is covered by a deferment agreement, and the monthly loan payments for HR-578 were paid through 09/30/15.

5. For four (or 19%), third party income verifications from the Social Security Administration (SSA) were not timely obtained for the following household members.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Date Third Party Verification Obtained</u>	<u>Household Member Number</u>
613	HP-613	02/25/15	07/20/16	4, 5, 6 and 7
578	HR-578	10/14/14	07/19/16	3, 4 and 5
605	HP-605	12/01/14	07/19/16	1, 3, 4, 5 and 6
592	HR-592	06/18/15	07/20/16	3 and 4

No questioned costs are presented as the household members do not have social security income covering the period when eligibility determinations were performed per the third party verifications.

6. For six (or 29%), homeowner's property insurance coverage was not timely 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>
613	HP-613	\$ 57,000	06/08/15	04/07/16	04/06/16 - 04/06/17
598	HP-598	\$ 57,000	09/29/15	11/06/15	07/30/15 - 07/30/16
590	HNC-590	\$ 57,000	06/15/15	11/09/15	10/20/15 - 10/20/16
597	HNC-597	\$ 57,000	05/19/16	07/20/16	07/20/16 - 07/20/17
592	HR-592	\$ 40,000	02/22/16	07/25/16	03/01/16 - 03/01/17
556	HR-556	\$ 40,000	01/21/15	03/17/15	03/17/15 - 03/17/16

No questioned costs are presented because the insurance coverage was subsequently obtained.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Eligibility  
 Questioned Costs: \$-0-

Condition, Continued:

7. For two (or 10%), the potential household income does not agree with third party verifications in file.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Income Per Eligibility Worksheet</u>	<u>Income Per Third Party Verification</u>
605	HP-605	\$ 57,000	\$ 31,406	\$ 35,178
590	HNC-590	\$ 57,000	\$ 30,414	\$ 30,576

No questioned costs are presented as the potential household income would still be within the income limit.

8. For six (or 29%), the interest rate used to calculate the applicant's potential interest income from assets either does not agree to the interest rate per third party verifications or third party verifications were not in file.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Interest Rate Used</u>	<u>Interest Rate Per Third Party Verification</u>
593	HR-593	\$ 40,000	0.25%	0.50%
607	S-607	\$ 50,400	0.25%	Not in file
600	HNC-600	\$ 57,000	0.00%	Not in file
592	HR-592	\$ 40,000	0.25%	0.50%
591	HP-591	\$ 57,000	1.00%	Not in file
590	HNC-590	\$ 57,000	1.25%, 1.62% and 9.46%	1% and not in file

No questioned costs are presented as the potential income from assets would still be within the income limit.

9. For one (or 5%), the potential income from assets does not agree with the third party verification.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Potential Assets Per Eligibility Worksheet</u>	<u>Potential Assets Per Third Party Verification</u>
597	HNC-597	\$ 57,000	\$ 91	\$ 147

No questioned costs are presented as the potential income from assets would still be within the income limit.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Eligibility  
 Questioned Costs: \$-0-

Condition, Continued:

10. For three (or 14%), certain credit obligations per third party credit reports and/or loan agreement were not included in the calculation of the applicants' monthly credit obligations.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Credit Obligation Not Included</u>
598	HP-598	\$ 57,000	\$ 128
593	HR-593	\$ 40,000	\$ 83
594	HR-594	\$ 40,000	\$ 143

In addition, for loan number HR-594, the amount included in the calculation of the applicant's monthly credit obligations for another loan was for \$83; however, the related monthly loan payment is for \$33. No questioned costs are presented as the applicants are still within the 40% debt-to-income ratio.

11. For one (or 5%), the lender title policy reflecting the applicant's name as the legal owner of the property was not timely obtained.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Effective Date of Lender Title Policy</u>
613	HP-613	02/25/15	08/31/16

No questioned costs are presented as the lender title policy was subsequently obtained.

12. For one (or 5%), the preliminary property title report dated 08/08/14 reflects the applicant as the owner of the property for which HOME funds were used to purchase the property and for home construction. However, the property title warranty deed executed on 08/04/14 between the seller and the applicant was terminated, voided and cancelled on 09/04/14 and a new warranty deed for the same property was executed between the two parties on 11/10/14. The lender's title policy that reflects the applicant as the legal owner of the property after the new warranty deed was executed was not timely obtained.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Effective Date of Lender Title Policy</u>
590	HNC-590	11/10/14	08/31/16

No questioned costs are presented as the lender title policy was subsequently obtained.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Eligibility  
 Questioned Costs: \$-0-

Condition, Continued:

13. For two (or 10%), the Homeownership/Homebuyer Education worksheets and/or certificates of completion related to the eight hours education and counseling session could not be located.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Not In file</u>
613	HP-613	\$ 57,000	Homeownership/Homebuyer Education Worksheet and Certificate of Attendance
556	HR-556	\$ 40,000	Homeownership/Homebuyer Education Worksheet and Certificate of Attendance

No questioned costs are presented as the applicants were determined to be eligible.

14. For one (or 5%), the loan application section where it states the applicant's understanding that it is a federal crime punishable by fine or imprisonment or both, to knowingly make any false statements concerning any of the facts contained on the application as applicable under the provisions of Title 18, United States Code, Section 1001, et seq. was not signed by the applicant.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
607	S-607	\$ 50,400

No questioned costs are presented as we are not able to quantify the extent of the noncompliance.

15. For one (or 5%), the updated HOME loan application was not in file.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
556	HR-556	\$ 40,000

No questioned costs are presented as the applicant was determined to be eligible based on third party verifications and the related loan agreement was signed by the applicant.

16. For two (or 10%), the applicants have prior delinquent loans per the third party credit reports; however, eligibility review worksheets indicate the applicants have good credit ratings.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
600	HNC-600	\$ 57,000
590	HNC-590	\$ 57,000



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Eligibility  
 Questioned Costs: \$-0-

Condition, Continued:

No questioned costs are presented as there is no payment due as of 09/30/15 as the first payment due date is 11/01/15 for HNC-600 and the monthly loan payments for HNC-590 were made.

17. For one (or 5%), the environmental review and assessment form was not in file.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>
597	HNC-597	\$ 57,000

No questioned costs are presented as we are unable to quantify the extent of noncompliance.

18. For two (or 10%), interest rates per loan agreements do not agree with the effective interest rates per the HUD income limit.

<u>IDIS Number</u>	<u>Loan Number</u>	<u>Loan Amount</u>	<u>Interest Rate Per Loan Agreement</u>	<u>Exact Median Income Percent Per Eligibility Worksheet</u>	<u>Date of Loan Agreement</u>	<u>Effective Rate Per HUD Income Limit</u>
613	HP-613	\$ 57,000	0%	Not in File	02/25/15	Undeterminable
578	HR-578	\$ 40,000	0%	Not in File	10/14/14	Undeterminable

No questioned costs are presented as we are unable to quantify the extent of noncompliance, and HP-613 is also covered by a deferment agreement.

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 Persons:** Jennifer Camacho, Loan Specialist 3 and Alice Concepcion, Loan Specialist 1

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
Area: Eligibility  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:**

- Condition 1: NMHC will file the updated eligibility worksheets for all HOME clients.
- Condition 2: No update of tax compliance for household no. 1, but she has managed to provide us a most current certificate to prove continual compliance of CNMI tax regulations.
- Condition 3: The birth certificates for household nos. 2 and 3 were, in fact, not in the file as it was misplaced; however, the borrower submitted the certificates for both.
- Condition 4: An updated credit report could not be found in file; however an updated credit report had been retrieved and it does not reflect any additional credit obligations. MCD will ensure that the most current report is obtained and is reflected in each file.
- Condition 5: IDIS nos. 578, 592, 605 and 613 - The clients were able to obtain recent certifications proving that no benefits were received for household members for the eligibility time period as indicated.
- Condition 6: IDIS no. 613 - An insurance policy was not timely obtained but the delay is largely due to extenuating circumstances. The client had indicated that she had filled out forms for a homeowner's policy with an insurance company, but the policy was not immediately released because the insurance company had to conduct an inspection of the property. A reminder email was sent to the insurance company for release of the policy. The client provided NMHC a statement on June 2, 2016 and the actual policy was delivered to NMHC on June 7, 2016. MCD will obtain insurance policies in a timely manner.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
Area: Eligibility  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 6, Continued:

IDIS no. 598 - An insurance policy was in file attached to the payment requests section. This should not be a finding. The actual receipt date of the policy was 11/06/15 and the effective coverage date is from 07/30/15 to 07/30/16 before the certificate of occupancy was issued. This is an example of the insurance company's inability to release insurance policies to homeowners earlier.

IDIS no. 590 - An insurance policy was not timely obtained largely due to extenuating circumstances. The actual receipt date of the policy was 11/09/15 and the effective coverage date is from 10/20/15 to 10/20/16. Reminders were sent to the client to obtain an insurance policy.

IDIS no. 597 - An insurance policy was not timely obtained. The actual receipt date of the policy was 07/20/16 and the effective coverage date is from 07/20/16 to 07/20/17.

IDIS no. 592 - Insurance coverage has yet to be obtained due to extenuating circumstances. The certificate of occupancy dated 02/22/16 was received with the contractor's billing no. 5 on 02/23/16. An email was sent to the insurance company to follow-up. Efforts to obtain insurance coverage are evident in communications between the Loan Specialist and the insurance company.

IDIS no. 556 - An insurance policy was not timely obtained.

For IDIS nos. 590, 597 and 592, MCD will obtain insurance policies in a timely manner. The delay in receipt of insurance policies is due to the insurance company and homeowner's inability to submit timely. The client should be allowed some time to shop for insurance coverage and not be rushed just because it is a requirement. A month's time should be sufficient for the client to obtain insurance coverage.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
Area: Eligibility  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 7: For IDIS nos. 605 and 590 finding remains. After further review, it was determined that there was a miscalculation in projecting income.

Condition 8: IDIS no. 593 - A third party verification from asset was not in file but the client was able to submit a statement to ascertain the interest rate of 0.50%.

IDIS no. 607 - The bank statement was not obtained.

IDIS no. 600 - A third party verification from asset was not in file.

IDIS no. 592 - This was an oversight as the interest rate of 0.25% was not effective until the next statement period.

IDIS no. 591 - A third party verification from asset was not in file.

IDIS no. 590 - This was an oversight in using the correct interest rate to calculate the applicant's potential interest income from asset.

MCD will file required documents such as bank statements and third party verifications. Also, MCD will agree the applicant's potential interest income from assets to the interest rate per the third party verification and will file all third party verifications.

Condition 9: IDIS no. 597 - This is an oversight by the Loan Specialist in using the ending balance amounts from the provided statement to calculate potential income from assets.

Condition 10: IDIS no. 598 - The financial institution loan was not included as part of the client's monthly obligation.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
Area: Eligibility  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 10, Continued:

IDIS no. 593 - The supplemental assistance request was not included in the Part 5 calculation of the HOME assistance request; however, both HOME and supplemental credit requests were included in the calculation in the review sheet for supplemental assistance.

IDIS no. 594 - This was an oversight in factoring in the credit obligation in the calculation.

MCD will include third party credit reports and/or loan agreements in the calculation of applicants' monthly credit obligations.

Condition 11: IDIS no. 613 - An updated title policy was not in file; however, corrective action was taken to obtain the updated PTR reflecting the borrower's name as the title holder of the property. PTR has been submitted and copy filed.

Condition 12: IDIS no. 590 - An updated title policy was not in file; however, corrective action was taken to obtain the updated PTR reflecting the borrower's name as the title holder of the property. PTR has been submitted and copy filed.

Condition 13: IDIS nos. 613 and 556 - These borrowers/accounts were counseled under the prior "standard" Homeownership Counseling session. Certificates of completion/attendance were not issued under the old counseling sessions.

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

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
Area: Eligibility  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Condition 14: IDIS no. 607 - Immediate corrective action has been taken to have the client sign the loan application. MCD will verify that all sections of a loan application are signed.

Condition 15: IDIS no. 556 - The initial loan application was in file but the updated application was not. MCD will file all updated applications.

Condition 16: IDIS nos. 600 and 590 - The borrower's credit report does indicate delinquencies only on past closed accounts. However, no past due amounts were noted on the open accounts. MCD will reflect the correct information per the third party credit report in the eligibility review worksheet.

Condition 17: IDIS no. 597 - The property was originally part of Lot no. 018 B 31, which was subdivided into Lot nos. 018 B 162 (IDIS no. 597) and 018 B 163 (IDIS no. 601). Both projects were to run simultaneously. Environmental assessments and its supporting documents are in file for Lot no. 018 B 163, which is adjacent to the property in question.

MCD will complete an Environmental Level of Review Form and all supporting documents to indicate a specific project name and lot number for IDIS no. 597.

Condition 18: IDIS nos. 613 and 578 - This is an oversight. Because an updated eligibility review worksheet was not on file, these two findings will remain. The responsible Loan Specialist will ensure that an updated review is performed and on file.

**Proposed Completion Date:** Immediately.

Auditor Response:

Condition 6: IDIS No. 598 - The homeowner's property insurance coverage was not timely obtained.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-011, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-09-ST-690203, M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
Area: Eligibility  
Questioned Costs: \$-0-

Auditor Response, Continued:

Condition 13: Per an email correspondence between HUD's CPD Representative and NMHC's MCD Manager dated January 8, 2014, the eight-hour Homeownership/Homebuyer Education and Counseling 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 conducted the eight-hour counseling session for those applicant(s) whose loans had not closed as of February 2014. Upon completion of the session, the applicant(s) signed the Homeownership/Homebuyer Education worksheet and a certificate of attendance was issued to the applicant(s).

Further, per HUD's determination letter dated July 5, 2016 related to a similar finding raised for fiscal year September 30, 2014, all subsequent households must complete the eight-hour counseling session. The loan agreements for HR-556 and HP-613 were executed on June 17, 2014 and February 25, 2015, which were four months and one year, respectively, after the February 2014 effective date of the eight-hour counseling curriculum.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-012  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Reporting  
 Questioned Costs: \$-0-

Criteria: The Program is required to submit an SF 425, Federal Financial Report that is accurately prepared.

Condition: Of the quarterly SF 425 reports tested, we noted the following:

1. Cash receipts and disbursements reported on page 1, lines 10a and 10b, were based on cash drawdowns and disbursement during the quarter and not based on cumulative amounts, resulting in the following variances.

Quarter Ended 03/31/15:

<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
10a	Cash receipts	\$ 230,741	\$ 696,064	\$ (465,323)
10b	Cash disbursements	\$ 230,741	\$ 696,064	\$ (465,323)

Quarter Ended 09/30/15:

<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
10a	Cash receipts	\$ 99,898	\$ 1,067,617	\$ (967,719)
10b	Cash disbursements	\$ 99,898	\$ 1,067,617	\$ (967,719)

2. Total federal funds authorized and federal share of expenditures reported on page 1, lines 10d and 10e, include expired grant awards for Program Years 1993 through 2009 while grant awards reported on page 2 line 5 cover Program Years 2010 through 2014, resulting in the following variances:

Quarter Ended 03/31/15:

<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
10d	Total federal funds authorized	\$ 10,009,785	\$ 2,241,652	\$ 7,768,133
10e	Federal share of expenditures	\$ 8,614,914	\$ 696,064	\$ 7,918,850

Quarter Ended 09/30/15:

<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>	<u>Cumulative Amounts Per Underlying Accounting Documents</u>	<u>Variance</u>
10d	Total federal funds authorized	\$ 10,009,785	\$ 2,241,652	\$ 7,768,133
10e	Federal share of expenditures	\$ 8,840,750	\$ 1,067,617	\$ 7,773,133



NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-012, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Reporting  
 Questioned Costs: \$-0-

Condition, Continued:

3. Federal program income earned and expended were reported on page 1, line 10l and 10m and also on page 2, line 5 but were combined with HOME project costs disbursements per grant award M-14-ST-690203 instead of segregating the amounts as program income expended. In addition, amounts reported were based on program income earned and expended during the quarter and were not based on cumulative amounts.

Quarter Ended 03/31/15:

<u>Page Number</u>	<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>		
1	10l	Total federal program income earned		\$ 56,053	
1	10m	Program income expended - deduction alternative		\$ 56,053	
2	5	HOME project under grant award M-14-ST-690203		\$ 56,053	
					Cumulative Amounts Per Underlying Accounting Documents
<u>Page Number</u>	<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>		<u>Variance</u>
2	5	Total federal program income earned:			
		M10ST690203	\$ -	\$ 187,775	\$ (187,775)
		M11ST690203	\$ -	\$ 261,642	\$ (261,642)
		M12ST690203	\$ -	\$ 219,789	\$ (219,789)
		M13ST690203	\$ -	\$ 139,746	\$ (139,746)
		M14ST690203	\$ -	\$ 99,559	\$ (99,559)
2	5	Program income expended - deduction alternative:			
		M10ST690203	\$ -	\$ 187,775	\$ (187,775)
		M11ST690203	\$ -	\$ 261,642	\$ (261,642)
		M12ST690203	\$ -	\$ 231,517	\$ (231,517)
		M13ST690203	\$ -	\$ 137,916	\$ (137,916)
		M14ST690203	\$ -	\$ 99,559	\$ (99,559)

Quarter Ended 09/30/15:

<u>Page Number</u>	<u>Line Item</u>	<u>Description</u>	<u>Per SF 425</u>
1	10l	Total federal program income earned	\$ 41,456
1	10m	Program income expended - deduction alternative	\$ 41,456
2	5	HOME project under grant award M-14-ST-690203	\$ 41,456

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-012, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Reporting  
 Questioned Costs: \$-0-

Condition, Continued:

Quarter Ended 09/30/15, Continued:

Page Number	Line Item	Description	Per SF 425	Cumulative Amounts Per Underlying Accounting Documents	Variance
2	5	Total federal program income earned:			
		M10ST690203	\$ -	\$ 187,775	\$ (187,775)
		M11ST690203	\$ -	\$ 261,642	\$ (261,642)
		M12ST690203	\$ -	\$ 219,789	\$ (219,789)
		M13ST690203	\$ -	\$ 139,746	\$ (139,746)
		M14ST690203	\$ -	\$ 205,340	\$ (205,340)
2	5	Program income expended - deduction alternative:			
		M10ST690203	\$ -	\$ 187,775	\$ (187,775)
		M11ST690203	\$ -	\$ 261,642	\$ (261,642)
		M12ST690203	\$ -	\$ 231,517	\$ (231,517)
		M13ST690203	\$ -	\$ 137,916	\$ (137,916)
		M14ST690203	\$ -	\$ 202,004	\$ (202,004)

4. Expenditures reported for each grant award on page 2, line 5, were based on expenditures incurred during the quarter and were not based on cumulative amounts, resulting in the following variances:

Quarter Ended 03/31/15:

Description	Per SF 425	Cumulative Amounts Per Underlying Accounting Documents	Variance
M-10-ST-690203 - Admin funds	\$ 6,254	\$ 90,867	\$ (84,613)
M-10-ST-690203 - HOME project costs	\$ 204,867	\$ 510,533	\$ (305,666)
M-11-ST-690203 - Admin funds	\$ 16,618	\$ 85,508	\$ (68,890)
M-11-ST-690203 - HOME project costs	\$ 3,002	\$ -	\$ 3,002
M-12-ST-690203 - Admin funds	\$ -	\$ 2,902	\$ (2,902)
M-14-ST-690203 - HOME project costs	\$ 56,053	\$ -	\$ 56,053

Quarter Ended 09/30/15:

Description	Per SF 425	Cumulative Amounts Per Underlying Accounting Documents	Variance
M-10-ST-690203 - Admin funds	\$ -	\$ 97,121	\$ (97,121)
M-10-ST-690203 - HOME project costs	\$ -	\$ 550,353	\$ (550,353)
M-11-ST-690203 - Admin funds	\$ -	\$ 85,508	\$ (85,508)
M-11-ST-690203 - HOME project costs	\$ 53,728	\$ 212,670	\$ (158,942)
M-12-ST-690203 - Admin funds	\$ -	\$ 53,217	\$ (53,217)
M-13-ST-690203 - Admin funds	\$ 26,275	\$ 48,853	\$ (22,578)
M-14-ST-690203 - HOME project costs	\$ 41,456	\$ -	\$ 41,456

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-012, Continued  
 Federal Agency: U.S. Department of Housing and Urban Development  
 CFDA Program: 14.239 HOME Investment Partnerships Program  
 Federal Award No.: M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
 Area: Reporting  
 Questioned Costs: \$-0-

Condition, Continued:

5. Per the SF 425 instructions, lines 2, 5 and 8 on page 1 are not required to be completed as NMHC is reporting on multiple awards. However, although not required, we noted that NMHC reported inaccurate information on these line items:

Quarter Ended 03/31/15:

<u>Line Item</u>	<u>Per SF 425</u>	<u>Grant Awards Cumulative Cash Drawdowns And Expenses Incurred as of the Reporting Quarter</u>
2	Federal Grant Or Other Identifying Number: M07ST690203, M08ST690203, M09ST690203, M10ST690203, M11ST690203, M12ST690203	Federal Grant Or Other Identifying Number: M10ST690203, M11ST690203, M12ST690203, M13ST690203 and M14ST690203
5	Recipient Account Number: 410.53700, 411.53700, 411.53704, 413.53704, 414.53704	Recipient Account Number: 410.53700, 411.53700, 412.53700, 413.53700, 413.53704, 414.53700 and 414.53704
8	Project/Grant Period: 10/01/10 - 09/30/12	Project/Grant Period: 10/01/10 - 10/31/19

Quarter Ended 09/30/15:

<u>Line Item</u>	<u>Per SF 425</u>	<u>Grant Awards Cash Drawdowns and Expenses Incurred as of the Reporting the Quarter</u>
2	Federal Grant Or Other Identifying Number: M11ST690203, M13ST690203 and M14ST690203	Federal Grant Or Other Identifying Number: M10ST690203, M11ST690203, M12ST690203, M13ST690203 and M14ST690203
5	Recipient Account Number: 411.53704, 411.53700, 413.53704, 413.53700, 414.53704 and 414.53700	Recipient Account Number: 410.53700, 411.53700, 412.53700, 413.53700, 413.53704, 414.53700 and 414.53704
8	Project/Grant Period: 10/01/09, 10/01/10, 10/01/11, 10/01/12 and 10/01/13	Project/Grant Period: 10/01/10 - 10/31/19

Cause: The cause of the above condition is SF 425 instruction guidelines are not being followed. Program personnel believe the existing report preparation process is acceptable to the grantor because the Program has not received grantor communications to correct reported data.

Effect: The effect of the above condition is noncompliance with SF 425 instruction guidelines. No questioned cost is presented as cash receipts, disbursements and program income were reported in the quarterly reports.

Recommendation: We recommend that the Program take reasonable steps to effectively comply with SF 425 instruction guidelines.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-012, Continued  
Federal Agency: U.S. Department of Housing and Urban Development  
CFDA Program: 14.239 HOME Investment Partnerships Program  
Federal Award No.: M-10-ST-690203, M-11-ST-690203, M-12-ST-690203, M-13-ST-690203 and M-14-ST-690203  
Area: Reporting  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Roger A. Dris, Chief Accountant and Rex I. Palacios, Chief Financial Officer

**Corrective Action:** NMHC took reasonable steps to effectively comply with the latest preparation guidelines in preparing SF 425s. The grantor had not informed NMHC of any exceptions in its filings of SF 425s. NMHC will review the auditor's findings against the grantor's instructions to implement corrections as warranted. Furthermore, NMHC will communicate with the grantor regarding this finding. As soon as the grantor pointed out which corrections are warranted, NMHC will follow their recommendation and make corrections accordingly.

**Proposed Completion Date:** Fiscal year 2017

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-013  
 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: \$49,824

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 active and deferred loans noted the following:

- For three (or 6%) of forty-six active loan receivables tested, totaling \$2,255,622 of a total population of \$7,413,335 active loan receivables as of September 30, 2015, documentation of annual re-certifications performed in fiscal year 2015 could not be provided as follows:

Loan No.	Loan Principal	Dates of Last Certifications			Subsequent Re-certification
		FY 2013	FY 2014	FY 2015	
HP-518	\$ 54,418	-	03/13/14	-	10/29/15
HP-538	\$ 46,971	-	10/31/13	-	07/27/16
HR-404A	\$ 29,610	03/11/13	-	-	10/23/15

No questioned costs are presented for this condition as annual re-certifications were subsequently performed.

- For eleven (or 50%) of twenty-two deferred loan receivables tested, totaling \$1,009,391 of a total population of \$3,530,658 deferred loans receivable as of September 30, 2015, documentation of annual re-certifications performed in fiscal year 2015 could not be provided as follows:

Loan No.	Loan Principal	Dates of Last Certifications			Subsequent Re-certification	Questioned Costs
		FY 2013	FY 2014	FY 2015		
DHNC-586	\$ 57,000	-	-	-	05/15/16	\$ -
DHL-201	\$ 42,324	-	-	-	None	42,324
DHL-216	\$ 15,250	-	04/20/14	-	07/29/16	-
DHL-227	\$ 30,000	-	04/25/14	-	07/29/16	-
DHL-236	\$ 7,500	-	-	-	None	7,500
DHL-249	\$ 60,358	04/05/13	-	-	08/31/16	-
DHNC-385	\$ 57,000	08/21/13	-	-	07/27/16	-
DHNC-495	\$ 54,400	-	01/23/14	-	05/03/16	-
DHP-428	\$ 57,000	-	08/07/14	-	07/29/16	-
DHP-603	\$ 52,000	-	-	-	05/25/16	-
DHR-357	\$ 40,000	-	-	-	07/29/16	-
						\$ <u>49,824</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-013, 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: \$49,824

Condition, Continued:

No questioned costs result where annual re-certifications were subsequently performed.

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 and questioned costs of \$49,824 exist for Condition 2.

Recommendation: NMHC should implement controls over compliance with established policies and procedures and internal control protocol for Homeowner Rehabilitation. The responsible personnel should maintain a list of all deferment agreements, plan and schedule annual re-certifications, and monitor performance of the annual recertification plan. NMHC should issue the initial recertification reminder notice to households at least two months before the annual date and to send a second reminder one month before the due date, if an appointment has yet to be scheduled. Further, NMHC should inform households in reminder letters and during annual recertification meetings that they must continue to meet the income and other requirements of receiving a deferment and to provide the ultimate expiration date of the deferment so that households are notified in advance of repayment requirements after the deferment period ends.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Chris Pangelinan, MCD Manager and Alice Concepcion, Loan Specialist I

**Corrective Action:** Fiscal year and client's re-certification due dates (mortgage date) may overlap. Re-certifications in general is to affirm that their home serves as their primary residence, that it is not sold, transferred, rented or abandoned. Although untimely, annual re-certifications were completed and/or actions were taken on behalf of each loan noted in Conditions 1 and 2 and it was not blatantly ignored; therefore, questioned costs should not be imposed. For the most part, a finding for untimely completion of annual re-certifications may be imposed. Clients are informed of the importance of a yearly re-certification upon loan closing. In addition, upon completion of their first re-certification and upon issuance of their letter of re-certification, it states the next due date that they are required to submit to another re-certification.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-013, 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: \$49,824

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

As an added measure, reminder notices and field visits are conducted by MCD staff. On a case by case basis, extenuating circumstances may have arisen that attributed to the untimely completion of annual re-certifications. We dispute questioned costs for all of the following items listed.

Audit Status	Loan No.	Loan Principal	RE-CERTIFICATION DATES COMPLETED			Comments
			FY 2013	FY 2014	FY 2015	
Disputed	HP-518	\$ 54,418	10/31/13	03/14/14	10/29/15	Untimely re-certification. Due every March.
Disputed	HP-538	\$ 46,971	n/a	11/06/13	07/27/16	1st re-certification due November 2013 and every November thereafter. Notices sent 09/26/14 and 07/19/16. Re-certified on 07/27/16.
Disputed	HP-404A	\$ 29,610	03/18/13	none	10/23/15	Untimely re-certification. Due every March. Notices sent on 07/25/16.
Disputed	DHNC-586	\$ 57,000	n/a	n/a	05/15/16	Mortgage was executed on July 22, 2014; however, a certificate of occupancy was issued on 02/11/15. Re-certified on 05/15/16.
Disputed	DHL-201	\$ 42,324	none	none	none	Notices sent on 06/19/13. Memo monitoring until 03/27/14 and notices sent on 10/23/15.
Disputed	DHL-216	\$ 15,250	05/18/12	04/25/14	none	Untimely re-certification. Due every December.
Disputed	DHL-227	\$ 30,000	none	04/28/14	none	Untimely re-certification. Due every March.
Disputed	DHL-236	\$ 7,500	n/a	n/a	n/a	Account has been referred to attorney for collection.
Disputed	DHL-249	\$ 60,358	05/01/13	none	none	Untimely re-certification. Due every May. Memo to file - follow-up field visit to remind client's representative to complete affidavit.
Disputed	DHNC-385	\$ 57,000	08/21/13	none	07/27/16	Untimely re-certification. Due every July. Re-certified on 07/27/16.
Disputed	DHNC-495	\$ 54,400	05/06/13	01/27/14	05/03/16	Untimely re-certification. Due every May. Re-certified on 05/03/16.
Disputed	DHP-428	\$ 57,000	08/02/13	08/12/14	none	Untimely re-certification. Due every May. Sent notice on 03/21/16 to comply.
Disputed	DHP-603	\$ 52,000	n/a	n/a	05/25/16	First re-certification due fiscal year 2016. Re-certified on 05/11/16.
Disputed	DHR-357	\$ 40,000	none	none	none	Notices sent on 07/23/15 and 10/20/15. On 01/15/14, borrower's representative was reminded to complete annual re-certification. Deceased borrower (pending receipt of death certificate).

**Proposed Completion Date:** Immediately

Auditor Response: Documentation of re-certifications performed within fiscal year 2015 were not provided.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2015

Finding No.: 2015-014  
 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: \$11,880

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

Condition: Tests of sixty tenant files noted one tenant (or 2%) for which deductions claimed include allowances for dependents which are not the legal children of the household head/co-head. There was no court order (court appointed legal adoption by the court) on file approving such legal guardianship for the minors; only a general power of attorney from the biological parents.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>Dependents Claimed that are not Legal Children (Household Member Ref. No.)</u>	<u>Allowance Claimed</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
HO1570	10/03/14	10/01/14	5 and 6	\$ 960	\$ 990 x 12	\$ 11,880

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

Effect: NMHC is in noncompliance with applicable eligibility requirements and questioned costs of \$11,880 exist.

Prior Year Status: Noncompliance with applicable eligibility requirements was reported as Finding No. 2014-011 in the Single Audit of NMHC for fiscal year 2014.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** David Chargualaf, PHD Manager

**Corrective Action:** The opinion on the matter was never sought from NMHC's Legal Counsel due to previous management oversight at the time. Specific instructions have been given to the PHD Housing Specialists and Field Office Representatives to only accept Court-Appointed Guardianship documentation. Household members cited under this finding have since been removed from the household.

**Proposed Completion Date:** Completed.



NORTHERN MARIANAS HOUSING CORPORATION

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2015

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, 2015:

Questioned costs as previously reported:

Fiscal year 2014	\$ 64,692
Fiscal year 2013	42,216
Fiscal year 2012	<u>87,006</u>

193,914

Less questioned costs resolved in fiscal year 2015:

Questioned costs of fiscal years 2012 Single Audit (a)	(87,006)
Questioned costs of fiscal years 2013 Single Audit (a)	<u>(42,216)</u>

64,692

Questioned costs of fiscal year 2015 Single Audit

188,471

Unresolved questioned costs at September 30, 2015

\$ 253,163

- (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

P.O. BOX 500514, Saipan, MP 96950-0514

Tels. (670) 234-6866  
 234-9447  
 234-7689  
 234-7670  
 Fax: (670) 234-9021

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINANCIAL STATEMENT FINDINGS

Finding No. 2014-001 - Not corrected. See corrective action plan to Finding No. 2015-001.  
 Finding No. 2014-002 - Finding resolved.

### FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding No. 2014-003 - Not corrected. See corrective action plan to Finding No. 2015-004.  
 Finding No. 2014-004 - Not corrected. See corrective action plan to Finding No. 2015-005.  
 Finding No. 2014-005 - Not corrected. See corrective action plan to Finding No. 2015-006.  
 Finding No. 2014-006 - Not corrected. See corrective action plan to Finding No. 2015-008.  
 Finding No. 2014-007 - Not corrected. No similar finding noted in fiscal year 2015.  
 Finding No. 2014-008 - Not corrected. No similar finding noted in fiscal year 2015.  
 Finding No. 2014-009 - Finding resolved.  
 Finding No. 2014-010 - Finding resolved.  
 Finding No. 2014-011 - Not corrected. See corrective action plan to Finding No. 2015-014.

Finding No.	CFDA No.	Program Name	Questioned Costs
Questioned costs of fiscal year 2012 Single Audit:			
2012-05	14.195	Section 8 Housing Assistance Payments Program	\$ 220
2012-08	14.195	Section 8 Housing Assistance Payments Program	6,608
2012-09	14.195	Section 8 Housing Assistance Payments Program	19,826
2012-10	14.195	Section 8 Housing Assistance Payments Program	389
2012-11	14.195	Section 8 Housing Assistance Payments Program	24,996
2012-12	14.195	Section 8 Housing Assistance Payments Program	11,469
2012-14	14.195	Section 8 Housing Assistance Payments Program	390
2012-15	14.195	Section 8 Housing Assistance Payments Program	9,351
2012-31	14.871	Section 8 Housing Choice Vouchers	3,200
2012-32	14.871	Section 8 Housing Choice Vouchers	4,218
2012-35	14.871	Section 8 Housing Choice Vouchers	2,200
2012-37	14.871	Section 8 Housing Choice Vouchers	<u>4,139</u>
			<u>87,006</u>
Questioned costs of fiscal year 2013 Single Audit:			
2013-004	14.195	Section 8 Housing Assistance Payments Program	10,359
2013-006	14.195	Section 8 Housing Assistance Payments Program	18,092
2013-012	14.239	HOME Investment Partnerships Program	13,015
2013-014	14.871	Section 8 Housing Choice Vouchers	<u>750</u>
			<u>42,216</u>
			\$ <u>129,222</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.

**"NMHC is a fair housing agency and an equal opportunity, lender and employer"**