

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

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2020

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

Mr. Sixto K. Igisomar
Secretary
Department of Public Lands:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Department of Public Lands (DPL) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise DPL's basic financial statements, and have issued our report thereon dated October 19, 2022.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2020-001 through 2020-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DPL's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Responses as items 2020-001 through 2020-003.

DPL's Responses to Findings

DPL's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. DPL's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte & Touche LLC". The signature is stylized and cursive.

October 19, 2022

DEPARTMENT OF PUBLIC LANDS

Schedule of Findings and Responses
Year Ended September 30, 2020

Local Noncompliance and General Ledger System

Finding No. 2020-001

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

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

1. Revenues received by DPL are not deposited in the DPL Operations Fund;
2. A general ledger for DPL transactions is maintained by DOF, which is not reconciled or monitored by DOF or DPL;
3. Cash transactions, received and disbursed at DPL, are summarized in cash receipt and disbursement journals, which are not recorded in the DOF general ledger;
4. Journal vouchers posted to DOF's general ledger by DOF personnel are not approved by DPL management;
5. Receivables, accounts payable, accruals and unearned revenues are not reconciled in DOF's general ledger;
6. Adjustments to record DPL transactions in DOF's general ledger were recorded by DPL through proposed audit adjustments; and
7. Expenditures incurred by Parks and Recreation were recorded under DPL which was not in the FY2020 budget thus reducing the amount that would ultimately be transferred to the Marianas Public Lands Trust.

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

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

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

Prior Year Status: The lack of compliance with Public Law 15-02, the lack of reliable and relevant financial information and the inability to timely detect errors and inaccuracies was reported as a finding in the audits of DPL for fiscal years 2010 through 2019.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Finding No. 2020-001, Continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sixto K. Igisomar, DPL Secretary

Corrective Action:

Response 1: Revenues are deposited into bank accounts that are separate from the CNMI General Fund bank accounts. PL15-02 mandates Department of Finance & Accounting (DOF) to establish and maintain the Operations Fund account(s) to which the Department of Public Lands (DPL) revenues should be deposited. DPL and DOF are in active discussions to have the PL15-02 compliant accounts in place.

Response 2: According to the Office of the Attorney General PL15-02 mandates DOF to manage all the accounting functions of DPL including maintaining its general ledger. DPL and DOF are in the process of devising a transition plan that ensures an orderly transfer of these functions to DOF while simultaneously addressing reconciliation, approval and context adjustment processes. However, currently personnel and other operations expenditures are monitored and reconciled every time reports are received from DOF. Payroll timesheet are certified by DPL Finance Director, approved by DPL Secretary and the CNMI Finance Director prior to processing checks by the NMI Treasury.

Response 3: Payroll and accounts payables are processed by DOF through MUNIS therefore, expenditures for both payroll and accounts payables are recorded in DOF's general ledger.

Response 4: All journal vouchers originate from DPL and are approved and signed by the Secretary of DPL prior to being submitted to DOF for entry into DOF's system. Furthermore, vendors' and payroll checks are reconciled against DPL reports to ensure they are accurate and properly accounted for and reimbursed to CNMI general fund biweekly for payroll and 15th and 30th of the month for other operation expenses. Adjustments and request for supplemental check are verified by DPL Finance Director and approved by DPL Secretary with justification before submitted to CNMI Finance Director.

Response 5 & 6: All accounts payable payment vouchers, payroll timesheets, were verified by DPL's Director of Finance Division, approved by DPL Secretary as well as the CNMI Finance & Accounting Director. All fund transferred to CNMI general funds were approved by DPL Secretary and Bank of Guam issues voucher to notify CNMI Finance that reimbursements of expenses are posted to DOF accounts.

Response 7: The Division of Parks and Recreation were assumed by DPL pursuant to a lateral transfer of personnel to assist DPL with upholding its responsibility of preserving the value of land properties including the Marianas Resorts Hotel and golf course in Marpi because there is currently no lessee in place, and Managaha island because the firm that was awarded the master concessionaire contract withdrew, and other of DPL's properties because DPL did not have sufficient staff to perform maintenance itself. For this benefit, DPL also assumed the expenses for having Parks and Rec though those expenses did not cause DPL to incur deficit spending.

Proposed Completion Date: Compliance with PL15-02 will take collaborative effort by both DPL and DOF. DPL plans on actively taking steps with DOF to rectify all the conditions of this finding by the end of Fiscal Year 2023 for it and DOF to be compliant with PL15-02.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Revenue/Receipts

Finding No. 2020-002

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

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

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

<u>Lessee No.</u>	<u>Receipt No.</u>
Csale-Tasi	2020-0174
Csale-Tasi	2020-0012
L9205R	2020-0049
L9403S	2020-0066
L9107S	2020-0075
L19003S	2020-0091
L19007S	2020-0112
Csale-Tasi	2020-0175
Csale-Tasi	2020-0289
Tasi Tours-Holdover	2020-0361
L9712S	2020-0415
L19006S	2020-0595
L20001S	2020-0600
L9107S	2020-0634
T16027S	ACH-BOG

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

<u>Lessee No.</u>	<u>Receipt No.</u>
L8644S	2020-0451
L13002S	2020-0026
LB8644S	2020-0120
L0904S	2020-0229
L13002S	2020-0236
LB8644S	2020-0355
T12032T	PLT 03112
L0715S	2020-0379
L15001S	2020-0469
L1103S	2020-0490
LB8644S	2020-0512
L8644S	2020-0581
LB16002S	2020-0783

DEPARTMENT OF PUBLIC LANDS

Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Finding No. 2020-002, Continued

Condition, Continued:

3. For sixteen receipts, financial statements were not provided within the time period specified after the end of the calendar year.

<u>Lessee No.</u>	<u>Receipt No.</u>
L9003R	PLR 03747
LB17003S	ACH-BOG
LB8631S	2020-0118
LB17003S	ACH-BOG
L8631S	2020-0204
L9003R	PLR 03751
LB8631S	2020-0345
L17003S	ACH-BOG
L8631S	2020-0510
LB8631S	2020-0511
L07003S	2020-0558
L9003R	PLR 03757
L8631S	2020-0588
L14002S	2020-0644
L9712S	2020-0698
LB8631S	2020-0706

4. For seven receipts, lease agreements were not provided to substantiate the amount paid by customers.

<u>Lessee No.</u>	<u>Receipt No.</u>
SUB0101S	2020-0047
TB0308S	2020-0254
USFJ	ACH-BOG
L9601S	2020-0533
L9015S	2020-0610
T0722T	PLT 03144
SUB0101S	2020-0798

5. For twenty-two receipts, appraisals were not provided which are a lease requirement for rental determination.

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Lessee No.</u>	<u>Receipt No.</u>
L15002S	ACH-BOG	L9003R	PLR 03751
L9003R	PLR 03747	L07002S	2020-0263
L13002S	2020-0026	L17003S	ACH-BOG
L9403S	2020-0066	L07002S	2020-0478
L9107S	2020-0075	L1103S	2020-0490
L19003S	2020-0091	L9003R	PLR 03757
LB17003S	ACH-BOG	L20001S	2020-0600
L19007S	2020-0112	L9107S	2020-0634
LB8902S	2020-0117	L14002S	2020-0644
LB17003S	ACH-BOG	T16027S	ACH-BOG
L13002S	2020-0236	LB16002S	2020-0783

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Finding No. 2020-002, Continued

Condition, Continued:

6. For twelve receipts, a variance was noted between amounts collected and amounts that should be paid based on lease terms. An explanation of the variance was not provided.

<u>Lessee No.</u>	<u>Receipt No.</u>	<u>Receipt Amount</u>	<u>Fee Calculation</u>	<u>Variance</u>
L9205R	2020-0049	\$ 1,007	\$ 1,438	\$ (431)
L9403S	2020-0066	\$ 16,275	\$ 4,800	\$ 11,475
LB17003S	ACH-BOG	\$ 69,996	\$ 72,272	\$ (2,276)
LB8644S	2020-0120	\$ 73,987	\$ 67,719	\$ 6,268
T16014S	2020-0329	\$ 14,507	\$ 8,683	\$ 5,824
LB8644S	2020-0355	\$ 70,140	\$ 63,872	\$ 6,268
L17003S	ACH-BOG	\$ 10,157	\$ -	\$ 10,157
L15001S	2020-0469	\$ 4,121	\$ 7,375	\$ (3,254)
L8648S	2020-0487	\$ 37,959	\$ 32,450	\$ 5,509
LB8644S	2020-0512	\$ 46,962	\$ 65,766	\$ (18,804)
FEMA	ACH-BOG	\$ 3,076	\$ 7,800	\$ (4,724)
LB16002S	2020-0783	\$ 11,075	\$ 17,010	\$ (5,935)

Cause: The cause of the above condition is the lack of monitoring procedures to determine which contracts and/or permits require audited financial statements or financial statements and appraisals.

Effect: The effect of the above condition is the potential underpayment of lease revenues.

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

Prior Year Status: Monitoring procedures for contracts and/or permits that require financial statements or audited financial statements was reported as a finding in the audits of DPL for fiscal years 2010 through 2019.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sixto K. Igisomar, DPL Secretary

Corrective Action:

No. 1, 2, & 3: Some of the Lessees and TOA's were not able to submit and others were late in submitting their financial statements due to the impact of COVID-19 pandemic causing the businesses to go on locked down.

No. 4: Real Estate and Compliance divisions were working collaboratively in processing the renewal of the expired leases and TOAs. The delay of the process was due to the COVID-19 pandemic.

No. 5 & 6: The reason why the Lessees were unable to submit their appraisal reports on time due to the impact of COVID-19 pandemic wherein most of the businesses were on locked down therefore lease rental were based on the current rate.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Local Noncompliance - Procurement

Finding No. 2020-003

Criteria: Applicable procurement rules and regulations are as follows:

- Section § 70-30.3-205 Competitive Sealed Bidding
 - (e) subpart (1) Minimum Bidding Time. "A bidding period of at least 30 calendar days shall be provided unless the Procurement & Supply (P&S) Director determines that a shorter time is reasonable and necessary. Such shorter bidding period must afford potential bidders a reasonable opportunity to respond considering the circumstances of the individual acquisition, such as the complexity, and urgency. The bidding period, however, shall never be less than fourteen calendar days.
 - (f) Public Notice. The P&S Director shall advertise the invitation for bids in a newspaper of general circulation in the Commonwealth at least once in each week from the time the solicitation is issued, including the week when the bidding period expires.
- Section 70-30.3-210 Competitive Sealed Proposals (a) states that when the official expenditure authority determines in writing that the use of competitive sealed bidding is either not practical or not advantageous to the government and receives the approval of the P&S Director, a contract may be entered into by competitive sealed proposals.

Further, an effective system of internal control includes policies and procedures to determine that transactions are in compliance with applicable accounting policies and procedures.

Condition: Of thirteen nonpayroll expenditures tested totaling \$366,549, we noted the following:

- a. For two, the minimum bidding period was not met based on the bid submission deadline and publication of first public notice. Further, there was no documentation that a shorter bidding period was reasonable and necessary from the P&S Director for the following:

<u>Fund</u>	<u>Business Unit</u>	<u>Object No.</u>	<u>General Ledger Date</u>	<u>Document Type</u>	<u>Document No.</u>	<u>Amount</u>
1016	1950C	64580	02/26/20	PV	1492844	\$ 24,495
1016	1950F	64580	03/23/20	PV	1495345	\$ 61,995

- b. For six, the bid was not publicly advertised all weeks during the bidding period for the following items:

<u>Fund</u>	<u>Business Unit</u>	<u>Object No.</u>	<u>General Ledger Date</u>	<u>Document Type</u>	<u>Document No.</u>	<u>Amount</u>
1016	1950F	62060	11/12/19	PV	1481212	\$ 121,923
1016	1950A	62060	11/21/19	PV	1482540	\$ 25,670
1016	1950F	62060	06/23/20	PV	1544162	\$ 13,547
1016	1950C	64580	02/26/20	PV	1492844	\$ 24,495
1016	1950F	64580	03/23/20	PV	1495345	\$ 61,995
1016	1950H	64580	03/23/20	PV	1495346	\$ 63,995

- c. For three, we did not note evidence in writing from the expenditure authority that the use of competitive sealed bidding was either not practical or not advantageous to the government.

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Schedule of Findings and Responses, Continued
Year Ended September 30, 2020

Finding No. 2020-003, Continued

Condition, Continued:

<u>Fund</u>	<u>Business Unit</u>	<u>Object No.</u>	<u>General Ledger Date</u>	<u>Document Type</u>	<u>Document No.</u>	<u>Amount</u>
1016	1950F	62060	11/12/19	PV	1481212	\$ 121,923
1016	1950A	62060	11/21/19	PV	1482540	\$ 25,670
1016	1950F	62060	06/23/20	PV	1544162	\$ 13,547

d. For two, expenditures were incurred before the purchase order was executed.

<u>Fund</u>	<u>Business Unit</u>	<u>Object No.</u>	<u>General Ledger Date</u>	<u>Document Type</u>	<u>Document No.</u>	<u>Amount</u>	<u>Obligating Document Date</u>	<u>Invoice Date</u>	<u>Days Lapsed</u>
1016	1950F	64580	03/23/20	PV	1495345	\$ 61,995	02/25/20	01/15/20	41
1016	1950H	64580	03/23/20	PV	1495346	\$ 63,995	02/27/20	01/15/20	43

Cause: DPL lacks controls, such as oversight responsibility and monitoring, over compliance with procurement rules and regulations.

Effect: DPL is noncompliance with applicable procurement rules and regulations.

Recommendation: DPL should establish and implement controls over compliance with procurement rules and regulations. Responsible personnel should review confirm adherence with DPL's Procurement Rules and Regulations prior to signing contracts and other obligating documents.

Auditee Response and Corrective Action Plan:

Name of Contact Person: Sixto K. Igisomar, DPL Secretary

Corrective Action:

The Department of Public Lands (DPL) must ensure to adhere with the procurement rules and regulations and implement stronger control.

It also ensures that contracts of Purchase Orders must be approved prior to receiving goods and services.

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Unresolved Prior Year Comments
Year Ended September 30, 2020

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