

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

INDEPENDENT AUDITORS' REPORTS ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2018

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 Commonwealth Development Authority, which comprise the statement of net position as of September 30, 2018, 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 June 25, 2019. 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 2018-001 and 2018-004 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 item 2018-004.

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 results 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

June 25, 2019

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, 2018. 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 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 2018-002 through 2018-004 and 2018-007 in the accompanying Schedule of Findings and Questioned Costs, NMHC did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2018-002	14.195	Section 8 Housing Assistance Payments Program	Eligibility
2018-003	14.195	Section 8 Housing Assistance Payments Program	Special Tests and Provisions
2018-004	14.239	HOME Investment Partnerships Program	Eligibility
2018-007	14.871	Section 8 Housing Choice Vouchers 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, 2018.

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 items 2018-005, 2018-006, and 2018-008. 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 have not been identified. However, as discussed below, we did identify 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 2018-002 through 2018-004 and 2018-007 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 items 2018-005, 2018-006, and 2018-008 to be significant deficiencies.

NMHC's response to the internal control over compliance 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.

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, 2018, and have issued our report thereon dated June 25, 2019, which contained a qualified opinion on those financial statements 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.

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

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

June 25, 2019

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

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	\$ -	\$ 1,249,733
Total Section 8 Project-Based Cluster		-	1,249,733
CDBG - Entitlement Grants Cluster:			
Community Development Block Grants/Special Purpose Grants/Insular Area	14.225	625,873	711,984
Total CDBG - Entitlement Grants Cluster		625,873	711,984
Emergency Solutions Grant Program	14.231	-	73,892
HOME Investment Partnerships Program	14.239	-	7,275,947
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871	-	3,089,523
Total Housing Voucher Cluster		-	3,089,523
<i>Total U.S. Department of Housing and Urban Development</i>		<u>625,873</u>	<u>12,401,079</u>
Total Expenditures of Federal Awards		<u>\$ 625,873</u>	<u>\$ 12,401,079</u>
Reconciliation of Statement of Revenues, Expenses and Changes in Net Position to expenditures:			
Operating expenses:			
Section 8 rental			\$ 2,504,840
HOME Investment Partnership Program Grant			245,125
CDBG Program			711,984
ESG Program			73,892
HOME Investment Partnerships Program loans included in loans receivable			7,030,822
Section 8 HAP expenditures included in operations			<u>1,834,416</u>
Federal award expenditures per above			<u>\$ 12,401,079</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, 2018

(1) Scope of Review

Northern Marianas Housing Corporation (NMHC), a division of 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, 2018. 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 subrecipient organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients 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 2018; 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, 2018

(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 developed allocations for indirect costs to programs, which was partially implemented in the last quarter of fiscal year 2018 as NMHC is still developing estimates and appropriate allocation basis for each federal and local program.

(4) Loan Funds

NMHC, on behalf of the CNMI, has been designated the responsibility of implementing and carrying out the objectives 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 in 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. As of September 30, 2018, the HOME Program expenditures include \$245,125 in current year disbursements and \$7,030,822 in outstanding HOME loans from previous years with continuing compliance requirements. The balance of HOME Investment Partnerships grant loans outstanding and recorded by NMHC at September 30, 2018 is \$7,643,644, of which \$6,852,030 have continuing compliance requirements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

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"> <tr> <td style="text-align: center;"><u>CFDA</u></td> <td style="text-align: center;"><u>Name of Federal Program or Cluster</u></td> </tr> <tr> <td style="text-align: center;">14.195</td> <td>Section 8 Project-Based Cluster:</td> </tr> <tr> <td style="text-align: center;">14.239</td> <td>Section 8 Housing Assistance Payments Program</td> </tr> <tr> <td></td> <td>HOME Investment Partnerships Program</td> </tr> <tr> <td></td> <td>Housing Voucher Cluster:</td> </tr> <tr> <td style="text-align: center;">14.871</td> <td>Section 8 Housing Choice Vouchers</td> </tr> </table> | <u>CFDA</u> | <u>Name of Federal Program or Cluster</u> | 14.195 | Section 8 Project-Based Cluster: | 14.239 | Section 8 Housing Assistance Payments Program | | HOME Investment Partnerships Program | | Housing Voucher Cluster: | 14.871 | Section 8 Housing Choice Vouchers | |
| <u>CFDA</u> | <u>Name of Federal Program or Cluster</u> | | | | | | | | | | | | | |
| 14.195 | Section 8 Project-Based Cluster: | | | | | | | | | | | | | |
| 14.239 | Section 8 Housing Assistance Payments Program | | | | | | | | | | | | | |
| | HOME Investment Partnerships Program | | | | | | | | | | | | | |
| | Housing Voucher Cluster: | | | | | | | | | | | | | |
| 14.871 | Section 8 Housing Choice Vouchers | | | | | | | | | | | | | |
| 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>
2018-001	Loans Receivable
2018-004	Eligibility

NORTHERN MARIANAS HOUSING CORPORATION
 Schedule of Findings and Questioned Costs, Continued
 Year Ended September 30, 2018

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>CDFA Numbers</u>	<u>Finding</u>	<u>Questioned Costs</u>
2018-002	14.195	Eligibility	\$ 37,321
2018-003	14.195	Special Tests and Provisions	10,841
2018-004	14.239	Eligibility	172,669
2018-005	14.239	Period of Availability of Federal Funds	-
2018-006	14.239	Reporting	-
2018-007	14.871	Eligibility	52,227
2018-008	14.871	Special Tests and Provisions	<u>-</u>
			\$ <u>273,058</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-001
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, 2018 allowance for doubtful loans. This analysis revealed that loans, including interest, which are over one hundred twenty (120) days past due amounted to \$2,718,914 or 35.04% of \$7,759,371 in total loans and interest outstanding, excluding HOME deferred loans receivable as of September 30, 2018. An audit adjustment of \$615,697 was proposed to correct the September 30, 2018 allowance for loans receivable.

Cause: The cause of the above condition is lack of adequate follow-up procedures to assess the collectability of loans receivable.

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. 2017-001.

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, 2018

Finding No.: 2018-002
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.195 Section 8 Housing Assistance Payments Program
Area: Eligibility
Questioned Costs: \$37,321

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.
3. 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.
4. Determine the total tenant rent payment in accordance with the housing assistance payments contract.
5. Reexamine family income and composition at least once every 12 months and adjust the total rent payment and housing assistance payment, as necessary.
6. 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.

Condition: Of forty tenant files tested, aggregating \$48,149 of a total population of \$1,249,733, we noted deficiencies. Any resulting questioned cost is based on the monthly HAP amount and the number of months certified during fiscal year 2018.

1. For two (or 5%) 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>
T17	04/01/18	11/01/17	Unknown	10/10/17	\$ 10,505
T17	05/01/18	11/01/17	Unknown	10/10/17	-
T11	11/01/17	11/01/17	Unknown	10/17/17	<u>12,144</u>
					\$ <u>22,649</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-002, 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: \$37,321

Condition, Continued:

2. For five (or 12%), 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>
TQ100016004	K02A	11/01/17	12/01/16	\$ 865
TQ100016004	K23	10/01/17	03/01/17	\$ 1,022
TQ100006004	R09	02/01/18	05/01/17	\$ 1,077
TQ100011001	T04	10/01/17	04/01/17	\$ 893
TQ100011001	T11	11/01/17	11/01/17	\$ 1,012

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

3. For six (or 15%), eligibility documentation performed annually did not indicate that the HUD Fact Sheet was provided.

<u>Section 8 Number</u>	<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
TQ100016004	K02A	11/01/17	12/01/16	\$ 865
TQ100016004	K02B	07/01/18	01/01/18	\$ 887
TQ100016004	K09B	06/01/18	10/01/17	\$ 521
TQ100016004	K23	10/01/17	03/01/17	\$ 468
TQ100006004	R09	02/01/18	05/01/17	\$ 1,077
TQ100011001	T04	10/01/17	04/01/17	\$ 893

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

4. For one (or 2%), eligibility documentation performed annually did not indicate that the EIV & You Brochure was provided.

<u>Section 8 Number</u>	<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
TQ100011001	T04	10/01/17	04/01/17	\$ 893

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

5. For one (or 2%), required eligibility verification documents were either lacking or unsigned, as follows:

- a. For one (2%), the statement of unemployment, affidavit of zero income, affidavit as to assets, and assets disposition were not documented.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Calculation</u>	<u>Questioned Costs</u>
K02B	07/01/18	01/01/18	\$ 887 x 9 months	\$ 7,983

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-002, 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: \$37,321

Condition, Continued:

- b. For one (or 2%), the Document Package for Applicant's/Tenant's Consent to the Release of Information was not signed by all adult members.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Calculation</u>	<u>Questioned Costs</u>
M30	05/01/18	01/01/18	\$ 685 x 9 months	\$ 6,165
M30	06/01/18	01/01/18	\$ 685 x 9 months	\$ -

- c. For one (or 2%), the birth certificate name did not match HUD form 50058.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective</u>	<u>HAP Amount</u>
M27	02/01/18	08/01/17	\$ 796

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

6. For one (or 2%), the assigned unit size is larger than the household/family size, and there is no written justification for such discrepancy.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Form HUD 50059 Effective Date</u>	<u>Unit Size</u>	<u>Household Size</u>	<u>HAP Amount Per General Ledger</u>	<u>HAP Amount Expected</u>	<u>Variance</u>	<u>Questioned Cost</u>
T18	09/01/18	06/01/18	4	3	\$ 1,246	\$ 1,155	\$ 131 x 4 months	\$ 524

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

Effect: NMHC is in noncompliance with applicable eligibility requirements and questioned costs of \$37,321 exist.

<u>Condition</u>	<u>Questioned Costs</u>
1	\$ 22,649
5a	7,983
5b	6,165
6	524
	<u>\$ 37,321</u>

Recommendation: NMHC should strengthen controls over compliance with applicable eligibility requirements by having a checklist 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, 2018

Finding No.: 2018-002, 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: \$37,321

Identification as a Repeat Finding: Finding No. 2017-003

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, 2018

Finding No.: 2018-003
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: \$10,841

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 forty tenant files tested, aggregating \$48,149 of a total population of \$1,249,733, we noted the following deficiencies. Resulting questioned costs are based on the monthly HAP amount and the number of months certified during fiscal year 2018.

1. For three (or 7%) under Section 8 number TQ100011005 and TQ100006004, the housing quality inspections performed during fiscal year 2018 were not conducted within 12 months from the previous annual certification performed for the following:

<u>Unit No.</u>	<u>Effective Date of Current Certification</u>	<u>Current Annual Certification Performed</u>	<u>Previous Annual Certification Performed</u>	<u>Inspection Report Date</u>	<u>No. of Months Between Effective Date of Most Recent Certification and Inspection Date</u>
M08	11/01/17	05/12/17	05/04/16	05/15/17	13
M15	08/01/18	05/16/18	05/03/17	05/16/18	13
R01	10/01/17	08/14/17	06/16/16	08/15/17	14

2. For one (or 2%) under Section 8 number TQ100011004, the move-in inspection report did not document the statement that the unit is decent, safe and in sanitary condition.

<u>Unit No.</u>	<u>Selected Period</u>	<u>Date of Inspection</u>	<u>Overall Inspection Results</u>	<u>Certification Effective Date</u>	<u>HAP Amount</u>
K18	02/01/18	10/17/17	Pass	02/01/18	\$ 1,004
K18	05/01/18	10/17/17	Pass	04/01/18	\$ 637

No questioned costs result as the unit passed the overall inspection requirements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-003, 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: \$10,841

Condition, Continued:

3. For two (or 5%) under Section 8 number TQ100011004 and TQ100016004, the inspector did not indicate overall housing quality inspection results in the inspection form. We are unable to determine if NMHC complied with the housing quality standards, whether any needed repairs are required and whether actions were taken by NMHC to address such.

<u>Unit No.</u>	<u>Date of Inspection</u>	<u>Type of Inspection</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
R18	08/15/17	Annual	\$ 797	\$ 797
K11	01/31/17	Annual	\$ 1,116	-
				\$ <u>797</u>

No question costs result for K11 as amount is questioned at condition 4 below.

4. For one (or 2%) under Section 8 number TQ100011005 and TQ100011001, NMHC inspector reports for the following units indicated deficiencies for both the tenant and NMHC. However, work orders did not indicate whether tenant deficiencies were corrected and charged.

<u>Unit No.</u>	<u>Certification Effective Date</u>	<u>Date of Inspection</u>	<u>Date of Completion</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
K11	01/01/18	01/13/17	05/09/17	\$ 1,116 x 9	\$ 10,044

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

Effect: NMHC is in noncompliance with applicable special tests and provisions requirements for housing quality standards, and questioned costs of \$10,841 exist.

<u>Condition</u>	<u>Questioned Costs</u>
3	\$ 797
4	<u>10,044</u>
	\$ <u>10,841</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. 2017-004

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, 2018

Finding No.: 2018-004
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, M16ST690203 and M17ST690203
Area: Eligibility
Questioned Costs: \$172,669

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. Such verifications shall be considered valid for a period of ninety calendar days from the date the verification was completed for loans executed prior to July 23, 2009 or one hundred eighty calendar days for loans executed on or after July 23, 2009. In addition, 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, 2018

Finding No.: 2018-004, 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, M16ST690203 and M17ST690203
 Area: Eligibility
 Questioned Costs: \$172,669

Condition: Of twenty-one 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, 2018 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.

- For three (or 14%), the homeowner's property insurance coverage was either not on file or not timely obtained.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Date of Certificate of Occupancy</u>	<u>Effective Date of Recent Insurance Policy on File</u>	<u>Date Recent Insurance Policy Was Obtained</u>	<u>Outstanding Loan and Questioned Costs</u>
HL-212	09/22/05	03/06/06	Not on file	Not on file	\$ 25,898
DHL-192	05/25/06	01/18/07	Not on file	Not on file	5,223
DHL-216	08/04/05	03/16/06	02/25/19 - 02/25/20	02/22/19	15,250
					<u>\$ 46,371</u>

- For three (or 14%), the homeowner's property insurance coverage was timely obtained; however, the property was partially insured.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Loan Amount</u>	<u>Outstanding Loan</u>	<u>Insurance Coverage Limit</u>
HP-591	11/20/14	\$ 57,000	\$ 51,952	\$ 40,000
DHR-461	08/09/10	\$ 40,000	\$ 12,551	\$ 25,000
HL-184	05/31/05	\$ 37,000	\$ 34,570	\$ 35,000

No questioned costs are presented for DHR-461 and HL-184 as insurance coverage limits were higher than the outstanding loan balances and the insurance coverage limit was subsequently corrected to \$57,000 for HP-591.

- For three (or 14%), annual recertifications were either not performed or not timely performed during fiscal year 2018.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Date of Annual Recertification</u>	<u>Outstanding Loan and Questioned Costs</u>
PIHL-37	03/30/06	03/08/19	\$ -
DHL-182	02/04/05	Not performed	-
DHL-187	10/28/05	Not performed	25,000
			<u>\$ 25,000</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-004, 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, M16ST690203 and M17ST690203
 Area: Eligibility
 Questioned Costs: \$172,669

Condition, Continued:

No questioned cost is presented for PIHL-37 as the annual recertification was subsequently performed and the mortgage loan for DHL-182 was released on November 16, 2017.

4. For one (or 5%), the signed affidavit of principal residence signed by the borrower and copies of utility/phone bills were not on file.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Date of Annual Recertification Field Visit</u>
DHL-216	08/04/05	06/28/18

No questioned cost is presented as the amount is questioned at Condition 1.

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

5. For two (or 10%), the Home Eligibility Release form was not on file for the adult household members.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Household Member</u>	<u>Outstanding Loan and Questioned Costs</u>
HL-184	05/31/05	2	\$ 34,570
DHL-187	10/28/05	1	_____
			\$ <u>34,570</u>

No questioned cost is presented for DHL-187 as the amount is questioned at Condition 3.

6. For four (or 19%), copies of birth certificates or equivalent for the following members were not on 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.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-004, 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, M16ST690203 and M17ST690203
 Area: Eligibility
 Questioned Costs: \$172,669

Condition, Continued:

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Household Member</u>	<u>Outstanding Loan and Questioned Costs</u>
DHL-182	02/04/05	3	\$ -
HL-212	09/22/05	2 - 4	-
D.PIHL.39	03/30/06	2 - 3	11,728
DHL-216	08/04/05	3	-
			<u>\$ 11,728</u>

No questioned costs are presented for HL-212 and DHL-216 as amounts are questioned at Condition 1 and the mortgage loan for DHL-182 was released on November 16, 2017.

7. For two (or 10%), the statements of unemployment were not on file.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Adult Household Member</u>
HL-212	09/22/05	1
HL-184	05/31/05	1 and 2

No questioned costs are presented for HL-212 and HL-184 as amounts are questioned at Conditions 1 and 5, respectively.

8. For three (or 14%), the potential household income does not agree with third party verifications on file.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Income Per Eligibility Worksheet</u>	<u>Income Per Third Party Verification</u>	<u>Variance</u>
DHL-227	03/28/06	\$ 5,052	\$ 5,244	\$ 192
PIHL-37	03/30/06	\$ 8,826	\$ 9,163	337
DHL-192	05/25/06	\$ 6,528	\$ 13,056	<u>6,528</u>
				<u>\$ 7,057</u>

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

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-004, 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, M16ST690203 and M17ST690203
 Area: Eligibility
 Questioned Costs: \$172,669

Condition, Continued:

9. For five (or 24%), the letters of tax compliance were not on file.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Adult Household Member</u>	<u>Outstanding Loan and Questioned Costs</u>
PIHL-37	03/30/06	1	\$ 25,000
DHL-182	02/04/05	1 and 2	-
DHL-192	05/25/06	1 and 2	-
DHL-192	12/29/15 - amended	1 and 2	-
PIHL-32	12/30/04	1 and 2	-
			<u>\$ 25,000</u>

No questioned costs are presented for DHL-192 as the amount was questioned at Condition 1 and the mortgage loan for DHL-182 was released on November 16, 2017 while the loan balance for PIHL-32 has been paid in full.

10. For one (or 5%), the third-party credit report is not on file.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>
DHL-227	03/28/06

No questioned cost is presented as loan is under a deferment agreement.

11. For four (or 19%), the borrower had either prior delinquent loans or no credit history per third party credit reports.

<u>Loan Number</u>	<u>Date of Loan Agreements</u>	<u>Deficiencies Noted</u>
PIHL-37	03/30/06	No credit history
HL-212	09/22/05	Prior delinquent loans
HL-184	05/31/05	No credit history
PIHL-32	12/30/04	Prior delinquent loans

No questioned costs are presented for PIHL-37 as the loan is under a deferment agreement and the amounts for HL-212 and HL-184 are questioned at Conditions 1 and 5, respectively, while the loan balance for PIHL-32 has been paid in full.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-004, 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, M16ST690203 and M17ST690203
 Area: Eligibility
 Questioned Costs: \$172,669

Condition, Continued:

12. For six (or 29%), 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.

<u>Loan Number</u>	<u>Date of Loan Agreements</u>	<u>Deficiencies Noted</u>
DHL-227	03/28/06	47.41% debt and payment to income ratio
DHL-182	02/04/05	57.68% debt to income ratio
DHL-212	09/22/05	40.48% debt and payment to income ratio
DHL-184	05/31/05	39.33% payment to income ratio
DHL-216	08/04/05	56.67% debt to income ratio
DHL-187	10/28/05	42.59% debt to income ratio

No questioned costs are presented for DHL-227, DHL-216 and DHL-187 as loans are under deferment agreements, the mortgage loan for DHL-182 was released on November 16, 2017 and amounts for HL-212 and HL-184 are questioned at Conditions 1 and 5, respectively.

13. For three (or 14%), Homeownership Counseling Checklists were not on file.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>	<u>Outstanding Loan and Questioned Costs</u>
DHL-227	03/28/06	\$ 30,000
DHL-182	02/04/05	-
DHL0-216	08/04/05	-
		\$ <u>30,000</u>

No questioned costs are presented for DHL-216 as amount was questioned at Condition 1 and the mortgage loan for DHL-182 was released on November 16, 2017.

14. For three (or 14%), Commitment Letters were not on file.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>
DHL-227	03/28/06
DHL-182	02/04/05
DHL-216	08/04/05

No questioned costs are presented as the borrowers signed the loan agreements.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-004, 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, M16ST690203 and M17ST690203
 Area: Eligibility
 Questioned Costs: \$172,669

Condition, Continued:

15. For four (or 19%), the environmental review and assessment forms were not on file.

<u>Loan Number</u>	<u>Date of Loan Agreement</u>
DHL-182	02/04/05
DHL-212	09/22/05
DHL-184	05/31/05
PIHL-32	12/30/04

No questioned costs are presented for HL-212 and HL-184 as amounts were questioned at Conditions 1 and 5, respectively, and the mortgage loan for DHL-182 was released on November 16, 2017 while the loan balance for PIHL-32 has been paid in full.

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	\$ 46,371
3	25,000
5	34,570
6	11,728
9	25,000
13	<u>30,000</u>
	\$ <u>172,669</u>

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

Identification as a Repeat Finding: Finding No. 2017-006

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, 2018

Finding No.: 2018-005
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.239 HOME Investment Partnerships Program
 Federal Award No.: M13ST690203
 Area: Period of Availability of Federal Funds
 Questioned Costs: \$-0-

Criteria: In accordance with 24 CFR 92.500(d)(2)(i), HUD will reduce or recapture HOME funds by the amount of any funds from Fiscal Year 2014 and prior fiscal year allocations in the United States Treasury account that are (1) not committed within 24 months or (2) not expended within 5 years after the last day of the month in which HUD notifies the participating jurisdiction of HUD's execution of the HOME Investment Partnership Agreement.

Condition:

1. The two-year commitment deadline for grant award M13ST690203 expired on 09/30/15; however, a total of \$17,014 was committed during the fiscal year ended September 30, 2018 and was subsequently expended as part of the \$50,353 balance discussed in Condition 2 below.
2. The five-year expenditure deadline for grant award M13ST690203 expired on 09/30/18; however, the unexpended balance of \$50,353 was subsequently drawn, as follows:

<u>Voucher Number</u>	<u>Date</u>	<u>Amount</u>
6196708	10/03/18	\$ 13,860
6218266	12/17/18	11,100
6231484	01/31/19	15,168
6231487	01/31/19	<u>10,225</u>
		\$ <u>50,353</u>

No questioned cost is presented because the subsequent expenditures of \$50,353 could have been drawn against grant award M14ST690203, which had an available balance of \$292,111 as of 09/30/18.

Cause: NMHC did not effectively monitor compliance with applicable period of availability requirements.

Effect: NMHC did not fully commit or fully expend grant award M13ST690203 in accordance with applicable period of availability requirements. HOME funds are subject to reduction or recapture by HUD in the amount of \$50,353.

Recommendation: NMHC should strengthen monitoring controls over compliance with applicable period of availability requirements. The responsible personnel should verify period of availability dates prior to committing and expending program funds. If a fund's period of availability has expired, the responsible personnel should obtain written grantor approval prior to committing and expending expired funds.

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, 2018

Finding No.: 2018-006
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.239 HOME Investment Partnerships Program
Federal Award No.: M-17-ST-69-0203
Area: Reporting
Questioned Costs: \$-0-

Criteria: Per the April 2017 Compliance Supplement, each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year, must submit HUD 60002 information using the automated Section 3 Performance Evaluation and Registry System (SPEARS) (24 CFR sections 135.3(a)(1) and 135.90).

Condition: Form HUD 60002 Section 3 Summary Report covering fiscal year ended September 30, 2018 for grant award no. M-17-ST-69-0203 was prepared; however, was not submitted to HUD.

Cause: NMHC did not effectively monitor its submission requirement for Form HUD 60002 Section 3 Summary Report.

Effect: NMHC is in noncompliance with Form HUD 60002 Section 3 Summary Report compliance requirements.

Recommendation: We recommend that NMHC adhere to Form HUD 60002 Section 3 Summary Report compliance requirements.

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, 2018

Finding No.: 2018-007
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Area: Eligibility
Questioned Costs: \$52,227

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

1. Only accept information verified and dated 60 days preceding the actual receipt of the aforesaid documents which is normally received when the certification/recertification procedure is performed and/or preceding the issuance of voucher. Information exceeding 60 days must be updated and re-verified.
2. Use the Enterprise Income Verification (EIV) System to obtain verification of employment, gross wages, unemployment compensation and social security benefits. For new admissions, the EIV Income Report is used to confirm/validate family reported income within 120 days of the PIC submission date. A copy of the EIV Income Report is required to be maintained in the tenant file.
3. Conduct interim recertification when families have an increase in income (\$200 or more) or change in family size. Families are required to report all increases and decreases in income/assets of all the household members or increases/decreases in family size within 10 days of the change. If a family fails to report a change in income/assets, NMHC may conduct an interim recertification upon obtaining evidence of said change in income/assets/family size. If the recertification results in an increase in rent, then said increase shall be charged retroactively to the date of the income/asset/family size change. Failure to report a change in income/asset/family size is grounds for termination of assistance.
4. Verify six current employment check stubs of all members in family who are employed.

Condition: Of twenty-five tenant files tested, aggregating \$18,071 of a total population of \$3,089,523, we noted deficiencies. Resulting questioned costs are based on the monthly HAP amount and number of months certified during fiscal year 2018.

1. For four (or 16%), dates of affidavits and/or third party verifications supporting family income and assets exceeded the 60 days preceding the dates of when the certifications/recertifications were performed and/or preceding the voucher issuance dates.

Unit No.	Period Tested	Certification Effective Date	Type of Action	Date Certification Performed	Voucher Issued Date	Third Party Verification Date	HAP Amount	Questioned Costs
HO1789	02/02/18	10/23/17	New	10/23/17	10/23/17	12/26/16	\$ 850	\$ -
HO1761	02/02/18	10/05/17	New	10/05/17	07/28/17	04/27/17	\$ 890	9,790
HO1764	07/02/18	10/07/17	New	10/06/17	07/28/17	04/18/17	\$ 890	9,790
HO1733	02/02/18	07/01/17	Interim	06/15/17	N/A	01/01/17	\$ 600	7,200
								<u>\$ 26,780</u>

Outdated third party verification documents include a medical expense allowance for HO1789, affidavits of zero income, child support and a statement of unemployment for HO1761 and HO1764 and affidavits of zero income and child support for HO1733.

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-007, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Area: Eligibility
Questioned Costs: \$52,227

Condition, Continued:

No questioned costs are presented for HO1789 as the applicant's household income would still be within the income limit if the medical expense allowance is excluded.

2. For six (or 24%), either the EIV income reports are not on file and/or the EIV was not performed within 120 days preceding the PIC submission date.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective Date</u>	<u>Type of Action</u>	<u>PIC Submission Date</u>	<u>Date EIV Performed</u>	<u>Deficiency</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
HO1789	02/02/18	10/23/17	New	10/30/17	12/01/17	Income report not on file	\$ 850	\$ 9,350
HR0055	09/01/18	07/10/18	New	08/02/18	05/16/19	Income report not on file and not timely performed	\$ 600	1,200
HO1761	02/02/18	10/05/17	New	10/30/17	07/11/18	Income report not on file and not timely performed	\$ 890	-
HO1764	07/02/18	10/07/17	New	10/30/17	02/12/18	Income report not on file	\$ 890	-
HO1774	02/02/18	10/24/17	New	10/30/17	12/01/17	Income report not on file	\$ 379	-
HO1802	06/04/18	04/06/18	New	04/27/18	06/12/18	Income report not on file	\$ 600	3,000
								<u>\$ 13,550</u>

No questioned costs are presented for HO1774 as third party income verifications are on file and HO1761 and HO1764 have been questioned at Condition 1.

3. For one (or 4%), only four current employment check stubs were used to determine family income.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective Date</u>	<u>Type of Action</u>	<u>HAP Amount</u>	<u>Questioned Costs</u>
HO1311	01/04/18	10/01/17	Annual	\$ 853	\$ 10,236

4. For one (or 4%), tenant failed to report an increase in family income during the interview process; thus, this resulted in an excess amount (\$131) of HAP monthly payments. NMHC executed a repayment agreement with the tenant in September 2018 for the excess HAP amounts; however, the tenant has not made any payments. In addition, the excess amount of \$1,661 has not been returned to HUD.

<u>Unit No.</u>	<u>Period Tested</u>	<u>Certification Effective Date</u>	<u>Type of Action</u>	<u>HAP Amount</u>	<u>Excess Amount and Questioned Costs</u>
HO1774	02/02/18	10/24/17	New	\$ 379	\$ 1,661

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	\$ 26,780
2	13,550
3	10,236
4	<u>1,661</u>
	<u>\$ 52,227</u>

NORTHERN MARIANAS HOUSING CORPORATION

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2018

Finding No.: 2018-007, Continued
Federal Agency: U.S. Department of Housing and Urban Development
CFDA Program: 14.871 Section 8 Housing Choice Vouchers
Area: Eligibility
Questioned Costs: \$52,227

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

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, 2018

Finding No.: 2018-008
 Federal Agency: U.S. Department of Housing and Urban Development
 CFDA Program: 14.871 Section 8 Housing Choice Voucher
 Area: Special Tests and Provisions - Utility Allowance
 Questioned Costs: \$-0-

Criteria: The PHA must review its schedule of utility allowances each year and must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance schedule was revised. In addition, the PHA must provide HUD a copy of the utility allowance schedule.

Condition: The utility rate changed by 16% since the last revised utility allowance schedule. The utility allowance analysis was not timely performed, and the updated utility allowance schedule was not submitted to HUD.

Date Utility Allowance Analysis was Performed	Effective Date	Monthly Utility Allowance Schedule					
		0BR	1BR	2BR	3BR	4BR	5BR
09/21/16	10/01/16-09/30/17	\$ 90	\$ 111	\$ 130	\$ 158	\$ 195	\$ 221
04/27/18	10/01/17-09/30/18	\$ 96	\$ 119	\$ 141	\$ 170	\$ 212	\$ 239

Cause: The cause of the condition is the resignation of assigned responsible personnel.

Effect: The effect of the above condition is noncompliance with federal regulations. No questioned costs are presented as the extent of noncompliance is undeterminable.

Recommendation: We recommend that NMHC cross train other personnel to perform the required annual review of the utility allowance schedule and that a copy of the utility allowance schedule is submitted to HUD.

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, 2018

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, 2018:

Questioned costs as previously reported:	
Fiscal year 2017	\$ 311,703
Fiscal year 2016	1,136,194
Fiscal year 2015	<u>188,471</u>
	1,636,368
Less questioned costs resolved in fiscal year 2018:	
Questioned costs of fiscal year 2015 Single Audit	<u>(188,471)</u>
	1,447,897
Questioned costs of fiscal year 2018 Single Audit	<u>273,058</u>
Unresolved questioned costs at September 30, 2018	\$ <u>1,720,955</u>



NORTHERN MARIANAS HOUSING CORPORATION

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Finding No. 2018-001

Name of Contact Persons: Michael Barto, CFO; and Roger Dris, Chief Accountant

Auditee Response: NMHC agrees to the finding, however NMHC prepared allowances using historical basis for all receivables but this account. Subsequent events including Supertyphoon Yutu, deferments in all NMHC receipts in response to the disaster, and on-going negative economic impacts in the CNMI resulting from said storm, we were unable to determine a reasonable basis for recording adjustments to potential collectability. Accordingly, NMHC elected a conservative approach.

Corrective Action: Further action not deemed necessary since effects to collectability allowance will be recorded during the next fiscal year and NMHC can fully utilize historical basis estimates.

Proposed Completion Date: Ongoing

Finding No. 2018-002

Name of Contact Persons: David Chargualaf, Program and Housing Division Manager (PHDM)

Auditee Response: Agree

Corrective Action: PHDM will develop and implement a checklist to verify the tenant's files are complete with related signoffs during the annual recertification. NMHC continues to show great improvements from last year's findings. (57% of the files tested in FY 2017 resulted in a finding, compared to 18% in FY 2018)

Proposed Completion Date: July 31, 2019

Finding No. 2018-003

Name of Contact Persons: Elbert Scott Pinaula, AMD Manager, and Dave Chargualaf, PHDM

Auditee Response: Agree

Corrective Action: PHD manager will work with AMD Manager to develop procedures to improve ongoing monitoring and ensure work orders indicate damage is due to tenant negligence or wear and tear, and charged for the cost of damage if tenant related, work orders are completed within 30 days after inspection, fixed and corrected deficiencies are closed in the system. PHDM will obtain the latest HUD HQS compliance supplement to ensure guidance related to multifamily is incorporated in future policy. NMHC notes the number of files tested showing exceptions remains consistent with prior year; however, the questioned costs dropped from \$56,732 in FY 2017 to \$10,841 in FY 2018 which indicates reduced deficiencies in the tested files.

Proposed Completion Date: July 31, 2019

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Finding No. 2018-004

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

Auditee Response: Agree

Corrective Action: MCD Manager will develop checklists to address deficiencies in the finding. MCD Staff will update checklists regularly on a shared drive and update status as needed. On a monthly basis, or more often as deemed necessary, the MCD Manager will review the checklists to ensure timely follow up and/or provide guidance to staff on resolving deficiencies or missing support. NMHC notes questioned costs have dropped from \$183,995 in FY 2017 to \$172,669 in FY 2018. NMHC also notes that substantially most of the findings and related questioned costs are prior to NMHC's Home Policies and Procedures implemented July 23, 2009. MCD will use the checklists to review previous files, assess noted deficiencies, and document the results of their research in completing compliance requirements. NMHC believes the action plan will ensure NMHC can improve file monitoring and resolution of related potential deficiencies.

Proposed Completion Date: September 30, 2019

Finding No. 2018-005

Contact Persons: Michael Barto, CFO; Roger Dris, Chief Accountant

Auditee Response: Agree

Corrective Action: The Chief Accountant will contact the CFO as needed to review CFR and related guidelines under such circumstances as described in the findings. The CFO notes NMHC appreciates Deloitte's due diligence in identifying such potential weaknesses; however, the circumstances around the finding should be considered:

- NMHC provided e-mails showing the almost constant communication with HUD Hawaii reviewing the commitment; and
- During the period of time of the subsequent drawdowns, HUD was unavailable for "guidance" or review as the Federal government was shut down for 35 days starting December 21st, 2018. The website was online for such drawdowns and deadlines were not changed. Prior to, and subsequently after the shutdown gap, NMHC and HUD were wholly focused on recovery activities related to Super typhoon Yutu.

Proposed Completion Date: Immediately

Finding No. 2018-006

Name of Contact Persons: Jacob Muna, Office Manager

Auditee Response: Agree

Corrective Action: Office Manager will ensure to submit the required report timely.

Proposed Completion Date: Immediately

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Finding No. 2018-007

Name of Contact Persons: Jesse Palacios, Corporate Director; David Chargualaf, PHDM and related specialists

Auditee Response: Agree

Corrective Action: The 60-day timeframe is NMHC's policy, accordingly, the Corporate Director and PHDM will revisit the policy to determine if it is still reasonable with the timely completion of eligibility reviews and associated risks related to an extension; the PHDM will remind housing staff 60 days applies unless a new time frame has been determined.

Proposed Completion Date: Immediately for informing staff of 60-day time frame; July 31, 2019 for time frame review,

Corrective Action: Regarding the EIV deficiencies, PHDM will remind staff should include all parts of the EIV including the EIV Income Report, and PHDM will review current system reporting to determine if alternative methods are required to ensure EIV files are not prepared subsequent to the voucher submission.

Proposed Completion Date: Immediately for informing staff of EIV completeness; July 31, 2019 for voucher system review.

Corrective Action: The PHDM will remind PHD staff that six stubs are required; and, any deficiencies or exceptions are to be approved by the PHDM, documented and retained in the file.

Proposed Completion Date: Immediately

Corrective Action: For HO1774 tenant subsequently executed a repayment agreement with NMHC; and PHDM will contact HUD for guidance on funds return if applicable.

Proposed Completion Date: July 31, 2019 on resolving return of funds.

Finding No. 2018-008

Name of Contact Persons: Nikonia Tudela, Special Assistant for Housing and LIHTC Programs; David Chargualaf, PHDM

Auditee Response: Agree

Corrective Action: The Special Assistant is primary and PHDM is alternate.

Proposed Completion Date: Completed

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