

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

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2016

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, 2016, 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 January 24, 2018. 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 opinions 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 2016-001, 2016-002 and 2016-005 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 2016-005 and 2016-007.

NMHC's Responses to Findings

NMHC's responses to the findings identified in our audit are described in the corrective action plan. 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

January 24, 2018

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 THE UNIFORM GUIDANCE

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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NMHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NMHC's compliance.

Basis for Qualified Opinion on Each Major Federal Program

As described in Findings 2016-003 through 2016-007 in the accompanying Schedule of Findings and Questioned Costs, NMHC did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2016-003	14.195	Section 8 Housing Assistance Payments Program	Eligibility
2016-004	14.195	Section 8 Housing Assistance Payments Program	Special Tests and Provisions
2016-005	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Equipment and Real Property Management
2016-006	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Special Tests and Provisions
2016-007	14.239	HOME Investment Partnerships Program	Eligibility

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

Qualified Opinion on Each Major Federal Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, NMHC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-008. Our opinion on each major federal program is not modified with respect to these matters.

NMHC’s response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. NMHC’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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 a 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 2016-003 through 2016-007 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 item 2016-008 to be significant deficiencies.

NMHC's response to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. NMHC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of NMHC as of and for the year ended September 30, 2016, and have issued our report thereon dated January 24, 2018, 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 is presented for purposes of additional analysis as required by the Uniform Guidance 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 Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Deloitte & Touche LLC

January 24, 2018

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Housing and Urban Development Direct Programs			
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program	14.195	\$ -	\$ 1,305,473
Total Section 8 Project-Based Cluster		-	1,305,473
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants/Special Purpose Grants/Insular Area	14.225	194,473	358,801
Total CDBG - Entitlement Grants Cluster		194,473	358,801
Emergency Solutions Grant Program	14.231	-	46,776
HOME Investment Partnerships Program	14.239	-	6,240,285
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	-	3,174,481
Total Housing Voucher Cluster		-	3,174,481
<i>Total U.S. Department of Housing and Urban Development</i>		<u>194,473</u>	<u>11,125,816</u>
Total Expenditures of Federal Awards		<u>\$ 194,473</u>	<u>\$ 11,125,816</u>

See accompanying notes to schedule of expenditures of federal awards.

Reconciliation of Statement of Revenues, Expenses and Changes in
Net Position to expenditures:

Operating expenses:

Section 8 rental	\$ 2,655,611
HOME Investment Partnership Program Grant	660,042
CDBG Program	328,368
HOME Investment Partnership Grant program income	204,929
ESG Program	46,776
NSP Grant	30,433
HOME Investment Partnerships Program loans included in loans receivable	5,375,314
Section 8 HAP expenditures included in operations	<u>1,824,343</u>
Federal award expenditures per above	<u>\$ 11,125,816</u>

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2016

(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 Single Audit. The U.S. Department of Housing and Urban Development is NMHC's oversight agency for the Single Audit.

(2) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of NMHC under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of NMHC, it is not intended to and does not present the financial position, changes in net position or cash flows of NMHC.

(3) 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. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Disbursements made to subrecipients related to grant agreements are reported as expenditures.

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 - NMHC received these funds in a direct capacity in fiscal year 2016; 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.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2016

(3) Summary of Significant Accounting Policies, Continued

d. Indirect Costs

NMHC does not have an indirect cost negotiation agreement and does not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. NMHC does not allocate indirect costs to programs.

(4) 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. Balances and transactions relating to the HOME program are included NMHC's financial statements. Loans made during the year and the balances of loans from previous years for which the federal government imposes continuing compliance requirements are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at September 30, 2016 for CFDA Program 14.239 HOME Investment Partnerships Program is \$5,332,092.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

- | | | |
|----|--|---------------|
| 1. | Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: | 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: | Qualified | | | | | | | | | | |
| 8. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes | | | | | | | | | | |
| 9. | Identification of major federal programs: | | | | | | | | | | | |
| | <table border="0" style="margin-left: 20px;"> <tr> <td style="text-align: right;">CFDA</td> <td></td> </tr> <tr> <td style="text-align: right;"><u>Numbers</u></td> <td><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td style="text-align: right;">14.195</td> <td>Section 8 Project-Based Cluster:
Section 8 Housing Assistance Payments Program</td> </tr> <tr> <td style="text-align: right;">14.225</td> <td>CDBG - Entitlement Grants Cluster:
Community Development Block Grants/Special Purpose Grants/Insular Area</td> </tr> <tr> <td style="text-align: right;">14.239</td> <td>HOME Investment Partnerships Program</td> </tr> </table> | CFDA | | <u>Numbers</u> | <u>Name of Federal Program or Cluster</u> | 14.195 | Section 8 Project-Based Cluster:
Section 8 Housing Assistance Payments Program | 14.225 | CDBG - Entitlement Grants Cluster:
Community Development Block Grants/Special Purpose Grants/Insular Area | 14.239 | HOME Investment Partnerships Program | |
| CFDA | | | | | | | | | | | | |
| <u>Numbers</u> | <u>Name of Federal Program or Cluster</u> | | | | | | | | | | | |
| 14.195 | Section 8 Project-Based Cluster:
Section 8 Housing Assistance Payments Program | | | | | | | | | | | |
| 14.225 | CDBG - Entitlement Grants Cluster:
Community Development Block Grants/Special Purpose Grants/Insular Area | | | | | | | | | | | |
| 14.239 | HOME Investment Partnerships Program | | | | | | | | | | | |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 | | | | | | | | | | |
| 11. | Auditee qualified as low-risk auditee? | No | | | | | | | | | | |

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Reference Number</u>	<u>Finding</u>
2016-001	Loans Receivable
2016-002	Loan Guarantee Agreements
2016-005	Fixed Assets
2016-007	Eligibility

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CDFA Numbers</u>	<u>Finding</u>	<u>Questioned Costs</u>
2016-003	14.195	Eligibility	\$ -
2016-004	14.195	Special Tests and Provisions - Housing Quality Standards (HQS)	92,621
2016-005	14.225	Equipment and Real Property Management	-
2016-006	14.225	Special Tests and Provisions - Wage Rate Requirements	-
2016-007	14.239	Eligibility	972,126
2016-008	14.239	Program Income	71,447
			<u>\$ 1,136,194</u>

NORTHERN MARIANAS HOUSING CORPORATION
Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-001
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, 2016. This analysis revealed that loans, including interest, which are over one hundred twenty (120) days past due amounted to \$3,298,141 or 38.26% of \$8,620,154 in total loans and interest outstanding, excluding HOME deferred loans receivable as of September 30, 2016. An audit adjustment of \$395,311 was proposed to correct the allowance for loans receivable as of September 30, 2016.

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.

Identification as a Repeat Finding: Finding No. 2015-001.

Views of Auditee and Planned Corrective Action:

NMHC describes corrective action in the Corrective Action Plan.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-002
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, 2016, NMHC's related loan guarantees amounted to \$11,009,738. Of that total, approximately \$6,725,092 is delinquent and past due, of which NMHC has received demand notices of \$4,187,162 and recorded liabilities of \$3,337,642; 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.

Identification as a Repeat Finding: Finding No. 2015-002.

Views of Auditee and Planned Corrective Action:

NMHC describes corrective action in the Corrective Action Plan.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-003
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Area: Eligibility
Questioned Costs: \$-0-

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. Provide applicants and tenants with the HUD Fact Sheet, a copy of the Resident Rights and Responsibilities brochure, and a copy of the EIV & You brochure.

Condition: Of eighteen tenant files tested, aggregating \$19,673 of a total population of \$1,305,473, we noted deficiencies. Any resulting questioned cost is based on the monthly HAP amount and number of months certified during fiscal year 2016.

1. Documents required to be provided to tenants and applicants annually did not indicate anywhere that these were actually provided, as follows:
 - a. For seventeen (or 94%), eligibility documentation performed annually did not indicate that the Resident Rights & Responsibilities brochure was provided to tenants.

<u>Section 8 Number</u>	<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
TQ100011005	M02	09/01/16	05/01/16	\$ 1,260
TQ100011005	M37	08/01/16	07/01/16	\$ 1,260
TQ100011005	M21	06/01/16	06/01/16	\$ 1,260
TQ100011005	M09	04/01/16	03/01/16	\$ 1,260
TQ100011005	M43	03/01/16	03/01/16	\$ 1,005
TQ100011005	M22	01/01/16	01/01/16	\$ 1,260
TQ100011005	M04	11/01/15	11/01/15	\$ 930
TQ100011005	M33	10/01/15	08/01/15	\$ 1,148
TQ100016004	K09B	07/01/16	06/01/16	\$ 949
TQ100016004	K02A	04/01/16	12/01/15	\$ 870
TQ100016004	K22B	02/01/16	12/01/15	\$ 786
TQ100016004	K05	11/01/15	09/01/15	\$ 1,088
TQ100006004	R18	04/01/16	10/01/15	\$ 1,055
TQ100006004	R18	10/01/15	10/01/15	\$ 1,055
TQ100011001	T06	06/01/16	06/01/16	\$ 1,078
TQ100011001	T19	03/01/16	03/01/16	\$ 1,276
TQ100011001	T11	12/01/15	11/01/15	\$ 1,078

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-003, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Area: Eligibility
Questioned Costs: \$-0-

Condition, Continued:

- b. For three (or 17%), eligibility documentation performed annually did not indicate that the EIV & You brochure was provided to tenants.

<u>Section 8 Number</u>	<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
TQ100011001	T06	06/01/16	06/01/16	\$ 1,078
TQ100011001	T19	03/01/16	03/01/16	\$ 1,276
TQ100011001	T11	12/01/15	11/01/15	\$ 1,078

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

2. For one (or 6%) under Section 8 number TQ100011001, 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>Date of EIV Printed</u>	<u>Date of Eligibility Certification</u>	<u>Questioned Costs</u>
T19	03/01/16	03/01/16	02/03/16	02/01/16	\$ 1,276

3. For one (or 6%) under Section 8 number TQ100011001, such forms as zero income, assets disposition, affidavit as to assets, child care expenses, and fraud affidavit were on file, but the forms were blank, with no indication as to whether the forms are applicable to the tenant.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
T06	06/01/16	06/01/16	\$ 1,078 x 4	\$ 4,312

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

Effect: NMHC is in noncompliance with applicable eligibility requirements and projected questioned costs exceed the threshold for a reportable finding. Questioned costs for Condition 2 and 3 are not presented at this finding as they are reported at Finding 2016-004.

Recommendation: NMHC should strengthen controls over compliance with applicable eligibility requirements by having a check list and reviewing them against the tenant files to ascertain that all required forms and information were completed and filed accordingly.

Identification as a Repeat Finding: Finding No. 2015-004

Views of Auditee and Planned Corrective Action:

NMHC disputes Condition 2 and describes corrective action for the other conditions in the Corrective Action Plan.

Auditor Response: For Condition 2, documentation dates show that eligibility certification was performed before the EIV report was generated.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-004
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Area: Special Tests and Provisions - Housing Quality Standards
Questioned Costs: \$92,621

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. 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 eighteen tenant files tested, aggregating \$19,673 of a total population of \$1,305,473, we noted deficiencies. Any resulting questioned cost is based on the monthly HAP amount and the number of months certified during fiscal year 2016.

1. For four (or 22%) under Section 8 number TQ100011005, NMHC inspector reports for the following units indicated deficiencies; however, no work orders were provided to substantiate that deficiencies were addressed and/or repairs were timely completed.

<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>
M21	06/01/16	08/16/16	Inconclusive	\$ 1,260 x 4	\$ 5,040
M09	03/01/16	03/23/16	Inconclusive	\$ 1,260 x 7	8,820
M43	03/01/16	11/12/15	Inconclusive	\$ 1,005 x 7	7,035
M33	08/01/15	05/15/15	Inconclusive	\$ 1,148 x 12	13,776
					<u>\$ 34,671</u>

2. For four (or 22%) under Section 8 number TQ100011005 for unit M series and number TQ100016004 for unit K, NMHC inspector reports for the following units indicated deficiencies for both the tenant and NMHC; however, work orders indicated that the repairs were not timely completed within 30 days after inspection was performed, ranging from one to sixteen months overdue. Further, work orders did not indicate whether deficiencies for the tenant were corrected and charged to the tenant.

<u>Unit No.</u>	<u>Certification Effective</u>	<u>Date of Inspection</u>	<u>Date of Completion</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
M02	05/01/16	01/15/16	06/23/17	\$ 1,260 x 5	\$ 6,300
M37	07/01/16	12/22/15	04/06/17	\$ 1,260 x 3	3,780
M04	11/01/15	03/01/16	08/30/16	\$ 930 x 11	10,230
K05	09/01/15	02/08/16	04/07/16	\$ 1,088 x 12	13,056
					<u>\$ 33,366</u>

3. For one (or 6%) under Section 8 number TQ100011005, NMHC inspector reports for the following unit indicated deficiencies; however, work orders indicated that the repairs were not timely completed within 30 days after inspection, but were delayed by fifteen months.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-004, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
 Area: Special Tests and Provisions - Housing Quality Standards
 Questioned Costs: \$92,621

Condition, Continued:

<u>Unit No.</u>	<u>Certification Effective</u>	<u>Date of Inspection</u>	<u>Date of Completion</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
M22	01/01/16	11/10/15	03/28/17	\$ 1,260 x 9	\$ 11,340

4. For two (or 11%) under Section 8 number TQ100011001, NMHC inspector reports for the following units indicated deficiencies. Although work orders were prepared to correct the deficiencies, there is no evidence that the work orders were completed.

<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>
T06	06/01/16	03/02/16	Pass	\$ 1,078 x 4	\$ 4,312
T19	03/01/16	03/02/16	Pass	\$ 1,276 x 7	<u>8,932</u>
					\$ <u>13,244</u>

Cause: NMHC did not effectively apply recordkeeping controls over compliance with applicable special tests and provisions requirements for housing quality standards. Further, delays from the final clearance from the Fiscal Division in releasing the purchase orders to the vendors to procure materials also contributed to the noncompliance.

Effect: NMHC is in noncompliance with applicable special tests and provisions requirements for housing quality standards, and questioned costs of \$92,621 exist.

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ 34,671
2	33,366
3	11,340
4	<u>13,244</u>
	\$ <u>92,621</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.

Identification as a Repeat Finding: Finding No. 2015-006

Views of Auditee and Planned Corrective Action:

NMHC describes corrective action in the Corrective Action Plan.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-005
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-13-ST69-0001 and B-14-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 requirements, including the following:

1. Property records must be maintained that include a description of the property and a serial number or other identification number, among other data elements; and
2. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property.
3. 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 (\$422,179) and the Fiscal Division's records (\$49,896), resulting in a variance of \$372,283.
2. Tags for all assets in the Fiscal Division's records (Asset #s 1722, 1723, 3824 and 4310), aggregating \$422,179, did not match the master listing (NMHC tag #s 3920, 3950, 3954 and 3957).
3. One asset with a description of Valley Inn property in the Fiscal Division's records costing \$380,000 is missing in the master listing.
4. Inventory performed for one subrecipient indicated discrepancies in the count. 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.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-005, 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-13-ST69-0001 and B-14-ST69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Effect, Continued:

<u>Fiscal Year</u>	<u>Total Capital Outlays</u>
2016	\$ 164,040
2015	\$ 938,301
2014	\$ 1,046,291

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.

Identification as a Repeat Finding: Finding No. 2015-008

Views of Auditee and Planned Corrective Action:

NMHC describes corrective action in the Corrective Action Plan.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-006
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award No.: B-12-ST69-0001 and B-13-ST69-0001
Area: Special Tests and Provisions - Wage Rate Requirements
Questioned Costs: \$-0-

Criteria: In accordance with applicable special tests and provisions for wage rate requirements, the grantee should periodically conduct interviews throughout the course of the construction and prepare Form HUD-11 Record of Employee Interview.

Condition: For one (or 33%) of three projects tested, aggregating \$194,473 of \$358,801 in total program costs, NMHC did not perform required on-site interviews for the following:

<u>Contract Number</u>	<u>FY 2016 Construction Costs</u>
NMHC-2014-PSS-003	\$ 116,580

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 requirement. No questioned cost is presented as wages reported per project are within the prevailing wage rate.

Recommendation: We recommend that NMHC comply with on-site job interviews required by applicable special tests and provisions for wage rate requirements.

Identification as a Repeat Finding: Finding No. 2015-010

Views of Auditee and Planned Corrective Action:

NMHC describes corrective action in the Corrective Action Plan.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
M04ST690203, M05ST690203, M06ST690203, M07ST690203,
M08ST690203, M09ST690203, M10ST690203, M11ST690203,
M12ST690203, M13ST690203, M14ST690203, M15ST690203
and M16ST690203
Area: Eligibility
Questioned Costs: \$972,126

Criteria: In accordance with applicable eligibility requirements, existing borrowers must satisfy annual requirements, and initial applicants must be qualified homebuyers or homeowners in order to receive HOME funds. For homeownership housing projects imposing recapture/resale restrictions, records must be retained for five years after the affordability period terminates.

Annual Requirements:

1. Upon completion of the HOME assisted project and during the term of the loan, the homebuyer shall be required to maintain, at personal expense, property insurance on the mortgaged property for fire, earthquake, typhoon, and flood damage covering the replacement value of all properties at a minimum equal to the loan amount.
2. All HOME-assisted borrowers, regardless of the type of assistance provided, shall be recertified annually to demonstrate compliance with the affordability restrictions.
3. Borrowers must own the HOME-funded property and occupy the property as their principal residence throughout the NMHC affordability period. Temporary subleases are not allowed. Since the CNMI currently does not have street addresses, proof of residency must be verified on an annual basis through an affidavit signed by the applicant(s). In addition, homeowners must submit copies of utility or telephone billings which reflect their names and addresses.
4. Borrowers with deferment agreements must be recertified annually to determine whether the borrower still lacks financial resources and is eligible for continued deferment.

Application Requirements:

5. NMHC must perform income eligibility prior to providing HOME loan assistance and must use verification methods that are acceptable to HUD. Verification must be made in writing, from a reliable third party, including verification of birth, unemployment status, monthly income, social security income, and tax compliance. Prior to verification, NMHC shall obtain written authorization from the applicant through the HOME Eligibility Release form.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Criteria, Continued:

6. 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.
7. To qualify for rehabilitation assistance, the applicant must own the property under an approved form of ownership.
8. All approved applicants must attend a counseling session that will be provided by NMHC. The counseling session shall coincide with the day that NMHC issues a Commitment Letter to the applicant. Failure to attend a counseling session is grounds for denial of the assistance.
9. HOME rehabilitation activities to be undertaken by NMHC are subject to the environmental review requirements at 24 CFR Part 58. Environmental review and assessment forms must be documented in the Environmental Review Record as evidence of compliance before HOME funds are committed to a specific project site.

Condition:

Of sixty loan files tested for compliance with annual requirements, we noted deficiencies, as enumerated below. Questioned costs, if any, are based on outstanding loan balances as of September 30, 2016 for loan files that lack sufficient documentation to demonstrate compliance with Federal requirements and therefore might no longer satisfy conditions to continue as a Federal investment.

1. For twenty-five (or 42%), homeowner's property insurance coverage was either not in file or was not timely obtained.

Loan Number	Loan Amount	Date of Loan Agreement	Date of Certificate of Occupancy	Expiration Date of Previous Insurance Policy in File	Expiration Date of Recent Insurance Policy in File	Date Recent Insurance Policy was Obtained	Outstanding Loan and Questioned Costs
HR-2010-359 HNC-506	\$ 40,000 \$ 57,000	03/12/10 01/17/12	August 2010 08/14/12	08/26/11 07/12/13	03/09/17 - 03/09/18 02/04/16 - 02/04/17	03/31/17 02/11/16	\$ - -

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Condition, Continued:

Loan Number	Loan Amount	Date of Loan Agreement	Date of Certificate of Occupancy	Expiration Date of Previous Insurance Policy in File	Expiration Date of Recent Insurance Policy in File	Date Recent Insurance Policy was Obtained	Outstanding Loan and Questioned Costs
DHR-461	\$ 40,000	08/09/10	August 2011	01/17/15	01/17/16 - 01/17/17	01/18/16	-
DHNC-451	\$ 54,400	02/15/11	08/15/11	09/01/12	Not in file	Not in file	54,400
DHNC-460	\$ 56,000	04/08/11	07/21/11	07/28/12	Not in file	Not in file	56,000
DHNC-527	\$ 56,000	07/11/12	01/29/13	04/03/15	04/08/16 - 04/08/17	04/13/16	-
DHR-355	\$ 38,193	03/23/10	03/23/10	11/09/12	03/01/16 - 03/01/17	04/01/16	-
DHR-368	\$ 36,000	03/25/10	August 2010	Not in file	Not in file	Not in file	33,941
HL-248	\$ 50,000	07/23/07	October 2007	Not in file	Not in file	Not in file	49,518
HNC-403	\$ 57,000	07/06/10	January 2011	05/01/16	08/16/16 - 08/16/17	08/16/16	-
HNC-566	\$ 57,000	06/17/14	12/31/14	01/16/16	Not in file	Not in file	55,994
HP-517	\$ 56,000	02/17/12	03/27/12	04/17/13	03/08/17 - 03/08/18	03/13/17	-
HP-518	\$ 57,000	03/20/12	05/30/12	06/01/13	12/11/15 - 12/11/16	02/27/16	-
HR-486A	\$ 39,950	05/25/11	06/30/11	12/10/15	12/10/16 - 12/10/17	12/27/16	-
HR-578	\$ 40,000	10/14/14	04/29/15	05/06/16	11/10/16 - 11/10/17	11/15/16	-
HNC-450	\$ 56,000	02/24/11	07/20/11	09/21/12	Not in file	Not in file	55,715
DHL-222A	\$ 30,000	02/28/06	05/22/06	11/03/10	Not in file	Not in file	29,439
HL-198	\$ 49,302	08/19/05	01/25/06	05/05/09	Not in file	Not in file	49,128
HL-209	\$ 50,000	10/19/05	06/15/06	Not in file	Not in file	Not in file	47,291
HL-217	\$ 50,000	02/27/06	07/07/06	Not in file	Not in file	Not in file	46,889
HL-197	\$ 40,000	07/08/05	01/19/06	Not in file	Not in file	Not in file	39,972
HL-194	\$ 26,500	05/19/05	08/02/05	09/26/06	Not in file	Not in file	22,493
DHNC-420	\$ 57,000	07/07/10	November 2010	11/19/11	03/03/17 - 03/03/18	03/01/17	22,000
HR-602CC/DHR-602	\$ 40,000	03/16/15	11/17/15	Not in file	06/03/16 - 06/03/17	06/16/16	-
							\$ 562,780

No questioned costs are presented for insurance coverage that includes periods in FY 2016 or thereafter as they indicate corrective action. For DHNC-420, the insurance coverage is for \$35,000 while the loan amount is \$57,000, thus, \$22,000 in questioned costs is presented.

2. For fifteen (or 25%), the annual recertifications were either not performed or were not timely performed during fiscal year 2016.

Loan Number	Loan Amount	Date of Loan Agreement	Date of Annual Recertification	Outstanding Loan and Questioned Costs
DHNC-451	\$ 54,400	02/15/11	Not performed	\$ 54,400
DHNC-460	\$ 56,000	04/08/11	06/21/17	-
DHR-368	\$ 36,000	03/25/10	01/26/17	-
HL-248	\$ 50,000	07/23/07	Not performed	49,518
HNC-566	\$ 57,000	06/17/14	03/29/17	-
HR-578	\$ 40,000	10/14/14	11/17/16	-
HNC-450	\$ 56,000	02/24/11	Not performed	55,715
DHL-213	\$ 30,000	09/14/05	01/27/17	-
DHL-222A	\$ 30,000	02/28/06	Not performed	29,439
PIHL-25	\$ 24,150	03/28/03	01/10/17	-
HL-198	\$ 49,302	08/19/05	Not performed	49,128
HL-209	\$ 50,000	10/19/05	10/12/16	-
HL-197	\$ 40,000	07/08/05	06/15/17	-
HL-194	\$ 26,500	05/19/05	01/26/17	-
HL-168-03	\$ 23,000	10/08/02	10/02/17	-
				238,200
Less amounts questioned at Condition 1				<u>(238,200)</u>
				\$ _____

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Condition, Continued:

No questioned costs are presented for loan files with annual recertifications subsequently performed.

3. For four (or 7%), the borrower is not residing at the HOME-funded home/property as the principal residence, as declared by the borrower during the annual recertification conducted during fiscal year 2016 and/or as documented by NMHC. Grantor approval was not provided.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
HR-486A	\$ 39,950	05/25/11	\$ 33,966
DHL-231	\$ 30,000	06/14/06	30,000
HL-209	\$ 50,000	10/19/05	47,291
HL-236	\$ 30,000	11/24/06	<u>29,985</u>
			141,242
			<u>(47,291)</u>
			\$ <u>93,951</u>

4. For one (or 2%), the borrower was deceased in 2011, and a surviving relative is residing on the property. Documentation that the annual recertification was performed in 2011 or 2010 was not in file; therefore, NMHC could not substantiate compliance with the affordability requirement that the property be occupied as the principal residence of the borrower while still living. In addition, NMHC agreed to waive any and all charges, outstanding and accrued interest and to forgive any principal amount remaining under the loan and mortgage documents, regardless of whether the balance is outstanding and/or due upon the death of the borrower. However, the mortgage loan was released on 12/07/17.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
PIHL-44 D	\$ 30,000	02/27/07	\$ 30,000

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Condition, Continued:

5. For four (or 7%), the budget and/or financial statement reports for the following deferred loans were not in file; therefore, we were not able to determine whether the applicants met the loan deferment eligibility during fiscal year 2016.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
DHL-235	\$ 30,000	12/07/06	\$ 30,000
DHL-238	\$ 30,000	11/27/06	30,000
HL-236	\$ 30,000	11/24/06	29,985
DHL-231	\$ 30,000	06/14/06	<u>30,000</u>
			119,985
			<u>(59,985)</u>
			\$ <u>60,000</u>

6. For two (or 3%), the borrower no longer qualifies for loan deferment based on the borrower's budget and/or financial statement report; however, borrower continues under a loan deferment agreement during fiscal year 2016.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Monthly Income Per Third Party Verifications and/or Declared by Applicants</u>	<u>Monthly Expenses and Debt Payments Declared by Applicants</u>	<u>Net Monthly Income</u>	<u>HOME Loan Monthly Payment</u>	<u>Outstanding Deferred Loan and Questioned Costs</u>
PIHL-48 D	\$ 16,500	02/22/07	\$ 3,208	\$ 2,368	\$ 840	\$ 114	\$ 16,500
PIHL-43	\$ 30,000	01/30/07	\$ 1,452	\$ 871	\$ 581	\$ 207	<u>30,000</u>
							\$ <u>46,500</u>

7. For two (or 3%), the third-party verifications for monthly income declared by the applicant on the budget and/or financial statement reports were not in file or were not timely obtained; therefore, NMHC was not able to substantiate monthly income declared by the applicants.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Monthly Income Declared by Applicants</u>	<u>Monthly Expenses and Debt Payments Declared by Applicants</u>	<u>Net Monthly Income</u>	<u>HOME Loan Monthly Payment</u>	<u>Outstanding Deferred Loan and Questioned Costs</u>
HL-237	\$ 30,000	01/25/07	\$ 810	\$ 961	\$ (151)	\$ 207	\$ -
PIHL-43	\$ 30,000	01/30/07	\$ 1,452	\$ 871	\$ 581	\$ 207	<u>30,000</u>

No questioned costs are presented for HL-237 as third-party verification was subsequently obtained on 12/06/17 and less amount questioned at Condition 6 for PIHL-43.

30,000
(30,000)
 \$ _____

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Condition, Continued:

Of sixty loan files tested for compliance with application requirements, we noted the following:

8. For fourteen (or 23%), copies of birth certificates for the following members were not in file. Birth certificates or equivalent acceptable documentation should be obtained to determine 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.

Loan Number	Loan Amount	Date of Loan Agreement	Date Birth Certificate Obtained	Household Member	Outstanding Loan and Questioned Costs
PIHL-43	\$ 30,000	01/30/07	Not in file	1 - 2	\$ 30,000
DHL-213	\$ 30,000	09/14/05	Not in file	2 - 3	30,000
DHL-222A	\$ 30,000	02/28/06	Not in file	2 - 5	29,439
PIHL-25	\$ 24,150	03/28/03	Not in file	1 - 3	10,564
PIHL-50 D	\$ 30,000	06/25/07	Not in file	1 - 4	23,873
PIHL-48 D	\$ 16,500	02/22/07	Not in file	1 - 3	16,500
HL-198	\$ 49,302	08/19/05	Not in file	1 - 5	49,128
HL-236	\$ 30,000	11/24/06	Not in file	1 - 3	29,985
HL-153-00	\$ 25,000	05/14/02	Not in file	2 - 4	1,166
HL-209	\$ 50,000	10/19/05	Not in file	1 - 4	47,291
HL-217	\$ 50,000	02/27/06	Not in file	1 - 7	46,889
HL-197	\$ 40,000	07/08/05	Not in file	1 - 4	39,972
DHL-231	\$ 30,000	06/14/06	Not in file	1 - 6	30,000
HL-168-03	\$ 23,000	10/08/02	Not in file	1 - 3	<u>16,292</u>
					401,099
					<u>(319,204)</u>
					\$ <u>81,895</u>

Less amounts questioned at Condition 1 for DHL-222A, HL-198, HL-209, HL-217 and HL-197, at Condition 3 for HL-236 and DHL-231, and at Condition 6 for PIHL-43 and PIHL-48 D.

9. For eleven (or 18%), the statements of unemployment were either not updated, not dated or not in file.

Loan Number	Loan Amount	Date of Loan Agreement	Date Signed	Adult Household Member	Outstanding Loan and Questioned Costs
HL-168-03	\$ 23,000	10/08/02	03/02/01 - not updated	1	\$ 16,292
PIHL-25	\$ 24,150	03/28/03	Signed but not dated	1	10,564
HL-194	\$ 26,500	05/19/05	02/04/04 - not updated	1	22,493
HL-198	\$ 49,302	08/19/05	Not in file	2	49,128
DHL-213	\$ 30,000	09/14/05	Not in file	3	30,000
HL-217	\$ 50,000	02/27/06	Not in file	1	46,889
HL-236	\$ 30,000	11/24/06	10/28/05 - not updated	2	29,985
PIHL-43	\$ 30,000	01/30/07	Not in file	2	30,000
PIHL-48 D	\$ 16,500	02/22/07	04/04/06 - not updated/not in file	1 / 2 - 3	16,500
HP-596CC	\$ 57,000	09/22/15	05/09/14 - not updated	1	57,000
DHR-622	\$ 40,000	01/29/16	08/12/14 - not updated	1	<u>40,000</u>
					348,851
					<u>(251,851)</u>
					HP-596CC and DHR-622 \$ <u>97,000</u>

Less amounts questioned at Condition 1 for HL-194, HL-198 and HL-217, at Condition 3 for HL-236, at Condition 6 for PIHL-43 and PIHL-48 D, and at Condition 8 for HL-168-03, PIHL-25 and DHL-213.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Condition, Continued:

10. For nine (or 15%), third-party income verifications from the Social Security Administration (SSA) were either not in file or were not timely obtained.

Loan Number	Loan Amount	Date of Loan Agreement	Household Member Number	Outstanding Loan and Questioned Costs
DHL-222A	\$ 30,000	02/28/06	4 - 5	\$ 29,439
PIHL-50 D	\$ 30,000	06/25/07	1 - 4	23,873
PIHL-48 D	\$ 16,500	02/22/07	3	16,500
HL-198	\$ 49,302	08/19/05	1 - 5	49,128
HL-236	\$ 30,000	11/24/06	2 - 3	29,985
HL-209	\$ 50,000	10/19/05	1 - 4	47,291
HL-217	\$ 50,000	02/27/06	1 - 7	46,889
HL-197	\$ 40,000	07/08/05	1 - 4	39,972
DHR-622	\$ 40,000	01/29/16	2 - 4	-
				283,077
No questioned costs are presented for DHR-622 as third-party income verifications were subsequently obtained for household members 2 - 4 on 10/11/17 and 12/06/17 and less amounts questioned at Condition 1 for DHL-222A, HL-198, HL-209, HL-217 and HL-197, at Condition 3 for HL-236, at Condition 6 for PIHL-48 D and at Condition 8 for PIHL-50 D.				(283,077)
				\$ -

11. For three (or 5%), the letters of tax compliance were not in file.

Loan Number	Loan Amount	Date of Loan Agreement	Adult Household Member	Outstanding Loan and Questioned Costs
HL-168-03	\$ 23,000	10/08/02	1	\$ 16,292
PIHL-48 D	\$ 16,500	02/22/07	1	16,500
PIHL-44 D	\$ 30,000	02/27/07	1	30,000
				62,792
Less amounts questioned at Condition 4 for PIHL-44 D, at Condition 6 for PIHL-48 D, and at Condition 8 for HL-168-03.				(62,792)
				\$ -

12. For six (or 10%), the Home Eligibility Release form was not in file for the adult household members.

Loan Number	Loan Amount	Date of Loan Agreement	Date Signed	Outstanding Loan and Questioned Costs
DHL-213	\$ 30,000	09/14/05	Not in file	\$ 30,000
PIHL-25	\$ 24,150	03/28/03	Not in file	10,564
PIHL-50 D	\$ 30,000	06/25/07	Not in file	23,873
PIHL-48 D	\$ 16,500	02/22/07	04/04/06 for members 1 and 2/not in file for member 3	16,500
HL-236	\$ 30,000	11/24/06	Not in file	29,985
HL-209	\$ 50,000	10/19/05	Not in file	47,291
				158,213
Less amounts questioned at Condition 1 for HL-209, at Condition 3 for HL-236, and at Condition 6 for PIHL-48 D and at Condition 8 for DHL-213, PIHL-25 and PIHL-50 D.				(158,213)
				\$ -

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Condition, Continued:

13. For three (or 5%), third party credit reports are not in file.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
PIHL-25	\$ 24,150	03/28/03	\$ -
PIHL-50 D	\$ 30,000	06/25/07	23,873
DHL-231	\$ 30,000	06/14/06	<u>30,000</u>
			53,873
Less amounts questioned at Condition 8 for PIHL-50 D and at Condition 3 for DHL-231.			<u>(53,873)</u>
			\$ _____

No questioned costs are presented for PIHL-25 as the monthly HOME loan payments were current through 09/30/16.

14. For five (or 8%), the applicants had prior delinquent loans per the third party credit reports.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
DHL-213	\$ 30,000	09/14/05	\$ -
HL-236	\$ 30,000	11/24/06	29,985
HL-217	\$ 50,000	02/27/06	46,889
HP-596CC	\$ 57,000	09/22/15	57,000
HP-617	\$ 57,000	04/15/16	<u>-</u>
			133,874
Less amounts questioned at Condition 1 for HL-217, at Condition 3 for HL-236 and at Condition 9 for HP-596CC			<u>(133,874)</u>
			\$ _____

No questioned costs are presented for DHL-213 as applicant is covered by a deferment agreement and has met the deferment eligibility requirements covering fiscal year 2016; and the monthly loan payments for HP-617 were paid through 09/30/16.

15. For three (or 5%), the applicants either exceeded the 40% debt-to-income ratio and/or the 30% payment-to-income ratio limits and are therefore ineligible for HOME loan assistance.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Condition, Continued:

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Deficiency</u>	<u>Outstanding Loan and Questioned Costs</u>
PIHL-48 D	\$ 16,500	02/22/07	50.15% debt to income ratio	\$ -
HL-236	\$ 30,000	11/24/06	33.98% payment to income ratio and 48.74% debt to income ratio	29,985
HL-168-03	\$ 23,000	10/08/02	40.15% debt to income ratio	<u>16,292</u>
				46,277
			Less amounts questioned at Condition 3 for HL-236 and at Condition 8 for HL-168-03	<u>(46,277)</u>
				\$ <u> -</u>

No questioned costs are presented for PIHL-48 D as applicant is under a deferment agreement.

16. For one (or 2%), the lender title policy reflecting the applicant's name as the legal owner of the property is not in file.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
HP-596CC	\$ 57,000	09/22/15	\$ 57,000
		Less amount questioned at Condition 9	<u>(57,000)</u>
			\$ <u> -</u>

17. For eleven (or 18%), the Homeownership Counseling Checklists were not in file.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
PIHL-43	\$ 30,000	01/30/07	\$ 30,000
DHL-213	\$ 30,000	09/14/05	30,000
PIHL-25	\$ 24,150	03/28/03	10,564
PIHL-50 D	\$ 30,000	06/25/07	23,873
PIHL-48 D	\$ 16,500	02/22/07	16,500
HL-236	\$ 30,000	11/24/06	29,985
HL-153-00	\$ 25,000	05/14/02	1,166
HL-194	\$ 26,500	05/19/05	22,493
PIHL-44 D	\$ 30,000	02/27/07	30,000
DHL-231	\$ 30,000	06/14/06	30,000
HL-168-03	\$ 23,000	10/08/02	<u>16,292</u>
			240,873
		Less amounts questioned at Condition 3 for HL-236 and DHL-231, at Condition 4 for PIHL-44 D, at Condition 6 for PIHL-43 and at Condition 8 for DHL-213, PIHL-25, PIHL-50 D, PIHL-48 D, HL-153-00, HL-168-03 and at Condition 1 for HL-194.	<u>(240,873)</u>
			\$ <u> -</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Condition, Continued:

18. For five (or 8%), the environmental review and assessment forms were not in file.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
HL-209	\$ 50,000	10/19/05	\$ 47,291
HL-217	\$ 50,000	02/27/06	46,889
HL-197	\$ 40,000	07/08/05	39,972
HL-194	\$ 26,500	05/19/05	22,493
DHL-231 #3	\$ 30,000	06/14/06	<u>30,000</u>
			186,645
			<u>(186,645)</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 as follow:

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ 562,780
3	93,951
4	30,000
5	60,000
6	46,500
8	81,895
9	<u>97,000</u>
	\$ <u>972,126</u>

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

Identification as a Repeat Finding: Finding No. 2015-011

Views of Auditee and Planned Corrective Action:

NMHC disputes certain conditions, agrees with other conditions, and describes corrective action in the Corrective Action Plan.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
M04ST690203, M05ST690203, M06ST690203, M07ST690203,
M08ST690203, M09ST690203, M10ST690203, M11ST690203,
M12ST690203, M13ST690203, M14ST690203, M15ST690203
and M16ST690203
Area: Eligibility
Questioned Costs: \$972,126

Auditor Response:

Condition 1: Per the applicable HOME policies and procedures and/or the loan or deferred agreements:

1. The outstanding loan amount is due upon death of the borrower, and/or assumption of loan by the heir(s) is allowable, depending on the probate decree. Therefore, probate documents could support removal of questioned costs for DHNC-451 and DHNC-460; however, probate documents were not provided.
2. All charges outstanding and accrued interest on the deferred amount will be waived and any deferred principal amount will be forgiven if the borrower was certified and eligible at the time of death. NMHC could not substantiate that the property for DHL-222A was occupied as the principal residence of the borrowers prior to borrowers' passing on 11/02/14 (husband) and 01/14/16 (wife) as the last recertification performed was on 02/21/14. Probate documents were not provided.
3. Affordability restrictions may terminate upon foreclosure or transfer in lieu of foreclosure. Since the properties have not been foreclosed, affordability restrictions continue to apply for HNC-450, HL-198, HL-197 and HL-217.

In addition, the homeowner's insurance coverage for DHNC-420 is for \$35,000 while the loan amount is \$57,000 and therefore, \$22,000 in questioned costs is presented.

Condition 2: Per the applicable HOME policies and procedures:

1. The outstanding loan amount is due upon death of the borrower and/or assumption of loan by the heir(s) is allowable depending on the probate decree. Therefore, probate documents could support removal of questioned costs for DHNC-451 and DHNC-460; however, probate documents were not provided.
2. Per the deferred agreement for DHL-222A, all charges outstanding and accrued interest on the deferred amount will be waived and any deferred principal amount will be forgiven if the borrower was certified and eligible at the time of death. NMHC could not substantiate that the property was occupied as the principal residence of the borrowers prior to borrowers' passing on 11/02/14 (husband) and 01/14/16 (wife) as the last recertification performed as on 02/21/14.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
M04ST690203, M05ST690203, M06ST690203, M07ST690203,
M08ST690203, M09ST690203, M10ST690203, M11ST690203,
M12ST690203, M13ST690203, M14ST690203, M15ST690203
and M16ST690203
Area: Eligibility
Questioned Costs: \$972,126

Auditor Response, Continued:

Condition 2, Continued:

3. Affordability restrictions may terminate upon foreclosure or transfer in lieu of foreclosure. Since the property has not been foreclosed, affordability restrictions still applies for HL-198.
4. No annual recertification for HL-168-03 was performed in FY 2016.

Condition 3: Grantor approval of the temporary relocation was not provided for HR-486A.

Condition 4: The release of mortgage document does not provide evidence of principal residency prior to the death of the borrower.

Condition 6: Per the deferred agreements, deferment is not automatic and the deferred portion of the loan will be converted to repayment status as soon as the borrower has the ability to pay or fails to re-certify and all deferred amounts are subject to recapture.

Condition 7: Third-party verifications for HL-237 were subsequently obtained on 12/06/17. In addition, per the deferred agreement for PIHL-43, deferment is not automatic and the deferred portion of the loan will be converted to repayment status as soon as the borrower has the ability to pay or fails to re-certify and all deferred amounts are subject to recapture.

Condition 8: Birth certificates or equivalent acceptable documents should be obtained to determine adult household members whose income must be included in the household's gross income and that verifies allowances claimed for dependents deducted from gross income to determine adjusted income. Per 24 CFR 92, the period of record retention for these case files is for five years after the affordability period terminates. These case files are still within the record retention period during FY 2016.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
M04ST690203, M05ST690203, M06ST690203, M07ST690203,
M08ST690203, M09ST690203, M10ST690203, M11ST690203,
M12ST690203, M13ST690203, M14ST690203, M15ST690203
and M16ST690203
Area: Eligibility
Questioned Costs: \$972,126

Auditor Response, Continued:

- Condition 9: Per CFR 24, Subpart E, §92.203 Income determinations (a)(2), the participating jurisdiction must determine annual income by examining at least 2 months of source documents evidencing annual income (e.g., wage statement, interest statement, unemployment compensation statement) for the family. In addition, the updated statement of unemployment for the applicant was not in file for DHR-622. Additionally, the third-party verification from the Social Security Administration for HP-596CC stating that the applicant is a disabled individual is not sufficient to determine whether the applicant is unemployed.
- Condition 10: Per the Technical Guide for Determining Income and Allowances, the HOME Program regulations require that the full amount of periodic amounts received from Social Security is included in the determination of income for all family members. Third-party verifications for DHL-222A and PIHL-48 D were not in file. In addition, third-party verifications for DHR-622 were subsequently obtained on 10/11/17 and 12/06/17.
- Condition 12: The HOME Eligibility Release forms for one adult member for DHL-213, PIHL-25 and HL-236 were not in file.
- Condition 14: For HP-596CC, the borrower is delinquent with respect to their HOME loan.
- Condition 15: HL-168-03 exceeded the 40% debt to income ratio and the borrower is also delinquent with respect to their HOME loan.
- Condition 16: The lender title policy should reflect the borrower's name as the owner of the property.
- Condition 17: All homebuyers must receive housing counseling per Title 24 CFR, Subpart F (a)(3).

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2016

Finding No.: 2016-008
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award No.: M14ST690203 and M15ST690203
 Area: Program Income
 Questioned Costs: \$71,447

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

Condition: For thirteen (or 38%) of thirty-four draws from federal Home (EN) funds assessed by day, totaling \$581,993 of \$660,041 in total federal draws, available program income (PI) was not disbursed before requests from EN funds.

<u>Item</u>	<u>Draw Date</u>	<u>Available PI Balance</u>	<u>EN Drawn</u>	<u>EN Drawn Before PI</u>	<u>Questioned Costs</u>
1	10/09/15	\$ 6,379	\$ 9,414	\$ 6,379	\$ 6,379
2	10/22/15	\$ 6,379	44,720	\$ 6,379	See above
3	10/27/15	\$ 6,379	13,275	\$ 6,379	See above
4	11/25/15	\$ 5,556	43,176	\$ 5,556	5,556
5	12/10/15	\$ 10,634	720	\$ 720	720
6	04/05/16	\$ 5,754	24,081	\$ 5,754	5,754
7	04/12/16	\$ 13,873	6,545	\$ 6,545	6,545
8	05/19/16	\$ 7,125	15,513	\$ 7,125	7,125
9	07/22/16	\$ 7,726	25,729	\$ 7,726	7,726
10	08/11/16	\$ 16,162	25,123	\$ 16,162	16,162
11	09/06/16	\$ 15,480	979	\$ 979	979
12	09/13/16	\$ 15,480	16,363	\$ 15,480	14,501
13	09/16/16	\$ 15,480	1,368	\$ 1,368	See above
			\$ 227,006		\$ 71,447

Cause: NMHC did not effectively monitor available program income balances prior to drawing on federal HOME funds. Existing monitoring procedures focus on program income reported only within the IDIS (Integrated Disbursement and Information System), and reporting in IDIS is performed monthly. However, our analysis was based on total program income in the local account of the HOME Investment Trust Fund, including program income recorded in IDIS, as well as program income collected, but not yet recorded in IDIS.

Effect: NMHC is in noncompliance with program income compliance requirements, and questioned costs of \$71,447 exist as such amount should have been paid with program income funds from the local account.

Recommendation: For HOME program income received after October 1, 2017, NMHC should follow the HUD requirement to record the receipt in IDIS and the local account when received.

Views of Auditee and Planned Corrective Action:

NMHC describes corrective action in the Corrective Action Plan.

NORTHERN MARIANAS HOUSING CORPORATION
 Unresolved Prior Year Findings and Questioned Costs
 Year Ended September 30, 2016

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, 2016:

Questioned costs as previously reported:	
Fiscal year 2015	\$ 188,471
Fiscal year 2014	<u>64,692</u>
	253,163
Less questioned costs resolved in fiscal year 2016:	
Questioned costs of fiscal year 2014 Single Audit	<u>(64,692)</u>
	188,471
Questioned costs of fiscal year 2016 Single Audit	<u>1,136,194</u>
Unresolved questioned costs at September 30, 2016	\$ <u>1,324,665</u>

Unresolved Findings

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



NORTHERN MARIANAS HOUSING CORPORATION

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Corrective Action Plan Year Ended September 30, 2016

Finding No. 2016-001

Name of Contact Persons: Chris Pangelinan, MCD Manager and Roger Dris, Chief Accountant

Auditee Response: NMHC does have adequate internal controls to receive, account, report and monitor loan payments; and to identify and propose corrective actions on delinquent loans on a timely basis. NMHC's Fiscal Division and Mortgage and Credit Division continue to review and analyze NMHC's delinquent loan portfolios on a continuing monthly basis. Those loans that are 90 to 120 days delinquent are flagged for corrective actions. Furthermore, delinquency reports are continually presented to the NMHC Board for policy review to enhance NMHC's loan management capabilities. The NMHC Board has empowered management, through updates in the HOME Policies and Procedures, to pursue accelerated loan collections and foreclosures on delinquent loans. Furthermore, 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. Finally, although it appears that this has been a constant repeat finding in prior year audits and that as long as delinquencies exist---this finding will not cease. Since it is safe to assume that delinquencies will always exist no matter what the rate, we would like to request that this particular finding be removed on the basis of this argument; but, NMHC would like to present that positive results have been reflected in its delinquency rate, for we have seen a significant decrease in the delinquency rate in the past couple of years. As indicated in our trending analysis, overall delinquency rate for NMHC's loan account was over 75 percent on year-end 2015, and now in November 2017, it is at 35 percent. This reflects a more than 50 percent drop in the delinquency rate. To conclude, if delinquencies cannot be eliminated altogether, then we can at least pursue the path to progress.

Corrective Action: To continue on the path to progress in decreasing the delinquency rate.

Proposed Completion Date: Servicing delinquent accounts - Ongoing.

Finding No. 2016-002

Name of Contact Persons: Chris Pangelinan, MCD Manager; Roger Dris, Chief Accountant;

Auditee Response: NMHC does receive monthly reports from the financial institutions on the loan guarantees which are used for updating and monitoring of each account status. "Loan Guaranty" reports are submitted on a monthly basis to the NMHC Board on regularly scheduled meetings for their review.

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

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No. 2016-002, Continued

Corrective Action: The Chief Accountant and the MCD Manager will establish an inter-departmental memo as a working "desk procedure" to assess and review all relevant NMHC loan guarantees and the status or adequacy of the reserve for guaranteed loans. As proof of report analysis and information and reports received from the financial institutions, please see attached exhibits: (A) RD Loan Guaranty Report, (B) Bank of Guam, (C) BankPacific, (D) Bank of Hawaii, (E) NMHC's Bank Loan Guaranties Consolidated Spreadsheet - Monthly Data Report.

Proposed Completion Date: Ongoing Process.

Finding No.: 2016-003
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Area: Eligibility
Questioned Costs: \$-0-

Name of Contact Persons: Melinda Babauta, Housing Specialist IV, Frances Diaz, Tinian Office Field Representative and Arvin Ogo, Rota Office Field Representative

Auditee Response:

Condition 1a: Finding stays. For all units indicated in this condition, there is no proof of whether the Resident Rights and Responsibilities brochure was provided to tenants on an annual basis.

Condition 1b: Finding stays. For all units indicated in this condition, there is no proof of whether the EIV and You brochure was provided to tenants on an annual basis.

Condition 2: Finding disputed. See EIV Report dated 02/03/16.

Condition 3: A copy of the completed form was not forwarded to the Saipan office. Finding stays.

Corrective Action:

Condition 1a: The Program and Housing Division has implemented the following: upon receipt of the Resident Rights and Responsibilities at recertification on an annual basis, the tenant will initial proof of receipt on the recertification interview form.

Condition 1b: Upon receipt of the EIV and You form at recertification on an annual basis, the tenant will initial proof of receipt on the recertification interview form.

Condition 2: Not applicable.

Condition 3: The form was located in the Tinian Office. The Tinian office will ensure that all completed documents pertaining to Tinian Multi-Family tenants are forwarded to the Saipan Office.

Proposed Completion Date:

Condition 1a: Immediately.
Condition 1b: Immediately.
Condition 2: Not applicable.
Condition 3: Ongoing.

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-004
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Area: Special Tests and Provisions - Housing Quality Standards
Questioned Costs: \$92,621

Name of Contact Person: Elbert Scott Pinaula, Asset Management Division Manager

Auditee Response:

- Condition 1: Finding stays. Although work orders for unit #s M21, M09, M43, and M33 were addressed and completed, the said work orders were not completed within 30 days after inspection.
- Condition 2: Finding stays. Although work orders for unit #s M02, M37, M04, and K05 were addressed and completed, the said work orders were not completed within 30 days after inspection.
- Condition 3: Finding stays. Although work orders for unit # M22 was addressed and completed, the said work order was not completed within 30 days after inspection.
- Condition 4: Finding stays. Although work orders for unit #s T06 and T19 were addressed based on evidence provided (see attachment), the date indicating when the deficiencies were completed and corrected was not indicated.

Corrective Action:

- Condition 1: NMHC will ensure that work orders are completed within 30 days after an inspection is performed.
- Condition 2: NMHC will ensure that work orders are completed within 30 days after an inspection is performed and that it is indicated in the work orders whether deficiencies for the tenant were charged to tenant and therefore corrected.
- Condition 3: NMHC will ensure that work orders are completed within 30 days after an inspection is performed.
- Condition 4: NMHC will ensure that work orders are completed within 30 days after an inspection is performed.

Proposed Completion Date: Immediately.

Finding No.: 2016-005
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-13-ST69-0001 and B-14-ST69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Name of Contact Person: Jacob Muna, Acting Office Manager

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-005, 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-13-ST69-0001 and B-14-ST69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Corrective Action: NMHC will ensure the following: 1) the fiscal inventory records are reconciled with NMHC's records, 2) inventory tags in the fiscal division records matches the Master Listing, 3) that the Valley Inn property is included in the Master Inventory Listing and 4) a more stringent follow-up/monitoring with Sub-grantees of inventory property/equipment purchased by CDBG funds.

Proposed Completion Date: Immediately

Finding No.: 2016-006

Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.225 Community Development Block Grants/Special Purpose Grants/Insular Area
Federal Award No.: B-12-ST69-0001 and B-13-ST69-0001
Area: Special Tests and Provisions – Wage Rate Requirements
Questioned Costs: \$-0-

Name of Contact Person: Elbert Scott Pinaula, Asset Management Division Manager (responsible for compliance with the Davis-Bacon Act in the CDBG Program)

Corrective Action: Contract NMHC 2014-PSS-003- Construction of the Koblerville Gymnasium- Although employee interviews were conducted in FY 2014 and FY 2015 and the same contractor performed the work for the restroom modification in FY 2016, no employee interviews were conducted during FY 2016. NMHC will ensure that on-site job interviews are conducted periodically within the fiscal year to comply with wage rate requirements.

Proposed Completion Date: Immediately

Finding No.: 2016-007

Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203, M04ST690203, M05ST690203, M06ST690203, M07ST690203, M08ST690203, M09ST690203, M10ST690203, M11ST690203, M12ST690203, M13ST690203, M14ST690203, M15ST690203 and M16ST690203
Area: Eligibility
Questioned Costs: \$972,126

Name of Contact Person: Chris Pangelinan, MCD Manager

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued

Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Auditee Response:

Condition 1:

Loan Number	Notes
HR-2010-359	
HNC-506	
DHR-461	
DHNC-451	Dispute - pending probate - borrower deceased 12/16/12.
DHNC-460	Dispute - pending probate - borrower deceased 01/25/13.
DHNC-527	
DHR-355	
DHR-368	Stay-enforcement efforts have been taken vial demand notices and will give one more notice before forwarding for collection.
HL-248	Stay-enforcement efforts have been taken vial demand notices and will give one more notice before forwarding for collection.
HNC-403	
HNC-566	Stay-enforcement efforts have been taken vial demand notices and will give one more notice before forwarding for collection.
HP-517	
HP-518	
HR-486A	
HR-578	
HNC-450	Dispute - account forwarded for collection 05/19/15.
DHL-222A	Dispute - both borrowers deceased - pending probate.
HL-198	Dispute - account forwarded for collection 05/19/15.
HL-209	Stay-enforcement efforts have been taken vial demand notices and will give one more notice before forwarding for collection.
HL-217	Dispute - borrower deceased 08/2015 - referred for collection 05/24/17.
HL-197	Dispute - account forwarded for collection.
HL-194	Stay-enforcement efforts have been taken vial demand notices and will give one more notice before forwarding for collection.
DHNC-420	Dispute - obtained 03/03/17.
HR-602CC/DHR-602	

See notes above. Based on the notes, NMHC is disputing \$789,048 total questioned costs.

Condition 2:

Loan Number	Notes
DHNC-451	Dispute - pending probate.
DHNC-460	
DHR-368	
HL-248	Stay - corrective action will conduct annual recertification.
HNC-566	
HR-578	
HNC-450	Stay - corrective action will conduct annual recertification.

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued

Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Auditee Response, Continued:

Condition 2, Continued:

Loan Number	Notes
DHL-213	
DHL-222A	Dispute (affirm not performed) both borrowers are deceased.
PIHL-25	
HL-198	Dispute - referred for collection 05/19/15, memo to file performed 07/27/17.
HL-209	
HL-197	
HL-194	
HL-151-0A	
HL-168-03	Dispute - untimely performed 10/02/17.

See notes above.

Condition 3:

Loan Number	Notes
HR-486A	Dispute - approval was granted for temporary relocation via email.
DHL-231	Stay - will contact client/follow-up to ensure borrower is aware that they're required to reside at their property.
HL-209	Stay - a demand notice has been sent and we are in the process of accelerating the account.
HL-236	Stay - corrective action - in process for acceleration - see memo to file from 09/09/16.

See notes above. As per notes, NMHC will dispute finding for HR-486A and its questioned cost of \$33,966.

Condition 4: Finding disputed. See attached release of mortgage.

Condition 5: Finding stays for loans tested, DHL-235, DHL-238, HL-263, and DHL 231.

Condition 6: Finding disputed. Both borrowers are eligible for 100% deferment - old rehab policy states verification for principal residency only - financial certification no longer a requirement.

Condition 7: Finding disputed. For loan tested, HL-237, third party verification was obtained. For loan tested, PIHL-43, the borrower was eligible for 100% deferment - old rehab policy states verification for principal residency only- financial certification no longer a requirement.

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued

Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Auditee Response, Continued:

Condition 8:

Loan Number	Notes
PIHL-43	
DHL-213	Dispute - (affirm not in file) questionable if was required to be submitted.
DHL-222A	Dispute - (affirm not in file) questionable if was required to be submitted.
PIHL-25	Dispute - (affirm not in file) questionable if was required to be submitted.
PIHL-50 D	Dispute - (affirm not in file) questionable if was required to be submitted.
PIHL-48 D	Dispute - not required then as part of application submission.
HL-198	Dispute - (affirm not in file) questionable if was required to be submitted.
HL-236	Dispute - (affirm not in file) questionable if was required to be submitted.
HL-153-00	Dispute - (affirm not in file) questionable if was required to be submitted.
HL-209	Dispute - (affirm not in file) questionable if was required to be submitted.
HL-217	Dispute - (affirm not in file) questionable if was required to be submitted.
HL-197	Dispute - (affirm not in file) questionable if was required to be submitted.
DHL-231	Dispute - (affirm not in file) questionable if was required to be submitted.
HL-168-03	Dispute - (affirm not in file) questionable if was required to be submitted.

See notes above. Review of files that were closed prior to 2009, HOME loan application checklist of requirements do not note to submit forms of identifications such as birth certificates unlike our current requirements-see attached checklists. Over 10yrs has lapsed since clients received assistance, request to eliminate question costs for this conditions. No birth certificates in file for this condition, as they were not required to be submitted then; see attached checklists provided to clients upon picking up HOME loan applications.

Condition 9:

Loan Number	Notes
HL-168-03	Dispute - not a requirement.
PIHL-25	Dispute - not a requirement.
HL-194	Dispute - not a requirement.
HL-198	Dispute - not a requirement.
DHL-213	Dispute - not a requirement.
HL-236	Dispute - not a requirement.
HL-217	Dispute - not a requirement.
PIHL-43	Dispute - not a requirement.
PIHL-48 D	Dispute - not a requirement.
HP-596CC	Stay - not updated however third party verification, S.S.A. disability (unemployed) was updated. Other corrective action to obtain unemployment statement.
DHR-622	Dispute - in file.

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued

Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Auditee Response, Continued:

Condition 10:

Loan Number	Notes
DHL-222A	Dispute - S.S.A verification for household members not required.
PIHL-25	Dispute (affirm not updated).
PIHL-50 D	Stay - borrower's S.S.A. verification not in file.
PIHL-48 D	Dispute - S.S.A verification for household members not required.
HL-198	Stay - affirm not updated.
HL-236	Stay - affirm not updated for 2-3.
HL-209	Stay - borrower's S.S.A. verification not in file.
HL-217	Stay - borrower's S.S.A. verification not in file.
HL-197	Stay - borrower's S.S.A. verification not in file.
HL-194	Stay - affirm not updated.
HL-168-03	Stay - affirm not updated.
DHR-622	Dispute - 2015 audit requirement for all household members - borrower complied S.S.A. verification provided.

Verification of applicant and co-applicant was made a requirement for verification with SSA then, but not with the other household members. However, verification for all other household members was made a requirement during the 2015 FY audit last year. NMHC has begun ensuring that verifications for all household members are completed.

Condition 11:

Loan Number	Notes
HL-168-03	Stay - not in file.
PIHL-48 D	Stay - not updated.
PIHL-44 D	Stay - not in file.

Tax compliance is not required for all adult household members, only for Borrowers. And that although this third party verification form is valid for only 90 days prior to receiving their assistance, a 10-year audit review after receiving the assistances is unreasonable. It would be virtually impossible to complete a corrective action on these particular files. As some clients are either deceased, off-island, have been referred for collection (attorney) and particular MCD staff are no longer employed with our agency. We understand the importance of an annual review /audit of performance of the programs to ensure it remains an effective source of service for the low income households. In view of this, we request to eliminate the question cost associated with this condition.

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued

Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
 M04ST690203, M05ST690203, M06ST690203, M07ST690203,
 M08ST690203, M09ST690203, M10ST690203, M11ST690203,
 M12ST690203, M13ST690203, M14ST690203, M15ST690203
 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$972,126

Auditee Response, Continued:

Condition 12:

Loan Number	Notes
DHL-213	Dispute - Authorization for Release of Information on file.
PIHL-25	Dispute - Authorization for Release of Information on file.
PIHL-50 D	Stay - not in file.
PIHL-48 D	Stay - not in file.
HL-198	Stay - not updated.
HL-236	Dispute - in file.
HL-209	Stay - not in file.

See comments above. The HOME Eligibility Form was not implemented until 2009. Template forms being used then did not include pertinent information such as date of review and when Loan Specialists reviewed them.

Condition 13:

Loan Number	Notes
PIHL-25	
PIHL-50 D	Stay - affirm not in file.
DHL-231	Stay - affirm not in file.

See comments above. For the findings that stay, NMHC will ensure that third party credit reports are in file.

Condition 14: Finding stays for all loans tested except HP-596 CC, however, questioned cost remains because of Condition 1. There were two thirty-day delinquency for loan file, HP-596 CC, noted. However, the debt was paid and closed-MCD took into consideration as demonstrative to a positive credit worthiness.

Condition 15:

Loan Number	Notes
PIHL-48 D	Stay
HL-236	Stay
HL-168-03	Dispute - DTI ratio is 39.9%.

See comments above.

Condition 16: Finding stays for loan tested HL-151-OA. Finding disputed for loan tested HP-596CC; however, questioned cost remains because of Condition 1.

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued

Federal Agency: U.S. Department of Housing and Urban Development

CFDA Program: 14.239 HOME Investment Partnerships Program

Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
M04ST690203, M05ST690203, M06ST690203, M07ST690203,
M08ST690203, M09ST690203, M10ST690203, M11ST690203,
M12ST690203, M13ST690203, M14ST690203, M15ST690203
and M16ST690203

Area: Eligibility
Questioned Costs: \$972,126

Auditee Response, Continued:

Condition 17: NMHC will dispute all 11 accounts in this condition. NMHC did not have the checklist in place because it was never a requirement and was not implemented prior to the 2009 HOME Policy.

Condition 18: Finding stays.

Corrective Action:

Condition 1: For all findings that stay, enforcement efforts have already been taken via demand notices and will give one more notice before forwarding for collection. The same enforcement efforts will apply to all loans.

Condition 2: For all loans tested, NMHC will conduct annual recertifications and will continue to ensure that annual recertifications are timely performed. In addition, for loan tested, DHL-202, NMHC is currently working on the release of deferment, and for loan tested, HL-236, NMHC is in the process of accelerating the loan. See attached memo dated 09/09/16.

Condition 3: For findings that stay, (DHL-231) NMHC will contact the client and conduct a follow-up to ensure the borrower is aware that they're required to reside at their property. NMHC will conduct more stringent enforcement/monitoring to ensure that clients are residing at the homes on the properties funded by the HOME Program. For loan tested HL-209, a demand notice was sent out and NMHC is in the process of accelerating the account. Same corrective action as above for loan tested, DHL-231.

Condition 4: Not applicable.

Condition 5: For findings that stay, NMHC will ensure that the budget and/or financial statement reports are on file.

Condition 6: Not applicable.

Condition 7: Not applicable.

Condition 8: Not applicable.

Condition 9: (for HP596CC): Finding stays. NMHC will ensure that employment statements in the loan files are updated. See notes above. Based on notes, NMHC will dispute \$40,000 of the total questioned costs of \$97,000.

Condition 10: NMHC has begun ensuring that verifications for all household members are completed.

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-007, Continued

Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award Nos.: M00ST690203, M01ST690203, M02ST690203, M03ST690203,
M04ST690203, M05ST690203, M06ST690203, M07ST690203,
M08ST690203, M09ST690203, M10ST690203, M11ST690203,
M12ST690203, M13ST690203, M14ST690203, M15ST690203
and M16ST690203
Area: Eligibility
Questioned Costs: \$972,126

Corrective Action, Continued:

- Condition 11: NMHC will ensure that letters of tax compliance for the loan borrowers are updated and on file.
- Condition 12: For findings that stay, NMHC will ensure that the HOME Eligibility Release form are updated and in file.
- Condition 13:
- Condition 14: For findings that stay, NMHC will practice stringent monitoring on third party verifications which reflect an applicant's prior delinquent loans.
- Condition 15: For findings that stay, NMHC will ensure that debt to income ratio and/or the 30% payment to income ratio limits are complied with.
- Condition 16: For the finding that stays, NMHC will ensure that the lender title policy reflecting the applicants' names as the legal owner of properties are on file.
- Condition 17: Not applicable.
- Condition 18: NMHC will ensure that environmental review and assessment forms are in file.

Proposed Completion Date:

- Condition 1: Immediately.
Condition 2: Ongoing.
Condition 3: Ongoing.
Condition 4: Not applicable.
Condition 5: Immediately.
Condition 6: Not applicable.
Condition 7: Not applicable.
Condition 8: Not applicable.
Condition 9: (for HP596CC): Immediately.
Condition 10: Ongoing.
Condition 11:
Condition 12: Immediately.
Condition 13: Immediately.
Condition 14: Immediately.
Condition 15: Immediately.
Condition 16: Immediately.
Condition 17: Not applicable.
Condition 18: Immediately.

Corrective Action Plan, Continued
Year Ended September 30, 2016

Finding No.: 2016-008
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award No.: M14ST690203 and M15ST690203
Area: Program Income
Questioned Costs: \$71,447

Name of Contact Person: Roger Dris, Chief Accountant

Corrective Action: We agree with this finding. NHMC will follow the HUD requirement to record the receipt in IDIS and the local account when received.

Proposed Completion Date: Effective immediately.