

CNMI's Oversight of American Recovery and Reinvestment Act Funds

Evaluation Report
February 2009 through June 2010



Inspection Report
IR-11-01



Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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April 14, 2011

Honorable Benigno R. Fitial
Governor
Office of the Governor
Caller Box 10007
Saipan, MP 95950

Dear Honorable Fitial:

Subject: Evaluation of the CNMI's Oversight and Implementation of American Recovery and Reinvestment Act Programs

Enclosed is a copy of the Office of the Public Auditor's (OPA) report on the evaluation of the CNMI's system of internal control for the oversight and implementation of American Recovery and Reinvestment Act (ARRA or Recovery Act) Programs. This was a joint inspection with the Recovery Oversight Office, Office of the Inspector General of the U.S. Department of Interior (DOI-OIG). Our primary objective was to review and evaluate the system of internal controls developed by the CNMI to monitor the implementation of ARRA funded programs. OPA's review covered the time the Recovery Act was signed into law through June 30, 2010.

The results of our joint inspection revealed three areas of concern. These concerns are three major types of internal control weaknesses: (1) those created by the manner in which the Recovery Act was implemented, (2) those inherent in the insular area(s), and (3) those specific to the CNMI.

These three major types of weaknesses elevated the risks over the expenditure of ARRA funds and, if left uncorrected, will most likely result in non-compliance to ARRA spending requirements. Consequently, a significant number of questioned costs may be reported in the CNMI Annual Single Audits. Since a private firm, Integrated Professional Solutions, LLC. (IPS) has been contracted by the CNMI to provide oversight function for projects/programs funded by ARRA money, we recommend that your office work with IPS to address the recommendations listed starting on page 11 of the report.

Should you have any questions or concerns, please call me at 322-6481/82 or email me at mpai@opacnmi.com. Thank you.

Sincerely,

Michael Pai, CPA
Public Auditor

Enclosure

cc: Honorable Eloy S. Inos, Lt. Governor
Michael J. Ada, Integrated Professional Solutions, LLC.

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Summary

The Commonwealth of the Northern Mariana Islands' (CNMI) Office of the Public Auditor (OPA) conducted a joint inspection with the United States Department of the Interior's Office of Inspector General (DOI/OIG) to review and evaluate the systems of internal control developed by the CNMI government to monitor the implementation of American Recovery and Reinvestment Act (ARRA or Recovery Act) programs.

The United States Congress, in response to major economic concerns, enacted ARRA to provide both a stimulus and reinvestment program for the country. The act provided historic levels of federal assistance for a variety of programs. A requirement of the Recovery Act was to create new levels of accountability and transparency in the reporting processes of both grant awards and expenditures for the federal grantor and the individual grantees.

The results of our joint inspection revealed three areas of concern. These concerns arise from three types of weakness: (1) those created by the manner in which the Recovery Act was implemented, (2) those inherent in the insular area(s), and (3) those specific to the CNMI. These weaknesses elevate the risks over the expenditure of ARRA funds and, if left uncorrected, will most likely result in non-compliance with ARRA spending requirements. Consequently, a significant number of questioned costs may be reported in the CNMI Annual Single Audits.

Weaknesses created by the manner in which the Recovery Act was implemented:

ARRA was created with the primary goal of stimulating the economy, which required rapid project/program assessment, followed by near simultaneous commitment and release of funds at the earliest possible date. The priority placed on swift injection of federal money into the economy resulted in weak planning, training, and development of timely regulations and procedures.

Weaknesses inherent in the Insular Area(s):

Historically, the insular areas have suffered from a lack of capacity in the areas of accounting and auditing. By way of example, several major positions within the CNMI have remained unfilled due to education and experience requirements. Additionally, this has been compounded by lower wage compensation available in the insular areas. This lack of capacity has a major impact on consistent development and application of internal controls both within the primary government and the autonomous agencies.

Weaknesses specific to the CNMI:

The weaknesses described above, relating both to the creation of the Recovery Act and those inherent in the insular areas, have exacerbated existing weaknesses

in the CNMI, including: (1) recovery funds directly awarded to autonomous agencies fall outside the central Government's visibility and control, (2) prior audit findings and risk management tools were not utilized to identify areas of potential fraud, waste and abuse and potential noncompliance with legislation and grant requirements, (3) monitoring functions performed by the finance department were not adequate with respect to transfers and receipt of recovery funds, and (4) expenditure and award information on the CNMI's official website for Recovery Act programs was not current and complete.

Introduction

This inspection report presents the results of our joint review on the effectiveness of oversight activities over Recovery Act funds. Our review was in cooperation with the Recovery Oversight Office of DOI/OIG. Our objective was to review and evaluate the system of internal control developed by the CNMI government to monitor the implementation of Recovery Act programs.

This joint inspection was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's "Quality Standards for Inspection and Evaluation".

Background

American Reinvestment and Recovery Act of 2009

The Recovery Act was signed by President Obama on February 17, 2009. The Act provided \$787 billion in federal funds to create jobs, promote economic recovery and long-term economic growth, and foster unprecedented levels of accountability and transparency. Further goals of the Recovery Act were to stabilize state, insular areas and local government budgets and to minimize or avoid reductions in essential services.

To facilitate new levels of accountability, the Recovery Act established the Recovery Accountability and Transparency (RAT) Board to coordinate and conduct oversight of covered funds to prevent fraud, waste and abuse. Additionally, federal grantor agencies were required to provide oversight and guidance to recipients of Recovery Act funds. Furthermore, the Recovery Act mandated the RAT Board to create and maintain a public website to foster greater accountability and transparency and to act as an official portal or gateway to key information relative to the Recovery Act.

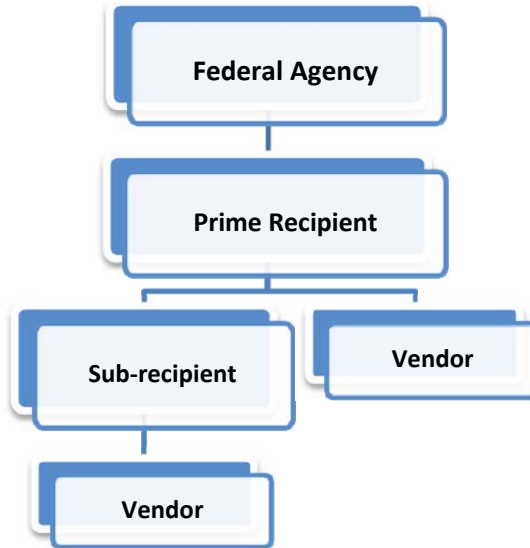
Reporting Requirements

Section 1512 of the Recovery Act outlines reporting requirements for covered funds to satisfy greater transparency and accountability. Specifically, each prime recipient of recovery funds is responsible for submitting a report to the awarding federal agency no later than 10 days after the end of each calendar quarter and, in turn, the awarding federal agencies are mandated to review, comment, and make those reports public on a federal website (www.recovery.gov) created by the RAT Board no later than the 30th day after the end of that quarter.

Recovery Act funds are disbursed by federal agencies to state agencies or prime recipients, who then provide funds to sub-recipients or vendors. The sub-

recipient may then pass funds to vendors for goods or services. See Exhibit 1 for Section 1512 reporting flow.

**Exhibit 1
1512 Reporting Flow**



Source: OMB Reporting Guidance M09-21

CNMI Recovery Funds and Oversight

The CNMI Government and autonomous agencies were awarded approximately \$92.4 million in ARRA funds as of June 30, 2010. Another \$287,185 was awarded to non-profit organizations and private firms. The funds received by the CNMI funded various infrastructure and energy projects, education and job training programs, healthcare, etc. See Appendix B for a list of ARRA programs and allocations.

The Governor appointed a state lead to serve as the sole point of contact and perform oversight and monitoring functions over all central Government agencies and sub-recipients who received Recovery Act funds.¹ The state lead or “czar” performed dual responsibility as the Secretary of an Administrative Agency and was later assigned to oversee the 2010 Census. To assist the state lead, the CNMI ARRA Office was created in August 2009; almost six months after the Recovery Act became law, and was funded by one-half of one percent of all Recovery Act funds received.

¹ In October 2010, state lead Michael J. Ada resigned from the government, and his company, Integrated Professional Solutions, LLC, was awarded a sole source contract to monitor the ARRA programs as was performed previously under the CNMI ARRA Office.

Major Challenges Faced By Insular Area Governments

The insular areas present unique circumstances for the administration of federal grants. Compared to individual states, the insular areas: (1) are smaller in basic population, (2) are geographically remote, (3) have reduced political influence with federal agencies, (4) often lack sophisticated infrastructure and communications, (5) lack an economic base, and (6) present extremely difficult challenges in recruiting and retaining trained finance or accounting personnel.

Historically, insular areas have experienced difficulty in recruiting and retaining qualified accounting and finance professionals. This puts an exceptional burden on those professionals tasked to provide internal controls and basic management. By way of example, in the past five years, four major CNMI autonomous agencies (CNMI Public School System, the Commonwealth Development Authority, the Commonwealth Utilities Commission and the Commonwealth Ports Authority) have been unable to recruit and retain financial comptrollers.²

Basic infrastructure deficiencies and a still developing economic base create a larger task for the CNMI government, resulting in the use of autonomous agencies where normally the private sector would provide the service. This in turn has created a situation where there is no supreme oversight agency for the CNMI. Grants that are directly awarded to autonomous agencies are not subject to scrutiny by the CNMI ARRA Office. This also creates a situation where scarce human resources are further fragmented by multiple entities which report separately.

Prior Audit Coverage

The 2008 CNMI Single Audit report showed a major increase in audit findings and questioned costs relating to major federal award programs. In comparison to the 2005 Single Audit, questioned costs increased ten-fold from about \$719 thousand to \$7.2 million for the fiscal year ending 2008 and representing about 11 percent of total federal grant expenditures for the period. One-third of the findings alone were attributed to a lack of documentation relating to grant expenditures. Further, the total of questioned costs from the central government does not include findings and questioned costs of \$1.1 million related to federal programs under autonomous agencies, with the exception of one agency whose 2008 financial audit was not completed.

² In 2009 and 2010, CPA, PSS and CUC were able to recruit a financial comptroller or chief financial officer.

Table 1. Findings and Questioned Cost Relating to Federal Award Programs

Fiscal Year	Central Government		Autonomous Agencies	
	Findings	QC	Findings	QC
2004	33	2,700,930	25	956,847
2005	37	718,786	13	66,907
2006	36	1,468,273	15	242,674
2007	42	2,213,809	47	597,925
2008	41	7,165,481	54	1,102,852

With the release of the 2009 CNMI Single Audit on June 23, 2010, the total questioned costs dropped to \$4,817,031; however total unresolved questioned costs for the central government as of September 30, 2009 amounted to \$19,231,826.

Findings and Recommendations

Our inspection found that historically and currently the CNMI suffers from insufficient capacity and inadequate training to oversee and monitor the implementation of federal programs to ensure accountability and transparency and to prevent fraud, waste and abuse. The addition of major ARRA funding has further strained this capacity. The added funding has weakened internal controls in that:

- Recovery funds directly awarded to autonomous agencies fell outside the central Government's visibility and control.
- Prior audit findings and risk management tools were not utilized to identify areas of potential fraud, waste and abuse and potential noncompliance with legislation and grant requirements.
- Monitoring functions performed by the finance department were not adequate.
- Documentation of grant awards was not adequate.
- Expenditure and award information on the CNMI's official website for Recovery Act programs were not current or complete.

In addition, the inspection identified inherent weaknesses which developed due to the environment in which the Recovery Act was created. This environment of crisis response and insufficient planning led to specific weaknesses that, in part, contributed to the results of the evaluation. Examples include: (a) the creation of an oversight office was undefined, and the appointment of a state lead or "czar" was not a requirement; (b) ARRA guidance and regulations were not readily available or defined, and these conditions compromised the timeliness of training and expenditure of awards; and (c) there was inadequate funding to cover administrative costs and oversight of Recovery Act programs.

Autonomous Agencies Fall Outside the Oversight of the Central Government

No person or entity has sole responsibility to oversee and monitor all Recovery Act funds received by the CNMI. Although the Governor appointed a state lead and later authorized the creation of an oversight office for central Government agencies and sub-recipients, each autonomous agency is responsible for the funds that it has received and has relied on training provided by the federal grantor agency to meet the requirements set forth by the Recovery Act.

This exclusion from a sole oversight body leaves the autonomous agencies at risk unless close monitoring and guidance is provided by federal grantor agencies. In one example, the Northern Marianas College was not aware that increased funding for student financial aid was a result of ARRA. Instead, it was the CNMI Office of Management and Budget that informed the Northern Marianas College who then scrambled to meet reporting deadlines. Other agencies received little or no training.

Prior Audit Findings & Risk Management Tools Were Not Utilized

One fundamental standard of internal control is the assessment of the risks the agency faces from both external and internal sources. This includes identifying risks, determining its significance and likelihood of occurrence, and deciding how to manage the risks and what actions to take.

During our fieldwork, OPA learned that neither the CNMI ARRA Office nor the federal grantor agencies performed risk assessments to identify high risk agencies or programs. Given the increased findings and questioned costs in prior CNMI Single Audit reports, it appears there is an indication of such risks. Had the Single Audit reports been used in a risk assessment process, the CNMI ARRA Office may have learned of the serious degradation of grant management, and identified high-risk agencies. Doing so may have improved the monitoring process. Although they saw the value of such a process, the CNMI ARRA Office stated that they did not have the human resources to conduct a risk assessment. Unless the CNMI, through collaborative efforts by finance officers and agency heads, closely monitors these deficiencies and internal control weaknesses, the Recovery Act funds are placed at significant risk.

Monitoring Functions Not Adequate

Although monitoring functions have been set up to ensure timely reporting and competitive procurement, the CNMI ARRA Office has not considered reviewing the functions performed by the central government's finance department with respect to transfers and receipt of Recovery Act funds to ensure compliance with project agreements. The CNMI ARRA Office has taken the position that these functions are outside their normal oversight or are simply relying on the accurate performance of the finance department.

Our inquiries with the finance department indicate that all drawdowns of Recovery Act monies for the central government are performed by their office. The Recovery Act funds are deposited into a single bank account for federal funds. Matching of the deposits and the drawdowns is performed daily, and the deposits are applied to the correct ARRA business unit number. Each business unit is assigned a fund number to distinguish regular grant programs from Recovery Act grant programs; all ARRA projects are assigned under fund number

2022, while regular grants are placed under 2020. If matching is not performed properly and the correct account is not charged, there is a risk that regular grant funds and Recovery Act funds may be comingled and lose their identity. OPA also noted that training was not provided to the finance department for Recovery Act accountability and instead the department relied on federal grant agreements for guidance. The CNMI ARRA Office should monitor these functions closely to ensure reconciliations are performed and the correct accounts are charged.

Poor Documentation of Recovery Awards

Under ARRA, before any expenditure of funds can occur, each grantee must receive and sign a grant award notification. At the oversight office, a copy of this document should be maintained in the files for tracking purposes and should be compiled to support the universe of Recovery Act awards received by the central government. During our fieldwork, OPA found that the CNMI ARRA Office had not obtained copies of all signed awards.

Further, OPA identified grants that were awarded prior to March 31st, 2010 which had not yet been identified by the CNMI ARRA Office. The oversight office has yet to obtain complete information, because funds were awarded prior to the complete hiring of staff members. After having been in operation for almost a year, the office should complete the compilation of all ARRA grant award documents, including those awarded prior to creation of the office. As discussed earlier, lack of documentation for grant expenditures comprise about one-third of all findings in the 2008 single audit. Grant oversight officials should stress the importance of adequate documentation to all recipients and sub-recipients to eliminate the same findings in future audits and avoid the risk of losing future funding.

Website Should Be Current and Complete For Better Transparency

Through an outside party, the CNMI ARRA Office established a website (www.cnmiarra.net) intended to provide information to the public on contract and job opportunities, awards, expenditure information, and helpful resources for recipients and sub-recipients. The website was only made possible through a non-ARRA grant by DOI. Since then, the IT/Communications Manager of the CNMI ARRA Office has been responsible for managing and updating the website. A review of the information on the website during OPA field work showed it was not current or complete. Additionally, a review of the websites of autonomous agencies showed they also present stale or incomplete expenditure information for the ARRA grants they received.

During OPA's fieldwork, expenditure information posted on the CNMI ARRA website had not been updated to reflect the last two reporting periods. Additionally, the names of contractors and the amounts of contract awards were

not always identified or posted. One agency commented that the “Closed” opportunities section of the website did not identify the contractors or list which contracts had been awarded.

There is no centralized hotline for reporting fraud, waste or abuse of ARRA funds. Although the website allows the public to send inquiries, a confidential hotline was not established for reporting potential fraud, waste and abuse of Recovery funds. Without a specific hotline within the CNMI ARRA office, grant recipient agencies and the public are left to report to the hotlines managed by OPA or the official ARRA hotline managed by the RAT Board. Additionally, some recipient agencies directly refer complaints of fraud, waste and abuse to the local Office of the Attorney General, the local office of the Federal Bureau of Investigation, the grantor agencies, or the Federal Offices of Inspectors General. This fractured method of fraud reporting results in a lack of proper tracking, confusion among investigating agencies, and invites duplicative investigations.

Posting of ARRA grant information for the CNMI autonomous agencies is inconsistent at best. Although not required, the CNMI ARRA Office has allowed autonomous agencies to post grant information on their website. However, where autonomous agency information has been posted to the CNMI ARRA Office website, it has been a result of a sub-recipient relationship. During OPA’s initial review of autonomous agency websites, only one agency website provided information relating to Recovery awards: the Commonwealth Port Authority’s website provided general information on the total recovery awards received and project description. Towards the end of OPA’s review, the Public School System’s website was updated to include Recovery award information and how funds are being used. However, neither website provides current expenditure information.

Towards the end of OPA’s fieldwork, the CNMI ARRA Office was launching its new website (www.recovery.gov.mp). The new website includes general photographs that document visits and meetings with representatives of the federal grantor agencies and images of recovery projects related to energy, road construction, and wastewater rehabilitation. While actual images of projects is a marked improvement over the previous website, the images on the new website are not organized by grants or projects and some do not reflect the construction progress made through Recovery Act funds. Moreover, similar to what had been observed in the previous website, only information on total grants allocated to agencies was available. There is a lack of information on corresponding expenditures.

For improved transparency and accountability, the CNMI should prepare data in a uniform format that is easy to update and can be used by the public to access all relevant grant information. Appropriate categories of information include grant amount, project name, contractor name, images, jobs created and expenditures as of the previous quarter that pertain to a specific grant. The timeliness, accuracy, and uniformity at the local level is crucial, as the federal website is updated quarterly using information obtained from the CNMI website. Thus any inaccuracies will likely be duplicated.

Conclusion & Recommendations

Given the weaknesses presented in the manner the Recovery Act was implemented, the inherent weaknesses faced by the insular areas, and specific weaknesses noted at a CNMI agency level, OPA does not expect an immediate improvement in grants management. Moreover, with the increase in federal grant activity created by ARRA, we also anticipate increases in the number of audit findings and the amount of questioned costs. If dedicated resources, such as funding, technical assistance, and training in the area of grants management and reporting are not made available, the degree of risk of incurring a substantial amount of questioned costs will likely increase which will potentially result in less revenue for government operations.

To strengthen internal controls for better transparency and accountability, OPA recommends the CNMI ARRA Office take the following corrective actions:

1. The CNMI ARRA Office, in conjunction with OPA, should explore all areas of possible funding for additional monitoring and compliance testing of federal grants, with emphasis placed on those areas of weakness identified in the single audits;
2. Focus on identifying and recommending immediate action for the deficiencies and weaknesses in internal controls of grant recipients to prevent fraud and other irregularities rather than address them after the fact;
3. Monitor the functions of the finance department pertaining to federal funds drawdowns, deposits, disbursement, recording, and reporting. Schedule of Revenues and Expenditures of Federal Awards should be requested on a monthly basis;
4. Obtain copies of all grant award notifications from recipients; and
5. Update the website regularly to ensure that current information is posted, and prepare data in a uniform format that is easy to update and can be used by the public to access all information including grant amount, project name, contractor name, images, jobs created and expenditures as of the previous quarter that pertain to a specific grant.

With respect to autonomous agencies that do not fall under monitoring and oversight by the CNMI ARRA Office, OPA recommends the following corrective actions be taken:

1. Update or post current information on the agency's website regularly in a uniform format that can be used by the public to access all information including grant amount, project name, contractor name, images, jobs created and expenditures as of the previous quarter. Such updating could also be

done in conjunction with the CNMI ARRA Office on their website, if properly coordinated; and

2. Continue or strengthen open communication with federal grantor agencies to ensure that reporting requirements are met and accountability and transparency goals are achieved.

Management's Response

A preliminary draft report was provided to the ARRA State Lead, Michael J. Ada, on August 12, 2010. OPA received a response from Mr. Ada on August 31, 2010 followed by a meeting to discuss the content of the draft report and management's response.

In their response, the CNMI ARRA Office stated that a Compliance Officer was hired to ensure that all grantees, project awardees, and contractors comply with all ARRA funding terms and conditions. Further, the response noted that the Compliance Officer will seek OPA's assistance in an effort to implement risk assessment tools for the efficiency and effectiveness of the ARRA programs. Additionally, the CNMI ARRA Office noted that it has received copies of all grant awards and will continue to update the information in their new website (www.recovery.gov.mp). However, the CNMI ARRA Office did not adequately address the finding with respect to monitoring the functions performed at DOF to ensure that reconciliations are performed and the correct accounts are charged. The monitoring performed by the CNMI ARRA Office is limited to the review of incurred expenditures when agencies make a request for reimbursements.

See Appendix C for management's response.

OPA's Comments

We found management's response to the results and recommendations to be adequate except for their response to address Recommendation no. 3. In addition, OPA is concerned with the implementation of management's actions as the CNMI ARRA Office is now privately managed by an independent contractor, Integrated Professional Solutions LLC. Therefore, OPA will address the final report to the Governor.

Appendix A

Objective, Scope and Methodology

Initiation of Inspection

The Office of Inspector General (OIG) of the U. S. Department of the Interior (DOI) has statutory oversight responsibility for the Insular Areas. As a result, the Recovery Oversight Office (ROO) under DOI-OIG developed an evaluation program to be used by all Insular Areas Public Auditor's Offices to determine if the individual governments provide a framework to ensure that Recovery Act funds are spent for intended purposes while ensuring accountability and transparency, and meet the reporting requirements. Further, the inspection was intended to provide insight to the Insular Areas governments on how they are doing and identify areas that need improvement. The inspection is not intended to address program-specific requirements or to relieve other Inspector General Offices of their oversight responsibilities.

Objective, Scope and Methodology

The objective was to review and evaluate the system of internal controls developed by the Insular Areas governments to monitor the implementation of the Recovery Act programs. The scope covered all grants awarded to the CNMI government and its autonomous agencies, and expenditure information as of March 31, 2010. The fieldwork was performed from April 19, 2010 to June 21, 2010. At the request of the DOI-OIG, we adjusted the scope to cover grant award and expenditure information up to June 30, 2010.

To answer the objective, we relied on DOI-OIG's five-part inspection program. The inspection program consisted of four questionnaires, each addressed to the oversight office, program administrators, procurement officers, and the Office of the Public Auditor. Although some questions did not define specific criteria, the questions contained aspects of negative and positive internal controls. The inspection was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's "Quality Standards for Inspection and Evaluation".

Appendix B

Recovery Awards and Expenditures as of June 30, 2010

Recipient Name	Program	CFDA No.	Award Amount	Expenditure as of 6/30/10
Central Government				
Department of Public Works	LaoLao Bay Road & Coastal Management Improvement Plan	11.463	641,273	76,413
	Cross Island Road and Drainage Project	20.205	4,500,000	34,070
	State Energy Program	81.041	18,651,000	309,656
	Weatherization Assistance Program	81.042	795,206	94,270
	State Energy Efficient Appliance Rebate Program	81.127	100,000	890
	Energy Efficient Conservation Block Grant	81.128	9,593,500	0
Workforce Investment Agency	Job Training and Employment (3 programs)	17.258-17-260	1,312,737	764,860
Division of Environmental Quality	Water Quality Management Planning	66.454	200,000	15,477
	Leaking Underground Storage Tank Program	66.805	57,000	0
Criminal Justice Planning Agency	2009 Victims of Crime Act Program	16.801	206,000	67,208
Department of Community and Cultural Affairs	Edward Byrne Justice Assistance Grant	16.803	1,640,925	523,016
	Community Service Employment	17.235	89,962	89,430
	Arts and the ARRA	45.025	25,000	0
	Home Meal Delivery for Seniors	93.705	20,000	18,925
	Congregate Meals	93.707	40,625	41,190
	Community Service Block Grant Stimulus	93.710	770,658	239,522
Department of Public Health	Child Care and Development Fund	93.713	1,823,015	625,094
	Emergency Food/Shelter	97.114	20,000	20,000
	Immunization and Vaccines for Children	93.712	185,995	44,584
	Health Information Exchange	93.719	800,000	8,248
	Medicaid	93.778	3,088,973	1,532,239
	Tobacco and Diabetes Control and Prevention Program	93.723	99,980	241
	Vocational Rehabilitation Services to States	84.390	270,196	402
	State Independent Living	84.398	22,523	0
Department of Public Safety	Community Oriented Policing Services	16.710	519,048	40,829
Office of the Governor	State Fiscal Stabilization Fund – Education Fund	84.394	24,352,276	5,510,915
	State Fiscal Stabilization Fund – Government Services Fund	84.397	8,086,914	6,274,339
	Total for CNMI		77,912,806	16,375,048
Autonomous Agencies				
Commonwealth Port Authority	Saipan International Airport Runway Rehabilitation Project	20.106	5,000,000	2,433,179
Commonwealth Utilities Corporation	Wastewater Treatment Construction	66.418	1,451,700	114,479
	Drinking Water Infrastructure Territorial Set-Aside	66.468	1,829,000	151,386
Northern Marianas College	Federal Work Study Program	84.033	45,193	45,193
	Federal PELL Grant Program	84.063	869,300	869,300
Northern Marianas Housing Corporation	Community Development Block Grant Recovery	14.254	1,374,719	1,458
	Homeless Prevention and Rapid Re-Housing Program	14.257	589,165	328,875
Public School System	Commodity Assistance Program	10.568, 10.569	24,012	19,851
	Renovation of Bus Facility	20.507&20.509	1,114,292	0
	Assistance to States for the Education of Children with Disabilities	84.391	174,906	87,662
	Early Intervention Program for Infants and Toddlers with Disabilities	84.393	16,323	14,641
	Consolidated Grants to Outlying Areas	84.402	1,797,780	604,468
	ARRA COLA & QI	93.708	205,290	60,978
	Total for autonomous agencies		14,491,680	4,731,470
	Grand Total		92,404,486	21,063,288

Source: Recipient Expenditure Data and www.Recovery.gov.

Appendix C

Management's Response



Department of Commerce
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August 31, 2010

Re: Comment submission of the CNMI Office of the Public Auditor draft report, *Evaluation of the CNMI's Oversight and Implementation of American Recovery and Reinvestment (ARRA) Program*

Dear Mr. Pai,

Thank you for the opportunity to review and comment on your office's draft report entitled, *Evaluation of the CNMI's Oversight and Implementation of the American Recovery and Reinvestment Act (ARRA) Program*. The results of your office's evaluation concluded that there were five (5) identified areas of weakness in relation to the CNMI's effective management of the ARRA funds awarded to the jurisdiction. These results yielded the following areas:

- Recovery funds directly awarded to autonomous agencies fall outside the central Government's visibility and control.
- Prior audit findings and risk management tools were not utilized to identify areas of potential fraud, waste, abuse, and abuse and potential noncompliance with legislation and grant requirements.
- Monitoring functions performed by the finance department was not adequate with respect to draw downs, receipt and disbursement of Recovery Act funds.
- Documentation of grant awards is inadequate.
- Expenditure and award information on the CNMI's official website for Recovery Act programs were not current and complete.

While I appreciate the results of your office's evaluation, my office submits the following information and points of clarification to address the identified areas of concern.

Result:

Recovery funds directly awarded to autonomous agencies fall outside the central Government's visibility and control.

ARRA Office Response:

While the CNMI central government agrees that this is a weakness, the Office of the Governor has no statutory authority to control this, nor was any such authority granted as part of the legislative action that established the ARRA funding. While the management of funds awarded to CNMI autonomous agencies are under the sole authority of those respective agencies, it is critical to note that questioned costs yielded in any audit findings ultimately become the liability of the central government as these agencies receive appropriations directly from the general fund.

Major programs have identified this shortcoming and inserted provisions into the grant programs to address this issue. This is most notable in the State Fiscal Stabilization Fund (SFSF), which accounts for roughly 50% of total ARRA funding. The SFSF makes the award directly from the U.S. Department of Education to the Office of the Governor in an effort to ensure controls are in place for the oversight of funding given to autonomous educational agencies. While the CNMI ARRA office agrees with this finding as a weakness, there is no current authority to rectify this concern.

Result:

Prior audit findings and risk management tools were not utilized to identify areas of potential fraud, waste, abuse, and potential noncompliance with legislation and grant requirements.

ARRA Office Response:

The summary report quoted, "ARRA was created after lengthy and critical debate, further the desired impact of the act required rapid project/program assessment, followed by near simultaneous commitment of funds and release of funds at the earliest possible date...resulted in weak planning, training and the development of timely regulations and procedures."

The rapid requirements to administer and expend funds did not adequately prepare CNMI to conduct risk assessments on the ARRA funds. This holds true for the 50 states and the insular areas receiving ARRA funds. In addition, the lack of qualified human resources to cope with the administration of the funds added to this potential area of weakness.

However, to mitigate this potential weakness, the CNMI ARRA Office recently hired a compliance officer who will ensure that all grantees, project awardees, and contractors comply with all ARRA funding terms and conditions. The compliance officer will seek assistance from the Office of the Public Auditor in an effort to implement risk assessment tools for the efficiency and effectiveness of the ARRA programs.

With respect to compliance with potential fraud, waste, abuse, and noncompliance with legislation and grant requirements, the CNMI ARRA office has provided the national hotline as guided by the Recovery Accountability and Transparency (RAT) board to report such occurrences on the CNMI ARRA website. While the CNMI ARRA office is the oversight office, the reporting of potential fraud, waste, and abuse

on a local level falls under the purview of the Office of the Public Auditor. While the CNMI ARRA office has collaborated with the CNMI Office of the Public Auditor to report issues and concerns, to alleviate concerns as reported in the evaluation, it is recommended to place the CNMI Office of the Public Auditor's Office reporting hotline on the ARRA website.

Result:

Monitoring functions performed by the finance department was not adequate with respect to draw downs, receipt and disbursement of Recovery Act funds.

ARRA Office Response:

Not only are acceptable internal controls in place per OMB regulations, the CNMI ARRA office works closely with the CNMI Department of Finance to ensure that draw downs are in accordance with the grant terms and conditions. As an example, when the Public School System (PSS) submits an invoice for reimbursement to be drawn down from the State Fiscal Stabilization Fund (SFSF), it must be reviewed by the CNMI ARRA Office who reviews the incurred expenses to ensure that they are allowed by the grant terms. Once the ARRA office deems that all invoiced expenses are allowable, it will forward the invoice to the Department of Finance for draw down and payment.

All request payments are reviewed by the ARRA Office carefully. We collaborate with the Department of Finance in the processing of the request payments. However, the ARRA Office has no control over document retention at the department.

Result:

Documentation of grant awards is inadequate.

ARRA Office Response:

While the CNMI ARRA office appreciates this finding, it is unclear how the report evaluated documentation as being inadequate or "poor" by way of quantification. If an established threshold was utilized, the report was unclear as to what that threshold is and whether or not it is based on dollar amounts or number of awards which where documentation was unavailable. The CNMI ARRA office has rectified this situation, has requested, and received copies of the grant awards made to all relevant Executive Branch grantees.

Result:

Website Should Be Current and Complete For Better Transparency

ARRA Office Response:

The CNMI ARRA Office recently updated its website layout and content. It can be viewed at www.cnmiarra.gov.mp. It should be noted that the website was under development to address the issues brought forth in the evaluation during the course of the fieldwork. The former ARRA website is www.cnmiarra.net while the new website is www.cnmiarra.gov.mp.

Office of the Public Auditor's reports may be downloaded at www.opacnmi.com. To report fraud, waste or abuse, call the OPA Hotline at 670-235-3937 or use the online Hotline Report form at OPA's website.
