

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

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2021

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

Year ended September 30, 2021

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Ms. Teresita A. Santos
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 Department of Public Lands (DPL), a governmental fund of the Commonwealth of the Northern Mariana Islands (CNMI), which comprise the balance sheet as of September 30, 2021, and the related statements of revenues, expenses and changes in fund balances for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 16, 2024.

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2021-001 through 2021-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DPL's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 2021-001 through 2021-002.

DPL's Response 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.

Bryce Combs & Associates

Saipan, MP
April 16, 2024

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Schedule of Findings and Responses, continued Year Ended September 30, 2021

Local Noncompliance and General Ledger System

Finding No. 2021-001

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. Receivables, accounts payable, accruals and unearned revenues are not reconciled in DOF's general ledger.

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 2020.

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Schedule of Findings and Responses, continued Year Ended September 30, 2021

Finding No. 2021-001, continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Teresita A. Santos, 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. On October 3, 2023, the Department of CNMI Finance has established the CNMI DPL Operation Fund in compliant to PL15-2. Effective February 1, 2024, DPL has officially transferred its funds to the DPL Operation Fund which has been maintained by the CNMI Department of Finance.

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.

In addition, DPL's payroll and other operations expenditures are being strictly monitored and reconciled every time reports are received from Department of Finance (DOF). Payroll timesheets are certified by DPL Finance Director, approved by DPL Secretary and the CNMI Finance Director prior to processing checks by the NMI Treasury. Moreover, the accounts payable vouchers are also certified by Finance Director and approved by the Secretary prior to the processing of the vendors' checks.

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. Reference to receivables and unearned revenues, they are reconciled and maintained by DPL Finance Division as CNMI finance has no receivables module.

Furthermore, payroll costs and other payables are reconciled against DPL reports to ensure they are 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 requests for supplemental checks are verified by DPL Finance Director and approved by DPL Secretary with justifications before submitting to CNMI Division of Finance and Accounting.

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Schedule of Findings and Responses, continued Year Ended September 30, 2021

Revenue/Receipts

Finding No. 2021-002

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 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. The deadline of submission can be extended to forty-five (45), ninety (90), or one hundred-eighty (180) days after the end of each calendar year of the lease or permit, if requested by customer and approved by DPL. 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 16 receipts related to contracts and permits requiring such documents.
2. Financial statements were not provided for ten receipts related to contracts and permits requiring such documents.
3. For eleven receipts, financial statements were not provided within the time period specified after the end of the calendar year.

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 2020.

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Schedule of Findings and Responses, continued
Year Ended September 30, 2021

Finding No. 2021-002, continued

Auditee Response and Corrective Action Plan:

Name of Contact Person: Teresita A. Santos, DPL Secretary

Corrective Action:

No. 1, 2, & 3: The reason that some of the Lessees were not able to submit or late in submitting their financial statements was due to the impact of COVID-19 pandemic resulting for the businesses to go on a locked down.

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Schedule of Findings and Responses, continued
Year Ended September 30, 2021

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