

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

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2017

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, 2017, 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 August 29, 2018. Our report was qualified due to our inability to determine the effects of the lack of adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* on NMHC's financial statements.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-002, 2017-005, and 2017-006 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-006.

NMHC's Response to Findings

NMHC's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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

August 29, 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 the 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, 2017. 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 qualified opinion on compliance for major federal programs. 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 2017-003 through 2017-006 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
2017-003	14.195	Section 8 Housing Assistance Payments Program	Eligibility
2017-004	14.195	Section 8 Housing Assistance Payments Program	Special Tests and Provisions
2017-005	14.225	Community Development Block Grants/Special Purpose Grants/Insular Area	Equipment and Real Property Management
2017-006	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, 2017.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-007. Our opinion on each major federal program is not modified with respect to this matter.

NMHC’s response to the noncompliance 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.

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 have not been 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 a 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 2017-003 through 2017-006 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2017-007 to be a significant deficiency.

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, 2017, and have issued our report thereon dated August 29, 2018, which contained a qualified opinion due to our inability to determine the effects of the lack of adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* 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

August 29, 2018

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

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	\$ -	\$ 1,287,993
Total Section 8 Project-Based Cluster		-	1,287,993
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants/Special Purpose Grants/Insular Area	14.225	1,337,281	1,534,250
Total CDBG - Entitlement Grants Cluster		1,337,281	1,534,250
Emergency Solutions Grant Program	14.231	-	58,393
HOME Investment Partnerships Program	14.239	-	6,723,992
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	-	2,950
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	-	3,061,946
Total Housing Voucher Cluster		-	3,061,946
<i>Total U.S. Department of Housing and Urban Development</i>		<u>1,337,281</u>	<u>12,669,524</u>
Total Expenditures of Federal Awards		<u>\$ 1,337,281</u>	<u>\$ 12,669,524</u>
Reconciliation of Statement of Revenues, Expenses and Changes in Net Position to expenditures:			
Operating expenses:			
Section 8 rental			\$ 2,497,953
HOME Investment Partnership Program Grant			154,974
CDBG Program			1,534,250
HOME Investment Partnership Grant program income			106,155
ESG Program			58,393
EDI Grant			2,950
HOME Investment Partnerships Program loans included in loans receivable			6,462,863
Section 8 HAP expenditures included in operations			<u>1,851,986</u>
Federal award expenditures per above			<u>\$ 12,669,524</u>

See accompanying notes to schedule of expenditures of federal awards.

NORTHERN MARIANAS HOUSING CORPORATION

Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2017

(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, 2017. 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; Community Development Block Grants/Brownfields Economic Development Initiative - NMHC received these funds in a direct capacity in fiscal year 2017; 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, 2017

(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 of expenditures of federal awards. As of September 30, 2017, the HOME Program expenditures include \$261,129 in current year disbursements and \$6,462,863 in outstanding HOME loans from previous years with continuing compliance requirements. Of \$7,469,730 in HOME Investment Partnerships grant loans recorded by NMHC, \$6,531,574 have continuing compliance requirements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

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: left;"><u>CFDA Numbers</u></td> <td style="text-align: left;"><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td>14.195</td> <td>Section 8 Project-Based Cluster:
Section 8 Housing Assistance Payments Program</td> </tr> <tr> <td>14.225</td> <td>CDBG - Entitlement Grants Cluster:
Community Development Block Grants/Special Purpose Grants/Insular Area</td> </tr> <tr> <td>14.239</td> <td>HOME Investment Partnerships Program</td> </tr> </table> | <u>CFDA 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 | |
| <u>CFDA 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>
2017-001	Loans Receivable
2017-002	Loan Guarantee Agreements
2017-005	Fixed Assets
2017-006	Eligibility

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CDFA Numbers</u>	<u>Finding</u>	<u>Questioned Costs</u>
2017-003	14.195	Eligibility	\$ -
2017-004	14.195	Special Tests and Provisions - Housing Quality Standards (HQS)	56,732
2017-005	14.225	Equipment and Real Property Management	-
2017-006	14.239	Eligibility	183,995
2017-007	14.239	Program Income	<u>70,976</u>
			\$ <u>311,703</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-001
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 September 30, 2017 allowance for doubtful loans. This analysis revealed that loans, including interest, which are over one hundred twenty (120) days past due amounted to \$2,926,161 or 36.78% of \$7,955,483 in total loans and interest outstanding, excluding HOME deferred loans receivable as of September 30, 2017. An audit adjustment of \$557,393 was proposed to correct the allowance for loans receivable as of September 30, 2017.

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. 2016-001.

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, 2017

Finding No.: 2017-002
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, 2017, NMHC's related loan guarantees amounted to \$7,592,728. Of that total, approximately \$1,595,994 is delinquent and past due, of which NMHC has received demand notices of \$61,570 and recorded liabilities of \$1,461,887; 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. An audit adjustment of \$1,875,755 was proposed to correct the reserve for loan guaranty as of September 30, 2017.

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. 2016-002.

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, 2017

Finding No.: 2017-003
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. Use the Enterprise Income Verification (EIV) System to verify tenant employment income information.
2. 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 fourteen tenant files tested, aggregating \$14,506 of a total population of \$1,287,993, we noted deficiencies. Any resulting questioned cost is based on the monthly HAP amount and number of months certified during fiscal year 2017.

1. For one (or 7%) under Section 8 number TQ100011001, the EIV System was not used 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	01/01/17	11/01/16	Unknown	10/27/16	\$ 11,242

2. For eight (or 57%), eligibility documentation performed annually did not indicate that the Resident Rights & Responsibilities brochure was provided.

<u>Section 8 Number</u>	<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
TQ100011005	M13	08/01/17	06/01/17	\$ 869
TQ100011005	M28	03/01/17	02/01/17	\$ 821
TQ100011005	M28	10/01/16	09/01/16	\$ 821
TQ100016004	K26B	06/01/17	06/01/17	\$ 969
TQ100016004	K09A	10/01/16	08/01/16	\$ 937
TQ100011001	T07	06/01/17	08/01/16	\$ 1,022
TQ100011001	T19	01/01/17	11/01/16	\$ 1,022
TQ100011001	T07	10/01/16	08/01/16	\$ 1,022

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

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 1 are not presented at this finding as they are reported at Finding 2017-004.

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

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-003, 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-

Identification as a Repeat Finding: Finding No. 2016-003

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, 2017

Finding No.: 2017-004
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: \$56,732

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 fourteen tenant files tested, aggregating \$14,506 of a total population of \$1,287,993, we noted the following deficiencies. Resulting questioned costs are based on the monthly HAP amount and the number of months certified during fiscal year 2017.

1. For one (or 7%) under Section 8 number TQ100011001, NMHC inspector reports for the following unit indicated deficiencies; however, no work order was 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>
T07	08/01/16	03/02/16	Pass	\$ 1,022 x 12	\$ <u>12,264</u>

2. For one (or 7%) under Section 8 number TQ100011005 for unit M series, 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 tenant deficiencies were corrected and charged.

<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>
M28	02/01/17	10/13/16	10/28/16	\$ 821 x 8	\$ <u>6,568</u>

3. For one (or 7%) under Section 8 number TQ100011004 for unit K series, 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. Although a work order was prepared to correct the deficiencies, there is no evidence that deficiencies 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>
K26B	06/01/17	10/12/16	10/16/17	\$ 969 x 4	\$ <u>3,876</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-004, 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: \$56,732

Condition, Continued:

4. For one (or 7%) 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.

<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>
K09A	08/01/16	02/05/16	05/09/17	\$ 937 x 12	\$ <u>11,244</u>

5. For two (or 14%) under Section 8 number TQ100011005 and 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>
M28	09/01/16	11/10/15	Inconclusive	\$ 821 x 12	\$ 9,852
T19	11/01/16	03/02/16	Pass	\$ 1,022 x 11	\$ <u>11,242</u>
					\$ <u>21,094</u>

6. For one (or 7%) under Section 8 number TQ100016004, NMHC inspector reports for the following unit indicated deficiencies; however, reports did not indicate whether deficiencies were caused by the tenant or NMHC. Further, work orders indicated that the repairs were not timely completed within 30 days after inspection, but were delayed by five months.

<u>Unit No.</u>	<u>Certification Effective</u>	<u>Date of Inspection</u>	<u>Overall Inspection Result</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
K10	08/01/17	12/09/16	Inconclusive	\$ 843 x 2	\$ <u>1,686</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 \$56,732 exist.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-004, 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: \$56,732

Effect, Continued:

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ 12,264
2	6,568
3	3,876
4	11,244
5	21,094
6	<u>1,686</u>
	\$ <u>56,732</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. 2016-004

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, 2017

Finding No.: 2017-005
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, B-14-ST69-0001 and B-15-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 annually. 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: Of NMHC recorded properties and properties transferred to subrecipients tested for compliance requirements, we noted the following:

1. A reconciliation was not performed between the Fiscal Division's records (\$420,870) and the Administrative Division's records (\$49,896), resulting in a variance of \$370,974.
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). In addition, one asset with a description of Valley Inn property in the Fiscal Division's records, at a cost of \$380,000, is missing from the master listing.
3. Of properties transferred to subrecipients tested for compliance with property management over the transfer of properties to subrecipients requirement, no inspection was performed of any subrecipient in the last two fiscal years to substantiate the condition of transferred properties.

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, 2017

Finding No.: 2017-005, 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, B-14-ST69-0001 and B-15-ST69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Effect, Continued:

<u>Fiscal Year</u>	<u>Total Capital Outlays</u>
2017	\$ 1,337,281
2016	\$ 164,040
2015	\$ 938,301

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 and real property listings, as well as implement procedures for maintaining and safeguarding equipment against loss, damage or theft and monitoring condition of real properties.

Identification as a Repeat Finding: Finding No. 2016-005

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, 2017

Finding No.: 2017-006
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,
M16ST690203 and M16ST690203
Area: Eligibility
Questioned Costs: \$183,995

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.

Application Requirements:

3. 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.
4. 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.
5. 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.
6. 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.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-006, 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,
 M16ST690203 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$183,995

Condition: Of thirty-three 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, 2017 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 nineteen (or 58%), homeowner's property insurance coverage was either not in file or 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
DHNC-508	\$ 56,000	10/10/12	05/17/13	Not in file	12/09/16 - 12/09/17	01/06/17	\$ -
DHR-532	40,000	11/09/12	04/18/13	Not in file	07/01/16 - 07/01/17	07/09/16	-
HNC-498	57,000	01/06/12	05/22/12	Not in file	09/17/17 - 09/17/18	11/21/17	-
HNC-525	49,600	08/20/12	October 2012	Not in file	09/30/17 - 09/30/18	11/27/17	-
HNC-584	57,000	07/01/14	12/03/14	Not in file	11/21/17 - 11/21/18	11/21/17	-
HNC-600	57,000	03/20/15	11/25/15	Not in file	11/24/16 - 11/24/17	12/16/16	-
HR-402	57,000	06/22/10	November 2010	Not in file	02/28/17 - 02/28/18	05/16/17	-
HR-486A	39,950	05/25/11	06/30/11	12/10/15	12/10/16 - 12/10/17	12/27/16	-
DHL-222A	30,000	02/28/06	05/22/06	11/03/10	Under Probate	Not in file	-
DHNC-394	56,000	06/08/10	December 2010	Not in file	06/01/16 - 06/01/17	Not in file	-
DHNC-460	56,000	04/08/11	07/21/11	07/28/12	Under Probate	Not in file	-
DHNC-586	57,000	07/22/14	October 2014	Not in file	02/12/17 - 02/12/18	02/12/17	-
DHP-428	57,000	05/13/11	June 2011	Not in file	03/02/18 to 03/02/19	03/02/18	-
DHR-368	36,000	03/25/10	August 2010	Not in file	Not in file	Not in file	-
DHR-461	40,000	08/09/10	09/15/11	Not in file	01/17/17 - 01/18/18	01/17/17	-
DHR-594	20,000	03/18/15	11/06/15	Not in file	12/30/16 - 12/30/17	12/28/16	-
HNC-367	56,800	09/09/10	December 2010	Not in file	10/19/17 - 10/19/18	10/19/17	1,247
HNC-564	54,800	05/27/14	12/03/14	Not in file	12/22/16 - 12/22/17	12/30/16	-
HNC-450	56,000	02/24/11	07/20/11	09/21/12	Endorsed to Legal	Not in file	-
							\$ <u>1,247</u>

No questioned costs are presented for insurance coverage that includes periods in FY 2017 or thereafter as they indicate corrective action. For DHL-222A, DHNC-460, and HNC-450, no questioned costs are presented since the full outstanding loan amounts were already questioned in the FY 2016 Single Audit Reports.

2. For two (or 6%), homeowner's property insurance coverage was timely obtained; however, property was partially insured.

Loan Number	Loan Amount	Outstanding Loan	Insurance Coverage Limit	Questioned Costs
DHL-249	\$ 60,358	\$ 60,358	\$ 60,000	\$ 358
HNC-367	\$ 56,000	\$ 51,853	\$ 50,606	<u>1,247</u>
				1,605
Less amounts questioned at Condition 4 for DHL-249 and Condition 1 for HNC-367				<u>(1,605)</u>
				\$ _____

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-006, 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,
 M16ST690203 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$183,995

Condition, Continued:

3. For six (or 18%), the annual recertifications were either not performed or not timely performed during fiscal year 2017.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Date of Annual Recertification</u>	<u>Outstanding Loan and Questioned Costs</u>
DHNC-508	\$ 56,000	10/10/12	12/28/17	\$ -
HL-200	\$ 40,000	06/17/05	03/13/2015	-
HNC-584	\$ 57,000	07/01/14	05/07/18	-
HR-402	\$ 57,000	06/22/10	06/12/18	-
DHL-222A	\$ 30,000	02/28/06	Not performed	-
HNC-450	\$ 56,000	02/24/11	11/17/17	-
				\$ -----

No questioned costs are presented for loan files with annual recertifications subsequently performed. No questioned cost is presented for HL-200 as the loan was subsequently paid in full and released on 04/26/18. For DHL-222A, no question cost is presented since the loan is under probate, and the full outstanding loan amount was already questioned in the FY 2016 Single Audit Reports.

Of thirty-three loan files tested for compliance with application requirements, we noted the following:

4. For six (or 18%), copies of birth certificates or equivalent 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 to verify allowances claimed for dependents deducted from gross income to determine adjusted income.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Date Birth Certificate or Equivalent Obtained</u>	<u>Household Member</u>	<u>Outstanding Loan and Questioned Costs</u>
HL-15A-PI	\$ 25,000	01/30/01	06/28/18	1 - 5	\$ -
DHL-186	\$ 24,537	09/08/05	Not in file	1 - 2	24,537
DHL-240	\$ 30,000	04/30/07	06/20/18	1 - 2	-
DHL-249	\$ 60,358	01/18/11	Not in file	1 - 4	60,358
HL-180	\$ 50,000	03/23/05	Not in file	1 - 2	46,385
HL-200	\$ 40,000	06/17/05	Not in file	1 - 2	-
					\$ <u>131,280</u>

No questioned cost is presented for HL-15A-PI and DHL-240 as the birth certificate or equivalent was subsequently obtained. No questioned cost is presented for HL-200 as the loan was subsequently paid in full and released on 04/26/2018.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-006, 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,
 M16ST690203 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$183,995

Condition, Continued:

5. For two (or 6%), the statements of unemployment were either not updated, not dated, or not in file.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Date Signed</u>	<u>Adult Household Member</u>	<u>Outstanding Loan and Questioned Costs</u>
DHL-240	\$ 30,000	04/30/07	Not in file	1	\$ 30,000
DHL-249	\$ 60,358	01/18/11	Not in file - adult 2	2	<u>60,358</u>
					90,358
Less amounts questioned at Condition 4 for DHL-249					<u>(60,358)</u>
					\$ <u>30,000</u>

6. For two (or 6%), the eligibility worksheet to determine income limit compliance is not in file.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Eligibility Worksheet</u>	<u>Adult Household Member</u>	<u>Outstanding Loan and Questioned Costs</u>
HL-180	\$ 50,000	03/23/05	Not in file	1	\$ 46,385
DHL-249	\$ 60,358	01/18/11	Not in file	2	<u>60,358</u>
					106,743
Less amounts questioned at Condition 4 for HL-180 and DHL-249					<u>(106,743)</u>
					\$ <u>-</u>

7. For three (or 9%), the letters of tax compliance were not in file.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Adult Household Member</u>	<u>Outstanding Loan and Questioned Costs</u>
DHL-186	\$ 24,537	09/08/05	2	\$ 24,537
HL-180	\$ 50,000	03/23/05	1	46,385
HL-200	\$ 40,000	06/17/05	2	<u>-</u>
				70,922
Less amounts questioned at Condition 4 for DHL-186 and HL-180				<u>(70,922)</u>
				\$ <u>-</u>

No questioned cost is presented for HL-200 as the loan was subsequently paid in full and released on 04/26/2018.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-006, 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,
 M16ST690203 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$183,995

Condition, Continued:

8. For two (or 6%), the Home Eligibility Release form was not in file for the adult household members.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Date Signed</u>	<u>Outstanding Loan and Questioned Costs</u>
DHL-249	\$ 60,358	01/18/11	Not in file for member 2 & 3	\$ 60,358
HL-200	\$ 40,000	06/17/05	Not in file for member 2	-
				60,358
			Less amounts questioned at Condition 4 for DHL-249	<u>(60,358)</u>
				\$ <u> </u>

No questioned cost is presented for HL-200 as the loan was subsequently paid in full and was released on 04/26/18.

9. For one (or 3%), the third party report is not in file.

<u>Loan Number</u>	<u>Loan Amount</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan</u>
HL-200	\$ 40,000	06/17/05	\$ 36,061

No questioned cost is presented for HL-200 as the loan was subsequently paid in full and was released on 04/26/18.

10. For six (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>
HL-15A-PI	\$ 25,000	01/30/01	\$ 21,468
DHL-186	\$ 24,537	09/08/05	24,537
DHL-240	\$ 30,000	04/30/07	30,000
DHL-249	\$ 60,358	01/18/11	60,358
HL-180	\$ 50,000	03/23/05	46,385
HL-200	\$ 40,000	06/17/05	-
			182,748
		Less amounts questioned at Condition 4 for DHL-186, DHL-240, DHL-249 and HL-180	<u>(161,280)</u>
			\$ <u>21,468</u>

No questioned costs are presented for HL-200 as the loan was subsequently paid in full and was released on 04/26/18.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-006, 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,
 M16ST690203 and M16ST690203
 Area: Eligibility
 Questioned Costs: \$183,995

Condition, Continued:

11. For two (or 6%), 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>
DHL-249	\$ 60,358	01/19/11	\$ 60,358
HL-180	\$ 50,000	03/23/05	<u>46,385</u>
			106,743
			<u>(106,743)</u>
			\$ _____

Less amounts questioned at Condition 4 for DHL-249 and HL-180

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 exist, as follows:

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ 1,247
4	131,280
5	30,000
10	<u>21,468</u>
	\$ <u>183,995</u>

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

Identification as a Repeat Finding: Finding No. 2016-007

Views of Auditee and Planned Corrective Action:

NMHC disagrees with Conditions 5 and 11 for reasons indicated in the Corrective Action Plan. NMHC describes corrective actions for all other conditions in the Corrective Action Plan.

Auditor Response:

Condition 5: The statement of unemployment should be obtained during eligibility verification at least before the loan agreement date of 04/30/07 for DHL-240.

Condition 11: Environmental review and assessment from the applicable CNMI agency was not in file.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-007
 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: \$70,976

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 8 (or 24%) of 34 draws from federal Home (EN) funds assessed by day, totaling \$261,129 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	10/13/16	\$ 37,102	\$ 8,550	\$ 8,550	\$ 8,550
2	10/13/16	\$ 37,102	7,267	\$ 7,268	7,267
3	10/27/16	\$ 30,862	10,794	\$ 10,704	10,794
4	11/02/16	\$ 50,449	4,959	\$ 4,959	4,959
5	11/02/16	\$ 50,449	11,403	\$ 11,404	11,403
6	11/16/16	\$ 34,905	12,186	\$ 12,186	12,186
7	12/05/16	\$ 34,905	7,267	\$ 7,268	7,267
8	12/05/16	\$ 34,905	8,550	\$ 8,550	8,550
			\$ 70,976		\$ 70,976

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 yet to be recorded in IDIS.

Effect: NMHC is in noncompliance with program income compliance requirements, and questioned costs of \$70,976 exist.

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.

Identification as a Repeat Finding: Finding No. 2016-008

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, 2017

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, 2017:

Questioned costs as previously reported:

Fiscal year 2016	\$ 1,136,194
Fiscal year 2015	<u>188,471</u>
	1,324,665

Questioned costs of fiscal year 2017 Single Audit	<u>311,703</u>
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Unresolved questioned costs at September 30, 2017	\$ <u>1,636,368</u>
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NORTHERN MARIANAS HOUSING CORPORATION

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Corrective Action Plan Year Ended September 30, 2017

Finding No. 2017-001

Name of Contact Persons: Michael Barto, CFO; 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 this is 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 noted in our previous audit response, overall delinquency rate for NMHC's loan account was over 75 percent on year-end 2015, and 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. NMHC recently created and filled a Collector position. Due to the increased oversight and collection efforts from this addition to the NMHC team, we are now in an improved position to perform evaluations of loans and whether legal action should be taken for those considered unserviceable. We agree with the audit adjustment to correct the allowance and in conjunction with the corrective action noted in Finding No. 2017-002, adjustments to allowances will occur on a quarterly basis.

Proposed Completion Date: Servicing delinquent accounts and allowance review - Ongoing.

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

NORTHERN MARIANAS HOUSING CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No. 2017-002

Name of Contact Persons: Michael Barto, CFO; Chris Pangelinan, MCD Manager; Roger Dris, Chief Accountant and Lauria Duenas, Collector

Auditee Response: NMHC agrees a review of the adequacy of reserves and any related adjustments should be prepared on a quarterly basis. 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.

Corrective Action: The CFO, MCD Manager and Chief Accountant will develop a quarterly loan guaranty reserve analysis based on:

1. Current period reports available from financial institutions.
2. Loan delinquencies, foreclosure notices, and estimated settlements for the current period provided by the MCD Manager or his designate.
3. Delinquency performance and settlements for previous 5 years.
4. Monthly collectability meetings with the CFO, Chief Accountant, MCD Manager and Collector

NMHC began the review process on a test basis for May 2018. The first quarterly review will be in place for September 2018.

Proposed Completion Date: Ongoing Process with first Quarterly report to be completed for September 30, 2018 no later than October 31, 2018.

Finding No.: 2017-003
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: David Chargualaf, Program and Housing Manager and Melinda Babauta, Housing Specialist IV

Corrective Action: NMHC will ensure that the Resident Rights and Documentation brochure is provided to tenants at annual recertification. NMHC has made a drastic improvement from last year's findings related to the condition (94% of the files tested in FY 16 resulted in a finding and for FY 17, only 57% of the files tested resulted in a finding). Further, NMHC will ensure that original Document Packages are in file for all tenants. NMHC will also ensure that EIV reports are included in the tenant file.

Proposed Completion Date: Immediately

Finding No.: 2017-004
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: \$56,732

Name of Contact Persons: Elbert Scott Pinaula, AMD Manager; Rowell Tolentino, Housing Preservation Technician I and Carlos Pua, Housing Preservation Technician I

NORTHERN MARIANAS HOUSING CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No.: 2017-004, 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: \$56,732

Corrective Action: First, NMHC will ensure that when the work order indicates that the damage is due to tenant negligence, then the tenant must be indeed charged for the cost of the damage. NMHC has made a drastic improvement from last year's findings related to the condition (22% of the files tested in FY 2016 resulted in a finding and for FY 2017, only 14% of the files tested resulted in a finding.) Second, NMHC will ensure that work orders are completed within 30 days after inspection and that work orders indicate whether the deficiencies were tenant-related or wear/tear. Third, NMHC will ensure that all work orders indicate whether deficiencies in the Multi-Family units were fixed and corrected. Lastly, NMHC will ensure that the fixed and corrected deficiencies are closed in the system.

Proposed Completion Date: Immediately

Finding No.: 2017-005

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, B-14-ST69-0001 and B-15-ST69-0001
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Name of Contact Persons: Jacob Muna, Acting Office Manager/Planner; Michael Barto, CFO and Zenie Mafnas, Deputy Corporate Director

Corrective Action: NMHC's correction plan related to equipment and real property management are as follows:

- 1) NMHC will ensure that a reconciliation is performed between Fiscal Division's records and the Administrative Division records
- 2) NMHC will ensure that tags for assets in the Fiscal Division match the Master Listing records, and that the Valley Inn asset is included in the Master Listing
- 3) NMHC will ensure that inventory and reconciliation is performed every two years to monitor the condition of transferred properties.

Proposed Completion Date: By September 2018

Finding No.: 2017-006

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, M16ST690203 and M16ST690203
Area: Eligibility
Questioned Costs: \$183,995

Name of Contact Persons: Chris Pangelinan, MCD Manager and Responsible Loan Specialist(s)

NORTHERN MARIANAS HOUSING CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No.: 2017-006, 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,
M16ST690203 and M16ST690203
Area: Eligibility
Questioned Costs: \$183,995

Auditee Response, Specific to Each Condition:

Condition 1 - For nineteen, homeowner's property insurance coverage was either not in file or was not timely obtained.

Response: The Mortgage and Credit Division (MCD) have subsequently taken the necessary corrective actions to retrieve or provide the required insurance policy, thus removing the associated questioned costs. For those specific item findings, DHR-368 and HNC-367 will not be disputed and will remain a stay.

Condition 2 - For two, homeowner's property insurance coverage was timely obtained, however, property was partially insured.

Response: We concur with this finding as, upon review, the property was partially insured as indicated in the insurance policy on file.

Condition 3 - For six, the annual recertifications were either not performed or were not timely performed during fiscal year 2017.

Response: Although the questioned costs have been removed, we do not dispute the item findings as the required annual recertifications were indeed performed untimely.

Condition 4 - For six, copies of birth certificates or equivalent for the following members were not in file.

Response: We concur that the required information was not in file.

Condition 5 - For two, the statements of unemployment were either not updated, not dated or not in file.

Response: MCD had subsequently provided a declaration and statement of unemployment for loan client/account number DHL-240, QC amount of \$30,000 in support to remove questioned cost amount. This supporting documentation was provided to the auditor in the June 28, 2018 email and attachment.

Condition 6 - For two, the eligibility worksheet to determine income limit compliance is not in file.

Response: This is a stay. After further review, MCD concurs with this finding.

Condition 7 - For three, the letters of tax compliance were not in file.

Response: This condition finding is a stay. Upon file review, we concur that the required document was not in file.

NORTHERN MARIANAS HOUSING CORPORATION

Corrective Action Plan, Continued

Year Ended September 30, 2017

Finding No.: 2017-006, 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,
M16ST690203 and M16ST690203

Area: Eligibility

Questioned Costs: \$183,995

Auditee Response, Specific to Each Condition, Continued:

Condition 8 - For two, the Home Eligibility Release form was not in file for the audit household members.

Response: This condition finding is a stay. Upon file review, we concur that the required document was not in file or not obtained for the specified household member(s).

Condition 9 - For one, the third party report is not in file.

Response: This condition finding is a stay. Upon file review, we concur that the required document was not in file.

Condition 10 - For six, the Homeownership Counseling Checklists were not in file.

Response: We concur that the checklist was not in file and unobtainable from the respective borrowers.

Condition 11 - For two, the environmental review forms were not in file.

Response: For the two files, the environmental review docs were subsequently obtained/found and submitted for the auditor's review in the June 28, 2018 email and attachment in support of removing the QC and the entire condition.

Corrective Action on Continuing Compliance Requirements:

MCD will work to ensure that such continuing compliance requirements as those findings in annual recertifications and homeowner insurance policy are carefully tracked and monitored for timeliness and that the information and documents are reflected in the borrower loan file. This shall require advanced notices, demand letters, as well as appropriate client contacts and field visits as appropriate.

Proposed Completion Date: Process improvement and monitoring is ongoing.

NORTHERN MARIANAS HOUSING CORPORATION

Corrective Action Plan, Continued
Year Ended September 30, 2017

Finding No.: 2017-007
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: \$70,976

Name of Contact Persons: Michael Barto, CFO and 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. The finding was noted previously in the Fiscal Year 2016 audit; whereupon, NMHC agreed with the finding and implemented the corrective plan. This was evidenced by no exceptions noted subsequent to December 5, 2016.

Proposed Completion Date: Currently in place and ongoing.