

COMMONWEALTH OF THE
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS 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

Honorable Ralph DLG. Torres
Governor
Commonwealth of the Northern Mariana Islands:

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 governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated April 21, 2021. Our report includes explanatory paragraphs concerning the correction of errors, going concern and the impact of COVID-19, and contains an adverse opinion due to the lack of adoption of Governmental Accounting Standards Board (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*, and the financial statements of the Commonwealth Utilities Corporation, the Commonwealth Healthcare Corporation and the Northern Mariana Islands Settlement Fund not being included in the financial statements. Our report includes a reference to other auditors who audited the financial statements of the Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority, as described in our report on the CNMI's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Commonwealth Ports Authority, the Commonwealth Development Authority and the Northern Mariana Islands Retirement Fund which were audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the entities that were audited by us. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for the Marianas Public Land Trust, the Northern Marianas College, the Public School System and the Marianas Visitors Authority. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CNMI'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 the CNMI's internal control. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 and 2019-002, 2019-006, 2019-011 and 2019-012 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2019-003 through 2019-005, 2019-007 through 2019-010, 2019-013 and 2019-014 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CNMI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2019-015.

The CNMI's Response to Findings

The CNMI's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The CNMI'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

April 21, 2021

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

Honorable Ralph DLG. Torres
Governor
Commonwealth of the Northern Mariana Islands:

Report on Compliance for Each Major Federal Program

We have audited the Commonwealth of the Northern Mariana Islands' (the CNMI'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 the CNMI's major federal programs for the year ended September 30, 2019. The CNMI's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3b to the Schedule of Expenditures of Federal Awards, the CNMI's financial statements include the operations of certain entities whose federal awards are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2019. Our audit, described below, did not include the operations of the entities identified in Note 3b as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the CNMI'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 the 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 the CNMI'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 and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the CNMI's compliance.

Basis for Qualified Opinion on CFDA Programs 15.875, 93.767, 93.778, and 97.036

As described in items 2019-016, 2019-017, 2019-019, and 2019-021 through 2019-025 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2019-016	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Equipment and Real Property Management
2019-017	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Procurement and Suspension and Debarment
2019-019	15.875	Economic, Social, and Political Development of the Territories - Capital Improvement Projects	Subrecipient Monitoring
2019-021	93.767	Children's Health Insurance Program	Special Tests and Provisions - Provider Eligibility
2019-022	93.778	Medical Assistance Program	Special Tests and Provisions - ADP
2019-023	93.778	Medical Assistance Program	Special Tests and Provisions - Provider Eligibility
2019-024	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Period of Performance
2019-025	97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the CNMI to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 15.875, CFDA 93.767, Medicaid Cluster, and CFDA 97.036

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the CNMI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 15.875 Economic, Social, and Political Development of the Territories; CFDA 93.767 Children's Health Insurance Program, the Medicaid Cluster, and CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters) for the year ended September 30, 2019.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the CNMI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2019.

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 2019-015, 2019-018, and 2019-020. Our opinion on each major federal program is not modified with respect to these matters.

The CNMI's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The CNMI'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 CNMI is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The CNMI's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

Management of the CNMI 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 the CNMI'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 the CNMI'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 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 2019-016, 2019-017, 2019-019, and 2019-021 through 2019-025 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 2019-015, 2019-018, and 2019-020 to be significant deficiencies.

The CNMI's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The CNMI'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 CNMI is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The CNMI's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CNMI as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the CNMI's basic financial statements. We issued our report thereon dated April 21, 2021, which contained explanatory paragraphs concerning the correction of errors, going concern and the impact of COVID-19, and contained an adverse opinion due to the lack of adoption of Governmental Accounting Standards Board (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*, and the financial statements of the Commonwealth Utilities Corporation, the Commonwealth Healthcare Corporation and the Northern Mariana Islands Settlement Fund not being included in the financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 basic financial statements. Because of the significance of the matters discussed above, it is inappropriate to, and we do not, express an opinion on the Schedule of Expenditures of Federal Awards.

Deloitte & Touche LLC

April 21, 2021

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor
Year Ended September 30, 2019

Federal Grantor	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture	\$ -	\$ 34,014,524
U.S. Department of Commerce	-	2,629,082
U.S. Department of Defense	-	32,029
U.S. Department of the Interior	1,192,609	10,530,379
U.S. Department of Justice	-	1,473,497
U.S. Department of Labor	-	4,962,437
U.S. Department of Transportation	-	1,431,049
U.S. Institute of Museum and Library Services	-	111,398
U.S. Environmental Protection Agency	-	1,782,912
U.S. Department of Energy	-	353,932
U.S. Department of Education	-	800,207
U.S. Department of Health and Human Services	-	56,929,973
U.S. Department of Homeland Security	67,019,908	103,460,498
U.S. Small Business Administration	-	96,122
TOTAL FEDERAL GRANTS FUND	68,212,517	218,608,039
TOTAL CAPITAL PROJECTS FUND	958,958	2,871,398
TOTAL PUBLIC WORKS FUND	-	2,844,920
Unallocated expenditures	-	108,743
TOTAL EXPENDITURES OF FEDERAL AWARDS	<u>\$ 69,171,475</u>	<u>\$ 224,433,100</u>

Note: All awards are received direct from the Federal agency.

Reconciliation:

Expenditures per above	\$ 224,433,100
Local match	3,379,587
Amount of Compact Impact grants recorded in operating transfers out	(1,073,525)
Public Works Grants (CFDA No. 20.205) recorded in Other Governmental Funds	(2,844,920)
Unreconciled difference	22,435
	<u>\$ 223,916,677</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

Federal CFDA Number	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ -	\$ 35,300
10.170	Specialty Crop Block Grant Program - Farm Bill SNAP Cluster:	-	72,357
10.551	Supplemental Nutrition Assistance Program	-	15,801,990
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	-	17,956,100
	Subtotal SNAP Cluster	-	33,758,090
10.664	Cooperative Forestry Assistance	-	120,648
10.766	Community Facilities Loans and Grants Cluster: Community Facilities Loans and Grants	-	15,500
	Subtotal Community Facilities Loans and Grants Cluster	-	15,500
10.950	Agricultural Statistics Reports	-	12,629
	TOTAL U.S. DEPARTMENT OF AGRICULTURE	-	34,014,524
U.S. DEPARTMENT OF COMMERCE			
11.016	Statistical, Research, and Methodology Assistance Economic Development Cluster:	-	586,329
11.307	Economic Adjustment Assistance	-	34,986
	Subtotal Economic Development Cluster	-	34,986
11.407	Interjurisdictional Fisheries Act of 1986	-	6,257
11.419	Coastal Zone Management Administration Awards	-	1,389,687
11.437	Pacific Fisheries Data Program	-	68,477
11.454	Unallied Management Projects	-	53,382
11.467	Meteorologic and Hydrologic Modernization Development	-	58,438
11.472	Unallied Science Program	-	48,207
11.482	Coral Reef Conservation Program	-	365,748
11.549	State and Local Implementation Grant Program	-	17,571
	TOTAL U.S. DEPARTMENT OF COMMERCE	-	2,629,082
U.S. DEPARTMENT OF DEFENSE			
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	-	19,185
12.300	Basic and Applied Scientific Research	-	12,844
	TOTAL U.S. DEPARTMENT OF DEFENSE	-	32,029
U.S. DEPARTMENT OF THE INTERIOR			
Fish and Wildlife Cluster:			
15.605	Sport Fish Restoration	-	1,341,736
15.611	Wildlife Restoration and Basic Hunter Education	-	761,722
	Subtotal Fish and Wildlife Cluster	-	2,103,458
15.615	Cooperative Endangered Species Conservation Fund	-	416,987
15.634	State Wildlife Grants	-	93,518
15.875	Economic, Social, and Political Development of the Territories: Development of TTPI Islands	-	4,591,427
	Compact Impact	1,192,609	2,908,523
15.904	Historic Preservation Fund Grants-In-Aid	-	289,306
15.916	Outdoor Recreation - Acquisition, Development and Planning	-	48,517
15.925	National Maritime Heritage Grants	-	49,540
15.954	National Park Service Conservation, Protection, Outreach, and Education	-	29,103
	TOTAL U.S. DEPARTMENT OF THE INTERIOR	1,192,609	10,530,379
U.S. DEPARTMENT OF JUSTICE			
16.017	Sexual Assault Services Formula Program	-	54,610
16.540	Juvenile Justice and Delinquency Prevention	-	73,411
16.575	Crime Victim Assistance	-	368,615
16.582	Crime Victim Assistance/Discretionary Grants	-	4,187
16.588	Violence Against Women Formula Grants	-	520,261
16.710	Public Safety Partnership and Community Policing Grants	-	214,463
16.738	Edward Byrne Memorial Justice Assistance Grant Program	-	148,273
16.750	Support for Adam Walsh Act Implementation Grant Program	-	89,677
	TOTAL U.S. DEPARTMENT OF JUSTICE	-	1,473,497

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

Federal CFDA Number	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
	WIOA Cluster:		
17.258	WIOA Adult Program	-	373,856
17.259	WIOA Youth Activities	-	217,472
17.278	WIOA Dislocated Worker Formula Grants	-	<u>1,039,351</u>
	Subtotal WIOA Cluster	-	1,630,679
17.225	Unemployment Insurance	-	2,024,028
17.235	Senior Community Service Employment Program	-	250,280
17.273	Temporary Labor Certification for Foreign Workers	-	29,393
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants	-	848,799
17.504	Consultation Agreements	-	178,660
17.600	Mine Health and Safety Grants	-	<u>598</u>
	TOTAL U.S. DEPARTMENT OF LABOR	-	<u>4,962,437</u>
U.S. DEPARTMENT OF TRANSPORTATION			
20.218	Motor Carrier Safety Assistance	-	233,397
20.509	Formula Grants for Rural Areas and Tribal Transit Program	-	<u>494,657</u>
20.514	Public Transportation Research, Technical Assistance, and Training	-	<u>2,217</u>
	Highway Safety Cluster:		
20.600	State and Community Highway Safety	-	<u>691,533</u>
	Subtotal Highway Safety Cluster	-	691,533
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	-	<u>9,245</u>
	TOTAL U.S. DEPARTMENT OF TRANSPORTATION	-	<u>1,431,049</u>
U.S. INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
45.025	Promotion of the Arts - Partnership Agreements	-	2,778
45.310	Grants to States	-	<u>108,620</u>
	TOTAL INSTITUTE OF MUSEUM AND LIBRARY SERVICES	-	<u>111,398</u>
U.S. SMALL BUSINESS ADMINISTRATION			
59.061	State Trade Expansion	-	<u>96,122</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
66.600	Environmental Protection Consolidated Grants for the Insular Areas - Program Support	-	<u>1,782,912</u>
	TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY	-	<u>1,782,912</u>
U.S. DEPARTMENT OF ENERGY			
81.041	State Energy Program	-	197,284
81.042	Weatherization Assistance for Low-Income Persons	-	<u>156,648</u>
	TOTAL U.S. DEPARTMENT OF ENERGY	-	<u>353,932</u>
U.S. DEPARTMENT OF EDUCATION			
84.126	Rehabilitation Services Vocational Rehabilitation Grants to States	-	749,643
84.177	Rehabilitation Services Independent Living Services for Older Individuals Who are Blind	-	34,609
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	-	<u>15,955</u>
	TOTAL U.S. DEPARTMENT OF EDUCATION	-	<u>800,207</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
	Aging Cluster:		
93.044	Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	-	149,547
93.045	Special Programs for the Aging, Title III, Part C, Nutrition Services	-	373,168
93.053	Nutrition Services Incentive Program	-	<u>35,000</u>
	Subtotal Aging Cluster	-	557,715
93.041	Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	-	<u>3,533</u>

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

Federal CFDA Number	Federal Grantor/Program or Cluster Title	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED			
93.042	Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	-	8,530
93.043	Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	-	3,238
93.052	National Family Caregiver Support, Title III, Part E	-	63,921
93.127	Emergency Medical Services for Children	-	48,959
93.369	ACL Independent Living State Grants	-	27,867
93.464	ACL Assistive Technology	-	118,667
93.556	Promoting Safe and Stable Families	-	139,641
93.568	Low-Income Home Energy Assistance	-	204,674
93.569	Community Services Block Grant	-	532,569
	CCDF Cluster:		
93.575	Child Care and Development Block Grant	-	2,870,773
	Subtotal CCDF Cluster	-	2,870,773
93.590	Community-Based Child Abuse Prevention Grants	-	187,794
93.612	Native American Programs	-	122,947
93.630	Developmental Disabilities Basic Support and Advocacy Grants	-	249,633
93.643	Children's Justice Grants to States	-	52,474
93.645	Stephanie Tubbs Jones Child Welfare Services Program	-	144,710
93.667	Social Services Block Grant	-	51,907
93.669	Child Abuse and Neglect State Grants	-	132,093
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	-	117,439
93.767	Children's Health Insurance Program	-	5,619,815
	Medicaid Cluster:		
93.778	Medical Assistance Program	-	45,671,055
	Subtotal Medicaid Cluster	-	45,671,055
93.780	Grants to States for Operation of Qualified High-Risk Pools	-	2
93.782	Medicare Transitional Drug Assistance Program for Territories	-	6
93.784	Medicare Transitional Drug Assistance Program for States	-	9
93.786	State Pharmaceutical Assistance Programs	-	2
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	-	56,929,973
U.S. DEPARTMENT OF HOMELAND SECURITY			
97.012	Boating Safety Financial Assistance	-	453,018
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	67,019,908	100,747,039
97.039	Hazard Mitigation Grant	-	985,476
97.042	Emergency Management Performance Grants	-	521,535
97.047	Pre-Disaster Mitigation	-	26,225
97.067	Homeland Security Grant Program	-	727,205
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY	67,019,908	103,460,498
	TOTAL FEDERAL GRANTS FUND	68,212,517	218,608,039
U.S. DEPARTMENT OF THE INTERIOR			
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects: FY04 Appropriations Act Grant	958,958	2,871,398
	TOTAL CAPITAL PROJECTS FUND	958,958	2,871,398
U.S. DEPARTMENT OF TRANSPORTATION			
20.205	Highway Planning and Construction Cluster: Highway Planning and Construction	-	2,844,920
	Total Highway Planning and Construction Cluster and TOTAL PUBLIC WORKS GRANT FUND	-	2,844,920
99.U00	Unallocated expenditures	-	108,743
	TOTAL EXPENDITURES OF FEDERAL AWARDS	\$ 69,171,475	\$ 224,433,100

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards
Year Ended September 30, 2019

(1) Scope of Audit

The Commonwealth of the Northern Mariana Islands (CNMI) is a governmental entity governed by its own Constitution. All significant operations of the CNMI are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as the CNMI's cognizant 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 the CNMI under programs of the federal government for the year ended September 30, 2019. 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 the CNMI, it is not intended to and does not present the financial position or changes in financial position of the CNMI.

(3) Summary of Significant Accounting Policies

a. Basis of Accounting

Expenditures reported on the accompanying Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. All expenditures and capital outlays are reported as expenditures. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of operations to amounts reported as expenditures in prior years.

b. Reporting Entity

The CNMI, for purposes of the financial statements, includes all of the funds of the primary government as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

For purposes of complying with The Single Audit Act of 1984, as amended in 1996, the CNMI's reporting entity is defined in Note 1A to its September 30, 2019 basic financial statements; except that the Northern Mariana Islands Settlement Fund, the Northern Mariana Islands Retirement Fund and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards presents the federal award programs administered by the CNMI, as defined above, for the year ended September 30, 2019.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2019

(3) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

Federal award totals for the excluded departments and component units as of September 30, 2019, are as follows:

<u>Agency or Component Unit</u>	<u>Federal Award Total</u>
Commonwealth Ports Authority	\$ 9,048,256
Commonwealth Development Authority	\$ 12,722,520
Northern Marianas College	\$ 8,650,299
Public School System	\$ 42,032,601

c. Amounts Passed-Through to Subrecipients

The Schedule of Expenditures of Federal Awards includes amounts passed through to subrecipients during the year which were identified for each program; however, the Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients, outside of the CNMI's control, utilized the funds. The CNMI is considered to have responsibility for any questioned costs which could result from Single Audits of these entities.

d. Indirect Cost Allocation

The CNMI did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. For fiscal year 2019, the CNMI has the following approved indirect cost rates:

Programs which directly charged utilities	9.50%
Programs not directly charging utilities	30.25%

e. Matching Costs

The non-Federal shares of programs are not included in the accompanying Schedule of Expenditures of Federal Awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs
Year Ended September 30, 2019

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: Unmodified and Adverse

Internal control over financial reporting:

2. Material weakness(es) identified? Yes
 3. Significant deficiency(ies) identified? Yes
 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 auditor's report issued on compliance for major federal programs:

	SNAP Cluster	Unmodified
	All other 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:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	SNAP Cluster:
10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
15.875	Economic, Social, and Political Development of the Territories: Capital Improvement Projects
	Compact Impact
93.767	Children's Health Insurance Program
	Medicaid Cluster:
93.778	Medical Assistance Program
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

10. Dollar threshold used to distinguish between type A and type B Programs: \$ 3,000,000

11. Auditee qualified as low-risk auditee? No

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Section II - Financial Statement Findings

<u>Reference Number</u>	<u>Findings</u>
2019-001	External Financial Reporting
2019-002	Cash and Cash Equivalents
2019-003-004	Receivables
2019-005	Tax Rebates Payable
2019-006	Notes Payable - Judicial Building Loan
2019-007	Compensated Absences
2019-008	Due to Component Units
2019-009	Fund Balance - Encumbrances
2019-010	Commonwealth Healthcare Corporation
2019-011	CNMI Workers' Compensation Commission
2019-012	CNMI Group Health and Life Insurance
2019-013	CNMI Local Noncompliance
2019-014	Schedule of Expenditures of Federal Awards
2019-015	Allowable Costs/Cost Principles

Section III - Federal Award Findings and Questioned Costs

<u>Reference Number</u>	<u>CFDA Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
2019-015	10.551/10.561	Allowable Costs/Cost Principles	\$ 50,004
2019-016	15.875	Equipment and Real Property Management	-
2019-017	15.875	Procurement and Suspension and Debarment	363,800
2019-018	15.875	Reporting	51,563
2019-019	15.875	Subrecipient Monitoring	-
2019-020	93.767	Eligibility	-
2019-021	93.767	Special Tests and Provisions - Provider Eligibility	-
2019-020	93.778	Eligibility	-
2019-022	93.778	Special Tests and Provisions - ADP	-
2019-023	93.778	Special Tests and Provisions - Provider Eligibility	-
2019-024	97.036	Period of Performance	3,274,353
2019-025	97.036	Subrecipient Monitoring	-
			<u>\$ 3,739,720</u>

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

External Financial Reporting

Finding No. 2019-001

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 61, *the Financial Reporting Entity: Omnibus*, requires the financial statements of the reporting entity to include financial statements of component units for which the primary government is financially accountable or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: The CNMI's financial statements do not include the financial statements of the following component units:

1. Northern Mariana Islands Settlement Fund (NMISF)
2. Commonwealth Healthcare Corporation (CHCC)
3. Commonwealth Utilities Corporation (CUC)

Cause: The CNMI did not obtain audited financial statements from the aforementioned component units.

Effect: The CNMI is in noncompliance with GASB Statement No. 61, and the CNMI's financial statements contain an adverse opinion.

Recommendation: The CNMI should obtain audited financial statements of the aforementioned component units for inclusion in the CNMI's financial statements.

Identification as a Repeat Finding: Finding No. 2018-001.

Views of Responsible Officials:

The Department of Finance, Office of the Public Auditor, and Grants Management Office are continuing to work together to explore methods to improve the timeliness of the Component Unit's audits so that they may be included in the Single Audit. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Cash and Cash Equivalents

Finding No. 2019-002

Criteria: Bank reconciliations should be timely performed, and reconciling items should be timely adjusted.

Condition: Tests of bank reconciliations noted the following:

1. Bank reconciliations for three accounts (bank code: 11401, 11410 and 11431) were not provided.
2. We were not able to verify the validity of two accounts as the bank confirmation or the related bank statement was not provided: a \$65,050 security deposit comprising a one-time certificate of deposit (bank code 15050); and a miscellaneous cash account (bank code 11628).
3. At September 30, 2019, the CNMI recorded cash clearing accounts of \$3,971,875. These accounts are expected to be zero at fiscal year-end. An audit adjustment was proposed to correct \$3,858,796 of the amount; however, correcting entries for the remaining \$113,079 could not be determined. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.
4. At September 30, 2019, the CNMI recorded non-CNMI cash accounts of \$310,586 (bank code 11980) and \$125,278 (bank code 11432). Correcting entries could not be determined. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.
5. At September 30, 2019, the CNMI recorded a negative \$1,489,602 cash account (bank code 11960) related to unidentified transactions. Correcting entries could not be determined. Management did not consider the amount sufficiently material to the financial statements to warrant an adjustment.
6. At September 30, 2019, the CNMI recorded a negative \$1,713,167 cash account (bank code 11431) related to an error in recording interfund settlements for health and life insurance payments. An audit adjustment was proposed to correct the amount.

Cause: The CNMI did not adhere to policies and procedures related to timely preparing bank reconciliations, to updating bank account authorized signatories, to recording bank reconciling items in the general ledger, and to reconciling cash clearing accounts for adjustment at fiscal year end.

Effect: Cash balances could be misstated throughout the year.

Recommendation: The CNMI should adhere to established policies and procedures over the timely reconciliation and adjustment of bank accounts and cash clearing accounts and over the updating of bank account authorized signatories.

Identification as a Repeat Finding: Finding No. 2018-003.

Views of Responsible Officials:

The CNMI's Corrective Action Plan states acceptance of proposed audit adjustments and provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Receivables

Finding No. 2019-003

Criteria: Receivables should be identified, recorded, and reconciled. Further, transfers of assets from component units should be documented.

Condition: Section 8.1 of the Settlement Agreement for Civil Case No. 09-000023 assigns the CNMI rights to collect deficient employer defined benefit contributions and related costs as of August 6, 2013 from autonomous agencies. In October 2016, NMIRF transferred receivables from autonomous agencies of \$46,051,656 to the CNMI. The CNMI has not obtained details of these receivables and has not assessed collectability. In addition, no written document supported the transfer. The transfer has not been recorded as of September 30, 2019. No audit adjustment was proposed due to the uncertainty of collection.

Cause: The CNMI lacks policies and procedures to identify, record, and reconcile valid receivables and lacks written documentation to substantiate the transfer of receivables.

Effect: Receivables could be understated.

Recommendation: The CNMI should establish policies and procedures to identify, record, and reconcile valid receivables. Furthermore, responsible personnel should coordinate with NMIRF to document the transfer.

Identification as a Repeat Finding: Finding No. 2018-004.

Views of Responsible Officials:

DOF and the NMIRF are in the process of updating and recording these receivables. The agencies area is also in the process of coordinating the documentation of this transfer if deemed collectible. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Receivables

Finding No. 2019-004

Criteria: Receivables should be reconciled, assessed, and monitored for collectability.

Condition: Public Law 9-66 requires public corporations or other autonomous agencies to pay to the CNMI Treasurer an amount no less than one percent of their total operations budget, and such funds will be deposited into a special account within the CNMI general fund to be solely used for the operations and activities of the Office of the Public Auditor (OPA). Receivables related to one percent of OPA fees recorded and reported in a schedule obtained from OPA did not agree to payables recorded in corresponding component unit (CU) financial statements. Further, collectability of these receivables was not assessed at year-end. Additionally, consideration of the application of the statute of limitations to these receivables has not occurred.

<u>Component Unit</u>	<u>Receivables Per OPA Schedule</u>	<u>Payables Reported in CU's Financial Statements</u>	<u>Difference</u>	<u>Comments</u>
CDA	\$ 111,395	-	-	not reported in CU financial statements
CHCC	\$ 2,930,053	Unknown	Unknown	lack of CU financial statements
Commonwealth Ports Authority (CPA)	\$ 3,749,522	\$ 2,178,191	\$ 1,571,331	unreconciled differences
CUC	\$ 15,347,119	Unknown	Unknown	lack of CU financial statements
Marianas Public Land Trust	\$ 160,620	-	-	not reported in CU financial statements
Northern Marianas College (NMC)	\$ 1,649,393	-	-	not reported in CU financial statements
Public School System (PSS)	\$ 1,843,754	-	-	not reported in CU financial statements

As of September 30, 2019, receivables related to OPA fees are fully allowed for.

Cause: The CNMI lacks policies and procedures to reconcile receivables and to assess collectability.

Effect: Receivables and related revenue could be misstated.

Recommendation: The CNMI should record receivables based on the updated calculation and should reconcile amounts to payable balances recorded by component units.

Identification as a Repeat Finding: Finding No. 2018-005.

Views of Responsible Officials:

The component units dispute the receivables. The Department of Finance will engage with the component units to determine the collectability of prior years. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Tax Rebates Payable

Finding No. 2019-005

Criteria: The *Covenant to Establish the Commonwealth of the Northern Mariana Islands in Political Union with the United States of America* (the Covenant) adopted the Internal Revenue Code of the United States of America as the local income tax. Percentages of income tax due to the CNMI from CNMI source income are rebated at 90%, 70% or 50%, based on specified tax brackets for corporate and individual income taxes paid. The rebate liability is therefore estimated at the end of each fiscal year.

In addition, in accordance with Public Law 9-22, §1713, Interest on Overpayments, interest allowed by NMTIT §6611 on an overpayment shall be calculated only on the amount not already rebated.

Condition: At September 30, 2019, tax rebates payable aggregated \$58,664,462. The balance consists of the following:

Estimated 2019 liability based on fiscal year 2019 collections	\$ 1,569,352
Additional Child Tax Credit (ACTC)	6,875,038
2018 and prior rebates unpaid as of September 30, 2019	<u>50,220,072</u>
	<u>\$ 58,664,462</u>

Tests of tax rebates payable noted the following:

1. For unpaid tax year 2018 and prior rebates:
 - a. Of seventeen unmatched filings relating to individual and corporate tax rebate payables of \$7,259,621, the following were noted:
 - i. Tax returns were not provided for ten totaling \$2,600,757:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
I-42693	2011	\$ 91,822
C-01032	2004	353,316
C-01078	2005	1,024,000
C-00984	2003	556,738
C-01168	2008	274,000
C-01277	2016	211,500
C-01365	2017	82,426
I-27820	2000	27
I-33056	2004	5,304
I-40084	2008	<u>1,624</u>
		<u>\$ 2,600,757</u>

- ii. One did not agree to the tax return by \$20,816 due to a miscalculation of rebate taxes.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>	<u>Rebate Payable Per Return</u>	<u>Variance</u>
C-01231	2011	\$ 519,144	\$ 539,960	\$ 20,816

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-005, Continued

Condition, Continued:

b. Of thirteen assessed filings tested relating to individual and corporate tax rebate payables of \$5,058,440, the following were noted:

i. Tax returns were not provided for five totaling \$2,472,608:

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-00565	2012	\$ 2,425,129
C-00055	2001	41,554
I-01492	2003	112
I-07163	2004	5,512
I-15330	2005	301
		<u>\$ 2,472,608</u>

ii. The rebate amounts on the tax returns were left blank or zero for two totaling \$737,530. Further, the related tax returns were filed incomplete, a different tax form was used and/or the taxpayer did not submit relevant documentation to calculate taxes.

<u>Assigned No.</u>	<u>Tax Year</u>	<u>Rebate Payable Per Detailed Reports</u>
C-00368	2007	\$ 649,000
C-00255	2004	88,530
		<u>\$ 737,530</u>

2. No interest is calculated or paid on overpayments.

Cause: The CNMI lacks periodic review of rebate payable reports to determine the accuracy and completeness and lacks policies and procedures to assess the reasonableness of estimated rebates payable. Further, the CNMI lacks compliance with Public Law 9-22 relating to interest calculations on tax overpayments.

Effect: Tax rebates payable could be misstated; however, since the CNMI calculates an estimated tax liability based on current information, the amount recorded as tax rebate payable is a best estimate. In addition, the CNMI has taken the approach of recording unmatched return variances as liabilities until the items listed above are resolved. The effect is also mitigated by a corresponding permanent tax reserve to offset disputes or claims.

Recommendation: The CNMI should establish policies and procedures requiring periodic review of tax rebate payable reports to assess accuracy and completeness. Also, the CNMI should establish policies and procedures to assess the reasonableness of estimated rebates payable. Additionally, the Division of Revenue and Taxation should properly file and maintain tax forms. Moreover, the CNMI should reconcile recorded rebates payable with the liability indicated on the tax forms, and significant variances, if any, should be investigated, monitored, documented and timely addressed.

Identification as a Repeat Finding: Finding No. 2018-006.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-005, Continued

Views of Responsible Officials:

The CNMI agrees with the recommendation and will work with the Division of Revenue & Taxation to establish policies and procedures as recommended. Furthermore, DOF will ensure proper filing and maintenance of tax forms as well as reconcile recorded rebates payable with the liability indicated on the tax forms. Variances, if any, shall be investigated, monitored, documented, and timely addressed. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Notes Payable - Judicial Building Loan

Finding No. 2019-006

Criteria: Public Law 9-3 authorized the CNMI to secure a loan from NMIRF as a general obligation for the purpose of funding construction of a Judicial Complex. On February 28, 1995, the CNMI entered into a \$15,000,000 loan agreement with NMIRF. The loan was initially for a period of fifteen years and was due on February 28, 2010, with interest at 7.50% per annum. On July 15, 1999, the loan was amended to extend the term to twenty years and to increase the interest rate to 7.75% per annum. Repayment of the loan is based on an assignment of future receipts from the CNMI courts; however, the CNMI is required to pay any shortfall through the budgetary process. On October 1, 2013, the loan was transferred from NMIRF to NMISF pursuant to Section 8 of the Settlement for Civil Case No. 09-00023.

Condition: At September 30, 2019, principal and interest payable to NMISF amounted to \$2,019,860 and \$3,044, respectively, which was due on March 1, 2015. On September 27, 2016, Public Law 19-67 authorized the CNMI to enter into a \$15,000,000 loan with the U.S. Department of Agriculture (USDA) to pay the loan to NMISF and for the expansion and improvement of projects related to building facilities of the Judiciary, the Office of the Attorney General and the Public Defender's Office. The CNMI has not provided the status of the agreement with USDA or determined necessary modifications of the NMISF loan.

Cause: The CNMI lacks a formal plan to pay this obligation.

Effect: The CNMI is in noncompliance with Public Law 9-3 and the related loan terms.

Recommendation: The CNMI should develop and implement a formal plan to pay the outstanding obligation.

Identification as a Repeat Finding: Finding No. 2018-007.

Views of Responsible Officials:

The CNMI is following PL 9-3 to the extent that it is able and is transferring funds as required by law. Urgent priorities throughout the year has resulted in the non-transfer of appropriated funds before the end of the fiscal year. The CNMI will continue to work to ensure that the funding is remitted. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Compensated Absences

Finding No. 2019-007

Criteria: Accrued annual leave is limited to 45 days or 360 hours, as amounts in excess of 45 days transfer to sick leave at the end of the leave year. Further, an effective system of internal control requires that accrued annual leave for employees who are separated from the entity be identified and reviewed for validity. The payroll records should be timely updated for annual leave balances that do not represent valid obligations.

Condition: At September 30, 2019, compensated absences payable per the subsidiary ledger aggregated \$10,207,139. Of this amount, \$119,624 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$940,704 represents accrued leave in excess of the 45-day/360-hour limit. The balance at September 30, 2019 is net of individual debit balances of \$100,390.

The above condition was corrected through a proposed audit adjustment.

Cause: The CNMI lacks adequate procedures and controls to determine that accrued annual leave is reviewed for validity and lacks timely updates of payroll records.

Effect: Compensated absences payable and related expenditures could be misstated.

Recommendation: Responsible Department of Finance (DOF) personnel should record valid charges as compensated absences payable.

Identification as a Repeat Finding: Finding No. 2018-008.

Views of Responsible Officials:

DOF accepts the proposed audit adjustment. Currently annual leave is reviewed at the end of the calendar year and amounts in excess of 360 hours transferred to sick leave. DOF will explore updating processes to include a mid-year review. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Due to Component Units

Finding No. 2019-008

Criteria: Amounts due to component units (CU) should be reconciled.

Condition: We noted the following variances between the CNMI's amounts due to component units and the amounts confirmed by the component units:

<u>Component Units</u>	<u>Amount Per General Ledger</u>	<u>Amount Reported by the CU</u>	<u>Difference</u>
MVA	\$ 2,546,259	\$ 6,149,517	\$ (3,603,258)
NMC	\$ 185,235	\$ 3,093,652	\$ (2,908,417)
PSS	\$ 6,906	\$ 4,949,038	\$ (4,942,132)

The above differences were corrected through a proposed audit adjustment.

Cause: The cause of the above condition is a lack of reconciliation of balances with component units.

Effect: The effect of the above condition is a misstatement of the due to component units and related transfers.

Recommendation: We recommend that the CNMI review transactions with component units and reconcile differences.

Identification as a Repeat Finding: Finding No. 2018-009.

Views of Responsible Officials:

DOF will accept audit adjustments based on audited financial statements of each of the financial reports. DOF will work with CU to develop a systematic approach to reconcile differences in a timely manner. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Fund Balance - Encumbrances

Finding No. 2019-009

Criteria: A system of internal control provides for adequate monitoring and tracking of commitments related to open purchase orders and unfulfilled contracts. Encumbrances should be reviewed and adjusted for balances that are no longer valid.

Condition: Tests of encumbrances noted the following:

General Fund

1. Subsidiary ledger encumbrances of \$24,140,436 differed from the general ledger of \$6,194,027 at September 30, 2019. The difference of \$17,946,409 was corrected through a proposed audit reclassification.
2. Of five encumbrances tested, aggregating \$13,070,500, an underlying contract was not provided.

<u>Fund</u>	<u>Business Unit</u>	<u>General Ledger Account</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
1010	N/A	1160	677885 OC	\$ 17,052

3. The encumbrance aging includes a negative balance of \$304,101, which has been outstanding for more than five years. There was no evidence of DOF review of outstanding encumbrances.

<u>Fund</u>	<u>Amount</u>
1010	\$ 41,803
1013	1,728
1015	200
2037	2,270
2039	8,100
2058	<u>250,000</u>
Total	\$ <u>304,101</u>

Grants Assistance Funds

1. Subsidiary ledger encumbrances of \$10,130,429 differed from the general ledger of \$48,538,909 at September 30, 2019. The difference of \$38,408,480 was corrected through a proposed audit reclassification.
2. The encumbrance aging includes a negative balance of \$1,013,282, which has been outstanding for more than five years. There was no evidence of DOF review of outstanding encumbrances.

<u>Fund</u>	<u>CFDA No.</u>	<u>Amount</u>
2020	10.475	\$ 7,269
2020	11.123	75
2020	15.605	2,400
2020	16.582	42,583
2020	20.600	1,226
2020	45.310	600
2020	66.600	20,972
2020	93.243	932
2020	93.251	5,280
2020	93.268	3,607

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-009, Continued

Condition, Continued:

Grants Assistance Funds, Continued

<u>Fund</u>	<u>CFDA No.</u>	<u>Amount</u>
2020	93.505	11,712
2020	93.959	4,350
2020	93.994	1,240
2020	97.089	10,331
2020	Unknown	353,384
2022	16.803	12,100
4044	15.875	26,450
4045	15.875	76,246
4045	Unknown	12,391
4049	15.875	104,770
4052	15.875	27,480
4052	Unknown	172,758
4058	15.875	39,665
4058	Unknown	<u>75,461</u>
Total		\$ <u>1,031,282</u>

3. Of three encumbrances tested, aggregating \$2,157,037, the following were noted:

a. For two encumbrances totaling \$101,665, underlying contracts were expired. This was corrected through a proposed audit reclassification.

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Amount</u>
4052	Unknown	2412	604267 OS	\$ 46,571
4058	15.875	5664B	604267 OS	\$ 55,094

b. The obligating document for an encumbrance was not provided.

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
2020	97.036	M42355	667077 OC	\$ 365,325

Saipan Amusement Funds

1. Encumbrances in the subsidiary ledger of \$1,551,623 differed from the general ledger of \$372,809 at September 30, 2019. The difference of \$1,178,809 was corrected through a proposed audit reclassification.

2. Of four encumbrances tested, aggregating \$1,003,152, two encumbrances were subsequently adjusted. The disclosure misstatement was corrected during the audit process.

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
7069	N/A	7184T	688928 OC	\$ 364,962
7069	N/A	7186P	683390 OC	\$ 401,444

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-009, Continued

Condition, Continued:

Other Governmental Funds

1. Encumbrances in the subsidiary ledger of \$7,221,357 differed from the general ledger of \$8,888,877 at September 30, 2019. The difference of \$1,616,709 was corrected through a proposed audit reclassification.
2. The encumbrance aging includes a balance of \$1,688,312, which has been outstanding for more than five years. There was no evidence of DOF review of outstanding encumbrances.

<u>Fund</u>	<u>CFDA No.</u>	<u>Amount</u>
2030	N/A	\$ 14,959
2032	Unknown	180
2033	Unknown	52
2043	N/A	8,555
2080	Unknown	248
2300	Unknown	1,001
2400	Unknown	1,022
4042	N/A	180,852
4043	20.205	414,779
4043	83.516	907,535
4043	Unknown	110,813
4047	15.875	46,958
6070	Unknown	362
6075	Unknown	169
6076	Unknown	85
6079	Unknown	742
Total		<u>\$ 1,688,312</u>

3. Of ten encumbrances tested, aggregating \$5,016,801, the following were noted:
 - a. Two encumbrances were subsequently adjusted. The disclosure misstatement was corrected during the audit process.

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Amount</u>
2041	N/A	3753S	600432 OC	\$ 29,382
4043	20.205	T6205G	674847 OC	\$ 2,147,914

- b. The underlying contract for an encumbrance was expired. This was corrected through a proposed audit reclassification.

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Amount</u>
4043	20.205	T0205K	557659 OC	\$ 173,889

- c. One encumbrance was subsequently adjusted. The disclosure misstatement was corrected during the audit process.

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>Amount</u>
4043	20.205	T0205K	557659 OC	\$ 348,539

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No. 2019-009, Continued

Condition, Continued:

Other Governmental Funds, Continued

- d. The obligating document for one encumbrance was not provided.

<u>Fund</u>	<u>CFDA No.</u>	<u>Business Unit</u>	<u>Obligating Document No.</u>	<u>General Ledger Amount</u>
2030	N/A	3022	677363 OP	\$ 2,500

Cause: The CNMI lacks policies and procedures to monitor recorded encumbrance reserves and lacks adequate file maintenance.

Effect: Disclosure requirements relative to the reserve for encumbrances could be misstated and may result in incorrect budgetary financial statements.

Recommendation: Responsible DOF personnel should support all encumbrances with encumbering documents and update encumbrances for actual expenditures. Long outstanding encumbrances and debit balances should be examined for validity. DOF should take reasonable steps to timely adjust the subsidiary ledger to include valid encumbrances at year end.

Identification as a Repeat Finding: Finding No. 2018-010.

Views of Responsible Officials:

The CNMI's Corrective Action Plan states acceptance of proposed audit adjustments and provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Commonwealth Healthcare Corporation

Finding No. 2019-010

Criteria: Transfers of assets and liabilities that attach to discretely presented component units should be documented.

Condition: CNMI Public Law 16-51 created the Commonwealth Healthcare Corporation (CHCC), which is responsible for providing healthcare services in the CNMI, as of October 1, 2011. Healthcare services had previously been accounted for within the General Fund. As of September 30, 2019, transfers of associated receivables, inventory and obligations has not occurred.

Cause: The CNMI lacks coordination over the transfer of assets and liabilities.

Effect: Assets and liabilities associated with CHCC remain in the General Fund.

Recommendation: The CNMI should document the transfer of receivables, inventory and obligations as of October 1, 2011 between the CNMI and CHCC.

Identification as a Repeat Finding: Finding No. 2018-011.

Views of Responsible Officials:

The CNMI and CHCC have been working on the final issues of the transition of CHCC to an independent corporation. CHCC and the CNMI has identified some areas to be transferred to the CHCC, such as fixed assets, and we will continue to review until such matters are formally documented. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

CNMI Workers' Compensation Commission

Finding No. 2019-011

Criteria: Transfers of assets and liabilities from component units should be documented. In addition, an effective system of internal control over financial reporting includes maintenance of a separate general ledger system that records transactions and generates timely, reliable, and relevant financial information.

Condition: On November 9, 2012, Public Law 17-88, transferred administrative functions of the CNMI Workers' Compensation Commission (WCC) from NMIRF to the CNMI Department of Commerce (DOC). CNMI management determined that WCC should be included within its Special Revenue Funds. As of September 30, 2019, transfers of WCC's cash and cash equivalents, certificates of deposit, investments and receivable accounts were not documented.

In addition, tests of WCC accounts noted that WCC maintains an investment with a market value of \$1,565,442 at September 30, 2019; however, an investment policy was not provided. In addition, fiscal year 2019 investment transactions were not recorded, reconciled and monitored.

Cause: The CNMI lacks coordination over the transfer of WCC accounts between NMIRF and the CNMI and lacks procedures over financial reporting.

Effect: WCC's funds could be misstated.

Recommendation: The CNMI should document transfers of WCC's assets and establish or assign separate general ledger accounts for WCC funds. Further, bank reconciliations should be prepared for all cash accounts. Lastly, CNMI should establish an investment policy.

Identification as a Repeat Finding: Finding No. 2018-012.

Views of Responsible Officials:

DOF and Department of Commerce will finalize the transfer of assets in writing and complete the work on establishing and assigning general ledger accounts for WCC funds. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

CNMI Group Health and Life Insurance

Finding No. 2019-012

Criteria: Transfers of assets and liabilities from component units should be documented. In addition, an effective system of internal control over financial reporting includes maintenance of a separate general ledger system that records transactions and generates timely, reliable, and relevant financial information.

Condition: On August 5, 2016, Public Law 19-60 transferred administrative functions of the CNMI Group Health and Life Insurance (GHLI) from NMIRF to the CNMI Department of Finance (DOF). CNMI management determined that GHLI should be included within its Special Revenue Funds. As of September 30, 2019, transfers of GHLI's assets and liabilities were not documented. In addition, tests of GHLI accounts noted the following:

1. Bank reconciliations were not prepared for GHLI cash account (account no. 11431) with a bank balance of \$763,359 as of September 30, 2019.
2. GHLITF acts in a trustee capacity for health and life insurance coverage payments. During FY2019, the CNMI recorded revenues of \$27,202,673 (Business Units 7180 and 7181; Fund 7071), which relate to collections of health and life insurance contributions from various component units and agencies. These amounts are not valid CNMI revenue and should be remitted to third party insurance providers. In addition, the CNMI recorded health insurance expense of \$10,368,485 (Business Units 6022; Fund 6062), which relates to disbursements made to third party insurance providers. There was no evidence that these entries were reviewed prior to posting. Audit adjustments were proposed to reverse these entries.

Cause: The CNMI lacks coordination over the transfer of GHLI accounts between NMIRF and the CNMI and lacks procedures over financial reporting.

Effect: GHLI's funds could be misstated.

Recommendation: The CNMI should document transfers of GHLI's assets and liabilities. Bank reconciliations should be prepared for the GHLI cash account. Further, journal entries should be reviewed prior to posting.

Identification as a Repeat Finding: Finding No. 2018-013.

Views of Responsible Officials:

DOF and GHLI will finalize the transfer of assets in writing and has already completed the work on establishing and assigning general ledger for GHLI.

1. Bank reconciliations are available for review at the respective office.
2. Ongoing discussions between DOF and GHLI staff are still taking place. Records are in transition from the previous system (Peachtree) to a new financial system.

The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

CNMI Local Noncompliance

Finding No. 2019-013

Criteria: Budgets are a vital tool for establishing public policy and maintaining control over the management of public resources.

Condition: On September 19, 2018, the CNMI passed Public Law 20-67 as the Appropriations and Budget Authority Act of 2019 (the Act). On October 15, 2018, the CNMI passed Public Law 20-78 to amend Public Law 20-67 to appropriate the funds that were line item vetoed under Governors Communications relating to the Act. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2019.

	Budgeted Level of Expenditures	Actual Expenditures	Over Expenditure
Executive branch:			
Other Offices of the Governor and Lt. Governor	\$ 7,317,977	\$ 8,231,559	\$ 913,582
Department of Commerce	\$ 1,815,735	\$ 2,076,319	\$ 260,584
Department of Community and Cultural Affairs	\$ 3,207,672	\$ 3,209,364	\$ 1,692
Department of Corrections	\$ 5,225,215	\$ 5,950,693	\$ 725,478
Department of Finance	\$ 8,140,544	\$ 9,689,426	\$ 1,548,882
Department of Fire and Emergency Medical Services	\$ 5,502,570	\$ 6,580,541	\$ 1,077,971
Department of Lands and Natural Resources	\$ 3,392,943	\$ 3,406,762	\$ 13,819
Department of Public Safety	\$ 7,773,751	\$ 13,515,178	\$ 5,741,427
Department of Public Works	\$ 2,989,655	\$ 3,420,516	\$ 430,861
Second Senatorial District - Tinian and Aguiguan	\$ 8,292,213	\$ 8,646,078	\$ 353,865
First Senatorial District - Rota	\$ 8,095,749	\$ 8,926,526	\$ 830,777
Judicial branch	\$ 5,788,188	\$ 6,012,157	\$ 223,969
Office of the Attorney General	\$ 2,737,390	\$ 2,886,733	\$ 149,343
Office of the Public Auditor	\$ 1,421,552	\$ 2,032,045	\$ 610,493
Boards and commissions	\$ 1,974,502	\$ 2,115,132	\$ 140,630
Employee benefits (payment to GHLITF)	\$ 8,977,663	\$ 12,359,052	\$ 3,381,389
Health (Medicaid local expenditures and medical referrals)	\$ 6,758,124	\$ 21,492,519	\$ 14,734,395
Disaster expenditures	\$ -	\$ 19,027,432	\$ 19,027,432
Debt service	\$ 9,548,750	\$ 9,564,446	\$ 15,696

Cause: The CNMI authorized expenditures in excess of budget allotments.

Effect: Expenditures exceed budget allotments.

Recommendation: Responsible DOF personnel should examine issues attendant to the over expenditures and should assess the propriety of budgeted levels.

Identification as a Repeat Finding: Finding No. 2018-014.

Views of Responsible Officials:

The CNMI agrees with finding and continuously works towards addressing over expenditures and determining the appropriate budgetary levels for the Commonwealth. Areas affecting public health and human welfare are an issue as areas such as medical referral for patients requiring urgent health care are not available in the Commonwealth, it is anticipated that revenue will continue to rise to address the areas where the Commonwealth often experiences budgetary shortfalls. Additional hiring of law enforcement personnel has also reduced the amount of overtime compared to prior years as there are more employees working regular hours and sharing the responsibility for the CNMI safety. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Schedule of Expenditures of Federal Awards

Finding No. 2019-014

Criteria: In accordance with the Uniform Guidance, the auditee shall prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. At a minimum, the SEFA must include the total amount provided to subrecipients from each Federal program.

Condition: The September 30, 2019 SEFA is overstated by \$350,435 of federal expenditures passed through to subrecipients for CFDA No. 97.036.

Cause: The CNMI lacks awareness of applicable regulations.

Effect: The CNMI is in noncompliance with federal SEFA requirements. No questioned costs are presented as expenditures were incurred.

Recommendation: The CNMI should provide training to responsible personnel over the accurate preparation of the SEFA in accordance with the Uniform Guidance.

Views of Responsible Officials:

The CNMI agrees with the finding and will provide training on the preparation of the SEFA in accordance with the Uniform Guidance. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-015
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551/10.561 SNAP Cluster
Federal Award Nos.: 7NM4004NM and USDA-FNS-SNAP-CNMI-01
Area: Allowable Costs/Cost Principles
Questioned Costs: \$50,004

Criteria: In accordance with applicable allowable costs/cost principles requirements, costs should be necessary and reasonable for the performance of the Federal award and be adequately documented.

Condition: Total program benefit costs of \$50,004 are not supported by the total of food coupons redeemed, as follows:

	<u>Program Benefit Costs</u>
Per general ledger	\$ 31,029,156
Per redemption reports	<u>30,979,152</u>
Unsupported program benefits	\$ <u>50,004</u>

Cause: The CNMI did not periodically perform a reconciliation of its recorded program benefit costs with the total of food coupons redeemed.

Effect: The CNMI is in noncompliance with allowable costs/cost principles requirements, and questioned costs of \$50,004 exist.

Recommendation: Responsible CNMI personnel should periodically perform a reconciliation of its recorded program benefit costs with the total of food coupons redeemed.

Views of Responsible Officials:

The CNMI agrees with the recommendation and as the responsible party for this function of the federal award, the CNMI is working with Nutrition Assistance Program (NAP) to address this deficiency. It has been noted that NAP periodically performs on a monthly basis reconciliation of food coupons against the redemption reports or bank statements. DOF also utilizes the bank statements as the source to draw final funds for each month. To verify and confirm accuracy and consistency, the CNMI will work with the NAP to ensure there are no variances between the General Ledger entries, the bank reports, and the monthly reconciliation of food coupons. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-016
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award Nos.: CIP-CNMI-2016-8, TAP-CNMI-CIP-2018-2, TAP-CNMI-2018-8, TAP-CNMI-2017-8, TAP-CNMI-2017-7, CNMI-BTS-2017-1; TAP-CNMI-2016-1, MAP-CNMI-2018-2 and MAP-CNMI-2017-3
 Area: Equipment and Real Property Management
 Questioned Costs: \$-0-

Criteria: In accordance with applicable regulations, a state must use, manage and dispose of equipment acquired under a Federal award by the state in accordance with state laws and procedures.

The CNMI Property Management Policies and Procedures requires the Division of Procurement & Supply (P&S) to conduct an annual inventory of property held by a designated official who has administrative control over the use of personal property within his area of jurisdiction. Also, P&S shall perform random audits of property held by each accountable person to validate the integrity of the property control process.

Further, property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal award identification number), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition: Tests of equipment and real property noted the following:

1. There is no documentation that a complete physical inventory of equipment and property was performed in FY 2019.
2. A property listing, including such required information as serial or federal award identification number, source of the property, who holds title, percentage of federal participation in the cost of the property, and use and condition of the property, was not provided.
3. A variance of \$759,544 was noted between the GL details of \$855,479 and \$95,935 from the property listing provided by P&S.

Cause: The CNMI lacks the human resources and financial management system structure needed to effect compliance with applicable equipment and real property management requirements.

Effect: The CNMI is in noncompliance with applicable equipment management requirements. No questioned cost is presented as we are unable to quantify the overall extent of noncompliance. See below for the cumulative dollar amount of property and equipment acquired with program funds over the past five years.

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Grand Total</u>
\$ 855,479	\$ 335,551	\$ 501,789	\$ 62,939	\$ 1,123,090	\$ 2,878,848

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-016, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award Nos.: CIP-CNMI-2016-8, TAP-CNMI-CIP-2018-2, TAP-CNMI-2018-8, TAP-CNMI-2017-8, TAP-CNMI-2017-7, CNMI-BTS-2017-1; TAP-CNMI-2016-1, MAP-CNMI-2018-2 and MAP-CNMI-2017-3
Area: Equipment and Real Property Management
Questioned Costs: \$-0-

Recommendation: The CNMI should consider seeking technical and financial support from Federal agencies to develop human resources and a financial management system that are capable of effecting compliance with applicable property management policies and procedures.

Identification as a Repeat Finding: Finding No. 2018-016.

Views of Responsible Officials:

The Department of Finance is in the process of adopting a new financial management system which will be an end user friendly that will incorporate the required documents as stated in the grant terms and conditions to be able to populate the required information for compliance in property management and procedures.

The new system maintains a flexible application to easily manage asset management and capital inventory for the department and agencies. The company has begun the work for the transition to the new financial management system and will go live January 2022.

The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-017
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award Nos.: TAP-CNMI-2019-3
 Area: Procurement and Suspension and Debarment
 Questioned Costs: \$363,800

Criteria: In accordance with applicable procurement requirements, procurement transactions shall provide for full and open competition through the use of competitive procedures. Also, for any sole source procurement, a written justification for sole source procurement shall be prepared by the official with expenditure authority and shall contain the specific unique capabilities required; the specific unique capabilities of the contractor; the efforts made to obtain competition; and the specific considerations given to alternative sources and specific reasons why alternative sources were not selected.

Condition: Of twenty non-payroll expenditures tested, aggregating \$4,243,549 of a total population of \$10,374,347, deficiencies were noted, as follows:

1. For one (or 5%), documents were not provided to demonstrate that competitive procurement was used.

<u>Business Unit</u>	<u>TA/ Contract No.</u>	<u>PO/Contract Amount</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Total FY19 Expenditures and Questioned Costs</u>
1694	667091-OC	\$ 41,334	65600	08/06/19	22159	\$ 41,334

2. For one (or 5%), sole source procurement was used. The written justification stated that efforts were made to obtain competition; however, there was no documentation provided to support the assertion.

<u>Business Unit</u>	<u>TA/ Contract No.</u>	<u>PO/Contract Amount</u>	<u>Object</u>	<u>General Ledger Date</u>	<u>Document No.</u>	<u>Total FY19 Expenditures and Questioned Costs</u>
1365	664022-OC	\$ 1,598,087	65600	08/06/19	22159	\$ 322,466

Cause: The CNMI did not enforce compliance with applicable procurement requirements.

Effect: The CNMI is in noncompliance with applicable procurement requirements, and questioned costs of \$363,800 exist.

Recommendation: Responsible personnel should monitor and enforce compliance with applicable procurement requirements, including the review of procurement files for completeness as to written rationales for any deviations from applicable procurement requirements.

Views of Responsible Officials:

The Office of Grants Management received approval from the federal grantor (Office of Insular Affairs) for a transfer of expenses to BU I9875M for payment of prior incurred expenses by the CNMI government. In relation to procurement regulation compliance, the grant award did stipulate that procurement regulations must be adhered to, however, as the expenses were initially recorded under previous BU's (1694 and 1365), the procurement process should have already been completed. With that, the CNMI agrees with the recommendation. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-018
 Federal Agency: U.S. Department of the Interior
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
 Federal Award Nos.: D19AF00073 (CNMI-CI-2018-12) and D17AF00042 (CNMI)
 Area: Reporting
 Questioned Costs: \$51,563

Criteria: The Program is required to submit an SF-425, Federal Financial Report that is accurately prepared and supported.

Condition: Tests of reporting noted the following:

1. The semi-annual financial report for D19AF0073 was not prepared for the fiscal year end.
2. The SF-425 amount and period end reported for D17AF00042 did not agree with the underlying accounting records, resulting in an understatement of expenditures reported of \$51,563, which exceeded the authorized grant funding.

Business Unit	<u>Per General Ledger Details</u>				SF-425 Support	Variance
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>		
I17CIA	\$ 825,299	\$ -	\$ -	\$ 825,299	\$ 825,299	\$ -
I17CIB	94,617	-	-	94,617	94,617	-
I17CIC	-	24,601	100	24,701	32,917	(8,216)
I17CID	23,990	524,489	165,305	713,784	423,029	290,755
I17CIE	-	-	-	-	29,631	(29,631)
I17CIF	52,101	146,125	2,163	200,389	205,249	(4,860)
I17CIG	221,603	-	-	221,603	221,603	-
I17CIH	74,187	-	-	74,187	74,187	-
I17CIJ	53,637	-	-	53,637	53,637	-
I17CIK	32,907	34,016	-	66,923	149,686	(82,763)
I17CIL	<u>15,633</u>	<u>21,335</u>	<u>21,335</u>	<u>58,303</u>	<u>172,025</u>	<u>(113,722)</u>
Total	\$ <u>1,393,974</u>	\$ <u>750,566</u>	\$ <u>188,903</u>	\$ <u>2,333,443</u>	\$ <u>2,281,880</u>	\$ <u>51,563</u>

Cause: The CNMI did not effectively monitor cumulative expenditures and approved funding limits.

Effect: The CNMI is in noncompliance with reporting requirements, and questioned costs of \$51,563 exist for Condition 2. No questioned costs result for D19AF0073 at Condition 1 as actual Federal draws did not exceed recorded expenditures.

Recommendation: The Program should establish a schedule showing due dates of required reports to effectively monitor compliance with applicable reporting requirements. Furthermore, responsible personnel should review the SF 425 for accuracy and completeness prior to submission.

Views of Responsible Officials:

The Office of Management and Budget agrees to this finding. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-019
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award Nos.: CNMI-CIP-2015-7, CNMI-CIP-2017-3, CNMI-CIP-2017-7 and CNMI-CI-2019-1
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Criteria: In accordance with applicable subrecipient monitoring requirements, the pass-through entity (PTE) must establish and implement subrecipient monitoring policies and procedures, including the following:

- At the time of the award, clearly identify to the subrecipient all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award; and
- Evaluate the impact of subrecipient activities on the PTE's ability to comply with applicable federal regulations.

Condition:

1. The CIP Office listed the PSS as its only subrecipient and failed to include CUC. Further, a subrecipient agreement was not provided for CUC. The subrecipient listing does not include \$873,345 in subrecipient expenditures.
2. The program did not include the following required information in the subrecipient agreements:
 - Federal award identification
 - Subrecipient name (which must match the registered name in the Data Universal Numbering System (DUNS))
 - Subrecipient's DUNS number
 - Federal award identification number
 - Federal award date
 - Subaward period of performance start and end date
 - Amount of federal funds obligated by this action
 - Total amount of federal funds obligated to the subrecipient
 - Total amount of the federal award
 - Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act
 - Name of federal awarding agency, PTE, and contact information for awarding official
 - CFDA number and name; the PTE must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement
 - Identification of whether the award is R&D
 - Indirect cost rate for the federal award
3. Control procedures to monitor subrecipient compliance with applicable laws, regulations, and provisions of contracts and grant agreements are not evident. We are aware that subrecipients CHCC and CUC were subject to a Single Audit for FY 2018 and such audits are ongoing. There is no evidence that the Single Audit reports are used as a monitoring tool.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-019, Continued
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award Nos.: CNMI-CIP-2015-7, CNMI-CIP-2017-3, CNMI-CIP-2017-7 and CNMI-CI-2019-1
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Condition, Continued:

4. Supervisory reviews are not being performed to determine the adequacy of subrecipient monitoring.

Cause: The CNMI failed to enforce compliance with subrecipient monitoring requirements.

Effect: The CNMI is in noncompliance with applicable subrecipient monitoring requirements. No questioned costs are presented as the FY 2018 Single Audit reports of the subrecipients tested reported no findings for this program. Furthermore, we are aware that the FY 2018 Single Audit of CUC was issued with no findings for this program.

Recommendation: Responsible personnel should consider obtaining training in the area of subrecipient monitoring and establishing and implementing policies and procedures over compliance with applicable subrecipient monitoring requirements.

Identification as a Repeat Finding: Finding No. 2018-017.

Views of Responsible Officials:

The listed federal awards were previously submitted in preceding audit requests. The program did include most of the information as stated in Condition 2. The CIP Office has incorporated the required information listed in Condition 2 in the Subrecipient Monitoring Agreement. A copy of the revised agreement has been sent to the subrecipient for acknowledgement and signature.

The CIP Office agrees that responsible personnel should obtain more training in the area of subrecipient monitoring and a revision to the established and implementation policies and procedures to reflect the changes and/or updates in the compliance for applicable subrecipient monitoring requirements.

The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-020
 Federal Agency: U.S. Department of Health and Human Services
 CFDA Program: 93.767 Children's Health Insurance Program
 Federal Award No.: 1905CQ5021
 CFDA Program: 93.778 Medical Assistance Program
 Federal Award Nos.: 1905CQ5MAP, 1905CQ5ADM, 1905CQ1935, 1905CQMMIS,
 1905MPIMPL, 1905CQACAI, 1905CQDMAP, 1805CQ5ADM,
 180CQIIMPL and 1805CQMMIS
 Area: Eligibility
 Questioned Costs: \$-0-

Criteria: Applicants must be determined eligible prior to receiving Medicaid assistance based on the criteria set forth in the Medicaid Revised Operational Plan.

Condition: For two (or 3%) of sixty-eight eligibility files tested, aggregating \$96,111 in total benefits paid of a population of \$49.3 million, total countable income by the Program differs from the third-party verification. No questioned cost is reported as the total countable income per third-party verifications are within income limits.

<u>Case Number</u>	<u>Certification Effective</u>	<u>Income Per Third-Party Verification</u>	<u>Income Per Medicaid</u>	<u>Variance</u>
15-019766-00	01/25/2019	\$ 1,311	\$ 1,069	\$ 242
13-024461-00	10/09/2018	\$ 1,273	\$ 1,147	<u>126</u>
				\$ <u>368</u>

Cause: The CNMI miscalculated countable income. Further, the records/database of individuals receiving benefits may not be periodically monitored and updated for completeness of population and eligibility information.

Effect: The CNMI is in noncompliance with applicable eligibility requirements pursuant to the Medicaid Operational Plan. The projected questioned cost for each major program exceeds \$25,000.

Recommendation: The CNMI Medicaid Office should establish and enforce control procedures over compliance with eligibility requirements pursuant to the Medicaid Revised Operational Plan.

Identification as a Repeat Finding: Finding No. 2018-020.

Views of Responsible Officials:

Yes, we do agree Medicaid made an error on both eligibility income calculations. CMA will enforce thorough review of supporting documents and validate income calculations are correct. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-021
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.767 Children's Health Insurance Program
Federal Award Nos.: 1905CQ5021
Area: Special Tests and Provisions - Provider Eligibility
Questioned Costs: \$-0-

Criteria: In accordance with special tests and provisions requirements, service provider agreements are required and should be supported by a current CNMI business license and a CNMI or U.S. license to practice medicine.

Condition: Of sixty-eight eligibility files tested, aggregating \$96,111 in total benefits paid of a population of \$49.3 million, deficiencies were noted, as follows:

1. For two (or 17%), the physicians' current licenses to practice during the selected service dates were not on file.

<u>General Ledger Date</u>	<u>Business Unit</u>	<u>Document No.</u>	<u>Service Date</u>	<u>Number of Physicians</u>
12/17/18	H96767D	1429292	06/05/18 - 08/10/18	4
02/07/19	H96767D	1434016	09/11/18 - 11/08/18	4

No questioned costs are presented as the effective dates of the physicians' licenses that were subsequently obtained between February 28, 2020 and May 27, 2020 covered the service dates tested.

2. For three (25%), the providers' current licenses to practice during the selected service dates were not on file.

<u>General Ledger Date</u>	<u>Business Unit</u>	<u>Document No.</u>	<u>Service Dates</u>
12/17/18	H96767D	1429292	11/17/17 - 08/22/18
07/10/19	H96767D	1452880	04/01/19 - 04/30/19
04/03/19	H96767D	1439264	09/07/18 - 12/31/18

No questioned costs are presented as the effective dates for the providers' licenses that were subsequently obtained between May 2, 2020 and May 13, 2020 covered the service dates tested.

Cause: The CNMI lacks a systematic filing of relevant documentation for service providers.

Effect: The CNMI is in noncompliance with applicable special tests and provisions requirements.

Recommendation: The responsible personnel should maintain relevant documentation for service providers in accordance with special tests and provisions requirements.

Views of Responsible Officials:

We agree with these findings. CMA is making every effort each year to improve the maintenance of provider applications and supporting documents. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-022
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 1905CQ5MAP, 1905CQ5ADM, 1905CQ1935, 1905CQMMIS,
1905MPIMPL, 1905CQ1323, 1905CQACAI, 1905CQDMAP,
1905CQINCT, 1805CQ5ADM, 180CQIIMPL, 1805CQMMIS and
1805CQI1323
Area: Special Tests and Provisions - ADP Risk Analysis and System
Security Review
Questioned Costs: \$-0-

Criteria: In accordance with applicable special tests and provisions requirements, State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

Condition: The CNMI did not provide reports or other documentation on its biennial ADP system security reviews.

Cause: The CNMI lacked policies and procedures for the required biennial ADP system security review.

Effect: The CNMI is in noncompliance with special tests and provisions requirements for the biennial ADP system security review. No questioned costs result as we are unable to quantify the extent of the noncompliance.

Recommendation: The CNMI should establish and implement policies and procedures for the required biennial ADP system security review.

Identification as a Repeat Finding: Finding No. 2018-021.

Views of Responsible Officials:

The Division of Information Technology Services has developed the policies and procedures to be in compliance with the program's ADP security system. It has been reviewed and approved by the Secretary of Finance and has been formally implemented into the current process. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-023
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 190CQDMAP
Area: Special Tests and Provisions - Provider Eligibility
Questioned Costs: \$-0-

Criteria: In accordance with applicable special tests and provisions requirements for provider eligibility, providers of medical services must be licensed in order to participate in the Medicaid program.

Condition: Of twelve service providers tested, aggregating \$2.3 million of program costs of \$45.6 million, deficiencies were noted, as follows:

1. For two (or 17%), the physicians' current licenses to practice during the selected service dates were not on file.

<u>General Ledger Date</u>	<u>Business Unit</u>	<u>Document No.</u>	<u>Service Date</u>	<u>Number of Physicians</u>
07/24/19	H9778J	1455157	02/15/19 - 04/19/19	4
09/11/19	H9778J	1472752	06/21/19 - 07/31/19	5

No questioned costs are presented for services provided by the physicians as the effective dates of the physicians' licenses that were subsequently obtained between February 28, 2020 and June 1, 2020 covered the service dates tested.

2. For six (50%), the providers' current licenses to practice during the selected service dates were not on file

<u>General Ledger Date</u>	<u>Business Unit</u>	<u>Document No.</u>	<u>Service Dates</u>
07/24/19	H9778J	1455157	02/15/19 - 05/31/19
09/11/19	H9778J	1472752	04/19/19 - 07/31/19
09/04/19	H9778J	1459311	07/24/18 - 06/11/19
08/07/19	H9778J	1456586	05/01/19 - 05/31/19
07/10/19	H9778J	1452970	05/01/19 - 05/31/19
05/03/19	H9778G	1442323	09/26/18 and 11/14/18

No questioned costs are presented as the effective dates for the provider licenses that were subsequently obtained between May 2, 2020 and September 29, 2020 covered the service dates tested.

Cause: The CNMI lacks systematic filing of required documentation for physicians and service providers.

Effect: The CNMI is in noncompliance with applicable special tests and provisions requirements for provider eligibility.

Recommendation: The responsible personnel should maintain required documentation for physicians and service providers in accordance with special tests and provisions requirements for provider eligibility.

Identification as a Repeat Finding: Finding No. 2018-022.

Views of Responsible Officials:

We agree with these findings. CMA is making every effort each year to improve the maintenance of provider applications and supporting documents. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-024
 Federal Agency: U.S. Department of Homeland Security
 CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
 Federal Award No.: B-4235DRMPP1SMR500
 Area: Period of Performance
 Questioned Costs: \$3,274,353

Criteria: In accordance with applicable period of performance requirements, a non-Federal entity shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. Further, time extensions should be approved by the grantor.

Condition: Of three nonpayroll expenditures tested, aggregating \$3,274,353, of a total population of \$18,495,365, for three (or 100%), the liquidation occurred after the 90-day liquidation end date. Grant extension documentation was not provided.

<u>Business Unit</u>	<u>Document No.</u>	<u>General Ledger Date</u>	<u>Check No.</u>	<u>Check Clearance Date</u>	<u>Liquidation End Date</u>	<u>Days Lapsed</u>	<u>Questioned Costs</u>
M42355	1491358	02/11/20	57225	02/21/20	11/03/19	110	\$ 44,100
M4235Q	1482381	11/20/19	55506	11/27/19	11/03/19	24	2,370,255
M4235Q	1482382	11/20/19	55506	11/27/19	11/03/19	24	859,998
Total							\$ 3,274,353

Cause: The CNMI did not effectively monitor compliance with applicable period of performance requirements.

Effect: The CNMI is in noncompliance with period of performance requirements, and questioned costs of \$3,274,353 exist.

Recommendation: The responsible personnel should monitor check payments so that liquidations occur timely. Grantor approval should be sought if extensions are needed.

Views of Responsible Officials:

Audit finding no. 2019-024 highlights an area unintentionally overlooked - that of monitoring liquidation compliance. With current financial and audit staff on board the CNMI PA office, monitoring guidelines addressing liquidation regulations will be prioritized and incorporated into administrative and program monitoring for immediate assessment and action. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-025
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: FEMA-4235-DR, FEMA-4404-DR
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Criteria: In accordance with applicable subrecipient monitoring requirements, pass-through entities must establish and implement subrecipient monitoring policies and procedures. A pass-through entity (PTE) is responsible for:

- At the time of the award, clearly identifying to the subrecipient all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award;
- Monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved;
- Ensuring that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years beginning on or after December 26, 2014 have met the audit requirements of 2 CFR part 200, subpart F and that the required audits are completed within 9 months of the end of the subrecipient's audit period; and
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition:

1. For two, or 100% of subrecipients tested, control procedures to monitor subrecipient compliance with applicable laws, regulations, and provisions of contracts and grant agreements were not evident.
2. The program did not include the following required information in the subrecipient agreements for the subrecipient to be aware of the award information, and for the PTE to comply with Federal statutes, regulations, and the terms and conditions of the award, as follows:
 - Subrecipient's DUNS number
 - Amount of federal funds obligated by this action
 - Total amount of federal funds obligated to the subrecipient
 - Total amount of the federal award
 - CFDA number and name; the PTE must identify the dollar amount made available under each federal award and the CFDA number at time of disbursement
 - Identification of whether the award is R&D
 - Indirect cost rate for the federal award

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2019

Finding No.: 2019-025, Continued
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: FEMA-4235-DR, FEMA-4404-DR
Area: Subrecipient Monitoring
Questioned Costs: \$-0-

Condition, Continued:

3. For subrecipients audits tested, there was no evidence that a procedure was implemented to determine that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of 2 CFR part 200, subpart F and that the required audits are completed within nine months of the end of the subrecipient's audit period. We are aware that subrecipient CUC was subject to a Single Audit for FY 2019 and such audit is ongoing.

Cause: The CNMI failed to enforce compliance with applicable subrecipient monitoring requirements.

Effect: The CNMI is in noncompliance with applicable subrecipient monitoring requirements. No questioned costs are presented as we are unable to quantify the extent of the noncompliance.

Recommendation: The responsible personnel should consider obtaining training in the area of subrecipient monitoring and establishing and implementing policies and procedures over compliance with applicable subrecipient monitoring requirements.

Identification as a Repeat Finding: Finding No. 2018-024.

Views of Responsible Officials:

The CNMI, through the Public Assistance Office (PAO), hired a Compliance and Audit personnel in early January of this year. This personnel's primary responsibility is to evaluate internal controls within the agency and establish written subrecipient monitoring policies and procedures and ensure implementation to comply with *2 CFR Part 200, Subpart D - Subrecipient Monitoring Management, and Subpart F - Audit Requirements*. The CNMI's Corrective Action Plan provides additional details.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs
Year Ended September 30, 2019

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs that were unresolved at September 30, 2019:

Questioned costs as previously reported:

Fiscal year 2018	\$	369
Fiscal year 2017		1,393,892
Fiscal year 2016		6,144,375
Fiscal year 2015 and prior		<u>12,778,409</u>
		20,317,045
Questioned costs of fiscal year 2019 Single Audit		<u>3,739,720</u>
Unresolved questioned costs at September 30, 2019	\$	<u>24,056,765</u>



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Finding No.: 2019-001
Area: External Financial Reporting
Contact Person(s): David Atalig, Secretary of Finance, Department of Finance

Corrective Action Plan:

The Department of Finance, Office of the Public Auditor, and Grants Management Office are continuing to work together to explore methods to improve the timeliness of the Component Unit's audits so that they may be included in the Single Audit.

Proposed Completion Date: Ongoing

Finding No.: 2019-002
Area: Cash and Cash Equivalents
Contact Person(s): Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action Plan:

Condition 1: Bank Code 11401 does not have any transactions during FY 2019. Bank Code 11410 does not have any transactions during FY 2019. Account 1010.11410 (BOH Special Disability) was closed on 07/26/2018 as described in JE 20701. Funds were deposited into BOG acct *4932 and into 1010.11411. For bank code 11431, bank reconciliations are not currently being done at DOF. Bank reconciliation for bank code 11431 is available at the GHFI office. CNMI will improve efforts to comply with cash management policies and submit requested documents in a timely manner as well as work with managing agency(s) to comply with DOF cash management policies.

Condition 2: Bank Code 15050 does not have any transactions during FY 2019. DOF will conduct a review of accounts to include 11628 and determine appropriate actions.

Condition 3: DOF accepts the proposed audit adjustments of \$3,858,796. DOF will conduct a review and determine appropriate actions.

Condition 4 & 5: DOF will review the accounts and make the necessary adjustments

Condition 6: DOF accepts the proposed audit adjustment. Management will improve process to correct entries

Proposed Completion Date: Ongoing

Finding No.: 2019-003
Area: Receivables
Contact Person(s): David Atalig, Secretary of Finance, Department of Finance
Velma Palacios, Program Director, NMI Retirement Fund

Corrective Action Plan:

DOF and the NMIRF are in the process of updating and recording these receivables. The agencies area is also in the process of coordinating the documentation of this transfer if deemed collectible.

Proposed Completion Date: Ongoing



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Finding No.: 2019-004
Area: OPA Receivables
Contact Person(s): David Atalig, Secretary of Finance, Department of Finance
David Blake, Audit Manager, Office of the Public Auditor

Corrective Action Plan:

The component units dispute the receivables. The Department of Finance will engage with the component units to determine the collectability of prior years.

Proposed Completion Date: Ongoing

Finding No.: 2019-005
Area: Tax Rebates Payable
Contact Person(s): Tracy Norita, Director, Division of Revenue & Taxation
Maria White, Research and Statistics Manager, Division of Revenue & Taxation

Corrective Action Plan:

The CNMI agrees with the recommendation and will work with the Division of Revenue & Taxation to establish policies and procedures as recommended. Furthermore, DOF will ensure proper filing and maintenance of tax forms as well as reconcile recorded rebates payable with the liability indicated on the tax forms. Variances, if any, shall be investigated, monitored, documented, and timely addressed.

Proposed Completion Date: Ongoing

Finding No.: 2019-006
Area: Notes Payable - Judicial Building Loan
Contact Person(s): Alexander Castro, Chief Justice, CNMI Judiciary
John Villagomez, Budget and Finance Director, CNMI Judiciary
David Atalig, Secretary of Finance, Department of Finance

Corrective Action Plan:

The CNMI is following PL 9-3 to the extent that it is able and is transferring funds as required by law. Urgent priorities throughout the year has resulted in the non-transfer of appropriated funds before the end of the fiscal year. The CNMI will continue to work to ensure that the funding is remitted.

Proposed Completion Date: September 30, 2020

Finding No.: 2019-007
Area: Compensated Absences
Contact Person(s): Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action Plan:

DOF accepts the proposed audit adjustment. Currently annual leave is reviewed at the end of the calendar year and amounts in excess of 360 hours transferred to sick leave. DOF will explore updating processes to include a mid-year review

Proposed Completion Date: September 30, 2020



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Finding No.: 2019-008
Area: Due to Component Units
Contact Person(s): David Atalig, Secretary of Finance, Department of Finance

Corrective Action Plan:

DOF will accept audit adjustments based on audited financial statements of each of the financial reports.
DOF will work with CU to develop a systematic approach to reconcile differences in a timely manner.

Proposed Completion Date: Ongoing

Finding No.: 2019-009
Area: Fund Balance - Encumbrances
Contact Person(s): Bernadita Palacios, Director, Division of Finance & Accounting

Corrective Action Plan:

General Fund 1: DOF accepts the proposed audit reclassification

General Fund 2: Contract was not materialized as there was no response from the Attorney General's officer regarding this contract

General Fund 3: DOF will review outstanding encumbrances

Grants Assistance Fund 1: DOF accepts the proposed audit reclassification.

Grants Assistance Fund 2: DOF will review outstanding encumbrances

Grants Assistance Fund 3:

- a. The contract process was not completed as DOF was not informed of the outcome. DOF will review for de-obligation
- b. Contract was not materialized as there was no response from the AG's Office and the Office of the Governor

Saipan Amusement Fund 1: DOF accepts the proposed audit reclassification

Saipan Amusement Fund 2: DOF accepts the adjustments to the encumbrances

Other Governmental Funds 1: DOF accepts the proposed audit reclassification

Other Governmental Funds 2: DOF will review outstanding encumbrances

Other Governmental Funds 3:

- a. DOF accepts the adjustments to the encumbrances
- b. DOF accepts the proposed audit reclassification
- c. DOF accepts the adjustment to the encumbrance
- d. Contract was not materialized. DOF will review if de-obligation is needed.

Proposed Completion Date: Ongoing



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Finding No.: 2019-010
Area: Commonwealth Healthcare Corp (CHCC)
Contact Person(s): Esther Muna, CEO, Commonwealth Healthcare Corporation
Perlie Santos, CFO, Commonwealth Healthcare Corporation
David Atalig, Secretary of Finance, Department of Finance

Corrective Action Plan:

The CNMI and CHCC have been working on the final issues of the transition of CHCC to an independent corporation. CHCC and the CNMI has identified some areas to be transferred to the CHCC, such as fixed assets, and we will continue to review until such matters are formally documented.

Proposed Completion Date: Ongoing

Finding No.: 2019-011
Area: CNMI Workers' Compensation Commission
Contact Person(s): Mark Rabauliman, Secretary of Commerce, Department of Commerce
David Atalig, Secretary of Finance, Department of Finance

Corrective Action Plan:

DOF and Department of Commerce will finalize the transfer of assets in writing and complete the work on establishing and assigning general ledger accounts for WCC funds.

Proposed Completion Date: Ongoing

Finding No.: 2019-012
Area: CNMI Group Health & Life Insurance
Contact Person(s): Velma Palacios, Program Director, Group Health & Life Insurance Program

Corrective Action Plan:

DOF and GHLI will finalize the transfer of assets in writing and has already completed the work on establishing and assigning general ledger for GHLI

1. Bank Reconciliations are available for review at the respective office.
2. Ongoing discussions between DOF and GHLI staff are still taking place. Records are in transition from the previous system (Peachtree) to a new financial system.

Proposed Completion Date: September 30, 2020

Finding No.: 2019-013
Area: CNMI Local Noncompliance - Budget
Contact Person(s): David Atalig, Secretary of Finance, Department of Finance

Corrective Action Plan:

The CNMI agrees with finding and continuously works towards addressing over expenditures and determining the appropriate budgetary levels for the Commonwealth. Areas affecting public health and human welfare are an issue as areas such as medical referral for patients requiring urgent health care are not available in the Commonwealth, it is anticipated that revenue will continue to rise to address the areas where the Commonwealth often experiences budgetary shortfalls. Additional hiring of law enforcement personnel has also reduced the amount of overtime compared to prior years as there are more employees working regular hours and sharing the responsibility for the CNMI safety.

Proposed Completion Date: Ongoing



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Finding No.: 2019-014
Area: Schedule of Expenditures of Federal Awards
Contact Person(s): David Atalig, Secretary of Finance, Department of Finance

Corrective Action Plan:

The CNMI agrees with the finding and will provide training on the preparation of the SEFA in accordance with the Uniform Guidance.

Proposed Completion Date: Ongoing

Finding No.: 2019-015
Federal Agency: U.S. Department of Agriculture
CFDA Program: 10.551/10.561 SNAP Cluster
Federal Awards Nos.: 7NM4004NM AND USDA-FNS-SNAP-CNMI-01
Area: Allowable Costs/Cost Principles
Questioned Costs: \$462,934
Contact Person(s): David Atalig, Secretary of Finance, Department of Finance
Walter Macaranas, Administrator, Nutrition Assistance Program

Corrective Action Plan:

The CNMI agrees with the recommendation and as the responsible party for this function of the federal award, the CNMI is working with Nutrition Assistance Program (NAP) to address this deficiency. It has been noted that NAP periodically performs on a monthly basis reconciliation of food coupons against the redemption reports or bank statements. DOF also utilizes the bank statements as the source to draw final funds for each month. To verify and confirm accuracy and consistency, the CNMI will work with the NAP to ensure there are no variances between the General Ledger entries, the bank reports, and the monthly reconciliation of food coupons.

Proposed Completion Date: Ongoing

Finding No.: 2019-016
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award Nos.: CIP-CNMI-2016-8, TAP-CNMI-CIP-2018-2, TAP-CNMI-2018-8, TAP-CNMI-2017-8, TAP-CNMI-2017-7, CNMI-BTS-2017-1; TAP-CNMI-2016-1, MAP-CNMI-2018-2 and MAP-CNMI-2017-3
Area: Equipment and Real Property Management
Questioned Costs: \$-0-
Contact Person: Elizabeth S. Balajadia, CIP Administrator

Corrective Action Plan:

The Department of Finance is in the process of adopting a new financial management system which will be an end user friendly that will incorporate the required documents as stated in the grant terms and conditions to be able to populate the required information for compliance in property management and procedures.

The new system maintains a flexible application to easily manage asset management and capital inventory for the department and agencies. The company has begun the work for the transition to the new financial management system and will go live January 2022.

Proposed Completion Date: September 30, 2022



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Finding No.: 2019-017
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Awards Nos.: TAP-CNMI-2019-3
Area: Procurement and Suspension and Debarment
Questioned Costs: \$363,800
Contact Person(s): Epiphania Cabrera, Office of Grants Management
David Atalig, Secretary of Finance, Department of Finance

Corrective Action Plan:

The Office of Grants Management received approval from the federal grantor (Office of Insular Affairs) for a transfer of expenses to BU I9875M for payment of prior incurred expenses by the CNMI government. In relation to procurement regulation compliance, the grant award did stipulate that procurement regulations must be adhered to, however, as the expenses were initially recorded under previous BU's (1694 and 1365), the procurement process should have already been completed.

With that, the CNMI agrees with the recommendation and will ensure that the responsible personnel monitors and enforces compliance with applicable procurement requirements, to include, a complete review of procurement files for completeness.

Proposed Completion Date: Ongoing

Finding No.: 2019-018
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Awards Nos.: D19AF00073 (CNMI-CI-2018-12) and D17AF00042
Area: Reporting
Questioned Costs: \$51,563
Contact Person(s): Virginia C. Villagomez, SAMB
Jazmin L. Camacho, Technical Financial Analyst

Corrective Action Plan:

Condition 1:

The Office of Management and Budget agrees to this finding. The semi-annual report has been completed and prepared for the respective fiscal year. The program obtained the established schedule from the federal agency and reminders have been set prior to report due dates.

Condition 2:

The Office of Management and Budget agrees to this finding. OMB will coordinate the journal entry to transfer excess expenditure in business unit I17CID. OMB will communicate with the respective recipients to liquidate the remaining balances in business units I17CIC, I17CIE, I17CIF, I17CIK, and I17CIL for the services provided to FAS citizens. OMB will amend the SF 425 to reflect corrections on actual expenditures recorded.

Proposed Completion Date: Ongoing



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Finding No.: 2019-019
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories
Federal Award Nos.: CNMI-CIP-2015-7, CNMI-CIP-2017-3, CNMI-CIP-2017-7 and CNMI-CI-2019-1
Area: Subrecipient Monitoring
Questioned Costs: \$-0-
Contact Person: Elizabeth S. Balajadia, CIP Administrator

Corrective Action Plan:

The listed federal awards were previously submitted in preceding audit requests. The program did include most of the information as stated in Condition 2. The CIP Office has incorporated the required information listed in Condition 2 in the Subrecipient Monitoring Agreement. A copy of the revised agreement has been sent to the subrecipient for acknowledgement and signature.

The CIP Office agrees that responsible personnel should obtain more training in the area of subrecipient monitoring and a revision to the established and implementation policies and procedures to reflect the changes and/or updates in the compliance for applicable subrecipient monitoring requirements.

Proposed Completion Date: March 31, 2021

Finding No.: 2019-020
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.767 Children's Health Insurance Program
Federal Award No.: 1905CQ5O21
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 1905CQ5MAP, 1905CQ5ADM, 1905CQ1935, 1905CQMMIS, 1905MPIMPL, 1905CQACAI, 1905CQDMAP, 1805CQ5ADM, 180CQIIMPL and 1805CQMMIS
Area: Eligibility
Questioned Costs: \$-0-
Contact Person: Maria Elena C. Sablan, Medicaid Director

Corrective Action Plan:

Yes, we do agree Medicaid made an error on both eligibility income calculations. CMA will enforce thorough review of supporting documents and validate income calculations are correct.

Proposed Completion Date: Ongoing

Finding No.: 2019-021
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.767 Children's Health Insurance Program
Federal Award Nos.: 1905CQ5O21
Area: Special Tests and Provisions - Provider Eligibility
Questioned Costs: \$-0-
Contact Person: Maria Elena C. Sablan, Medicaid Director

Corrective Action Plan:

We agree with these findings. CMA is making every effort each year to improve the maintenance of provider applications and supporting documents.

Proposed Completion Date: Ongoing



Office of the Secretary
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Finding No.: 2019-022
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Awards Nos.: 1905CQ5MAP, 1905CQ5ADM, 1905CQ1935, 1905CQMMIS, 1905MPIMPL, 19005CQINCT, 1805CQ5ADM, 180CQIIMPL, 1805CQMMIS, AND 1805CQI1323
Area: Special Tests and Provisions - ADP Risk Analysis and System Security Review
Questioned Costs: \$0
Contact Person(s): Frank Celis, Director, Division of Information Technology Services

Corrective Action Plan:

The Division of Information Technology Services has developed the policies and procedures to be in compliance with the program's ADP security system. It has been reviewed and approved by the Secretary of Finance and has been formally implemented into the current process.

Proposed Completion Date: Completed

Finding No.: 2019-023
Federal Agency: U.S. Department of Health and Human Services
CFDA Program: 93.778 Medical Assistance Program
Federal Award Nos.: 190CQDMAP
Area: Special Tests and Provisions - Provider Eligibility
Questioned Costs: \$-0-
Contact Person: Maria Elena C. Sablan, Medicaid Director

Corrective Action Plan:

We agree with these findings. CMA is making every effort each year to improve the maintenance of provider applications and supporting documents.

Proposed Completion Date: Ongoing

Finding No.: 2019-024
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: B-4235DRMPP1SMR500
Area: Period of Performance
Questioned Costs: \$3,274,353
Contact Person(s): Virginia C. Villagomez, Governor's Authorized Representative, CNMI

Agency Response:

In 2018 and 2019, the CNMI Public Assistance Office (PAO) comprised four full-time staff addressing administrative and project requirements. Subrecipient monitoring and activity focused heavily on completing projects according to the approved scope of work, as reflected in project worksheets, and within the agreed Periods of Performance (POP). Additionally, with multiple open disasters - DR-4235 (Soudelor), DR-4396 (Mangkhut), and DR-4404 (Yutu), in 2018 and 2019, PAO staff shared responsibilities to address disaster response and recovery priorities across the CNMI. Further, with the latest and ongoing response activities involving DR-4511 (COVID-19), the CNMI PA Office continues to work diligently to monitor subrecipient projects, support multiple disaster response and recovery priorities, and complete administrative requirements.



Office of the Secretary
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Finding No.: 2019-024, Continued
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Award No.: B-4235DRMPP1SMR500
Area: Period of Performance
Questioned Costs: \$3,274,353
Contact Person(s): Virginia C. Villagomez, Governor's Authorized Representative, CNMI

Agency Response, Continued:

The CNMI made an effort to request a blanket grant time extension, covering the remaining DR-4235 open projects. However, the time extension request was submitted after the POP end date because the PAO was still performing Category A and B (Debris and Emergency) work until late 2019. The grantor responded to the request, acknowledging the CNMI's challenges in completing the projects but unfortunately, only specific projects were approved for extensions.

Audit finding no. 2019-024 highlights an area unintentionally overlooked - that of monitoring liquidation compliance. With current financial and audit staff on board the CNMI PA office, monitoring guidelines addressing liquidation regulations will be prioritized and incorporated into administrative and program monitoring for immediate assessment and action.

Corrective Action Plan:

1. As part of Public Assistance (PA) Closeout Processes, current implementation and monitoring measures are in place to ensure that all required closeout documents pertaining to the completed project scope of work by subrecipients with validation by the CNMI PA office are submitted to the Regional PA office. While these mechanisms have been established for the closeout reporting of subrecipients and approved scope of work, additional documentation and components are needed for inclusion and monitoring of liquidation regulations. Liquidation deadlines will be detailed and documented into subrecipient monitoring checklists and mechanisms to ensure that timely liquidations occur and that, when needed, timely extension requests are submitted for grantor consideration and approval.
2. Effective immediately, the CNMI PA office will include the liquidation regulations as a critical component of subrecipient monitoring processes alongside closeout reporting regulations. The CNMI PA office has monitored the completion of project work and deliverables within approved Periods of Performance (POP); however, the liquidation deadline monitoring is an area that will be highlighted of equal importance, included in the monitoring process and detailed accordingly. Liquidations will be referenced based on 2 C.F.R. §200.343.
3. All CNMI PA projects will be examined to determine compliance with liquidation regulations by May 2021. The PAO's immediate attention will be directed to correct any oversight in meeting liquidation of obligations requirements. Through the review, monitoring, and communication with CNMI PA projects, request(s) to FEMA will be submitted for any projects that may need extensions to the Period of Performance end date, the closeout reporting, and liquidation deadline.

Proposed Completion Date: April 30, 2021



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Finding No.: 2019-025
Federal Agency: U.S. Department of Homeland Security
CFDA Program: 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Awards Nos.: FEMA-4235-DR, FEMA-4404-DR
Area: Subrecipient Monitoring
Questioned Costs: \$0
Contact Person(s): Virginia C. Villagomez, Governor's Authorized Representative, CNMI

Corrective Action Plan:

The CNMI, through the Public Assistance Office (PAO), hired a Compliance and Audit personnel in early January of this year. This personnel's primary responsibility is to evaluate internal controls within the agency and establish written subrecipient monitoring policies and procedures and ensure implementation to comply with *2 CFR Part 200, Subpart D - Subrecipient Monitoring Management, and Subpart F - Audit Requirements*.

Additionally, the PAO is in the process of revisiting its subrecipient agreement to include all required information to ensure every subaward is clearly identified to the subrecipient as stipulated in *2 CFR § 200.322(a)(1) - Requirements for pass-through entities. Federal Award Identification*.

Proposed Completion Date: April 30, 2021