

DEPARTMENT OF PUBLIC LANDS
(A GOVERNMENTAL FUND OF THE
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS)

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2019

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

Ms. Marianne Concepcion-Teregeyo
Secretary
Department of Public Lands:

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 the Department of Public Lands (DPL) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise DPL's basic financial statements, and have issued our report thereon dated December 10, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2019-001 and 2019-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DPL'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 Responses as items 2019-001 and 2019-002.

DPL's Responses to Findings

DPL's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. DPL'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

December 10, 2020

DEPARTMENT OF PUBLIC LANDS
Schedule of Findings and Responses
Year Ended September 30, 2019

Local Noncompliance and General Ledger System

Finding No. 2019-001

Criteria: An effective system of internal control over financial reporting includes maintenance of a separate general ledger system that records transactions and timely generates reliable and relevant financial information. Public Law 15-02 required the establishment of the DPL Operations Fund which shall be maintained by the CNMI Department of Finance (DOF) and required, 1) all revenues received by DPL be deposited in the DPL Operations Fund, and 2) all operational expenses of DPL be paid from the DPL Operations Fund.

Condition: DPL has not maintained a separate general ledger system since fiscal year 2007. Specifically:

1. Revenues received by DPL are not deposited in the DPL Operations Fund;
2. A general ledger for DPL transactions is maintained by DOF, which is not reconciled or monitored by DOF or DPL;
3. Cash transactions, received and disbursed at DPL, are summarized in cash receipt and disbursement journals, which are not recorded in the DOF general ledger;
4. Journal vouchers posted to DOF's general ledger by DOF personnel are not approved by DPL management;
5. Receivables, accounts payable, accruals and unearned revenues are not reconciled in DOF's general ledger; and
6. Adjustments to record DPL transactions in DOF's general ledger were recorded by DPL through proposed audit adjustments.

Cause: Compliance with Public Law 15-02 is not enforced. Monitoring and timely reconciliation of transactions with DOF is not performed. DPL did not implement available system controls over the financial reporting process and monitoring control procedures are not established to determine the accuracy and completeness of disbursements processed at DOF.

Effect: DPL is in noncompliance with Public Law 15-02. DPL is unable to produce reliable and relevant financial information.

Recommendation: We recommend DPL comply with Public Law 15-02 and monitor and reconcile transactions with DOF in a timely manner, establish monitoring control procedures over disbursements, perform periodic reconciliations with DOF to verify the accuracy and completeness of disbursements processed and reconcile account balances maintained in the DOF general ledger.

Prior Year Status: The lack of compliance with Public Law 15-02, the lack of reliable and relevant financial information and the inability to timely detect errors and inaccuracies was reported as a finding in the audits of DPL for fiscal years 2010 through 2018.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Finding No. 2019-001, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Marianne Concepcion-Teregeyo, Secretary

Corrective Action:

1. Revenues received by DPL are not deposited in the DPL Operations Fund.

Response: DPL and DOF are working together in establishing a separate Operations Fund account to have the revenues collected deposited into this account.

2. A general ledger for DPL transactions is maintained by DOF, which is not reconciled or monitored by DOF or DPL,

Response: Personnel and other operation expenditures are monitored and reconciled every time reports are received from DOF. Payroll timesheets are verified by the DPL timekeeper, certified by the DPL Finance Director and approved by the DPL Secretary and the CNMI Finance & Accounting Director prior to processing checks by the CNMI Treasury. Vendor and payroll checks are reconciled against DPL reports to ensure they are accurate and properly accounted for and reimbursed to the CNMI General Fund biweekly for payroll and the 15th and 30th for other operation expenses. Adjustments and request for supplemental checks are verified by the DPL Finance Director and approved by the DPL Secretary with justification before being submitted to the CNMI Finance Director.

3. Cash transactions, received and disbursed at DPL, are summarized in cash receipt and disbursement journals, which are not recorded in the DOF general ledger.

Response: Payroll and accounts payable are being processed by CNMI Finance & Accounting through JDE; therefore, expenditures for both payroll and accounts payable are recorded in DOF's general ledger.

4. Journal vouchers posted to DOF's general ledger by DOF personnel are not approved by DPL management.
5. Receivables, accounts payable, accruals and unearned revenues are not reconciled in DOF's general ledger.
6. Adjustments to record DPL transactions in DOF's general ledger were recorded by DPL through proposed audit adjustments.

Response 4, 5 and 6: All accounts payable payment vouchers and payroll timesheets were verified by the DPL Finance Director and approved by the DPL Secretary and the CNMI Finance & Accounting Director. All funds transferred to the CNMI General Fund were approved by the DPL Secretary and the financial institution issued vouchers to notify DOF that reimbursements of expenses are posted to their account.

Proposed Completion Date: Ongoing

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Revenue/Receipts

Finding No. 2019-002

Criteria: Management is responsible to enforce policies for leasing public lands. Long-term lease contracts and temporary permits require that the lessee, not later than one hundred-eighty (180), ninety (90), forty-five (45) or thirty (30) days after the end of each calendar year of the lease or permit, submit financial statements and a schedule of gross receipts indicating sources and deductions. Some leases and permits require that the financial statements be audited by certified public accountants.

Condition: Tests of seventy-nine cash receipts for long-term lease contracts and temporary permits noted the following:

1. Audited financial statements were not provided for twenty-three receipts related to contracts and permits requiring such documents.

<u>Lessee No.</u>	<u>Receipt No.</u>
Csale - Tasi	2019-0067
L15002S	2019-0478
LB17003S	ACH-BOG
Csale - U-Top	2019-0981
SLB9801S	2019-0058
L9003R	PLR3664
Csale - Tasi	2019-0088
L9712S	2019-0120
Csale - Tasi	2019-0134
L14002S	2019-0299
L9003R	PLR 03666
T16027S	2019-0311
L19001S	2019-0356
L9104S	2019-0450
Csale - Tasi	2019-0484
L9003R	PLR 03685
Csale - Tasi	2019-0608
Csale - Tasi	2019-0678
Csale - Tasi	2019-0812
Csale - Tasi	2019-0854
L9003R	PLR-03742
Csale - Tasi	2019-1025
LB17003S	ACH-BOG

2. Financial statements were not provided for six receipts related to contracts and permits requiring such documents.

<u>Lessee No.</u>	<u>Receipt No.</u>
L8648S	2019-0018
L8901S	2019-0163
L8648S	2019-0188
L07003S	2019-0583
LB8903S	2019-0910
L07005S	2019-0930

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Finding No. 2019-002, Continued

3. For eight receipts, financial statements were not provided within 45 days after the end of the calendar year.

<u>Lessee No.</u>	<u>Receipt No.</u>
L8631S	2019-0190
L8631S	2019-0472
LB8631S	2019-0092
LB8631S	2019-0594
L0708S	2019-0885
LB8631S	2019-0950
L8631S	2019-1079
L8631S	2019-0715

4. A signed permit extension was not provided for the lease period tested.

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Expiration Date</u>
T14012S	2019-0695	06/23/15

5. A permit has not been renewed since 2016 for lessee no. T0212S (receipt nos. 2019-0842 and 2019-0224), which is under a holdover status.

Cause: The cause of the above condition is the lack of monitoring procedures to determine which contracts and/or permits require audited financial statements or financial statements. Further, permits are not timely reviewed for expiration. Moreover, lease agreements should be re-examined for consistency in meeting required payment terms.

Effect: The effect of the above condition is the potential underpayment of lease revenues and collections on invalid permits and leases.

Recommendation: We recommend that management update lease contracts and permits and enforce lease provisions.

Prior Year Status: Monitoring procedures for contracts and/or permits that require financial statements or audited financial statements was reported as a finding in the audits of DPL for fiscal years 2010 through 2018.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Marianne Concepcion-Teregeyo, Secretary

Corrective Action:

1. Audited financial statements were not provided for twenty-three receipts related to contracts and permits requiring such documents.

Csale-Tasi: Received audited financial statements on 12/01/20.
L15002S: Received FY 2019 financial statements after the audit.
LB17003S: Followed up with management for the FY 2019 audited financial statements.
Csale-U-Top: Company is not in operations yet.
SLB9801S: Submitted unaudited financial statements.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2019

Finding No. 2019-002, Continued

Auditee Response and Corrective Action Plan, Continued:

Corrective Action, Continued:

L9003R: Received on 11/13/20, proposed to change the regulation of due date from 45 days after the calendar year to 180 days.
L9712S: Submitted certified financial statements by the Senior Vice President-Finance.
L14002S: Financial statements were submitted on 11/18/20, proposed to change the regulation of due date from 45 days after the calendar year to 180 days.
L19001S: As of October 20, 2020, the audit was ongoing and was delayed due to the COVID-19 pandemic.
L9104S: Submitted financial statements that is unaudited by a public accountant certified in the United States.

2. Financial statements were not provided for six receipts related to contracts and permits requiring such documents.

L8648S: Received thru email on 11/18/20.
L8901S: Submitted unaudited.
L07003S: Submitted audited financial statements on 12/03/20.
LB8903S: Submitted a balance sheet on 10/23/20; cannot provide its financial statements due to consolidation with other businesses.
L07005S: Submitted only a Profit and Loss Summary; still waiting for the financial statements certified by an accountant.

3. For eight receipts, financial statements were not provided within 45 days after the end of the calendar year.

L8631S: Financial statements were received on 07/27/20, proposed to change the regulation of the due date from 45 days after calendar year to 180 days.
L0708S: Financial statements were received on 07/21/20, proposed to change the regulation of the due date from 45 days after calendar year to 180 days. Regulation changes are already being worked on.

4. A signed permit extension was not provided for the lease period tested.

T14012S: DPL is still waiting for the appraisal to be submitted in order to calculate the new encroachment fee. Once it is received, the permit is ready for signature.

5. A permit has not been renewed since 2016 for lessee no. T0212S (receipt nos. 2019-0842 and 2019-0224), which is under a holdover status.

DPL is unable to renew the permit because commercial repair/fabrication shop and storage yard activities are not within the scope of a temporary occupancy agreement under DPL's regulations. DPL requested the lessee to submit basic requirements for leasing.

Proposed Completion Date: Ongoing

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Unresolved Prior Year Comments
Year Ended September 30, 2019

The status of unresolved prior year findings is discussed in the Schedule of Findings and Responses section of this report.