

COMMONWEALTH OF THE  
NORTHERN MARIANA ISLANDS

INDEPENDENT AUDITORS' REPORTS ON  
INTERNAL CONTROL AND ON COMPLIANCE

YEAR ENDED SEPTEMBER 30, 2009

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 Benigno R. Fitial  
Governor  
Commonwealth of the Northern Mariana Islands:

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 Commonwealth of the Northern Mariana Islands (CNMI) as of and for the year ended September 30, 2009, which collectively comprise the CNMI's basic financial statements, and have issued our report thereon dated June 23, 2010, which report was modified to include a reference to other auditors; and was qualified due to the financial statements of the Commonwealth Utilities Corporation and the Public School System not being audited. We conducted our audit 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. Other auditors audited the financial statements of the Public School System, the Marianas Visitors Authority, the Northern Mariana Islands Retirement Fund, the Northern Mariana Islands Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, 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 or 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 Development Authority, the Commonwealth Ports Authority, the Marianas Public Land Trust and the Northern Marianas College, which were all 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 these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CNMI's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CNMI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (pages 17 through 117) to be significant deficiencies in internal control over financial reporting as items 2009-1 through 2009-18.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-1, 2009-2, 2009-3, 2009-13, 2009-14, 2009-15, 2009-16 and 2009-18 to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CNMI's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-19, 2009-55 and 2009-56.

We noted certain matters that we reported to management of the CNMI in a separate letter dated June 23, 2010.

The CNMI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the CNMI's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management of the CNMI, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche* LLC

June 23, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON  
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable Benigno R. Fitial  
Governor  
Commonwealth of the Northern Mariana Islands:

Compliance

We have audited the compliance of the Commonwealth of the Northern Mariana Islands (CNMI) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The CNMI's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs (pages 17 through 117). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the CNMI's management. Our responsibility is to express an opinion on the CNMI's compliance based on our audit.

As discussed in Note 2b to the Schedule of Expenditures of Federal Awards, the CNMI's basic 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, 2009. Our audit, described below, did not include the operations of the entities identified in Note 2b as these entities conducted separate audits in accordance with OMB Circular A-133, if required.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 opinion. Our audit does not provide a legal determination of the CNMI's compliance with those requirements.

As described in items 2009-20 through 2009-54 in the accompanying Schedule of Findings and Questioned Costs, the CNMI did not comply with requirements regarding allowable costs/cost principles, cash management, equipment and real property management, procurement and suspension and debarment, and special tests and provisions that are applicable to its Supplemental Nutrition Assistance Program major program (CFDA # 10.551); allowable costs/cost principles, eligibility, equipment and real property management, procurement and suspension and debarment, reporting, and special tests and provisions that are applicable to its Special Supplemental Nutrition Program for Women, Infants, and Children major program (CFDA # 10.557); allowable costs/cost principles, cash management, equipment and real property management, matching, level of effort, earmarking, period of availability, procurement and suspension and debarment, reporting, subrecipient monitoring, and special tests and provisions that are applicable to its Economic, Social, and Political Development of the Territories major programs (CFDA # 15.875); allowable costs/cost principles, equipment and real property management, procurement and suspension and debarment, and reporting that are applicable to its Environmental Protection Consolidated Grants for the Insular Areas - Program Support major program (CFDA # 66.600); and allowable costs/cost principles, eligibility, period of availability, procurement and suspension and debarment, reporting, and special tests and provisions that are applicable to its Medical Assistance Program major program (CFDA # 93.778). Compliance with such requirements is necessary, in our opinion, for the CNMI to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the CNMI complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2009-55 and 2009-56.

#### Internal Control Over Compliance

The management of the CNMI is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the CNMI's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in the entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-20 through 2009-54 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected in the CNMI's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-36, 2009-38, 2009-39, 2009-43 and 2009-53 to be material weaknesses.

The CNMI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the CNMI's responses and, accordingly, we express no opinion on them.

#### Schedule of Expenditures of Federal Awards

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, 2009, which collectively comprise the CNMI's basic financial statements and have issued our report thereon dated June 23, 2010, which report was modified to include a reference to other auditors; and was qualified due to the financial statements of the Commonwealth Utilities Corporation and the Public School System not being audited.

Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise the CNMI's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (pages 7 through 13) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the CNMI. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the CNMI, federal awarding agencies, pass-through entities, and the cognizant audit and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLC*

June 23, 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Programs Selected for Audit  
in Accordance with OMB Circular A-133  
Year Ended September 30, 2009

The following list specifies programs selected for detailed compliance testing in accordance with applicable OMB Circular A-133 requirements.

| <u>Grantor</u>                               | <u>CFDA #</u> | <u>Description</u>   | <u>Amount of Expenditures</u> |
|--|---------------|--|-------------------------------|
| U.S. Department of the Interior              | 15.875        | Economic, Social and Political Development of the Territories:                       |                               |
|  |               | Capital Improvement Projects   | \$ 5,863,784                  |
|  |               | Fiscal Year 2009 Compact Impact  | 5,171,914                     |
| U.S. Department of Agriculture               | 10.551        | Supplemental Nutrition Assistance Program  | 9,357,241                     |
|  | 10.557        | Special Supplemental Nutrition Program for Women, Infants, and Children              | 4,313,069                     |
| U.S. Environmental Protection Agency         | 66.600        | Environmental Protection Consolidated Grants for the Insular Areas - Program Support | 2,177,782                     |
| U.S. Department of Health and Human Services | 93.778        | Medical Assistance Program   | <u>6,323,249</u>              |
|  |               | Total program expenditures tested  | \$ <u>33,207,039</u>          |
|  |               | Total federal program expenditures   | \$ <u>64,644,414</u>          |
|  |               | % of total federal program expenditures tested                                       | <u>51%</u>                    |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Summary of Schedule of Expenditures of Federal Awards by Grantor  
Federal Grants Fund  
Year Ended September 30, 2009

| Federal Agency                               | Expenditures                |
|--|-----------------------------|
| U.S. Department of Agriculture               | \$ 14,113,098               |
| U.S. Department of Commerce                  | 1,472,885                   |
| Institute of Museum and Library Services     | 121,720                     |
| U.S. Department of Education                 | 1,236,129                   |
| U.S. Department of Energy                    | 318,979                     |
| U.S. Department of Defense                   | 5,414                       |
| U.S. Environmental Protection Agency         | 2,476,408                   |
| U.S. Department of Homeland Security         | 4,708,248                   |
| U.S. Department of Health and Human Services | 17,360,592                  |
| U.S. Department of the Interior              | 9,181,007                   |
| U.S. Department of Justice                   | 1,991,765                   |
| U.S. Department of Labor                     | 1,851,054                   |
| U.S. National Endowment for the Arts         | 241,882                     |
| U.S. Department of Transportation            | 1,831,902                   |
| Unallocated cash receipts/expenditures       | 52,040                      |
| ARRA adjustments                             | <u>(12,254)</u>             |
| <b>GRAND TOTAL</b>                           | <b><u>\$ 56,950,869</u></b> |

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

Reconciliation:

|  |                             |
|--|-----------------------------|
| Expenditures per above   | \$ 56,950,869               |
| Local match  | <u>6,560,387</u>            |
|  | <b><u>\$ 63,511,256</u></b> |
| Expenditures per Statement of Revenues, Expenditures,<br>and Changes in Fund Balance (Deficit) | \$ 60,779,342               |
| Operating Transfers Out  | <u>2,731,914</u>            |
|  | <b><u>\$ 63,511,256</u></b> |

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards  
Federal Grants Fund  
Year Ended September 30, 2009

| CFDA #     | Federal Agency/Program   | Expenditures      |
|------------|--|-------------------|
|            | U.S. DEPARTMENT OF AGRICULTURE   |                   |
| 10.170     | Specialty Crop Block Grant Program - Farm Bill   | \$ 5,165          |
| 10.475     | Cooperative Agreements with States for Intrastate Meat and Poultry Inspection              | 54,701            |
| 10.551     | Supplemental Nutrition Assistance Program  | 9,357,241         |
| 10.557     | Special Supplemental Nutrition Program for Women, Infants, and Children                    | 4,313,069         |
| 10.664     | Cooperative Forestry Assistance  | 379,030           |
| 10.950     | Agricultural Statistics Reports  | 3,892             |
|            | TOTAL U.S. DEPARTMENT OF AGRICULTURE   | <u>14,113,098</u> |
|            | U.S. DEPARTMENT OF COMMERCE  |                   |
| 11.Unknown | USDOC Unknown  | 57,480            |
| 11.300     | Investments for Public Works and Economic Development Facilities                           | 35,780            |
| 11.419     | Coastal Zone Management Administration Awards  | 1,020,282         |
| 11.426     | Financial Assistance for National Centers for Coastal Ocean Science                        | 59,215            |
| 11.437     | Pacific Fisheries Data Program   | 233,725           |
| 11.454     | Unallied Management Projects   | 54,878            |
| 11.463     | Habitat Conservation   | 994               |
| 11.472     | Unallied Science Program   | 10,361            |
| 11.555     | Public Safety Interoperable Communications Grant Program                                   | 170               |
|            | TOTAL U.S. DEPARTMENT OF COMMERCE  | <u>1,472,885</u>  |
|            | INSTITUTE OF MUSEUM AND LIBRARY SERVICES   |                   |
| 45.310     | Grants to States   | <u>121,720</u>    |
|            | U.S. DEPARTMENT OF EDUCATION   |                   |
| 84.126     | Rehabilitation Services_Vocational Rehabilitation Grants to States                         | 981,051           |
| 84.169     | Independent Living_State Grants  | 40,615            |
| 84.177     | Rehabilitation Services_Independent Living Services for Older Individuals<br>Who are Blind | 76,251            |
| 84.187     | Supported Employment Services for Individuals with Significant Disabilities                | 9,392             |
| 84.224     | Assistive Technology   | 113,018           |
| 84.265     | Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training           | 15,802            |
|            | TOTAL U.S. DEPARTMENT OF EDUCATION   | <u>1,236,129</u>  |
|            | U.S. DEPARTMENT OF ENERGY  |                   |
| 81.041     | State Energy Program   | 293,476           |
| 81.042     | Weatherization Assistance for Low-Income Persons   | 25,503            |
|            | TOTAL U.S. DEPARTMENT OF ENERGY  | <u>318,979</u>    |
|            | U.S. DEPARTMENT OF DEFENSE   |                   |
| 12.113     | State Memorandum of Agreement for the Reimbursement of Technical Services                  | <u>5,414</u>      |

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Federal Grants Fund, Continued  
 Year Ended September 30, 2009

| CFDA # | Federal Agency/Program  | Expenditures     |
|--------|---|------------------|
|        | U.S. ENVIRONMENTAL PROTECTION AGENCY  |                  |
| 66.460 | Nonpoint Source Implementation Grants   | 71,653           |
| 66.600 | Environmental Protection Consolidated Grants for the Insular Areas<br>- Program Support                 | 2,177,782        |
| 66.608 | Environmental Information Exchange Network Grant Program and<br>Related Assistance                      | 16,652           |
| 66.804 | Underground Storage Tank Prevention, Detection and Compliance Program                                   | 44,752           |
| 66.805 | Leaking Underground Storage Tank Trust Fund Program   | 135,992          |
| 66.808 | Solid Waste Management Assistance Grants  | 15,999           |
| 66.818 | Brownfield Assessment and Cleanup Cooperative Agreements  | 13,578           |
|        | TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY  | <u>2,476,408</u> |
|        | U.S. DEPARTMENT OF HOMELAND SECURITY  |                  |
| 97.012 | Boating Safety Financial Assistance   | 429,298          |
| 97.017 | Pre-Disaster Mitigation (PDM) Competitive Grants  | 72,719           |
| 97.024 | Emergency Food and Shelter National Board Program   | 11,753           |
| 97.036 | Disaster Grants - Public Assistance (Presidentially Declared Disasters)                                 | 462,544          |
| 97.039 | Hazard Mitigation Grant   | 302,408          |
| 97.042 | Emergency Management Performance Grants   | 502,876          |
| 97.053 | Citizen Corps   | 35,532           |
| 97.067 | Homeland Security Grant Program   | 1,721,378        |
| 97.073 | State Homeland Security Program (SHSP)  | 451,065          |
| 97.074 | Law Enforcement Terrorism Prevention Program (LETPP)  | 718,675          |
|        | TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY  | <u>4,708,248</u> |
|        | U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES  |                  |
| 93.043 | Special Programs for the Aging_ Title III, Part D_ Disease Prevention and<br>Health Promotion Services  | 13,373           |
| 93.044 | Special Programs for the Aging_ Title III, Part B_ Grants for Supportive<br>Services and Senior Centers | 196,066          |
| 93.045 | Special Programs for the Aging_ Title III, Part C_ Nutrition Services                                   | 401,280          |
| 93.052 | National Family Caregiver Support, Title III, Part E  | 98,716           |
| 93.053 | Nutrition Services Incentive Program  | 53,573           |
| 93.069 | Public Health Emergency Preparedness  | 388,856          |
| 93.088 | Advancing System Improvements to Support Targets for Healthy People 2010                                | 604,288          |
| 93.110 | Maternal and Child Health Federal Consolidated Programs   | 195,499          |
| 93.116 | Project Grants and Cooperative Agreements for Tuberculosis Control Programs                             | 258,936          |
| 93.127 | Emergency Medical Services for Children   | 176,076          |
| 93.150 | Projects for Assistance in Transition from Homelessness (PATH)  | 38,608           |
| 93.217 | Family Planning_ Services   | 339,732          |
| 93.234 | Traumatic Brain Injury State Demonstration Grant<br>Program   | 114,998          |
| 93.242 | Mental Health Research Grants   | 859              |
| 93.251 | Universal Newborn Hearing Screening   | 131,353          |
| 93.268 | Childhood Immunization Grants   | 640,441          |
| 93.283 | Centers for Disease Control and Prevention_ Investigations and<br>Technical Assistance                  | 1,084,512        |

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Federal Grants Fund, Continued  
 Year Ended September 30, 2009

| CFDA # | Federal Agency/Program   | Expenditures      |
|--------|--|-------------------|
|        | U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, CONTINUED  |                   |
| 93.556 | Promoting Safe and Stable Families   | 206,757           |
| 93.568 | Low-Income Home Energy Assistance  | 82,486            |
| 93.569 | Community Services Block Grant   | 624,697           |
| 93.575 | Child Care and Development Block Grant   | 1,182,069         |
| 93.590 | Community-Based Child Abuse Prevention Grants  | 214,853           |
| 93.630 | Developmental Disabilities Basic Support and Advocacy Grant  | 222,835           |
| 93.631 | Developmental Disabilities Projects of National Significance   | 260,331           |
| 93.643 | Children's Justice Grants to States  | 66,220            |
| 93.645 | Child Welfare Services_State Grants  | 138,880           |
| 93.667 | Social Services Block Grant  | 63,592            |
| 93.669 | Child Abuse and Neglect State Grants   | 43,106            |
| 93.671 | Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes  | 119,392           |
| 93.705 | Aging Home-Delivered Nutrition Services for States   | 6,586             |
| 93.707 | Aging Congregate Nutrition Services for States   | 15,458            |
| 93.710 | ARRA - COMMUNITY SERVICES BLOCK GRANT  | 12,091            |
| 93.713 | ARRA - CHILD CARE AND DEVELOPMENT BLOCK GRANT  | 1,999             |
| 93.767 | Children's Health Insurance Program  | 1,372,875         |
| 93.778 | Medical Assistance Program   | 6,323,249         |
| 93.889 | National Bioterrorism Hospital Preparedness Program  | 437,168           |
| 93.917 | HIV Care Formula Grants  | 46,667            |
| 93.941 | HIV Demonstration, Research, Public and Professional Education Projects  | 10,552            |
| 93.943 | Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups | 114,200           |
| 93.958 | Block Grants for Community Mental Health Services  | 79,931            |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse   | 346,814           |
| 93.977 | Preventive Health Services - Sexually Transmitted Diseases Control Grants  | 179,284           |
| 93.988 | Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems  | 41,670            |
| 93.991 | Preventive Health and Health Services Block Grant  | 34,661            |
| 93.994 | Maternal and Child Health Services Block Grant to the States   | 375,003           |
|        | TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES   | <u>17,360,592</u> |
|        | U.S. DEPARTMENT OF THE INTERIOR  |                   |
| 15.605 | Sport Fish Restoration   | 928,601           |
| 15.608 | Fish and Wildlife Management Assistance  | 453               |
| 15.611 | Wildlife Restoration   | 364,868           |
| 15.615 | Cooperative Endangered Species Conservation Fund   | 490,755           |
| 15.634 | State Wildlife Grants  | 168,655           |
| 15.875 | Economic, Social, and Political Development of the Territories:<br>Development of TTPI Islands   | 1,629,950         |
|        | Compact Impact   | 5,171,914         |
| 15.904 | Historic Preservation Fund Grants-In Aid   | 425,811           |
|        | TOTAL U.S. DEPARTMENT OF THE INTERIOR  | <u>9,181,007</u>  |

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Federal Grants Fund, Continued  
 Year Ended September 30, 2009

| CFDA #     | Federal Agency/Program  | Expenditures         |
|------------|---|----------------------|
|            | U.S. DEPARTMENT OF JUSTICE  |                      |
| 16.523     | Juvenile Accountability Block Grants  | 81,486               |
| 16.527     | Supervised Visitation, Safe Havens for Children   | 45,868               |
| 16.540     | Juvenile Justice and Delinquency Prevention - Allocation to States  | 52,894               |
| 16.541     | Part E - Developing, Testing and Demonstrating Promising New Programs   | 83                   |
| 16.548     | Title V - Delinquency Prevention Program  | 49,325               |
| 16.554     | National Criminal History Improvement Program (NCHIP)   | 42,238               |
| 16.575     | Crime Victim Assistance   | 196,378              |
| 16.579     | Edward Byrne Memorial Formula Grant Program   | 18,455               |
| 16.582     | Crime Victim Assistance/Discretionary Grants  | 31,420               |
| 16.583     | Children's Justice Act Partnerships for Indian Communities  | 945                  |
| 16.588     | Violence Against Women Formula Grants   | 485,223              |
| 16.609     | Community Prosecution and Project Safe Neighborhoods  | 1,291                |
| 16.727     | Enforcing Underage Drinking Laws Program  | 106,136              |
| 16.738     | Edward Byrne Memorial Justice Assistance Grant Program  | 823,209              |
| 16.801     | Recovery Act - State Victim Assistance Formula Grant Program  | 9,969                |
| 16.803     | Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG)<br>Program/Grants to States and Territories | 46,845               |
|            | TOTAL U.S. DEPARTMENT OF JUSTICE  | <u>1,991,765</u>     |
|            | U.S. DEPARTMENT OF LABOR  |                      |
| 17.235     | Senior Community Service Employment Program   | 355,816              |
| 17.258     | WIA Adult Program   | 440,350              |
| 17.259     | WIA Youth Activities  | 669,720              |
| 17.260     | WIA Dislocated Workers  | 229,777              |
| 17.504     | Consultation Agreements   | 155,391              |
|            | TOTAL U.S. DEPARTMENT OF LABOR  | <u>1,851,054</u>     |
|            | U.S. NATIONAL ENDOWMENT FOR THE ARTS  |                      |
| 45.025     | Promotion of the Arts_Partnership Agreements  | 241,882              |
|            | U.S. DEPARTMENT OF TRANSPORTATION   |                      |
| 20.Unknown | USDOT Unknown   | 201,618              |
| 20.205     | Highway Planning and Construction   | 554,288              |
| 20.218     | National Motor Carrier Safety   | 200,298              |
| 20.600     | State and Community Highway Safety  | 856,651              |
| 20.703     | Interagency Hazardous Materials Public Sector Training and Planning Grants                                      | 19,047               |
|            | TOTAL U.S. DEPARTMENT OF TRANSPORTATION   | <u>1,831,902</u>     |
|            | Unallocated cash receipts   | 52,040               |
|            | ARRA adjustments  | (12,254)             |
|            | GRAND TOTAL   | <u>\$ 56,950,869</u> |

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
 Capital Projects Funds  
 Year Ended September 30, 2009

| <u>CFDA #</u>   | <u>Federal Agency/Program</u>                                   | <u>Expenditures</u>  |
|-----------------|---|----------------------|
|                 | U.S. DEPARTMENT OF THE INTERIOR                                 |                      |
| 15.875          | Economic, Social, and Political Development of the Territories: |                      |
|                 | Second Covenant   | \$ 160,504           |
|                 | FY93 and FY94 Appropriations Act Grant                          | 14,591               |
|                 | FY96 - FY02 Appropriations Act Grant                            | 2,937,538            |
|                 | Public School System P.L. 11-89                                 | 100,947              |
|                 | FY03 Appropriations Act Grant                                   | 46,913               |
|                 | FY04 Appropriations Act Grant                                   | <u>3,535,853</u>     |
|                 |   | 6,796,346            |
|                 | Less local match  | <u>(932,562)</u>     |
|                 | TOTAL   | <u>\$ 5,863,784</u>  |
| Reconciliation: |   |                      |
|                 | Federal awards expenditures, as stated above                    | \$ 5,863,784         |
|                 | Debt service related:   |                      |
|                 | Principal   | 1,665,000            |
|                 | Interest  | 192,488              |
|                 | Operating transfers out   | 9,916,465            |
|                 | Local match   | <u>932,562</u>       |
|                 |   | <u>\$ 18,570,299</u> |
|                 | Expenditures per Statement of Revenues, Expenditures, and       |                      |
|                 | Changes in Fund Balance (Deficit)                               | \$ 8,653,834         |
|                 | Operating transfers out   | <u>9,916,465</u>     |
|                 |   | <u>\$ 18,570,299</u> |

See accompanying notes to schedule of expenditures of federal awards.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Expenditures of Federal Awards, Continued  
Public Works Grants Fund  
Year Ended September 30, 2009

| <u>CFDA #</u> | <u>Federal Agency/Program</u>        | <u>Expenditures</u> |
|---------------|--------------------------------------|---------------------|
|               | U.S. DEPARTMENT OF TRANSPORTATION    |                     |
| 20.205        | Highway Planning and Construction    | \$ 1,809,812        |
|               | U.S. DEPARTMENT OF HOMELAND SECURITY |                     |
| 83.516        | Disaster Assistance                  | <u>19,949</u>       |
|               | GRAND TOTAL                          | <u>\$ 1,829,761</u> |

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, 2009

(1) Scope of Review

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 OMB Circular A-133 audit (the "Single Audit"). The U.S. Department of the Interior has been designated as the CNMI's cognizant agency for the Single Audit.

Programs Subject to Single Audit

Schedule of Expenditures of Federal Awards are presented for each Federal program related to the following agencies:

- U.S. Department of Agriculture
- U.S. Department of Commerce
- U.S. Department of Defense
- U.S. Department of Education
- U.S. Department of Energy
- U.S. Department of Health and Human Services
- U.S. Department of the Interior
- U.S. Department of Justice
- U.S. Department of Labor
- U.S. Department of Transportation
- U.S. Environmental Protection Agency
- U.S. Department of Homeland Security
- U.S. National Endowment for the Arts
- Institute of Museum and Library Services

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the CNMI and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. For federal direct assistance grants, authorizations represent the total allotment or grant award received. All expenses and capital outlays are reported as expenditures.

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*.

The following entities did not satisfy audit requirements of OMB Circular A-133:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2009

(2) Summary of Significant Accounting Policies, Continued

b. Reporting Entity, Continued

Commonwealth Development Authority  
Commonwealth Ports Authority  
Northern Marianas College  
Commonwealth Utilities Corporation  
Public School System

The CNMI is considered to have responsibility for any questioned costs relating to pass-through of federal funds, which the CNMI is grantee, which could result from Single Audits of these entities.

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, 2009 basic financial statements; except that the Northern Mariana Islands Retirement Fund, the CNMI Government Health and Life Insurance Trust Fund and the CNMI Workers' Compensation Commission, 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, 2009.

c. Subgrantees

Certain program funds are passed through the CNMI to subgrantee organizations. The Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subgrantees, outside of the CNMI's control, utilized the funds.

d. Indirect Cost Allocation

For fiscal year 2009, the CNMI has the following approved indirect cost rates:

|  |        |
|--|--------|
| Programs which directly charged utilities      | 7.42%  |
| Programs not directly charging utilities       | 16.45% |
| ARRA programs which directly charged utilities | 7.92%  |
| ARRA programs not directly charging utilities  | 16.95% |

e. CFDA #15.875

CFDA #15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Agreement of the Special Representatives on Future United States Financial Assistance for the Northern Mariana Islands, which is an agreement, and is not a federal program. Additionally, each funding component of the agreement is governed by varying rules and regulations, depending on the reason for the designated aid. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA #15.875 be grouped by like compliance requirements and such groupings be separately evaluated as major programs.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Notes to the Schedule of Expenditures of Federal Awards  
Year Ended September 30, 2009

(3) Expenditures

The Schedule of Expenditures of Federal Awards (pages 7 through 13) include both federal and local match. A breakdown is as follows:

|  | <u>Federal Share</u> | <u>Local<br/>Share and<br/>Adjustments</u> | <u>Total</u>         |
|--|----------------------|--|----------------------|
| Federal Grants                                     | \$ 56,950,869        | \$ 6,560,387                               | \$ 63,511,256        |
| Capital Projects - U.S. Department of the Interior | 5,863,784            | 932,562                                    | 6,796,346            |
| Capital Projects - Public Works                    | <u>1,829,761</u>     | <u>-</u>                                   | <u>1,829,761</u>     |
|  | <u>\$ 64,644,414</u> | <u>\$ 7,492,949</u>                        | <u>\$ 72,137,363</u> |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs  
Year Ended September 30, 2009

**A. SUMMARY OF AUDITORS' RESULTS**

*Financial Statements*

- |    |  |           |
|----|--|-----------|
| 1. | Type of auditors' report issued:   | Qualified |
|    | Internal control over financial reporting:   |           |
| 2. | Material weakness(es) identified?  | Yes       |
| 3. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes       |
| 4. | Noncompliance material to the financial statements noted?                                | Yes       |

*Federal Awards*

- |     |  |             |
|-----|--|-------------|
|     | Internal control over major programs:  |             |
| 5.  | Material weakness(es) identified?  | Yes         |
| 6.  | Significant deficiency(ies) identified that is not considered to be a material weakness?   | Yes         |
| 7.  | Type of auditors' report issued on compliance for major programs:  | Qualified   |
| 8.  | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?                         | Yes         |
| 9.  | The CNMI's major programs were as follows:   |             |
|     | CFDA   |             |
|     | <u>Number</u> <u>Federal Program</u>   |             |
|     | 10.551      Supplemental Nutrition Assistance Program  |             |
|     | 10.557      Special Supplemental Nutrition Program for Women, Infants, and Children  |             |
|     | 66.600      Environmental Protection Consolidated Grants for the Insular Areas -<br>Program Support  |             |
|     | 93.778      Medical Assistance Program   |             |
|     | 15.875      Economic, Social, and Political Development of the Territories:<br>Capital Improvement Projects<br>Fiscal Year 2009 Compact Impact |             |
| 10. | Dollar threshold used to distinguish between Type A and Type B Programs, as those terms are defined in OMB Circular A-133:                     | \$1,939,332 |
| 11. | The CNMI qualified as a low-risk auditee, as that term is defined in OMB Circular A-133?   | No          |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**B. FINANCIAL STATEMENT FINDINGS**

| Reference Number | Findings   | Refer Page # |
|------------------|--|--------------|
| 2009-1           | External Financial Reporting                     | 19           |
| 2009-2           | Cash Flows                                       | 20 - 21      |
| 2009-3           | Revenues/Receipts - Division of Customs          | 22 - 24      |
| 2009-4           | Revenues/Receipts - Tobacco Settlement Resources | 25           |
| 2009-5           | Purchases/Disbursements                          | 26           |
| 2009-6           | Disbursements - Land Compensation                | 27 - 28      |
| 2009-7           | Cash and Cash Equivalents                        | 29 - 30      |
| 2009-8           | Cash and Cash Equivalents                        | 31 - 32      |
| 2009-9           | Receivables                                      | 33 - 34      |
| 2009-10          | Receivables                                      | 35           |
| 2009-11          | Travel Advances                                  | 36           |
| 2009-12          | Advances   | 37 - 38      |
| 2009-13          | Interfund Receivables and Payables               | 39           |
| 2009-14          | Retirement Contributions - General Fund          | 40 - 41      |
| 2009-15          | Tax Rebates Payable                              | 42 - 45      |
| 2009-16          | Other Liabilities and Accruals                   | 46           |
| 2009-17          | Compensated Absences                             | 47           |
| 2009-18          | Fund Balance - Encumbrances                      | 48 - 52      |
| 2009-19          | CNMI Local Noncompliance                         | 53 - 54      |

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

| Reference Number | CFDA Number        | Findings                                 | Questioned Costs | Refer Page # |
|------------------|--------------------|--|------------------|--------------|
| 2009-20          | 10.551             | Cash Management                          | \$ -             | 55 - 56      |
| 2009-21          | 10.551             | Equipment and Real Property Management   | \$ -             | 57 - 58      |
| 2009-22          | 10.551             | Procurement and Suspension and Debarment | \$ -             | 59           |
| 2009-23          | 10.551             | Special Tests and Provisions             | \$ -             | 60           |
| 2009-24          | 10.557             | Eligibility                              | \$ 3,167         | 61           |
| 2009-25          | 10.557             | Equipment and Real Property Management   | \$ -             | 62 - 63      |
| 2009-26          | 10.557             | Procurement and Suspension and Debarment | \$ 2,500         | 64 - 65      |
| 2009-27          | 10.557             | Reporting                                | \$ -             | 66 - 67      |
| 2009-28          | 10.557             | Special Tests and Provisions             | \$ -             | 68           |
| 2009-29          | 15.875             | Allowable Costs/Cost Principles          | \$ 2,081         | 69           |
| 2009-30          | 15.875             | Allowable Costs/Cost Principles          | \$ 9,702         | 70           |
| 2009-31          | 15.875             | Cash Management                          | \$ -             | 71 - 74      |
| 2009-32          | 15.875             | Equipment and Real Property Management   | \$ -             | 75 - 76      |
| 2009-33          | 15.875             | Matching, Level of Effort, Earmarking    | \$ 120,397       | 77           |
| 2009-34          | 15.875             | Period of Availability                   | \$ -             | 78           |
| 2009-35          | 15.875             | Procurement and Suspension and Debarment | \$ 42,253        | 79 - 81      |
| 2009-36          | 15.875             | Procurement and Suspension and Debarment | \$ 288,306       | 82           |
| 2009-37          | 15.875             | Procurement and Suspension and Debarment | \$ 18,129        | 83           |
| 2009-38          | 15.875             | Procurement and Suspension and Debarment | \$ 865,713       | 84 - 85      |
| 2009-39          | 15.875             | Procurement and Suspension and Debarment | \$ 226,103       | 86           |
| 2009-40          | 15.875             | Procurement and Suspension and Debarment | \$ -             | 87 - 88      |
| 2009-41          | 15.875             | Reporting                                | \$ -             | 89           |
| 2009-42          | 15.875             | Subrecipient Monitoring                  | \$ -             | 90 - 91      |
| 2009-43          | 15.875             | Special Tests and Provisions             | \$ 1,085,494     | 92 - 94      |
| 2009-44          | 66.600             | Equipment and Real Property Management   | \$ -             | 95 - 96      |
| 2009-45          | 66.600             | Procurement and Suspension and Debarment | \$ 9,550         | 97 - 98      |
| 2009-46          | 66.600             | Reporting                                | \$ -             | 99           |
| 2009-47          | 93.778             | Allowable Costs/Cost Principles          | \$ 2,043         | 100 - 104    |
| 2009-48          | 93.778             | Eligibility                              | \$ 9,433         | 105 - 106    |
| 2009-49          | 93.778             | Period of Availability                   | \$ 82,841        | 107          |
| 2009-50          | 93.778             | Reporting                                | \$ -             | 108          |
| 2009-51          | 93.778             | Special Tests and Provisions             | \$ -             | 109          |
| 2009-52          | All Major Programs | Allowable Costs/Cost Principles          | \$ -             | 110          |
| 2009-53          | All Major Programs | Allowable Costs/Cost Principles          | \$ 1,336,000     | 111 - 112    |
| 2009-54          | All Major Programs | Procurement and Suspension and Debarment | \$ -             | 113 - 115    |
| 2009-55          | Nonmajor Program   | Period of Availability                   | \$ 560,880       | 116          |
| 2009-56          | Nonmajor Program   | Procurement and Suspension and Debarment | \$ 152,439       | 117          |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**B. FINANCIAL STATEMENT FINDINGS**

External Financial Reporting

Finding No. 2009-1

Criteria: Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, requires that the financial statements of the reporting entity include component units for which the primary government is either financially accountable for, or for which exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Condition: As of September 30, 2009, the Commonwealth Utilities Corporation (CUC) and the Public School System (PSS) were unaudited.

Cause: The cause of the above condition is the lack of audited financial statements for the entities.

Effect: The effect of the above condition is nonconformity with GASB Statement No. 14 resulting in a qualification in the opinion on the financial statements of the CNMI.

Recommendation: We recommend that the CNMI conform with GASB Statement No. 14 by obtaining audited financial statements of the above entities for inclusion within the CNMI's financial statements.

Prior Year Status: Lack of audited financial statements for component units was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Robert A. Schrack, Secretary of Finance and Michael Pai, Public Auditor

**Corrective Action:** CNMI component units are required to have annual audits performed. The Office of the Public Auditor has been working with CNMI's component units to complete their audits within nine months of the close of their fiscal years.

**Proposed Completion Date:** FY2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Cash Flows

Finding No. 2009-2

**Criteria:** Sufficient cash flows should be maintained to ensure current obligations are met as well as to ensure efficient operations.

**Condition:** During the last few years, the CNMI's economic condition has been greatly affected by global policies and influences, natural disasters and terrorism among others. As a result, financial burden has been placed on the Government causing cost cutting measures to be implemented. The financial activities of the CNMI's General Fund in the last five years are as follows:

|                                | <u>2009</u>      | <u>2008</u>      | <u>2007</u>      | <u>2006</u>      | <u>2005</u>      |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| Total assets                   | \$ 50,023,703    | \$ 63,742,784    | \$ 84,562,318    | \$ 73,178,439    | \$ 74,676,988    |
| Total liabilities              | \$ 322,606,682   | \$ 299,614,851   | \$ 283,813,688   | \$ 225,281,973   | \$ 210,539,483   |
| Total fund deficit             | \$ (272,582,979) | \$ (235,872,067) | \$ (199,251,370) | \$ (152,103,534) | \$ (135,862,495) |
| Total revenues                 | \$ 137,755,573   | \$ 195,025,126   | \$ 159,879,556   | \$ 192,660,289   | \$ 214,891,036   |
| Total expenditures             | \$ 182,674,263   | \$ 224,417,008   | \$ 193,136,802   | \$ 209,039,185   | \$ 244,881,423   |
| Other financing sources (uses) | \$ 8,207,778     | \$ (7,228,815)   | \$ (2,996,864)   | \$ 137,857       | \$ 16,143        |

**Cause:** The cause of the above condition is that resources are not readily available to alleviate cash flow needs. Further, revenue resources are not adequate to meet increasing expenditures/obligations.

**Effect:** The effect of the above condition is the potential for inadequate cash flows to meet current obligations. It appears that this condition has been mitigated by the increase in the liability to the Northern Mariana Islands Retirement Fund.

**Recommendation:** We recommend that the CNMI review its various functions to ensure adequate cash flows are available to meet current obligations.

**Prior Year Status:** Inadequate cash flows to meet current obligations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert A. Schrack, Secretary of Finance

**Corrective Action:** See also Finding 2009-14 relating to liability to the Retirement Fund and Note 14 General Fund Financial Position. Since the liability to the Retirement Fund is \$235.2 million and the net unrestricted asset deficit is \$282.0, resolving the retirement liability will also resolve this finding. As noted by the auditors, the cash flow deficit has been substantially mitigated by the increase in the retirement liability.

Various austerity measures, including reduced work hours, hiring freeze, stringent review of non personnel expenditures and reduced budget allotments have reduced expenditures from \$244.9 million in 2005 to \$185.0 million in 2009 as noted above. Revenues have fallen at a faster rate than expenditures during this period but the cash flow effect has mitigated by \$60 million in deferred retirement contributions. In 2009 Public Law 16-32 authorized the transfer of \$3.5 million in expenditures from the General Fund to other funds. Additionally the ARRA State Stabilization grant authorized reimbursement of \$4 million in General Fund medical referral expenses as pre award costs.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-2, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Subsequent to the end of fiscal year 2009, Public Law 17-6 authorized the Governor to reprogram available resources and transfer General Fund expenses to other funds up to \$10 million and the ARRA State Stabilization grant reimbursed \$3 million in General Fund expenditures.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Revenues/Receipts - Division of Customs

Finding No. 2009-3

Criteria: Revenue/receipts control ensures that cash receipts are recorded in the period in which they are received and that collections are deposited in a timely manner. Further, relevant supporting documents should be properly filed and maintained.

Condition: Of seventy-five cash receipts of the Division of Customs tested, the following were noted:

1. Twenty-nine transactions were not uploaded to the general ledger on the date of transaction. These transactions were recorded in the general ledger through a journal entry dated 09/30/09 as reconciling items in the bank reconciliation. The collections/revenues were recorded under one lump sum customs revenue account and not by specific revenue accounts. Details are as follows:

| <u>Location Code</u> | <u>Transaction Date</u> | <u>Deposit Date<br/>(for cash and<br/>check collections)</u> | <u>Total Collections<br/>(for cash, check<br/>and credit cards)</u> |
|----------------------|-------------------------|--|---|
| 41                   | 03/02/09                | 03/05/09   | \$ 86,503   |
| 41                   | 03/06/09                | 03/09/09   | \$ 96,218   |
| 41                   | 03/17/09                | 03/18/09   | \$ 44,564   |
| 41                   | 03/23/09                | 03/26/09   | \$ 81,729   |
| 41                   | 03/31/09                | 04/06/09   | \$ 4,274  |
| 41                   | 04/03/09                | 04/06/09   | \$ 216,047  |
| 41                   | 04/13/09                | 04/15/09   | \$ 9,329  |
| 41                   | 04/14/09                | 04/17/09   | \$ 4,638  |
| 41                   | 04/17/09                | 04/24/09   | \$ 108,908  |
| 41                   | 04/24/09                | 04/29/09   | \$ 155,123  |
| 41                   | 05/04/09                | 05/05/09   | \$ 168,485  |
| 41                   | 05/13/09                | 05/20/09   | \$ 84,335   |
| 41                   | 05/18/09                | 05/20/09   | \$ 21,388   |
| 41                   | 05/21/09                | 05/29/09   | \$ 34,742   |
| 41                   | 05/28/09                | 05/29/09   | \$ 6,369  |
| 41                   | 06/04/09                | 06/19/09   | \$ 29,267   |
| 41                   | 06/12/09                | 06/19/09   | \$ 194,797  |
| 41                   | 06/22/09                | 06/23/09   | \$ 15,966   |
| 41                   | 06/24/09                | 06/26/09   | \$ 47,820   |
| 41                   | 06/29/09                | 07/13/09   | \$ 35,126   |
| 41                   | 07/02/09                | 07/13/09   | \$ 145,783  |
| 41                   | 07/08/09                | 07/13/09   | \$ 34,242   |
| 41                   | 07/10/09                | 07/20/09   | \$ 89,770   |
| 41                   | 07/14/09                | 07/20/09   | \$ 5,339  |
| 41                   | 07/20/09                | 07/29/09   | \$ 1,720  |
| 42                   | 05/15/09                | 05/19/09   | \$ 2,076  |
| 43                   | 03/20/09                | 03/23/09   | \$ 4,176  |
| 43                   | 07/09/09                | 07/13/09   | \$ 9,852  |
| 43                   | 07/20/09                | 07/21/09   | \$ 1,810  |

2. The related invoice supporting the following excise tax receipts indicated in the declaration of entry (DOE) was not provided:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-3, Continued

Condition, Continued:

| <u>Location Code</u> | <u>Transaction Date</u> | <u>Cash Receipt #</u> | <u>DOE or EC #</u> | <u>Excise Tax per DOE</u> |
|----------------------|-------------------------|-----------------------|--------------------|---------------------------|
| 41                   | 05/28/09                | 479854                | DOE 4859-09        | \$ 46                     |
| 41                   | 03/06/09                | 136680                | DOE 16865-09       | \$ 38,959                 |
| 41                   | 08/20/09                | 237-09                | DOE 4706-09        | \$ 217                    |
| 41                   | 10/07/08                | 205-09                | DOE 463-09         | \$ 16                     |
| 41                   | 05/04/09                | 137424                | DOE 728-09         | \$ 1,551                  |
| 41                   | 03/17/09                | 136736                | DOE 18710-09       | \$ 313                    |
| 41                   | 12/05/08                | 2053-09               | DOE 5185-09        | \$ 10,536                 |
| 41                   | 07/30/09                | 28-09                 | DOE 8221-09        | \$ 14                     |
| 41                   | 06/04/09                | 479955                | DOE 1540-09        | \$ 409                    |
| 41                   | 08/19/09                | 231-09                | DOE 4174-09        | \$ 1,091                  |
| 43                   | 01/13/09                | 3158-09               | DOE 10870-09       | \$ 127                    |

3. The supporting certification of entry or DOE for the following two items was not available:

| <u>Location Code</u> | <u>Location Name</u> | <u>Transaction Date</u> | <u>Cash Receipt #</u> | <u>DOE or EC #</u> |
|----------------------|----------------------|-------------------------|-----------------------|--------------------|
| 43                   | Postal               | 07/13/09                | 492011                | DOE 3113-09        |
| 43                   | Postal               | 07/28/09                | 492125                | DOE 8701-09        |

4. The Cashier Deposit Reconciliation Summary Report (CDRSR), receipt details and other relevant supporting documents for the following seven items were not provided:

| <u>Location Code</u> | <u>Transaction Date</u> |
|----------------------|-------------------------|
| 7                    | 11/05/08                |
| 7                    | 01/15/09                |
| 64                   | 02/24/09                |
| 41                   | 04/14/09                |
| 131                  | 05/19/09                |
| 131                  | 05/22/09                |
| 41                   | 06/15/09                |

5. The collections for the following fifteen transactions were deposited to the bank more than three business days from the date of collection:

| <u>Location Code</u> | <u>Transaction Date</u> | <u>Deposit Date</u> | <u>Elapsed</u> | <u>Total Cash and Check Collections</u> |
|----------------------|-------------------------|---------------------|----------------|---|
| 41                   | 04/17/09                | 04/24/09            | 4              | \$ 4,416                                |
| 41                   | 05/13/09                | 05/20/09            | 4              | \$ 13,995                               |
| 41                   | 05/21/09                | 05/29/09            | 5              | \$ 12,500                               |
| 41                   | 06/04/09                | 06/19/09            | 10             | \$ 8,356                                |
| 41                   | 06/12/09                | 06/19/09            | 4              | \$ 8,033                                |
| 41                   | 06/29/09                | 07/13/09            | 9              | \$ 21,014                               |
| 41                   | 07/02/09                | 07/13/09            | 8              | \$ 31,968                               |
| 41                   | 07/10/09                | 07/20/09            | 5              | \$ 8,233                                |
| 41                   | 07/20/09                | 07/29/09            | 6              | \$ 1,720                                |
| 41                   | 08/13/09                | 09/02/09            | 13             | \$ 31,752                               |
| 41                   | 08/14/09                | 09/02/09            | 12             | \$ 19,059                               |
| 41                   | 08/19/09                | 09/02/09            | 9              | \$ 8,833                                |
| 41                   | 08/20/09                | 09/02/09            | 8              | \$ 19,226                               |
| 41                   | 09/02/09                | 09/09/09            | 4              | \$ 2,609                                |
| 41                   | 09/14/09                | 09/21/09            | 4              | \$ 5,163                                |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-3, Continued

Condition, Continued:

6. The validated deposit ticket for one transaction (ref. loc. 41, 02/13/09) was not provided.

Cause: The causes of the above conditions include the e-Customs system failure/breakdown during the periods March 2009 through September 2009, inadequate file maintenance and the lack of established policies and procedures to ensure that collections are deposited in a timely manner.

Effect: The effects of the above conditions are incorrect customs revenue account classification, unsupported revenue transactions, the potential for cash misappropriation, unreported collections and unrecorded revenues.

Recommendation: We recommend the CNMI strengthen controls over processing, recording and monitoring of collections at the Division of Customs. We also recommend the Division of Customs ensure that all relevant supporting documents are filed and maintained. Further, we recommend that all collections be deposited in a timely manner.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Jesus C. Muna, Director, Customs Services

**Corrective Action:** In December 2005, the Division of Customs Service launched a new software called the Border Management System or BMS for short. We had encountered many obstacles in regards to this system, from errors made in manifesting (arrival of a carrier) to the receipting, reporting and transmittal of deposits to Treasury. It had been more difficult most especially when the BMS was locked out by the contracted programmer on February 2009. The Division was forced to process all assessments and collections manually for seven months. During this time, a new programmer was hired to create a new software or system mirroring the BMS called the ECustoms. The Division launched the new system in August; however, with some problems encountered, the Seaport Branch was unable to start receipting electronically until September 2009. The setbacks on our normal operations did not end and the Division continued to experience problems with ECustoms. Due to the setback, the Division was forced to revert to the CNMI Tax System AS400 managed by the Electronic Data Processing (EDP) Division under the Department of Finance since June 1, 2010. The following are the corrective actions the Division has taken to minimize and eventually eliminate the errors that had occurred:

- The Division is back on the CNMI Tax System allowing the CNMI Treasurer access to the daily operations and collections. As soon as the cashiers close their daily batches, the CNMI Treasurer will be able to upload into the general ledger.
- Due to the setbacks with the BMS and ECustoms, documents were moved between ports. The Division has met with the supervisors to correct this issue and created a filing system on the management of assessment paid at other ports of entry.
- Cashier point areas have been instructed to close and verify deposits at the end of the business day to ensure timely transmittal of deposits to the CNMI Treasurer in a timely manner.
- The Division collects and transmits the monies to the Division of Treasury. The deposit to the bank is the duty of the staff of the Division of Treasury.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Revenues/Receipts - Tobacco Settlement Resources

Finding No. 2009-4

**Criteria:** GASB Technical Bulletin (TB) 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, clarifies recognition guidance for transactions and payments made to settling governments pursuant to the Master Settlement Agreement with major tobacco companies. GASB TB 2004-1 requires the recognition of estimated receivables and revenues based on domestic sales/shipments of cigarettes.

**Condition:** For fiscal year 2009, the CNMI recognized \$2,040,386 in tobacco settlement resources (TSR) revenues (Ref. fund 7067 account 45640) based on cash received during the fiscal year. The CNMI was unable to provide a relevant analysis or schedules to support compliance with GASB TB 2004-1. This condition was corrected through a proposed audit adjustment.

**Cause:** The cause of the above condition is the lack of established estimation techniques to determine accrued tobacco settlement receivables and revenues.

**Effect:** The effect of the above condition is nonconformity with GASB TB 2004-1.

**Recommendation:** We recommend the CNMI ensure GASB TB 2004-1 requirements are met.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert A. Schrack, Secretary of Finance

**Corrective Action:** The CNMI has agreed to proposed audit adjustment for 2009 and will request documentation from the trustee regarding accrual amounts in future years.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Purchases/Disbursements

Finding No. 2009-5

Criteria: Expenditures should be recorded when incurred.

Condition: Of total medical related expenditures of \$6,184,138 at September 30, 2009, professional services of \$5,564,722 and non-payroll expenses of \$521,030 were tested. Of eighty-one items tested, ten items, totaling \$1,018,705, included billings from medical service providers for services rendered in prior years. These expenditures represent those approved by the responsible local office, which were subsequently forwarded to the Department of Finance (DOF) for recording and payment.

Cause: The cause of the above condition is the lack of established policies and procedures to ensure timely recognition of expenditures relating to medical bills at the time services are rendered.

Effect: The effect of the above condition is the potential misstatement of accrued liabilities.

Recommendation: We recommend that the CNMI ensure that all medical billings received are reviewed and forwarded to the Department of Finance in a timely manner to ensure that expenditures are properly recorded.

Prior Year Status: The lack of policies and procedures regarding the timely recognition of expenditures at the time services are rendered was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert A. Schrack, Secretary of Finance

**Corrective Action:** This is not a Medicaid compliance issue as Medicaid considers expenditure to be made when payment is issued. Expenditures posted to the grant need to follow this rule. Payments made subsequent to the end of the fiscal year for prior services (up to a cut-off date) can be recorded as payable in the prior year outside of the grant with an offsetting receivable.

**Proposed Completion Date:** FY2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Disbursements - Land Compensation

Finding No. 2009-6

Criteria: Land compensation disbursements should be made in accordance with established claims rules and regulations. Further, an effective system of internal control includes policies and procedures to ensure that all relevant records, documents and reports supporting land compensation are complete prior to disbursement.

Condition: Of three land compensation disbursements tested, a warranty deed to convey title to the Department of Public Lands (DPL) was not obtained for the following:

| <u>Land Claimant #</u> | <u>Check Number Reference</u> | <u>Amount</u>       |
|------------------------|-------------------------------|---------------------|
| 1                      | 341790                        | \$ 848,206          |
| 2                      | 342094                        | 364,347             |
| 3                      | 342039                        | <u>290,461</u>      |
|                        |                               | \$ <u>1,503,014</u> |

Disbursements made to two land claimants (#s 1 and 3) were pursuant to court judgments.

For claimant # 2, the offer letter was not signed by the claimant as evidence of acceptance of DPL's offer of compensation.

Due to the lack of relevant documents supporting ownership of the related land, the disbursements were not capitalized.

Cause: The cause of the above condition is failure to ensure that all relevant land compensation documents are complete prior to disbursement of claims.

Effect: The effect of the above condition is noncompliance with DPL's Land Compensation Claims Rules and Regulations and that legal rights to the land are not transferred to DPL.

Recommendation: We recommend that DPL ensure compliance with established land compensation rules and regulations. Further, we recommend that the Department of Finance and DPL ensure that all relevant documents supporting land claims are complete prior to approving and processing related disbursements.

Prior Year Status: Failure to ensure that all relevant land compensation documents are complete prior to disbursement of claims was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Margaret Keene Villagomez, Manager of Accounting Services

**Corrective Action:** On April 17, 2009, the Department of Finance (DOF) billed the Department of Public Lands (DPL) \$1,523,014 under SFM2009-059 for land compensation payments issued to the following claimants:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-6, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

|             |                     |
|-------------|---------------------|
| Claimant #1 | \$ 848,206          |
| Claimant #2 | 310,461             |
| Claimant #3 | <u>364,347</u>      |
|             | \$ <u>1,523,014</u> |

Upon review of DPL records, the Land Claims Director advised that DPL should not reimburse DOF for the payment already issued to Claimant #2. Unlike Claimant #1 and Claimant #3, the request to pay Claimant #2 was not pursuant to a court judgment.

On May 7, 2009, DPL fund transferred \$1,057,560. This amount represents the reimbursements of \$848,206 for Claimant #1, \$290,461 for Claimant #3, and an offset/deduction of \$81,107 for an erroneous reimbursement made on April 14, 2009 for a payment made to Henry T. Indalecio. Per the Land Claims Director, this claim should have been paid through local appropriations.

To this date, DOF billings to DPL for land compensation continue to show an underpayment of \$465,453. In essence, DPL did not reimburse DOF for the payment DOF made to Claimant #2.

**Proposed Completion Date:** Completed 05/07/09

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Cash and Cash Equivalents

Finding No. 2009-7

Criteria: Bank reconciliations should be performed in a timely manner. Further, book reconciling items should be timely adjusted.

Condition: During tests of bank reconciliations, the following were noted:

1. During the fiscal year ended September 30, 2009, bank reconciliations for the following accounts were prepared one to three months after month end.

| <u>Bank Code</u> | <u>Account Name</u>                |
|------------------|------------------------------------|
| 11130            | LNO Hawaii - Medical Referral      |
| 11150            | Superior Court NMI Imprest Fund    |
| 11170            | Guam Medical Referral Imprest Fund |
| 11190            | Treasury (DOF) Imprest Fund        |
| 11200            | Tinian Imprest Fund                |
| 11210            | Rota Imprest Fund                  |
| 11220            | Supreme Court Imprest Fund         |
| 11230            | Food Stamps                        |
| 11310            | CHC Medical Referral               |
| 11320            | La Fiesta Imprest Fund             |
| 11400            | NMTIT Rebate Trust                 |
| 11401            | NMTIT/USR Stimulus Tax Refund      |
| 11410            | Special Disability Imprest Fund    |
| 11420            | Payroll Account                    |
| 11430            | General Fund                       |
| 11450            | Animal Health Imprest Fund         |
| 11480            | Lottery Commission Imprest Fund    |
| 11520            | Credit Card                        |
| 11540            | Capital Improvement Projects       |
| 11570            | Federal Grant Fund                 |
| 11830            | Law Revision Commission Imprest    |

Further, book reconciling items identified during monthly bank reconciliations are adjusted only at year end.

2. A bank reconciliation as of September 30, 2009 was not provided for one account (Bank Code 11140).
3. The following cash account was confirmed by a bank but is not recorded:

| <u>Reference</u> | <u>Bank Balance</u> |
|------------------|---------------------|
| 0003-9456        | \$132,871           |

4. At September 30, 2009, the CNMI recorded a cash clearing account of \$1,324,314. This account is expected to be zero at fiscal year-end. An audit adjustment was proposed to correct this condition.

Cause: The cause of the above condition is the lack of adherence to policies and procedures related to the timely preparation of bank reconciliations.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-7, Continued

Effect: The effect of the above condition is the possibility of misstated cash balances throughout the year.

Recommendation: We recommend that the CNMI adhere to established policies and procedures to ensure timely reconciliation of bank accounts and that book reconciling items be adjusted in a timely manner. Further, we recommend that the Department of Finance ensure that all cash accounts are recorded and that cash clearing accounts are adjusted and reconciled at fiscal year-end.

Prior Year Status: The lack of adequate policies and procedures related to timely preparation of bank reconciliations was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Bernadita C. Palacios, Acting Director, Finance & Accounting, Antoinette Calvo, CNMI Treasurer and Robert A. Schrack, Secretary of Finance

**Corrective Action:** We agree the finding although we feel the criteria of including one month past the end of the month as deficient overly stringent given available staff and receipt of bank statements and cleared check data from the bank. The auditors indicated the problem is the length of time reconciliations take rather than a lack of reconciliations. There are only two staff in the reconciliation Section due to staff turnover and lack of budget to replace the two departed employees. In addition, delayed bank statements, American Express statements and availability of the automated cleared check file contribute to the time lag experienced between month end and the reconciliation being completed. In order to improve timeliness of the checking account reconciliations, the Reconciliation Section has been given inquiry access to the bank accounts on line to allow quicker retrieval of information. We will also discuss faster availability of bank statements and cleared check files with our bank. Currently these are not received until a month after the month end. In addition, coordination between the Recon section and the Treasury and Revenue and Tax Divisions will be improved to facilitate checking account reconciliations. Procedures to provide for entry of reconciling items on a monthly basis are currently being implemented.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Cash and Cash Equivalents

Finding No. 2009-8

Criteria: A system of internal control provides for adequate monitoring of issued, unreleased, returned, cancelled and voided checks. While the holding of checks is unavoidable at times, checks held at year-end should be identified and reclassified as payables.

Condition: Our cutoff and bank reconciliation tests noted the following:

1. At September 30, 2009, approximately \$637,938 of checks were held by the Division of Treasury. The breakdown by account is as follows:

| <u>Bank Account GL #</u> | <u>Account Name</u>               | <u># of Checks</u> | <u>Amount</u>     |
|--------------------------|-----------------------------------|--------------------|-------------------|
| 7063.11400               | Rebate Trust Fund                 | 1,615              | \$ 202,357        |
| 1010.11430               | General Fund                      | 138                | 415,824           |
| 1010.11420               | Payroll Account                   | 33                 | 11,327            |
| 7400.11401               | Stimulus Tax Refund Account       | 15                 | 5,840             |
| 1010.11540               | Capital Improvement Projects Fund | <u>1</u>           | <u>2,590</u>      |
|                          |                                   | <u>1,802</u>       | <u>\$ 637,938</u> |

The Division of Treasury did not prepare a list of checks held at year-end. The above were reflected as outstanding checks in the September 30, 2009 bank reconciliations.

2. Additionally, one hundred fifteen checks held aggregating \$24,401 included in the rebate trust fund represent checks returned by the post office. The checks have dates ranging from October 2008 through September 2009. The Division of Treasury does not appear to have monitored these returned checks as such are reported as outstanding checks in the September 30, 2009 reconciliation.
3. The September 30, 2009 General Fund (Acct. #11430) bank reconciliation reflected stale-dated checks of \$376,783. A substantial portion of the stale-dated checks was scholarship-related; however, the \$376,783 was recorded to a miscellaneous adjustment account in the General Fund.

Cause: The cause of the above condition is the lack of policies and procedures to monitor issued, unreleased and returned checks, the lack of policies and procedures to ensure that all manual checks are posted to the general ledger and the failure to address cash-related issues in a timely manner.

Effect: The effect of the above condition is the misstatement of cash, payables and expenditures and numerous reconciling items in the bank reconciliation. Further, the above condition may provide opportunity for fraudulent activities.

Recommendation: We recommend the CNMI Division of Treasury establish policies and procedures to adequately monitor issued, unreleased, returned, cancelled and voided checks. Further, we recommend that the CNMI Division of Treasury ensure that checks requested for cancellation are timely voided in the system. Additionally, we recommend that all disbursements be posted to the general ledger in a timely manner.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-8, Continued

Prior Year Status: The lack of policies and procedures to monitor issued, unreleased and returned checks, the lack of policies and procedures to ensure that all manual checks are posted to the general ledger and the failure to address cash-related issues in a timely manner was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Antoinette Calvo, CNMI Treasurer

**Corrective Action:**

1. Treasury will institute a procedure to mail out all printed checks prior to the end of the fiscal year. Schedule will be prepared of unmailed checks which should include only the last few days of the fiscal year.
2. Checks are still considered outstanding unless voided in the system. Checks returned by the post office are held pending communication with the payee. Once they become stale dated they are voided.
3. Checks were held by the Scholarship Office and not returned to Treasury until they were stale dated. We will work with the Scholarship Office to ensure checks to be voided are returned on a timely basis.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Receivables

Finding No. 2009-9

Criteria: Receivables for services rendered by the Commonwealth Health Center (CHC) should be billed timely and follow-up procedures should be undertaken to collect outstanding accounts.

Condition: Our tests of CHC receivables at September 30, 2009 noted the following:

1. As of September 30, 2009, CHC receivables were \$129,749,668 of which \$112,327,603 date back to fiscal years 2008 and prior. An aging of the outstanding receivables by fiscal year is as follows:

| <u>Fiscal Year</u> | <u>Amount</u>         |
|--------------------|-----------------------|
| 2009               | \$ 17,422,065         |
| 2008               | 8,890,510             |
| 2007               | 3,904,468             |
| 2006               | 11,202,906            |
| 2005               | 8,006,273             |
| 2004 and prior     | <u>80,323,446</u>     |
|                    | \$ <u>129,749,668</u> |

The large receivable balance, the many aged individual balances, and the backlog of billing files all reflect inadequate billing and collection procedures.

2. The receivables balance at September 30, 2009 provided by CHC is based on detailed reports generated on October 24, 2009. CHC's system is unable to generate "as of" balances and the listing may not reflect the correct receivables at September 30, 2009.
3. A detailed report for one major group payer category (Private Companies-NR), with a September 30, 2009 receivable balance of \$5,624,328, was not provided.
4. The Department of Finance entered into a contract with a collection agency in September 1995 for the collection of CHC receivables. Total receivables referred from 1992 to 1996, amounted to \$11,760,649. The collection agency ceased operations but never declared bankruptcy. The collection agency never cleared its account with CHC. Further, the \$11,760,649 is not reflected in CHC's records.
5. The CNMI Group Health and Life Insurance Trust Fund (GHLITF) confirmed amounts due to CHC of \$14,829,951. However, this amount has not been reconciled to CHC's records reflecting receivables from GHLITF of \$35,877,816.

Cause: The cause of the above condition is a lack of adequate policies and procedures related to the billing and collection of CHC revenues.

Effect: The effect of the above condition is the possibility of a misstatement of CHC receivable balances; however, this effect is mitigated by a corresponding allowance for uncollectible accounts.

Recommendation: We recommend that CHC implement procedures to ensure that all billings are processed timely and that standard procedures are implemented to follow-up on aged accounts. Uncollectible accounts should be written off.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-9, Continued

Prior Year Status: Inadequate controls over receivables at CHC was reported as a finding in the Single Audits of the CNMI for fiscal years 1995 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Joseph Kevin Villagomez, Secretary of Public Health

**Corrective Action:**

1. DPH agrees with the findings. Implementing policies and procedures, as recommended by the auditors, will help but will not resolve the backlog in the processing of bills or decrease the huge outstanding receivable. The major cause of the problem is nonpayment of bills by the Government Health Insurance (GHI) program outstanding since 1992 and inclusion of Medicaid expenditures beyond the annual cap as receivables. Medicaid expenditures above the annual cap represent over one third of the total receivable and GHI represents fifty percent of the remaining outstanding receivable. Inefficiency of the present computer billing system and inadequate FTE's in the Billing and Collection Office contribute to the billing backlog. DPH is seeking funding for a newer, faster more efficient billing system. DPH will discuss the write off of accounts considered uncollectible with the Department of Finance. Since these amounts have never been booked as revenue, no bad debt expense needs to be booked, only adjustments to the receivable and reserve accounts.
2. The lack of "as of" reports is being corrected. Our IT manager is working with the system users and program consultant to update all applications. The AR package currently cannot generate this report.
3. Same as #2. Report cannot be generated separately with current system.
4. DOF and CHC will review status of these accounts.
5. Discrepancy exists due to unprocessed claims at GHI that have been recorded by CHC. GHI is no longer functional as the government uses a commercial insurer. Since the CNMI government incorporates both the payable and receivable writing off both amounts is being explored.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Receivables

Finding No. 2009-10

Criteria: A system of internal control requires that subsidiary ledgers be timely reconciled to the general ledger.

Condition: As of September 30, 2009, the General Fund recorded returned check receivables (account #1010.12800) of \$785,903, which is \$162,796 higher than the subsidiary ledger. A reconciliation of the difference was not made available.

Our tests of seven returned checks aggregating \$147,616 that were collected during the current fiscal year, noted six items that were still included in the subsidiary ledger at September 30, 2009. Details are as follows:

| <u>Check Number</u> | <u>Check Date</u> | <u>Principal Amount</u> | <u>Service Charge</u> | <u>Total</u>      | <u>OCR #</u> |
|---------------------|-------------------|-------------------------|-----------------------|-------------------|--------------|
| 152                 | 02/01/09          | \$ 48,000               | \$ 25                 | \$ 48,025         | 2117026      |
| 34410               | 02/06/09          | \$ 9,070                | \$ 25                 | 9,095             | 424593       |
| 1231                | 02/02/09          | \$ 5,674                | \$ 25                 | 5,699             | 2118132      |
| 1048                | 03/21/09          | \$ 38,500               | \$ 25                 | 38,525            | 216385       |
| 13053               | 06/09/09          | \$ 25,530               | \$ 25                 | 25,555            | 2190632      |
| 6294                | 07/31/09          | \$ 9,591                | \$ 25                 | <u>9,616</u>      | 2215506      |
|                     |                   |                         |                       | \$ <u>136,515</u> |              |

Cause: The cause of the above condition is the lack of periodic reconciliations of returned checks.

Effect: The effect of the above condition is the possibility of misstatements of returned checks; however, this effect is mitigated by a corresponding allowance for uncollectible accounts of \$679,202.

Recommendation: We recommend that periodic reconciliation of returned checks receivable be performed.

Prior Year Status: The lack of periodic reconciliation of returned checks was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Antoinette Calvo, CNMI Treasurer

**Corrective Action:** We agree with the finding. Lack of staff has been on ongoing problem. In 2010, Treasury was able to hire two additional staff to alleviate the problem. Reconciliation will be assigned to one of the staff members.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Travel Advances

Finding No. 2009-11

Criteria: Employee travel advances should be timely liquidated through submission of travel vouchers or the return of funds.

Condition: As of September 30, 2009, the General Fund recorded travel advances of \$1,528,516, which primarily represent advances outstanding and unliquidated for more than ninety days. Of this amount, approximately \$1,162,667 represents carryforwards from prior years.

Additionally, of three travel advances tested, the travel authorization, travel voucher supporting subsequent liquidation and other relevant supporting documents were not made available, as follows:

| <u>Employee Number</u> | <u>Travel Advance at<br/>September 30, 2009</u> |
|------------------------|---|
| 100399                 | \$ 22,275                                       |
| 103443                 | \$ 175  |
| 251536                 | \$ 2,867  |

Cause: The cause of the above condition is the lack of adherence to policies and procedures regarding the liquidation of outstanding advances. In addition, individual files are not readily accessible.

Effect: The effect of the above condition is the possibility of a misstatement of expenditures and related advances.

Recommendation: We recommend that all advances outstanding for more than one year be reviewed, their collectability evaluated, and any amounts deemed uncollectible be written off. In addition, we recommend that the Department of Finance consider payroll deductions as a means of collecting outstanding advances and policies and procedures be implemented and enforced requiring the timely liquidation of all travel advances.

Prior Year Status: Liquidation of advances was reported as a finding in the Single Audits of the CNMI for fiscal years 1987 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert A. Schrack, Secretary of Finance

**Corrective Action:** We agree that the travel advance balance needs to be adjusted for old balances and that most these old balances cannot be adequately documented. We have implemented automated sub ledgers by traveler for our travel advance accounts. Advance and voucher filing procedures are now being enforced so that new advances are not issued if there are pending outstanding advances. Payroll deductions are being made if vouchers are not filed in a timely manner. Scanning of travel vouchers is now being done. We are reviewing and clearing old balances. Since 09/30/05 the outstanding travel advance balance has been reduced by almost 50% with reductions in each of the subsequent years. The amount currently outstanding is reserved against fund balance on the balance sheet either through the reserve for encumbrances (recent advances) or reserve for related assets (old advances).

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Advances

Finding No. 2009-12

Criteria: Advances to vendors should be timely updated for goods/services already received.

Condition: As of September 30, 2009, the General Fund recorded advances to vendors of \$1,250,188, of which \$662,588 date to fiscal year 2008 and prior. An aging of vendor advances by fiscal year is as follows:

| <u>Fiscal Year</u> | <u>Amount</u>     |
|--------------------|-------------------|
| 2008               | \$ 205,802        |
| 2007               | 146,800           |
| 2006               | 209,631           |
| 2005               | 73,375            |
| 2004               | <u>26,980</u>     |
|                    | \$ <u>662,588</u> |

Of three advances tested aggregating \$477,377, the following were noted:

1. Total advances to one vendor for medical laboratory supplies amounted to \$394,550 at September 30, 2009. Of this amount, \$374,285 related to supplies that have been received on or before September 30, 2009 and \$20,265 was paid subsequent to September 30, 2009. Further, the receiving department/division is unable to provide a detailed accounting of the merchandise received to date.
2. Total advances to one vendor amounted to \$80,127 (Ref. 776182 PL) at September 30, 2009. Based on relevant supporting documents, the related goods and services were received during the fiscal year.
3. Total advances to one vendor amounted to \$2,700 (Ref. 812196 PL) which was paid subsequent to September 30, 2009, and is not a valid advance at September 30, 2009.

The above conditions were corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures to update advances upon receipt of related goods and/or services.

Effect: The effect of the above condition is the possibility of a misstatement of advances and related expenditures and encumbrances.

Recommendation: We recommend that advances to vendors be monitored and be timely adjusted upon receipt of related goods and/or services. Further, we recommend review of existing procedures related to advances for those goods and/or services likely to be received within a short period of time.

Prior Year Status: The lack of adherence to established policies to update advances upon receipt of related goods and services was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-12, Continued

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance & Accounting

**Corrective Action:** We agree that old advances need to be reviewed and adjusted. We believe that believe the policies and procedures currently in place will address the problem of advances staying on the books for lengthy periods of time.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Interfund Receivables and Payables

Finding No. 2009-13

**Criteria:** GASB Statement No. 34, paragraph 112a(1) discusses interfund loans and states that if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

**Condition:** As of September 30, 2009, the general fund recorded payables to the following funds for which repayment is not expected within a reasonable time due to lack of available cash.

| <u>Receivable Fund</u>  | <u>Fund No.</u>  | <u>Interfund Amount</u> | <u>Uncollectible</u> |
|-------------------------|------------------|-------------------------|----------------------|
| Private Grants          | 2030             | \$ 1,731,105            | \$ 1,731,105         |
| Local Revenue           | 2043, 2300, 2400 | \$ 2,902,989            | \$ 2,902,989         |
| DOI Capital Projects    | 4049             | \$ 521,044              | \$ 521,044           |
| DOI Capital Projects    | 4052             | \$ 12,979,881           | \$ 7,925,865         |
| Smiling Cove Marina     | 6065             | \$ 101,503              | \$ 101,503           |
| Fish and Game Revolving | 6075             | \$ 160,902              | \$ 160,902           |
| Infrastructure Tax      | 2041             | \$ 1,020,777            | \$ 848,563           |
| Private Capital Grants  | 4046             | \$ 641,590              | \$ 610,016           |

This condition was corrected through proposed audit adjustments and does not have any federal implications.

**Cause:** The cause of the above condition is the failure to track specific funds received, the lack of a plan to repay such funds, and the lack of available cash flow.

**Effect:** The effect of the above condition is the possible misstatement in interfund balances.

**Recommendation:** We recommend the CNMI assess collectability of interfund balances on a regular basis and ensure compliance with the requirements of GASB Statement No. 34, paragraph 112a(1).

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert A. Schrack, Secretary of Finance

**Corrective Action:** We have accepted the auditors' recommendation regarding audit adjustments for these balances and will review the status in 2010.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Retirement Contributions - General Fund

Finding No. 2009-14

**Criteria:** In accordance with Public Law 6-17, Section 8342(a), the Government shall make contributions to the Northern Mariana Islands Retirement Fund (the Fund) each year on an actuarially funded basis toward the annuities and benefits provided its members. Section 8342(c) requires that both employee and employer contributions be remitted to the Fund within five working days following the end of each payroll date. Further, Section 8342(e) states that an employer who fails to pay or remit contributions as required shall pay a penalty of ten percent per month or part thereof for which contributions remains unpaid, up to a maximum penalty of twenty-five percent of the unpaid contribution.

**Condition:** Our tests of balances due the Fund noted the following:

1. As of September 30, 2009, the CNMI recorded a contribution liability of \$146,371,544 of which \$131,693,784 dates back to fiscal year 2008 and prior. An aging of the outstanding contribution liability by fiscal year is as follows:

|                |                       |
|----------------|-----------------------|
| 2009           | \$ 14,677,760         |
| 2008           | 17,067,675            |
| 2007           | 17,243,509            |
| 2006           | 16,806,429            |
| 2005           | 24,006,548            |
| 2004 and prior | <u>56,569,623</u>     |
|                | \$ <u>146,371,544</u> |

2. As of September 30, 2009, the CNMI's liability relating to penalties on unpaid contributions amounted to \$45,059,393.

**Cause:** The primary cause of the above condition is the lack of available cash flow.

**Effect:** The effect of the above condition is noncompliance with Public Law 6-17, Section 8342.

**Recommendation:** We recommend that the CNMI adhere to the requirements of Public Law 6-17.

**Prior Year Status:** The lack of compliance with Public Law 6-17, Section 8342 was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert A. Schrack, Secretary of Finance

**Corrective Action:** Public Law No. 15-13 established a Defined Contribution Retirement Plan (DCP) for all new public employees hired after January 1, 2007 (eligible employees hired prior to this date participate in the Retirement Fund which is a defined benefit plan) and defined the conditions under which certain members of the defined benefit Retirement Fund could transfer benefits to the DCP. Since the DCP has a 4% employer contribution rate versus 24% for the defined benefit plan, increasing annual savings will result as government employment includes more and more DCP participants. The defined benefit plan will have a fixed or declining number of members which will stabilize required contributions.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-14, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

Public Law No. 15-14 extended the date by which the defined benefit plan must be fully funded from the year 2020 to 2045. This will reduce the annual amount required to liquidate the unfunded liability and reduce the annual required employer contribution.

Public Law No. 15-70 was passed on June 14, 2007 increasing employee contributions to the defined benefit plan by 1% per year beginning in fiscal year 2008 until reaching 10.5% for Class I members and 11% for Class II members. This will decrease the required employer contribution by a similar amount.

An actuarial study was completed in May 2010, as of October 1, 2008, incorporating the above plan changes and related assumptions, showed the actuarial accrued liability (AAL) declined from \$1,007.3 billion at October 1, 2005 to \$899.4 million and the unfunded AAL declined from \$547.2 million to \$529.9 million despite an investment portfolio loss of \$72.5 million from the 2008 market decline.

In May 2010, the Retirement Fund and Executive Branch agreed to a plan that would define a corpus to be maintained, include a portion of earnings to be used for payment of pensions, proposed an initiative to be placed on the ballot for voters to approve issuance of pension obligation bonds to pay the outstanding liability and amend the required employer contribution to a dollar amount rather than a rate as the number of contributing members continues to decline. This plan was presented to the Legislature along with proposed legislation to implement retirement plan changes that would reduce future government retirement liabilities such as paying cost of living increases as annual bonuses rather than additions to the base annuity.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Tax Rebates Payable

Finding No. 2009-15

**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, 2009, tax rebates payable aggregated \$30,865,860. The balance consists of the following:

|  |                      |
|--|----------------------|
| Estimated 2009 liability based on fiscal year 2009 collections | \$ 8,038,309         |
| 2008 and prior rebates unpaid as of September 30, 2009         | <u>22,827,551</u>    |
|  | <u>\$ 30,865,860</u> |

Tests of the rebate payable accounts noted the following:

1. Detailed tests of the unpaid tax year 2008 and prior rebates obtained from the detailed reports noted the following:
  - a. Of fifty-two unmatched filings tested relating to individual and corporate tax rebate payables of \$6,856,286, the following were noted:
    - i. For four items totaling \$2,433,199, the rebate amount in the tax return was left blank. Further, the related tax return filed was incomplete, a different tax form was used, and/or the taxpayer did not submit relevant documentation to properly calculate the tax. Details are as follows:

| <u>Assigned #</u> | <u>Tax Year</u> | <u>Rebate Payable<br/>Per Detailed Reports</u> |
|-------------------|-----------------|--|
| A2                | 2003            | \$ 649,000                                     |
| A5                | 2005            | 1,024,000                                      |
| A7                | 2007            | 649,000  |
| B53               | 2002            | <u>111,199</u>                                 |
|                   |                 | <u>\$ 2,433,199</u>                            |

- ii. Five items totaling \$1,124,169 did not agree to tax returns by \$591,115. The variances were substantially due to incomplete information where the taxpayer either did not submit the relevant supporting documentation and/or the required tax form was not used. Details are as follows:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-15, Continued

Condition, Continued:

| <u>Assigned #</u> | <u>Tax Year</u> | <u>Per Detailed Reports</u> | <u>Per Tax Returns</u> | <u>Variance</u>   |
|-------------------|-----------------|-----------------------------|------------------------|-------------------|
| A1                | 2002            | \$ 465,940                  | \$ 236,366             | \$ 229,574        |
| A3                | 2003            | 556,738                     | 286,132                | 270,606           |
| B69               | 2006            | 77,724                      | -                      | 77,724            |
| B30               | 2006            | 20,738                      | 9,042                  | 11,696            |
| B55               | 2002            | <u>3,029</u>                | <u>1,514</u>           | <u>1,515</u>      |
|                   |                 | \$ <u>1,124,169</u>         | \$ <u>533,054</u>      | \$ <u>591,115</u> |

- iii. For one \$43,427 item, (ref. B75 for tax year 2008), the tax return was not provided.
- iv. For one \$105,178 item, (ref. B72 for tax year 2007), the rebate amount from the detailed report was higher by \$19,572 than the amount on the tax return due to data entry errors.
- b. Of thirty assessed and matched filings tested relating to individual and corporate tax rebate payables of \$1,062,425, the following were noted:
  - i. For three items totaling \$61,544, the tax return was not provided. Details are as follows:

| <u>Assigned #</u> | <u>Tax Year</u> | <u>Rebate Payable Per Detailed Reports</u> |
|-------------------|-----------------|--|
| B15               | 2004            | \$ 30                                      |
| B46               | 2003            | 20,000                                     |
| B48               | 2006            | <u>41,514</u>                              |
|                   |                 | \$ <u>61,544</u>                           |

- ii. One \$2,878 item (ref. B16 for tax year 2006) was paid prior to September 30, 2009 but was included in the year-end tax rebate payable report.
  - ii. For one \$41,554 item (ref. B40 for tax year 2001) the taxpayer is in payable status, as indicated in the tax system, and as such no rebate is due; however, a rebate amount was included in the year-end tax rebate payable report.
  - iii. One \$97,499 item (ref. B45 for tax year 2003) was credited to a 2003 estimated tax; however, the amount was still included in the year-end tax rebate payable report.
2. Of twenty-four accounts totaling \$596,160 that have been uploaded to the JDE system for payment, one \$4,939 item (ref. 399104 PV for tax year 1999) had already been paid prior to September 30, 2009 and was reflected as unpaid in JDE. Further, no details of rebate payables relating to tax years 1999 and below are available from the Division of Revenue and Taxation.

Further, no interest is calculated or paid on overpayments.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-15, Continued

Cause: The cause of the above condition is the lack of periodic review of rebate payable reports to ensure accuracy and completeness and the lack of established policies and procedures to assess the reasonableness of estimated rebates payable. Further, there is a lack of compliance with Public Law 9-22 relating to interest calculations on tax overpayments.

Effect: The effect of the above condition is the possible misstatement of tax rebates payable; however, this effect is mitigated by a corresponding permanent tax reserve to offset any disputes or claims.

Recommendation: We recommend that policies and procedures be established for the periodic review of tax rebate payable reports to ensure accuracy and completeness. We also recommend that policies and procedures be established to assess the reasonableness of estimated rebates payable. Additionally, we recommend that the Division of Revenue and Taxation ensure that tax forms are properly filed and maintained. We also recommend that recorded rebates payable be reconciled with the liability indicated on the tax forms and significant variances, if any, be investigated, monitored, documented and timely addressed.

Prior Year Status: A lack of detailed reports supporting analyses performed and a lack of compliance with Public Law 9-22 relating to interest calculation on tax overpayments was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Maria T. White and Canice M. Diaz, Division of Revenue and Tax

**Corrective Action:** The Division of Revenue and Taxation had implemented in FY 2009 a rebate payable review procedure to be done semi-annually. The semi-annual reviews have not been completed in a timely manner due to shortages of technical personnel to assign the review task on a regular basis, and also because of the need for a custom-made report to be produced before any review is done. The CNMI Tax System will be enhanced to include a standard report menu to generate detailed listings of all pending payables in each status category (unmatched, assessed, payable unpaid) and do away with the custom-made report. This enhancement will include other payable validations such as the case when a payable was paid but not timely posted back to the CNMI Tax system from JDE to reflect that payment has already been made. The technical research branch will be designated and made responsible to perform the periodic review as recommended.

The CNMI Tax system presently has a payable processing routine to determine the reasonableness of payables based on pre-established threshold amount, and for returns with initial status showing a tax due on the return or payment made on a return. The Division of Revenue and Taxation will add another level of review by comparing the rebate payable amount as indicated on the return versus the amount of rebate in the rebate payable report. Any discrepancy outside a pre-established threshold amount would be flagged for review and resolution before a payment is made.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-15, Continued

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

The Division of Revenue and Taxation is currently in the development stage for the implementation of the Electronic Document Management System (EDMS) that will eventually scanned and imaged every return (including OCR/ICR) filed with the Division of Revenue and Taxation. The EDMS will permanently image and store the images in a database for future retrieval and reproduction. The images can be retrieved based on certain search and retrieval criteria (taxpayer name, tax period, tax form, etc.) The hard copies will be permanently filed/stored until ordered disposed by the Secretary. The EDMS will become the standard method to access and review information on the returns unless special circumstances require retrieval of the hard copy. The EDMS project development would be completed by July 31, 2010 and all 2010 tax returns will start imaging.

The Division of Revenue will enhance its payable review processes to include reconciliation of liabilities and payments. The enhancement will be part of its payable processing routines to compare the summary of tax liabilities against the summary of all payment credits and the recorded rebates payable to determine any significant discrepancy based on established threshold amount. The payable subsystem will automatically flag any payable that falls outside the threshold amount and classify the payable as requiring review. A report will be generated and included in the review submenu discussed in the second paragraph above.

**Proposed Completion Date:** August 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Other Liabilities and Accruals

Finding No. 2009-16

Criteria: An effective system of internal control includes policies and procedures to ensure that liabilities are recorded in the appropriate fiscal year.

Condition: During tests of subsequent disbursements, we noted \$1,873,800 of unrecorded liabilities at September 30, 2009. Details by fund follow:

| <u>Fund</u>               | <u>Amount</u>       |
|---------------------------|---------------------|
| General                   | \$ 657,247          |
| Federal Grants            | 705,326             |
| DOI Capital Projects      | 25,133              |
| Nonmajor Capital Projects | 484,094             |
| Nonmajor Special Revenue  | <u>2,000</u>        |
|                           | \$ <u>1,873,800</u> |

The above condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of appropriate cutoff procedures and controls.

Effect: The effect of the above condition is a misstatement of liabilities and expenditures.

Recommendation: We recommend that the Department of Finance implement appropriate policies and procedures to ensure recording of liabilities in the correct fiscal year.

Prior Year Status: A lack of appropriate cutoff procedures and controls was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance & Accounting

**Corrective Action:** We agree with the finding and will review cut-off procedures. However, it appears there will always be audit adjustments for this as our cut-off is 60 days after year (11/30/09) end while the auditors' cut-off is April 29, 2010.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Compensated Absences

Finding No. 2009-17

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 are identified and reviewed for validity. The payroll records should be updated on a timely manner for annual leave balances that do not represent valid obligations.

Condition: At September 30, 2009, compensated absences payable per the subsidiary ledger aggregated \$8,404,096. Of this amount, \$908,645 represents accrued leave of inactive, terminated, resigned or retired employees. Also, \$893,735 represents accrued leave in excess of the 45 days/360 hours limit. Additionally, the balance at September 30, 2009 is net of individual debit balances of \$131,963.

The above condition was corrected through a proposed audit adjustment.

Cause: The cause of the above condition is the lack of adequate procedures and controls to ensure that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records.

Effect: The effect of the above condition is the misstatement of compensated absences payable and related expenditures.

Recommendation: We recommend the CNMI Department of Finance ensure that recorded compensated absences payable represent valid obligations.

Prior Year Status: The lack of adequate procedures and controls to ensure that accrued annual leave balances are reviewed for validity and the lack of timely updating of payroll records was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance & Accounting

**Corrective Action:** We agree with the finding. We are reviewing the detail of the accrued leave still carried for inactive, terminated, resigned and retired employees to determine if they are valid. We will adjust balances determined to be invalid. There are some cases where ex employees have left their balances intact so it is available if they return to government service. We are also reviewing the individual debit balances and will adjust where necessary. Debit balances may be valid for active employees where they have been granted advance leave. For terminated employees balances need to be adjusted. However, we are determining if they actually overpaid or if final payments were not properly recorded.

In the cases of leave in excess of maximum balances, amount noted above is as of 09/30/09. Excess annual leave balances are transferred to sick leave on a calendar year basis. In all cases we have agreed to audit adjustments to adjust the financial statement effect of the above.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Fund Balance - Encumbrances

Finding No. 2009-18

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

Condition: Our tests of reserves for encumbrances noted the following:

1. For DOI Capital Projects Fund encumbrances:

- a. At September 30, 2009, the subsidiary ledger balance of the DOI Capital Project Fund encumbrances of \$4,667,268 is net of debit balances of \$2,507,115. Of the total debit balances, encumbrances of \$1,966,060 have been outstanding for more than five years. Further, we did not evidence review by the Department of Finance of these debit balances. This condition was corrected through a proposed audit reclassification.
- b. An aging of the reserve for encumbrances, excluding debit balances, by fiscal year indicates encumbrances totaling \$894,629 have been outstanding for more than five years. We did not evidence review by the Department of Finance of long outstanding encumbrances.
- c. Of twenty-two DOI Capital Projects Fund encumbrances tested aggregating \$2,413,436, the following exceptions were noted:
  - i. The obligating/encumbering document for the items below were not provided:

| <u>Fund/Business Unit</u> | <u>Document Number</u> | <u>Encumbrance Amount</u> |
|---------------------------|------------------------|---------------------------|
| 4044.4843                 | 60048-OS               | \$ 15,126                 |
| 4044.4863                 | 304837-OS              | \$ 131,601                |
| 4045.4901                 | 70169-OS #1            | \$ 245,591                |
| 4045.4901                 | 70169-OS #2            | \$ (491,181)              |
| 4045.4910                 | 70152-OS               | \$ (426,616)              |
| 4045.4930                 | 60134-OS               | \$ (79,156)               |
| 4045.4936                 | 59-OS                  | \$ (71,248)               |
| 4058.5634                 | 486-OS                 | \$ 253,946                |

For five items (70169-OS #1, 70169-OS #2, 70152-OS, 60134-OS and 59-OS), the related projects were completed at September 30, 2009. Liquidation of the encumbrances was proposed in the adjustment at condition 1a. For three items (60048-OS, 304837-OS and 486-OS) aggregating \$400,673, we were unable to verify if these were valid encumbrances.

- ii. The following variances exist between amounts encumbered and expectations due to unrecorded expenditure accruals at year-end:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-18, Continued

Condition, Continued:

| <u>Fund/Business Unit/General Ledger Account</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u>   | <u>APV Reference</u> |
|--|-----------------------------------|---------------------------|------------------------|-------------------|----------------------|
| 4058.5636.64320                                  | 498-OS                            | \$ 2,207,361              | \$ 2,164,991           | \$ 42,370         | 817570               |
| 4052.5241.64541                                  | 500-OS                            | 210,569                   | 159,147                | 51,422            | 823076               |
| 4058.5617.64280                                  | 481-OS                            | <u>50,267</u>             | <u>25,134</u>          | <u>25,133</u>     | 816354               |
|  |                                   | <u>\$ 2,468,197</u>       | <u>\$ 2,349,272</u>    | <u>\$ 118,925</u> |                      |

This condition was corrected through a proposed audit adjustment.

- iii. The following DOI Capital Projects Fund encumbrances did not indicate any activity for more than five years:

| <u>Fund</u> | <u>Business Unit #</u> | <u>General Ledger Account #</u> | <u>Obligating Document</u> | <u>Amount</u> |
|-------------|------------------------|---------------------------------|----------------------------|---------------|
| 4044        | 4843                   | 64320                           | 60048-OS                   | \$ 15,126     |
| 4044        | 4863                   | 62060                           | 304837-OS                  | \$ 131,601    |
| 4049        | 5805                   | 64280                           | 5-OS                       | \$ 5,794      |
| 4052        | 5134                   | 64320                           | 153-OS                     | \$ 38,959     |

We were unable to verify if these are valid encumbrances at September 30, 2009.

2. Of sixteen Federal Grants Fund encumbrances tested aggregating \$3,285,122, the following were noted:

- a. The obligating/encumbering document for the items below was not provided:

| <u>Fund/Business Unit</u> | <u>Obligating Document Number</u> | <u>Encumbrance Amount</u> |
|---------------------------|-----------------------------------|---------------------------|
| 2020. A8664N              | 282068-OT                         | \$ 2,789                  |
| 2020. H9778B              | 281303-OT                         | \$ 23,668                 |
| 2020. I9605D              | 281940-OT                         | \$ 944                    |

We were unable to verify if these are valid encumbrances at September 30, 2009.

- b. Accounts payable vouchers and supporting invoices evidencing subsequent liquidation of the following encumbrance was not provided:

| <u>Fund</u> | <u>Obligating Document Number</u> | <u>APV Reference Number</u> | <u>Encumbrance Amount</u> | <u>APV Amount</u> |
|-------------|-----------------------------------|-----------------------------|---------------------------|-------------------|
| 2020        | 282068 - OT                       | 815968                      | \$ 2,789                  | \$ 2,789          |
| 2020        | 509127 - OP                       | 817523                      | \$ 50,320                 | \$ 250            |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-18, Continued

Condition, Continued:

- c. The following variances exist between amounts encumbered and expectations due to unrecorded expenditure accruals at year-end:

| <u>Fund/<br/>Business Unit</u> | <u>Obligating<br/>Document<br/>Number</u> | <u>Per<br/>General<br/>Ledger</u> | <u>Per<br/>Expectation</u> | <u>Variance</u> | <u>PV<br/>Reference #</u> | <u>Unrecorded<br/>Expenditure/<br/>Liability</u> |
|--------------------------------|---|-----------------------------------|----------------------------|-----------------|---------------------------|--|
| 2020. H97783                   | 509521-OD                                 | \$ 97,571                         | \$ 159,592                 | \$ (62,021)     | 815680                    | \$ 62,021  |
| 2020. M8017A                   | 504459-OC                                 | \$ 353,007                        | \$ 364,076                 | \$ (11,069)     | 818525                    | \$ 11,069  |
| 2020. T8205U                   | 495685-OC                                 | \$ 560,098                        | \$ 607,820                 | \$ (47,722)     | 819578                    | \$ 47,722  |

This condition was corrected through a proposed audit adjustment.

- d. The following variances exist between amounts encumbered and expectations due to untimely updating of encumbrances for actual expenditures:

| <u>Fund/<br/>Business Unit</u> | <u>Obligating<br/>Document<br/>Number</u> | <u>Per<br/>General<br/>Ledger</u> | <u>Per<br/>Expectation</u> | <u>Variance</u> | <u>PV<br/>Reference #</u> |
|--------------------------------|---|-----------------------------------|----------------------------|-----------------|---------------------------|
| 2020. A95515                   | 507040-OM                                 | \$ 1,011,717                      | \$ -                       | \$ 1,011,717    | 539860                    |
| 2020. A95515                   | 508435-OM                                 | \$ 784,728                        | \$ -                       | \$ 784,728      | 543788                    |

This condition was corrected through a proposed audit adjustment.

- e. The following variances exist between amounts encumbered and expectations due to cancellations/deletions made subsequent to year-end:

| <u>Fund/<br/>Business Unit</u> | <u>Obligating<br/>Document<br/>Number</u> | <u>Per<br/>General<br/>Ledger</u> | <u>Per<br/>Expectation</u> | <u>Variance</u> |
|--------------------------------|---|-----------------------------------|----------------------------|-----------------|
| 2020. H8575B                   | 509127-OP                                 | \$ 50,320                         | \$ 50,120                  | \$ 200          |
| 2020. I9605D                   | 281940-OT                                 | \$ 944                            | \$ -                       | \$ 944          |
| 2020. L7255A                   | 485009-OM                                 | \$ 7,912                          | \$ -                       | \$ 7,912        |
| 2020. P8600P                   | 499847-OP                                 | \$ 984                            | \$ -                       | \$ 984          |
| 2020. T96003                   | 506141-OC                                 | \$ 79,000                         | \$ -                       | \$ 79,000       |

This condition was corrected through a proposed audit adjustment.

- f. One \$2,960 item (ref. 447091-OA, BU/Acct. #J4067L63050) did not indicate any activity for more than three years. We were unable to verify if the reserve is still valid at September 30, 2009.

3. Our tests of General Fund encumbrances noted the following:

- a. An aging of the reserve for encumbrances by fiscal year indicates encumbrances totaling \$981,376 have been outstanding for three years or more. We did not evidence review by the Department of Finance of long outstanding encumbrances.
- b. Of twelve General Fund encumbrances tested aggregating \$382,688, the following were noted:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-18, Continued

Condition, Continued:

- i. The obligating/encumbering document for the items below was not provided:

| <u>Fund/Business Unit</u> | <u>Obligating Document Number</u> | <u>Encumbrance Amount</u> |
|---------------------------|-----------------------------------|---------------------------|
| 1010.1011                 | 471415-OC                         | \$ 28,083                 |
| 1010.1975                 | 277115-OT                         | \$ 2,168                  |
| 1010.1975                 | 281987-OT                         | \$ 1,200                  |
| 1012.1812                 | 459362-OC                         | \$ 95,000                 |
| 1010.1975                 | 275007-OT                         | \$ 1,742                  |

We were unable to verify if these are valid encumbrances at September 30, 2009.

- ii. The following variances exist between amounts encumbered and expectations due to unrecorded expenditure accruals at year-end:

| <u>Fund/Business Unit</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u> | <u>PV Reference #</u> | <u>Unrecorded Expenditure/Liability</u> |
|---------------------------|-----------------------------------|---------------------------|------------------------|-----------------|-----------------------|---|
| 1010.1340                 | 505114-OP                         | \$ 2,465                  | \$ -                   | \$ 2,465        | 548505                | \$ 2,465                                |
| 1010.1812                 | 459362-OC                         | \$ 95,000                 | \$ 90,038              | \$ 4,962        | 818288                | \$ 4,962                                |

- iii. The following variances exist between amounts encumbered and expectations due to cancellations/deletions made subsequent to year-end:

| <u>Fund/Business Unit</u> | <u>Obligating Document Number</u> | <u>Per General Ledger</u> | <u>Per Expectation</u> | <u>Variance</u> |
|---------------------------|-----------------------------------|---------------------------|------------------------|-----------------|
| 1010.1975                 | 277115-OT                         | \$ 2,168                  | \$ -                   | \$ 2,168        |
| 1010.1975                 | 275007-OT                         | \$ 1,742                  | \$ -                   | \$ 1,742        |

- iv. The following General Fund encumbrances did not indicate any activity for three years or more:

| <u>Fund</u> | <u>Business Unit #</u> | <u>General Ledger Account #</u> | <u>Obligating Document</u> | <u>Amount</u> |
|-------------|------------------------|---------------------------------|----------------------------|---------------|
| 1010        | 1290                   | 63060                           | 461554-OP                  | \$ 655        |
| 1012        | 1840                   | 63080                           | 462024-OA                  | \$ 8,325      |

We were unable to verify if these are valid encumbrances at September 30, 2009.

Cause: The cause of the above condition is the lack of established policies and procedures to monitor recorded reserves for encumbrances and inadequate file maintenance.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-18, Continued

Effect: The effect of the above condition is the potential misstatement of the reserve for encumbrances.

Recommendation: We recommend the Department of Finance ensure that all encumbrances are supported by encumbering documents. Further, we recommend the Department of Finance ensure that encumbrances are updated for actual expenditures. Additionally, we recommend that long outstanding encumbrances and debit balances be examined to ensure validity.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance & Accounting

**Corrective Action:** We agree that encumbrance balances need to be reviewed and adjusted and are in the process of reviewing and correcting balances. This will include reconciling advance payment and travel encumbrances with the outstanding advance accounts. For #1 encumbrances are mainly construction contracts many of which were carried over from the old FMS system and it has been difficult physically adjusting the detail. We are upgrading our FMS and this will be one of the items we will be discussing with the vendor. For #2 and #3 many of the details relate to unrecorded liabilities and subsequent cancellations that were corrected through AJEs.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

CNMI Local Noncompliance

Finding No. 2009-19

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

Condition: On March 11, 2009, the CNMI passed Public Law 16-32 as the Appropriations and Budget Authority Act for 2009. The following activity levels reported expenditures in excess of budget allotments for the year ended September 30, 2009.

|                                      | Budgeted<br>Level of<br><u>Expenditures</u> | Actual<br><u>Expenditures</u> | Over-<br><u>Expenditure</u> |
|--------------------------------------|---|-------------------------------|-----------------------------|
| Executive Branch:                    |   |                               |                             |
| Attorney General                     | \$ 3,337,424                                | \$ 3,665,129                  | \$ (327,705)                |
| Community & Cultural Affairs         | \$ 2,131,750                                | \$ 2,284,286                  | \$ (152,536)                |
| Commerce                             | \$ 845,203                                  | \$ 978,158                    | \$ (132,955)                |
| Corrections                          | \$ 3,337,055                                | \$ 3,431,053                  | \$ (93,998)                 |
| Finance                              | \$ 4,744,424                                | \$ 5,228,080                  | \$ (483,656)                |
| Office of the Governor               | \$ 8,890,178                                | \$ 9,251,497                  | \$ (361,319)                |
| Public Health                        | \$ 32,456,088                               | \$ 45,771,499                 | \$ (13,315,411)             |
| Public Safety                        | \$ 6,043,569                                | \$ 8,247,700                  | \$ (2,204,131)              |
| Second Senatorial District - Tinian: |   |                               |                             |
| Dental Services                      | \$ 142,548                                  | \$ 167,187                    | \$ (24,639)                 |
| DPS Police                           | \$ 1,326,288                                | \$ 1,378,215                  | \$ (51,927)                 |
| Environmental Health                 | \$ 68,365                                   | \$ 71,334                     | \$ (2,969)                  |
| Fish and Wildlife                    | \$ 98,091                                   | \$ 114,229                    | \$ (16,138)                 |
| Historic Preservation                | \$ 49,805                                   | \$ 57,797                     | \$ (7,992)                  |
| Office of the Mayor                  | \$ 3,213,010                                | \$ 3,180,532                  | \$ (32,478)                 |
| Parks and Recreation                 | \$ 103,709                                  | \$ 116,730                    | \$ (13,021)                 |
| Procurement and Supply               | \$ 37,974                                   | \$ 44,130                     | \$ (6,156)                  |
| Revenue and Taxation                 | \$ 35,150                                   | \$ 41,116                     | \$ (5,966)                  |
| Tinian Health Center                 | \$ 1,369,975                                | \$ 1,579,698                  | \$ (209,723)                |
| First Senatorial District - Rota:    |   |                               |                             |
| Agriculture                          | \$ 594,217                                  | \$ 607,124                    | \$ (12,907)                 |
| Customs Service                      | \$ 133,623                                  | \$ 179,234                    | \$ (45,611)                 |
| DPS Port and Prop                    | \$ 311,428                                  | \$ 363,729                    | \$ (52,301)                 |
| Historic Preservation                | \$ 95,839                                   | \$ 104,187                    | \$ (8,348)                  |
| Labor                                | \$ 277,317                                  | \$ 280,267                    | \$ (2,950)                  |
| Land Registration                    | \$ 117,245                                  | \$ 136,833                    | \$ (19,588)                 |
| Office of the Mayor Contingency      | \$ 68,633                                   | \$ 74,163                     | \$ (5,530)                  |
| Municipal Council                    | \$ 243,441                                  | \$ 282,386                    | \$ (38,945)                 |
| Operations and Maintenance           | \$ 666,411                                  | \$ 712,160                    | \$ (45,749)                 |
| Parks and Recreation                 | \$ 73,536                                   | \$ 85,327                     | \$ (11,791)                 |
| Procurement and Supply               | \$ 42,025                                   | \$ 47,910                     | \$ (5,885)                  |
| Revenue and Taxation                 | \$ 53,548                                   | \$ 92,533                     | \$ (38,985)                 |
| Rota Health Center                   | \$ 1,642,653                                | \$ 1,856,614                  | \$ (213,961)                |
| Soil and Water Conservation          | \$ 21,887                                   | \$ 25,000                     | \$ (3,113)                  |
| Sports and Recreation                | \$ 213,699                                  | \$ 248,532                    | \$ (34,833)                 |
| Government Utilities                 | \$ 994,535                                  | \$ 5,894,904                  | \$ (4,900,369)              |
| Independent Programs:                |   |                               |                             |
| Flame Tree Festival                  | \$ -  | \$ 14,200                     | \$ (14,200)                 |
| National Governor's Association      | \$ 16,745                                   | \$ 22,000                     | \$ (5,255)                  |
| Judicial Branch:                     |   |                               |                             |
| CNMI Superior Court                  | \$ 1,831,952                                | \$ 2,095,108                  | \$ (263,156)                |
| CNMI Supreme Court                   | \$ 814,135                                  | \$ 837,206                    | \$ (23,071)                 |
| Administrative                       | \$ 682,252                                  | \$ 790,418                    | \$ (108,166)                |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No. 2009-19, Continued

Condition, Continued:

|  | <u>Budgeted<br/>Level of<br/>Expenditures</u> | <u>Actual<br/>Expenditures</u> | <u>Over-<br/>Expenditure</u> |
|--|---|--------------------------------|------------------------------|
| Office of the Public Auditor                 | \$ 1,095,079                                  | \$ 1,374,695                   | \$ (279,616)                 |
| Third Senatorial District - Saipan:          |   |                                |                              |
| Mayor Contingency Saipan                     | \$ -  | \$ 17,894                      | \$ (17,894)                  |
| Mayor Saipan                                 | \$ 1,411,777                                  | \$ 1,418,375                   | \$ (6,598)                   |
| Mayor Northern Islands                       | \$ 270,540                                    | \$ 280,831                     | \$ (10,291)                  |
| Resident Representative to the United States | \$ 283,124                                    | \$ 293,845                     | \$ (10,721)                  |
| Boards and Commissions:                      |   |                                |                              |
| Civil Service Commission                     | \$ 183,646                                    | \$ 215,924                     | \$ (32,278)                  |
| CNMI Election Commission                     | \$ 295,675                                    | \$ 318,372                     | \$ (22,697)                  |
| Board/Professional Licensing                 | \$ 131,302                                    | \$ 134,147                     | \$ (2,845)                   |
| Education (payment to Public School System): |   |                                |                              |
| Payments to Public School System             | \$ 32,491,764                                 | \$ 32,559,711                  | \$ (67,947)                  |

Cause: The cause of the above condition is the authorization of expenditures in excess of budget allotments.

Effect: The effect of the above condition is the over-expenditure of amounts in excess of budget allotments.

Recommendation: We recommend that the Department of Finance authorize expenditures only within budgeted allotment levels.

Prior Year Status: Over-expenditures in excess of budget allotments was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Robert A. Schrack, Secretary of Finance and Virginia Villagomez, Special Assistant for Management & Budget

**Corrective Action:** We agree that a deficit was incurred in FY2009. Personnel austerity measures were incorporated in the budget expenditure level that were not included in the final passage of P.L. 16-32.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Finding No.: 2009-20  
 Federal Agency: U.S. Department of Agriculture  
 CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
 Federal Award No.: 7NM4004NM  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Cash Management  
 Questioned Costs: \$-0-

Criteria: The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The allowable clearance pattern is seven days.

Condition: The CNMI Division of Supplemental Nutrition Assistance Program received \$8,012,868 in program benefits related to food costs. Of the total, \$7,847,124 was tested. For thirteen of twenty-four food cost samples tested, the following were paid after the allowable clearance pattern:

| <u>Document No.</u> | <u>Amount</u> | <u>Clearance Date</u> | <u>Cash Receipt Date</u> | <u>Days Elapsed<br/>After the Allowable<br/>Clearance Pattern</u> |
|---------------------|---------------|-----------------------|--------------------------|---|
| 766995              | \$ 566,763    | 12/01/08              | 10/31/08                 | 14  |
| 770432              | \$ 528,445    | 02/20/09              | 12/12/08                 | 43  |
| 773347              | \$ 593,640    | 01/08/09              | 12/19/08                 | 7   |
| 777502              | \$ 472,756    | 03/20/09              | 02/20/09                 | 13  |
| 780049              | \$ 496,284    | 04/09/09              | 03/13/09                 | 12  |
| 782859              | \$ 517,334    | 05/01/09              | 04/20/09                 | 2   |
| 790463              | \$ 487,487    | 07/07/09              | 05/13/09                 | 30  |
| 804749              | \$ 526,991    | 07/27/09              | 06/17/09                 | 21  |
| 815345              | \$ 822,846    | 09/15/09              | 08/12/09                 | 17  |
| 817998              | \$ 188,871    | 10/08/09              | 09/18/09                 | 7   |
| 818002              | \$ 697,185    | 10/26/09              | 09/18/09                 | 19  |
| 773344              | \$ 74,092     | 02/20/09              | 12/19/08                 | 38  |
| 804745              | \$ 140,726    | 07/07/09              | 06/17/09                 | 7   |

Cause: The cause of the above condition is a lack of procedures to ensure cash advanced from the grantor agency is disbursed within a timely manner.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$446 exists. However, no questioned costs result from the condition as the projected interest liability to the U.S. Department of Agriculture is less than \$10,000.

Recommendation: We recommend that the Department of Finance ensure strict compliance with the clearance pattern as approved and specified in the CMIAA.

Prior Year Status: The lack of procedures in place to ensure cash advanced from the grantor agency is disbursed within a timely manner was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-20, Continued  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Federal Award No.: 7NM4004NM  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Cash Management  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Antoinette Calvo, CNMI Treasurer

**Corrective Action:** The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2009) shows receivables from Federal agencies of \$7,291,112 for Federal grants as of September 30, 2009.

We will review our procedures with appropriate staff to minimize the timing differences; however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus drawdowns are not considered. The federal agency may not have made payments for other expenditures in the program

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-21  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Federal Award No.: 7NM4004NM  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: In accordance with Title 7 Section 3016.32 of the Code of Federal Regulations, a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

The CNMI Property Management Policies and Procedures requires the Division of Procurement and 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. Further, 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 property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, 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: The following were noted during our examination of the Division of Supplemental Nutrition Assistance Program (SNAP) and the Division of Procurement and Supply compliance with the above requirements:

- a. Property records maintained by P&S did not have information as to source of the property and who holds title. Further, of five hundred and six items listed, forty-eight items did not have information as to physical location and one hundred eleven items did not have cost information.
- b. Property records maintained by SNAP did not have information as to source of the property and who holds the title. Further, of five hundred four items listed, ninety-one items did not have cost information and one item did not have an acquisition date.
- c. Although an annual inventory was performed, a reconciliation of property records maintained by SNAP and P&S has not been completed. The property records maintained by SNAP are \$12,004 in excess of the amounts maintained by P&S.
- d. Random audits of property held by SNAP to validate the integrity of the property control process were not performed.

We were unable to assess the overall cumulative monetary value of the deficiencies above. However, total capital outlays for fiscal years 2009, 2008 and 2007 were \$47,525, \$12,655 and \$10,272, respectively.

Cause: The cause of the above condition is lack of adherence to established policies and procedures regarding physical inventories of property and equipment and an absence of a reconciliation between the property records maintained by P&S and SNAP.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-21, Continued  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Federal Award No.: 7NM4004NM  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Effect: The effect of the above condition is that the CNMI is not in compliance with applicable equipment and real property management requirements.

Recommendation: We recommend that the CNMI ensure compliance with applicable property rules and regulations.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and lack of reconciliation between the property records maintained by P&S and SNAP was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Eleanor Cruz, Administrator

**Corrective Action:** A physical inventory was completed by P&S on August 2009 and reconciliation of the SNAP physical inventory was performed and completed and updated copy emailed to Deloitte & Touche on May 28, 2010. All records of SNAP physical inventory and P&S inventory master list were reconciled and completed on November 2009.

**Proposed Completion Date:** Completed

Auditor Response: The updated property and equipment listing provided by SNAP on May 28, 2010 was the one examined in relation to the criteria above. As such, the condition identified above were based on the updated property and equipment listing provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-22  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Federal Award No.: 7NM4004NM  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$-0-

Criteria: Title 7 Section 3016.60(c) of the Code of Federal Regulations, *The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, states that a State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts.

Condition: Of five non-payroll samples tested, one item (ref. PV No. 782560) amounting to \$24,829 was awarded through a contract which included a local geographical preference clause.

Cause: The cause of the above condition is the lack of procedures in place to ensure that all federally funded procurements of goods and services exclude the local bidder preference clause.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and potential restriction on the manner of conducting procurement. No questioned costs result from this finding as the selected vendor's bid was lower than that of the highest rated bidder.

Recommendation: We recommend that the CNMI ensure that contracts funded by federal awards meet compliance with all applicable laws.

Prior Year Status: The lack of procedures to ensure that all federally funded procurement of goods and services exclude the local bidder preference clause was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Eleanor Cruz, Administrator

**Corrective Action:** As of August 2009, all ITBs and contracts have no local preference clause in them. CNMI P.L 15-19 (CNMI Local Preference Law) is no longer applicable and USDA 7 CFR 277.14(f) and 7CFR 3016.36 have been implemented in all contracts.

**Proposed Completion Date:** Completed

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-23  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.551 Supplemental Nutrition Assistance Program  
Federal Award No.: 7NM4004NM  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: The Memorandum of Understanding (MOU) between the CNMI and the Food and Nutrition Service under the U.S. Department of Agriculture requires the CNMI Division of Supplemental Nutrition Assistance Program (SNAP) to periodically monitor all retailers participating in the Program to determine compliance with Program Requirements.

Condition: Our tests of compliance visits to retailers indicated that compliance visits were not performed for the quarters ending March 31, 2009, June 30, 2009 and September 30, 2009.

Cause: The cause of the above condition is represented to be an inadequate number of personnel to perform the visits.

Effect: The effect of the above condition is noncompliance with the requirements of the MOU.

Recommendation: We recommend that SNAP comply with the provisions of the MOU.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Eleanor Cruz, Administrator

**Corrective Action:** The Retail and Redemption Unit (RRU) agrees with the finding that the compliance visits for quarters ended March 31, 2009, June 30, 2009 and September 30, 2009 “High Redeemers” were not performed during the fiscal year. The cause of these conditions is due to inadequate number of personnel to perform these requirements. There are three full-time employees (FTE) assigned to RRU, however, during this fiscal year, one FTE was a CNMI Army Reservist and was activated for deployment to Kuwait which he served for over a period of twelve months. In addition, since the inception of the BICA Unit/CIC Section, at least one RRU staff is assigned to assist during the issuance of the NAP Coupons/ATP checks every month despite inadequate manpower to perform its duties and responsibilities on a timely manner as required.

**Proposed Completion Date:** RRU have completed the compliance visits for March 31, 2009, June 30, 2009 and September 30, 2009 and compliance visits reports for the said periods were submitted to NAP Administrator including the mailing of the confirmation letters to affected retailers on May 18, 2010.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-24  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Federal Award No.: 7NM700NM7  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$3,167

Criteria: The CNMI Division of Special Supplemental Nutrition Program for Women, Infants, and Children's (WIC) Procedures Manual requires that participants must be informed of their rights and obligations and documentation of such must be performed at each certification.

Condition: Our tests of fifty participants indicated that rights and obligations documentation was not prepared for three participants (WIC ID Nos. 10010003564, 10010004171 and 10010004738).

Cause: The cause of the above condition is lack of controls over the eligibility process.

Effect: The effect of the above condition is noncompliance with eligibility requirements and the possible use of federal funds for ineligible individuals and questioned costs of \$3,167 since the projected costs exceeded \$10,000.

Recommendation: We recommend that WIC strengthen record keeping controls to ensure that case files supporting eligibility determination are completely maintained.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Erin Angela Camacho, RD, CLC, Program Administrator, CNMI WIC Program

**Corrective Action:** The CNMI WIC clinic has established better filing procedures to keep certification paperwork from being lost. Rights and Obligations forms are now stapled to the check issuance signature sheet, and secured in a daily file with metal tabs. This has minimized misfiled and lost paperwork since it was implemented in January of 2010. Staff have been trained and reminded that the rights and obligations paperwork must be signed at every certification appointment. This has been addressed in clinic staff meeting trainings. In October of 2008 the Program received approval from FNS for FFY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government. To date the CNMI WIC Program has hired a Quality Assurance Coordinator he has been onboard as of February 2010. As recommended by the CNMI WIC's most recent USDA STAR onsite review that took place April 26<sup>th</sup> to the 30<sup>th</sup> steps are being taken to ensure that the Quality Assurance Coordinator receives the proper training in all aspects of Monitoring and Evaluation. What is suggested by the Clinic Manager is to have the CNMI WIC Quality Assurance Coordinator do random Audits on Participant files on a Quarterly basis to insure that the CNMI WIC Clinic meets this requirement.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-25  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Federal Award No.: 7NM700NM7  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: In accordance with Title 7 Section 3016.32 of the Code of Federal Regulations, a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

The CNMI Property Management Policies and Procedures requires the Division of Procurement and 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. Further, 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 property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, 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: The following were noted during our examination of the CNMI Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and Division of Procurement and Supply (P&S) compliance with the above requirements:

- WIC's property listing is not reconciled with the P&S's records.
- P&S maintained records of equipment and property held by WIC, which includes equipment and property purchased by WIC since 2006 with a total cost of \$185,023. However, the property records did not include information as to the source of the property and percentage of federal participation. Further, of one hundred fifty-seven items of property and equipment listed as of September 30, 2009, fifty items did not have cost information.
- The P&S listing as of September 30, 2009 indicated a total of one hundred fifty-seven fixed asset items compared to WIC's listing of one hundred ninety-two fixed asset items as of September 30, 2009.
- A physical inventory of equipment and property has not been performed since the WIC program started.

We are unable to assess the overall cumulative monetary value of the deficiencies above. However, total capital outlay for fiscal years 2009, 2008 and 2007 were \$20,252, \$107,331 and \$57,440, respectively.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-25, Continued  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Federal Award No.: 7NM700NM7  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to reconcile property records.

Effect: The effect of the above condition is that the CNMI is not in compliance with applicable equipment and real property management requirements.

Recommendation: We recommend that the CNMI ensure compliance with applicable property rules and regulations.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory counts of property and equipment and failure to maintain property records was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Imelda Benavente, WIC Financial Manager and Irene Sigrah, WIC Administrative Assistant

**Corrective Action:** WIC is in the process of updating and reconciling its property records with DOF-P&S. WIC has also since obtained a copy of the CNMI Property Management Policies and Procedures to use as its guidance for the management and accountability of all property under WIC's possession. WIC will ensure that it comply with the CNMI Property Management Policies and Procedures.

**Proposed Completion Date:** August 31, 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-26  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Federal Award No.: 7NM700NM7  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$2,500

Criteria: Federal regulations state that small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

The CNMI Procurement Regulations Section 3-105 states the following:

- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Bidding is not required for procurements under \$2,500.
- Bidding is also not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented and submitted to the Procurement and Supply Director for approval.

Condition: Of nine non-payroll Nutrition Services and Administration costs tested aggregating \$132,720, there is no indication that price or rate quotations were obtained from an adequate number of qualified sources which qualify under small purchase procedures for the following item:

| <u>Document Type</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>Expenditure Tested</u> |
|----------------------|---------------------|----------------------------|---------------------------|
| PV                   | 762025              | 10/07/08                   | \$ 2,500                  |

Cause: The cause of the above condition is the failure to enforce adherence to established procurement regulations and the absence of competitive procurement for items less than \$2,500.

Effect: The effect of the above condition is noncompliance with federal procurement regulations and questioned costs of \$2,500 since the projected costs exceeded \$10,000.

Recommendation: We recommend that the Program comply with federal procurement regulations related to small purchase procedures.

Prior Year Status: The lack of policies and procedures within the requesting departments to ensure compliance with local and federal procurement regulations was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-26, Continued  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Federal Award No.: 7NM700NM7  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$2,500

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Imelda Benavente, WIC Financial Manager and Irene Sigrah, WIC Administrative Assistant

**Corrective Action:** The expenditure cited for lack of documentation to indicate compliance with the three price quotation requirement involves purchases made under an open purchase order for an office supply vendor. To comply with the three price quotation requirement, WIC will begin documenting that it has obtained three price quotations from other office supply vendors prior to making a purchase for office supplies under an open purchase order.

Attached is WIC's Desk Manual revised on June 2009 which includes a provision that requires three price quotations to be attached to every purchase request (\$10,000 and under), no exceptions.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-27  
 Federal Agency: U.S. Department of Agriculture  
 CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
 Federal Award No.: 7NM700NM7  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Reporting  
 Questioned Costs: \$-0-

Criteria: In accordance with 7 CFR section 246.25(b), a State Agency is required to submit monthly financial and program performance (participation) data. Further, State Agencies prepare the FNS-798A annually to report: (1) Nutrition Services and Administration (NSA) expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. Further, total outlays reported to the grantor should correspond to amounts recorded per the general ledger.

Condition: Based on our examination of the CNMI Special Supplemental Nutrition Program for Women, Infants, and Children's (WIC) FNS-798A, the following differences were noted:

|            | <u>Per FNS-798A</u> | <u>Per General Ledger</u> | <u>Difference</u>   |
|------------|---------------------|---------------------------|---------------------|
| Food costs | \$ 3,191,428        | \$ 3,236,191              | \$ (44,763)         |
| NSA costs  | <u>1,115,637</u>    | <u>1,173,360</u>          | <u>(57,723)</u>     |
| Total      | \$ <u>4,307,065</u> | \$ <u>4,409,551</u>       | \$ <u>(102,486)</u> |

Cause: The cause of the above condition is that the amounts reflected on the FNS-798A for the fiscal year ended September 30, 2009 did not reflect actual expenditures due to possible cut-off errors.

Effect: The effect of the above condition is noncompliance with grant reporting requirements. No questioned costs result from the condition as funds drawn down correspond with recorded expenditures.

Recommendation: We recommend that WIC ensure that information reported to the grantor reconciles to financial records.

Prior Year Status: Noncompliance with grant reporting requirements was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Imelda Benavente, WIC Financial Manager and Irene Sigrah, WIC Administrative Assistant

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-27, Continued  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Federal Award No.: 7NM700NM7  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Reporting  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** WIC will work closely with DOF - Federal Grants Section to ensure that information reported to the grantor agency agrees with DOF financial records. Any discrepancies between WIC and DOF records will be communicated and resolved with DOF on a monthly basis.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-28  
Federal Agency: U.S. Department of Agriculture  
CFDA Program: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
Federal Award No.: 7NM700NM7  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: In accordance with applicable special tests and provision requirements, the State agency shall establish an on-going management evaluation system which includes at least monitoring of local agency operations, review of local agency financial and participation reports, development of corrective action plans to resolve Program deficiencies, monitoring of the implementation of corrective action plans, and on-site visits. The results of such actions shall be documented.

Condition: The CNMI Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) has not established a management evaluation system during fiscal year 2009.

Cause: The cause of the above condition is the lack of adherence to the State Plan.

Effect: The effect of the above condition is noncompliance with applicable special tests and provision requirements and the Program's State Plan.

Recommendation: We recommend that WIC establish its management evaluation system in accordance with the applicable special tests and provision requirements and the State Plan.

Prior Year Status: The lack of adherence to applicable special tests and provision requirements and the State Plan was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Persons:** Erin Angela Camacho, RD, CLC, Program Administrator, CNMI WIC Program

**Corrective Action:** In October of 2008 the Program received approval from FNS for FY 2009 to hire a Quality Assurance Coordinator whose duties include the ongoing monitoring and management evaluation of the Program. The Program is awaiting the approval of the FTE from the CNMI Government. To date, the CNMI WIC Program has hired a Quality Assurance Coordinator who has been onboard as of February 2010. As recommended by the CNMI WIC's most recent USDA STAR onsite review that took place April 26th to the 30th, steps are being taken to ensure that the Quality Assurance Coordinator receives the proper training that would enable him to establish an ongoing management evaluation system which will include monitoring of state run clinic site, operations, review of state run clinic financial and participation reports, development of corrective action plans to resolve program deficiencies if identified, monitoring of the implementation of corrective action plans.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-29  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Fiscal Year 2009 Compact Impact  
Federal Award No.: CNMI-CI-2009-1  
Federal Award Period: 01/07/09 through 09/30/13  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$2,081

Criteria: Expenditures and disbursements should be supported by certified accounts payable vouchers, invoices and other relevant documents.

Condition: Of fifteen non-payroll expenditures tested aggregating \$128,522, we noted the following:

1. For one item, the expenditure did not agree to supporting invoices as follows:

| <u>Business Unit</u> | <u>APV #</u> | <u>GL Amount</u> | <u>Federal Share</u> |
|----------------------|--------------|------------------|----------------------|
| 1350                 | 525985 PV    | \$ 2,834         | \$ 1,729             |

2. For one travel expenditure, the trip report was not provided as follows:

| <u>Business Unit</u> | <u>APV #</u> | <u>GL Amount</u> | <u>Federal Share</u> |
|----------------------|--------------|------------------|----------------------|
| 1335                 | 533177 PV    | \$ 2,937         | \$ 352               |

Cause: The cause of the above condition is the lack of expenditure verification.

Effect: The effect of the above condition is questioned costs of \$2,081 since the projected questioned costs exceeded \$10,000.

Recommendation: We recommend that the CNMI Department of Finance ensure that all expenditures and disbursements are supported by invoices, checks, contracts and other relevant documents.

Prior Year Status: Lack of systematic filing of certified accounts payable vouchers, invoices and other relevant documents was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance & Accounting

**Corrective Action:** We will review specific documents noted, however reimbursement of costs was done on a lump sum basis not for specific individual expenditures. For #1, this particular payment was noted as a partial payment so the full invoice was probably attached with partial payment noted. For #2 we will follow up on trip report.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-30  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Fiscal Year 2009 Compact Impact  
Federal Award No.: CNMI-CI-2009-1  
Federal Award Period: 01/07/09 through 09/30/13  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$9,702

Criteria: Payroll charges should be supported by authorized personnel action forms and timesheets or equivalent.

Condition: Of thirty-one payroll expenditure aggregating \$168,015 that was reimbursed by the DOI Compact Impact Grant, we noted that an authorized timesheet or equivalent was not provided for one employee (#480993; PPE 01/17/09; federal share of gross pay \$9,702) and that the pay rate did not agree to the supporting personnel action form.

Cause: The cause of the above condition is the lack of systematic filing of timesheets or equivalent documents supporting time charges and failure to update pay rates in the payroll system on a timely basis.

Effect: The effect of the above condition is questioned costs of \$9,702 since the projected questioned costs exceeded \$10,000.

Recommendation: We recommend that all recorded payroll expenditures and disbursements are supported by timesheets or equivalent documentation and that changes to pay rates be updated in the payroll system on a timely basis.

Prior Year Status: The lack of systematic filing of personnel action forms and timesheets was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance & Accounting

**Corrective Action:** We will review specific document noted, however reimbursement was done on a lump sum basis not for specific individual expenditures. It appears this doctor was normally stationed on Tinian and was reimbursed for work done on Saipan outside his normal working hours.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-31  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2009 Compact Impact  
 Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1  
 Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13  
 Area: Cash Management  
 Questioned Costs: \$-0-

Criteria: In accordance with OMB Circular A-133, Part III Compliance Requirements - Cash Management, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. The terms stipulated in the Cash Management Improvement Act Agreement (CMIAA) should be followed by the grantee for selected major programs. Additionally, the CMIAA states that the CNMI shall be liable for interest on federal funds from the date federal funds are credited to the CNMI's account until those funds are paid out for program purposes. The approved clearance pattern is three days.

Condition: Of seventy-one CIP samples tested, fifty-one items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's Account. Details are as follows:

| <u>APV #</u> | <u>Amount</u> | <u>Business Unit</u> | <u>CR Date</u> | <u>Date Check Cleared</u> | <u>Elapsed</u> |
|--------------|---------------|----------------------|----------------|---------------------------|----------------|
| 762162       | \$ 82,623     | 5152                 | 10/23/08       | 01/13/09                  | 55             |
| 762896       | \$ 42,000     | 5228                 | 10/23/08       | 12/04/08                  | 27             |
| 762902       | \$ 175,432    | 5618                 | 10/23/08       | 12/19/08                  | 38             |
| 762902       | \$ 132,546    | 5626                 | 10/23/08       | 12/19/08                  | 38             |
| 762903       | \$ 52,987     | 5626                 | 10/23/08       | 10/28/09                  | 239            |
| 763613       | \$ 35,153     | 5154                 | 10/31/08       | 01/09/09                  | 45             |
| 763898       | \$ 233,579    | 5615                 | 10/31/08       | 12/01/08                  | 18             |
| 764492       | \$ 30,013     | 5222                 | 11/05/08       | 12/01/08                  | 15             |
| 765291       | \$ 356,324    | 5615                 | 11/21/08       | 02/12/09                  | 64             |
| 765744       | \$ 81,420     | 5602                 | 12/12/08       | 12/18/08                  | 1              |
| 766778       | \$ 74,718     | 5238                 | 11/28/08       | 12/12/09                  | 223            |
| 767047       | \$ 16,574     | 5175                 | 12/05/08       | 01/26/09                  | 33             |
| 767048       | \$ 176,750    | 5626                 | 11/28/08       | 12/19/08                  | 12             |
| 768484       | \$ 25,517     | 5615                 | 12/15/08       | 01/06/09                  | 13             |
| 768587       | \$ 42,466     | 5615                 | 12/15/08       | 02/05/09                  | 37             |
| 769459       | \$ 62,760     | 5222                 | 12/23/08       | 01/30/09                  | 25             |
| 770361       | \$ 37,788     | 5218                 | 12/31/08       | 02/11/09                  | 27             |
| 770364       | \$ 43,975     | 5220                 | 10/15/07       | 02/05/09                  | 340            |
| 770365       | \$ 89,954     | 5626                 | 12/31/08       | 02/11/09                  | 27             |
| 770367       | \$ 81,422     | 5602                 | 12/31/08       | 01/30/09                  | 19             |
| 771217       | \$ 25,133     | 5605                 | 01/08/09       | 01/26/09                  | 9              |
| 771868       | \$ 40,000     | 5237                 | 01/14/09       | 02/11/09                  | 17             |
| 772001       | \$ 152,010    | 5612                 | 01/14/09       | 01/20/09                  | 1              |
| 772433       | \$ 69,218     | 5626                 | 01/20/09       | 02/17/09                  | 17             |
| 772755       | \$ 16,200     | 5228                 | 04/03/09       | 05/21/09                  | 31             |
| 774166       | \$ 5,226      | 5615                 | 02/17/09       | 09/30/09                  | 158            |
| 774373       | \$ 29,043     | 5626                 | 02/17/09       | 03/03/09                  | 7              |
| 774874       | \$ 38,133     | 5433                 | 03/02/09       | 03/11/09                  | 4              |
| 774880       | \$ 54,398     | 5626                 | 02/24/09       | 03/04/09                  | 3              |
| 774884       | \$ 102,218    | 5615                 | 03/02/09       | 04/28/09                  | 38             |
| 776151       | \$ 779        | 5222                 | 03/16/09       | 04/20/09                  | 22             |
| 776904       | \$ 24,803     | 5615                 | 03/20/09       | 09/30/09                  | 135            |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-31, Continued  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2009 Compact Impact  
 Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1  
 Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13  
 Area: Cash Management  
 Questioned Costs: \$-0-

Condition, Continued:

| <u>APV #</u> | <u>Amount</u> | <u>Business Unit</u> | <u>CR Date</u> | <u>Date Check Cleared</u> | <u>Elapsed</u> |
|--------------|---------------|----------------------|----------------|---------------------------|----------------|
| 776947       | \$ 51,088     | 5222                 | 03/16/09       | 03/27/09                  | 6              |
| 776948       | \$ 55,879     | 5239                 | 03/23/09       | 04/10/09                  | 11             |
| 776950       | \$ 145,091    | 5626                 | 03/16/09       | 04/22/09                  | 24             |
| 776970       | \$ 13,200     | 5615                 | 03/20/09       | 04/20/09                  | 18             |
| 777299       | \$ 62,462     | 5626                 | 03/24/09       | 04/22/09                  | 18             |
| 779086       | \$ 6,225      | 5626                 | 04/16/09       | 06/29/09                  | 49             |
| 779363       | \$ 25,133     | 5605                 | 05/19/09       | 06/02/09                  | 7              |
| 780327       | \$ 98,047     | 5626                 | 05/04/09       | 05/15/09                  | 6              |
| 781466       | \$ 18,129     | 5210                 | 05/11/09       | 09/30/09                  | 99             |
| 782165       | \$ 2,423      | 5617                 | 05/19/09       | 07/02/09                  | 29             |
| 782547       | \$ 152,010    | 5612                 | 06/30/09       | 07/06/09                  | 1              |
| 784001       | \$ 19,774     | 5222                 | 06/09/09       | 06/17/09                  | 3              |
| 784001       | \$ 75,058     | 5605                 | 06/09/09       | 06/17/09                  | 3              |
| 790225       | \$ 84,000     | 5228                 | 06/18/09       | 07/03/09                  | 8              |
| 795145       | \$ 64,620     | 5626                 | 06/30/09       | 07/13/09                  | 6              |
| 795322       | \$ 215,725    | 5626                 | 06/30/09       | 08/25/09                  | 37             |
| 803503       | \$ 25,133     | 5175                 | 07/20/09       | 08/31/09                  | 27             |
| 804209       | \$ 27,000     | 5626                 | 07/21/09       | 08/17/09                  | 16             |
| 810316       | \$ 63,197     | 5626                 | 09/11/09       | 10/01/09                  | 9              |

Additionally, of the \$5,171,914 drawn related to the 2008 Compact Impact grant, the following items were paid after the allowable clearance pattern from the date federal funds were credited to the CNMI's account:

| <u>Document Ref. #</u> | <u>Amount</u> | <u>Business Unit</u> | <u>CR Date</u> | <u>Date Check/<br/>Payment Cleared</u> | <u>Elapsed</u> |
|------------------------|---------------|----------------------|----------------|--|----------------|
| PP #10/2009            | \$ 1,055,000  | I09CIG               | 01/30/09       | 05/08/09                               | 67             |
| PP #10/2009            | \$ 43,024     | I09CIG               | 04/08/09       | 05/08/09                               | 19             |
| JT09-4228 PSS          | \$ 215,451    | I09CIG               | 04/08/09       | 05/21/09                               | 28             |
| JT09-4312 PSS          | \$ 269,025    | I09CIG               | 04/08/09       | 08/04/09                               | 81             |
| JT09-4343 PSS          | \$ 15,995     | I09CIG               | 07/28/09       | 08/28/09                               | 20             |
| PV 544772/PN 22099181  | \$ 89,675     | I09CIG               | 07/28/09       | 09/16/09                               | 33             |
| Unpaid                 | \$ 421,830    | I09CIG               | 07/28/09       | 09/30/09                               | 43             |
| JT09-4123 NMC          | \$ 165,000    | I09CIH               | 01/30/09       | 02/27/09                               | 17             |
| PV 540830/PN 22099167  | \$ 82,500     | I09CIH               | 04/08/09       | 08/13/09                               | 88             |
| PV 540830              | \$ 82,500     | I09CIH               | 07/28/09       | 08/13/09                               | 9              |

Interest for APVs not paid or with checks outstanding was calculated to September 30, 2009. The number of days elapsed is in excess of the clearance pattern of 3 days stipulated in the CNMI Treasury State Agreement.

The results of cash management tests indicated that the terms stipulated in the Cash Management Improvement Act are not being followed.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-31, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects and Fiscal Year 2009 Compact Impact  
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1  
Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13  
Area: Cash Management  
Questioned Costs: \$-0-

Cause: The cause of the above condition is the lack of procedures to ensure cash advanced from the grantor agency is disbursed within a timely manner and in accordance with the requirements of the CMIAA.

Effect: The effect of the above condition is noncompliance with federal cash management requirements. An interest liability of \$675 exists. However, no questioned costs result as the interest liability to the U.S. Department of the Interior is below \$10,000.

Recommendation: We recommend that the Department of Finance ensure compliance with the clearance pattern specified in the CMIAA.

Prior Year Status: The lack of compliance with grant requirements relating to cash management was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Antoinette Calvo, CNMI Treasurer

**Corrective Action:** The CNMI's general policy on Federal grant payments is to draw down funds on a reimbursement basis or as close to the actual disbursement as possible. This is evidenced by the fact that a substantial overall receivable is shown from Federal grantor agencies each year in the Single Audit. The financial statement section of this audit (FY2009) shows receivables from Federal agencies of \$7,291,112 for Federal grants as of September 30, 2009.

We will review our procedures with appropriate staff to minimize the timing differences; however, we feel the audit technique of selecting specific invoices is flawed in that overall program expenditures versus draw downs are not considered. The federal agency may not have made payments for other expenditures in the program

For this finding, the invoices selected all relate to large construction projects where substantial payments are due to the vendor. In several cases the payment was a final contract payment and was not released until the vendor obtained a tax clearance. We also noted that the long outstanding payments were issued shortly after the cash receipt date but did not clear the bank for lengthy periods. Many of the payments selected also include a local share that must be drawn down from our bond trustees. DOI has instructed us not to release the Federal portion of the payment until the local matching bond draw down is received. Advance payment in these cases would disrupt our cash flow for normal payments and payroll. We try to time our disbursement to receipt of the Federal and bond drawdown cash but do wait for the cash to be deposited in the CIP drawdown account before releasing the check

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-31, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects and Fiscal Year 2009 Compact Impact  
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1  
Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13  
Area: Cash Management  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

The section on Compact Impact grant funding should be deleted as funds were received on a reimbursement basis and transferred to PSS and NMC during FY2009.

**Proposed Completion Date:** Ongoing

Auditor Response: Compact impact funds received were transferred to PSS and NMC after the allowable clearance pattern from the date federal funds were credited to the CNMI's account. Interest liability relating to PSS and NMC transfers were calculated based on the number of days elapsed in excess of the clearance pattern of three days stipulated in the CMIAA.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-32  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects and Fiscal Year 2009 Compact Impact  
 Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1  
 Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13  
 Area: Equipment and Real Property Management  
 Questioned Costs: \$-0-

Criteria: Federal regulations provide that procedures for managing equipment, whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.

In addition, the CNMI Property Management Policies and Procedures requires the Division of Procurement and 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.

Condition: The Capital Improvements Project (CIP) Office does not maintain complete property listings of equipment and property acquired with DOI grant funds. Property records maintained by the P&S are by agencies/departments; however, P&S is unable to provide records of property and equipment acquired from DOI grant funds. Property and equipment acquisitions from DOI grant funds for the last three years are as follows:

| <u>Account #</u> | <u>Equipment and Property Category</u> | <u>FY 2009</u>    | <u>FY 2008</u>    | <u>FY 2007</u>    |
|------------------|--|-------------------|-------------------|-------------------|
| 64080            | Machinery, tools and equipment         | \$ -              | \$ 73,480         | \$ 77,520         |
| 64090            | Computer system and equipment          | 4,980             | -                 | 468               |
| 64541            | Medical equipment                      | 210,569           | -                 | -                 |
| 64570            | Office furniture and fixtures          | <u>119,376</u>    | <u>144,484</u>    | <u>258,131</u>    |
|                  |  | \$ <u>334,925</u> | \$ <u>217,964</u> | \$ <u>336,119</u> |

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding maintenance of property records.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-32, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects and Fiscal Year 2009 Compact Impact  
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1  
Federal Award Periods: Available Until Expended and 01/07/09 through 09/30/13  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Effect: The effect of the above condition is that the CNMI is not in compliance with federal property standards. No questioned costs result from this finding due to our inability to assess the dollar amount of property and equipment acquired with DOI grant funds.

Recommendation: We recommend that the Program maintain records of property and equipment acquired with grant funds and ensure compliance with applicable federal and local rules and regulations.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Virginia Villagomez, CIP Administrator, Office of Capital Improvement, Office of the Governor

**Corrective Action:** The equipment and real property management is being maintained by the CIP Office specifically for those equipment purchased by the CIP Office for the program. The CIP Administrator will ensure that an annual physical inventory is conducted by the assigned personnel to ensure that property is intact for the program including an improvement in the areas of internal control affecting disposition of property purchased. The next physical inventory will be conducted on September 30, 2010.

**Proposed Completion Date:** September 30, 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-33  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects  
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act  
Federal Award Period: Available Until Expended  
Area: Matching, Level of Effort, Earmarking  
Questioned Costs: \$120,397

Criteria: Grant Number CNMI-CIP -2001 (GR100011) requires that federal funds be matched by local funds at 50%.

Condition: In analyzing the CNMI's accounting records and related Capital Improvement Projects (CIP) financial reports for one project (business unit #5241), we noted improper cost allocations. The 2009 Federal share of expenditures is \$241,113 representing 99.9 % of total expenditures of \$241,432. Per recalculation, 50% of the total charged for this project is \$120,716 resulting in an excess of the federal share allowed by \$120,397. Reconciliation and justification of the differences in the matching ratio were not available.

Cause: The cause of the above condition is improper allocation of federal and local shares.

Effect: The effect of the above condition is a lack of compliance with grant matching requirements. This condition may also have cash management implications. As the federal share is higher than allowed, the excess of \$120,397 is questioned.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure compliance with matching criteria.

Prior Year Status: Improper allocation of federal and local shares when preparing CIP financial reports was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Virginia Villagomez, CIP Administrator, Office of Capital Improvement, Office of the Governor

**Corrective Action:** The improper cost allocations were noted; however, the expenditures incurred were to liquidate the federal share first prior to the grant expiration on September 30, 2009, resulting in a greater cost allocation on the first payment made with the federal share. The grantor had no objections and the drawdown was approved. Subsequent payments were directly drawn from the local share. Final cost allocation for BU 5241 is 45/55 instead of 99.9%. The CIP Administrator will ensure that cost allocations are followed prior to making the final payment on the project.

**Proposed Completion Date:** Immediately

Auditor Response: At September 30, 2009, the matching requirements were not met. Further, relevant supporting documentation evidencing grantor's approval to liquidate federal share first was not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-34  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act  
 Federal Award Period: Available Until Expended  
 Area: Period of Availability  
 Questioned Costs: \$-0-

Criteria: Projects should be completed within allowable time frames.

Condition: Of eight grant awards tested, expenditures for three projects were incurred after the grant expiration date for the following:

| <u>Business Unit</u> | <u>Grant Award Ref.</u> | <u>Grant Expiration</u> | <u>Expenditure Incurred After Allowable Time Frame</u> |
|----------------------|-------------------------|-------------------------|--|
| 4980                 | CIP-CNMI-2005-2 (1994)  | 01/01/08                | \$ 10,533  |
| 5009                 | CIP-CNMI-2005-2 (1994)  | 01/01/08                | 240  |
| 5426                 | INIT-2005-2             | 07/01/06                | <u>12,008</u>  |
|                      |                         |                         | \$ <u>22,781</u>                                       |

Cause: The cause of the above condition is the lack of established policies and procedures to ensure that expenditures incurred beyond the period of availability are not recorded under federal accounts.

Effect: The effect of the above condition is the lack of compliance with period of availability requirements. The \$22,781 is not questioned as no drawdown of federal funds for the above occurred items.

Recommendation: We recommend that the CNMI ensure compliance with period of availability requirements.

Prior Year Status: The failure to provide grantor approval for project extensions was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Virginia Villagomez, CIP Administrator, Office of Capital Improvement, Office of the Governor

**Corrective Action:** We agree with the finding and internal controls have been established to ensure no transactions are entered after the grant expiration. A journal entry is necessary to transfer expenses incurred to the local share under business units (BU) 4980 and 5009. For BU 5426, the Office of the Attorney General should initiate a journal entry to charge their local BU 1170 removing the expenses incurred after the grant expiration date. A letter will be sent out informing the Department of Finance and the affected agencies of the required journal entries that needs to be processed. The CIP Administrator has included the grant expiration date when a request to establish a business unit is submitted to the Department of Finance. The Department of Finance enters the expiration date of the grant to ensure that no expenditures will be incurred after the grant expires.

**Proposed Completion Date:** Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-35  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
 Fiscal Year 2009 Compact Impact  
 Federal Award Nos.: CNMI-CI-2009-1  
 Federal Award Periods: 01/07/09 through 09/30/13  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$42,253

Criteria: In accordance with applicable procurement regulations, procurement transactions shall provide for full and open competition that is best suited to the circumstances. Further, the CNMI procurement regulations state the following:

- All government procurement shall be awarded by competitive sealed bidding except under circumstances permitting other than full and open competition.
- When special circumstances require the expedited procurement of goods or services, the expedited procurement shall be as competitive as possible under the circumstances.
- Bidding is not required for procurement under \$2,500
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The official with expenditure authority must obtain price quotations from at least three vendors and base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations obtained must be written, documented, and submitted to the P&S Director for approval.

Condition: Of fifteen nonpayroll expenditures tested, aggregating \$128,522, the following were noted:

1. Price quotations were not obtained for the following items which qualify under small purchase procedures:

| <u>Obligating Document #</u> | <u>Purchase Order Amount</u> | <u>APV #</u> | <u>BU</u> | <u>General Ledger Date</u> | <u>Expenditure Tested</u> | <u>Questioned Costs</u> |
|------------------------------|------------------------------|--------------|-----------|----------------------------|---------------------------|-------------------------|
| 498448 OP                    | \$ 2,500                     | 524927 PV    | 1350      | 02/04/09                   | \$ 77                     | \$ 47                   |
| 495628 OP                    | \$ 2,500                     | 520857 PV    | 1350      | 12/15/08                   | \$ 2,495                  | 1,522                   |
| 500618 OP                    | \$ 2,500                     | 540188 PV    | 1350      | 08/11/09                   | \$ 80                     | 49                      |
| 498526 OP                    | \$ 10,000                    | 525985 PV    | 1350      | 02/17/09                   | \$ 2,834                  | <u>1,729</u>            |
|                              |                              |              |           |                            |                           | \$ <u>3,347</u>         |

2. There was no evidence that price quotations were obtained from an adequate number of qualified sources and supporting travel authorizations were not provided for the following:

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-35, Continued  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
 Fiscal Year 2009 Compact Impact  
 Federal Award Nos.: CNMI-CI-2009-1  
 Federal Award Periods: 01/07/09 through 09/30/13  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$42,253

Condition, Continued:

| <u>Obligating Document #</u> | <u>APV #</u> | <u>BU</u> | <u>General Ledger Date</u> | <u>Expenditure Tested</u> | <u>Questioned Costs</u> |
|------------------------------|--------------|-----------|----------------------------|---------------------------|-------------------------|
| 275681 OT                    | 772772 PV    | 1807      | 01/16/09                   | \$ 2,742                  | \$ 2,742                |
| 278966 OT                    | 781454 PV    | 1807      | 04/29/09                   | \$ 7,600                  | 7,600                   |
| 279579 OT                    | 790362 PV    | 1807      | 06/15/09                   | \$ 5,650                  | 5,650                   |
| 281373 OT                    | 808633 PV    | 1807      | 08/12/09                   | \$ 9,992                  | 9,992                   |
| 282133 OT                    | 814480 PV    | 1807      | 09/29/09                   | \$ 9,948                  | 9,948                   |
| 279534 OT                    | 781712 PV    | 1807      | 05/01/09                   | \$ 2,621                  | 2,621                   |
| 279747 OT                    | 533177 PV    | 1335      | 05/11/09                   | \$ 2,937                  | <u>353</u>              |
|                              |              |           |                            |                           | \$ <u>38,906</u>        |

3. One item (Document No. 496034 OP amounting to \$42,409) was procured using expedited procurement. Although justification was provided for the method utilized, the procurement could have been subjected to competitive bidding if proper planning was performed for the related activity/program. No questioned costs arise from this finding since competitive procurement was used despite the lack of formal sealed bidding procedures.

Cause: The cause of the above condition is the failure to enforce adherence to established CNMI procurement regulations and the absence of competitive procurement for items less than \$2,500.

Effect: The effect of the above condition is noncompliance with procurement regulations and questioned costs of \$42,253.

Recommendation: We recommend that the CNMI comply with federal procurement regulations.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Herman Sablan, Director of Procurement & Supply

**Corrective Action:** For #1 and #2 we disagree with the findings and questioned costs regarding small purchases and travel. See response to 2009-54. For #3, we will review the procurement to see if general guidelines can be implemented.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-35, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Fiscal Year 2009 Compact Impact  
Federal Award Nos.: CNMI-CI-2009-1  
Federal Award Periods: 01/07/09 through 09/30/13  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$42,253

Auditor Response: Grantees and subgrantees may use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal laws and regulations. We believe that the matter should be specifically addressed in writing with the funding agency and approval should be sought in writing authorizing the practice.

Federal regulations require that procurement transactions be conducted in a manner providing full and open competition. This does not exclude transactions relating to airfares. Since multiple airlines service the CNMI and since multiple travel agents do business within the CNMI, it is incumbent on the CNMI to ensure that travel is undertaken at the lowest reasonable fare. Even though 2 airlines service the CNMI, multiple airlines provide service after reaching Hawaii or other destinations. Procurement procedures relating to travel expenses should be addressed by the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-36  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act  
 Federal Award Period: Available Until Expended  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$288,306

**Criteria:** Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.

**Condition:** Of twenty-eight contracts tested, we noted the following:

1. Relevant procurement documents (bid summary, bids received, bid evaluation, etc.) for two contracts were not provided. Details are as follows:

| <u>Contract Reference #</u> | <u>Business Unit</u> | <u>FY 2009 Federal Expenditures</u> |
|-----------------------------|----------------------|-------------------------------------|
| 384-OS                      | 5175                 | \$ 36,973                           |
| 481-OS                      | 5175                 | 70,221                              |
|                             | 5222                 | 14,398                              |
|                             | 5605                 | 164,752                             |
|                             | 5617                 | <u>1,962</u>                        |
|                             |                      | \$ <u>288,306</u>                   |

**Cause:** The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.

**Effect:** The effect of the above condition is incomplete procurement files and questioned costs of \$288,306.

**Recommendation:** We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.

**Prior Year Status:** The lack of proper and systematic filing of relevant documents supporting procurement was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

**Auditee Response and Corrective Action Plan:**

**Name of Contact Persons:** Herman Sablan, Director of Procurement & Supply and Pedro Sasamoto, Water Task Force Program Manager

**Corrective Action:** Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. Procurement should have all pertinent documents in file. We are in the process of developing a checklist to be reviewed on contract completion to insure all related documents are included.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-37  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects  
Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act  
Federal Award Period: Available Until Expended  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$18,129

Criteria: In accordance with Section 3-106 (2) of the CNMI Procurement Regulations, a written justification for sole source procurement shall be prepared by the official with expenditure authority. The written sole source justification shall contain the following: a) the specific unique capabilities of the contractor selected; b) the specific reasons why such unique capabilities are required for the particular procurement; c) what specific efforts were made to obtain competition and d) what other specifically-named contractors and other sources, both on-island and off-island, have been considered and why they were not selected. Moreover, generalized statements are not adequate and documents to support the statements justifying the sole source procurement are mandatory.

Condition: Of twenty-eight contracts tested, Contract No. 440-OS was procured using sole source procurement. It was noted that this was originally supposed to be a change order for Contract No. 415 OS but since it exceeded the 25% limit for change orders, a new contract had to be issued. As a condition for approval of the emergency procurement, the Department of Health was supposed to use the "detailed scope of work" in their 04/09/07 memo to solicit quotes from three other vendors who originally competed for the work on Contract No. 415 OS. We were not provided the 04/09/07 memo for scope of work and the quotes from the three other vendors. The related fiscal year 2009 costs of \$18,129 (BU 5210) are questioned.

Cause: The cause of the above condition is failure to comply with Sec. 3-106 of the CNMI Procurement Regulations.

Effect: The effect of the above condition is the lack of compliance with Section 3-106 of the CNMI Procurement Regulation and questioned costs of \$18,129.

Recommendation: We recommend that the CNMI adhere to established Procurement Regulations.

Prior Year Status: Failure to comply with Sec. 3-106 of the CNMI Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2006 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Mr. Joseph M. Inos, Jr., Director of TSD/DPW

**Corrective Action:** The sole source procurement used on this particular project was made in accordance with P&S regulations. We will work closely with P&S to guide us in every project issues; and on a case-by-case basis, we request for sole source depending on the situation and what is to the best interest of the CNMI government. Sole source justifications will require consideration of whether competition was available and other contractors existed who could do this job.

**Proposed Completion Date:** Immediately

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-38  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act  
 Federal Award Period: Available Until Expended  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$865,713

**Criteria:** In accordance with Section 3-103(5) of the CNMI Procurement Regulations, the request for proposals shall state the relative importance of price and other evaluation factors. Price or cost to the government shall be included as an evaluation factor in every solicitation of proposals. The P&S Director must ensure that the above requirements are complied with in any evaluation of proposals. The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (43 CFR Section 12.76(d)(3)(iv)(v)) stipulates “that awards will be made to the responsible firm whose proposal is most advantageous to the program, with price and other factors considered; and ....the method, where price is not used as a selection factor, can only be used in procurement of A/E professional services. It cannot be used to purchase other types of services though A/E firms are a potential source to perform the proposed effort”.

**Condition:** Of twenty-eight contracts tested, three contracts did not include cost as an evaluating factor in evaluating proposals submitted as follows:

| <u>Contract Reference #</u> | <u>Business Unit</u> | <u>FY 2009 Federal Expenditures</u> |
|-----------------------------|----------------------|-------------------------------------|
| 465-OS                      | 5222                 | \$ 11,429                           |
|                             | 5617                 | 18,449                              |
| 436-OS                      | 5618                 | 175,432                             |
|                             | 5626                 | 614,974                             |
| 372-OS                      | 5218                 | <u>45,429</u>                       |
|                             |                      | <u>\$ 865,713</u>                   |

**Cause:** The cause of the above condition is failure to include cost as an evaluating factor.

**Effect:** The effect of the above condition is the lack of compliance with Section 3-103(5) of the CNMI Procurement Regulation and questioned costs of \$865,713.

**Recommendation:** We recommend that the CNMI review evaluating factors to ensure inclusion of cost.

**Prior Year Status:** The failure to include cost as an evaluating factor was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-38, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects  
Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act  
Federal Award Period: Available Until Expended  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$865,713

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Mr. Joseph M. Inos, Jr., Director of TSD/DPW

**Corrective Action:** Every evaluation committees' decision will be reviewed and will be required to demonstrate the effect of the cost factor in its decision. In Contract 372-OS (DPW04-RFP-015) while cost is stated as a factor in the RFP, there is no evidence of what effect it had on the evaluation committee's decision.

**Proposed Completion Date:** Completed

**Name of Contact Person:** Pedro Sasamoto, WTF Program Manager

**Corrective Action:** Contract 436-OS is for Leak Detection and Repairs of existing waterlines. In leak detection and repairs, the location and condition of the existing waterline can only be determined after a leak is pinpointed and excavated, only then can the repair method and cost be determined. Consequently, the RFP addressed cost in two parts: one for the provision of technical services after the initial selection, and the second to negotiate a Schedule of Values of materials. This approach was done in consultation with Procurement and Supply in accordance with Section 3-103(5)(d). Price will be included in the next Leak Detection and Repairs solicitation.

**Proposed Completion Date:** Immediately

**Name of Contact Person:** Mr. Joseph M. Inos, Jr., Director of TSD/DPW

**Corrective Action:** The procurement used on this particular project was made in accordance with Section 4-102 and not Section 3-103 (5) of the CNMI Procurement Regulations. In professional services (like construction management), cost is not used as an evaluating factor. After evaluation is completed and top 3 firms selected, fee proposal is negotiated for a fair and reasonable price to the government.

**Proposed Completion Date:** Completed

Auditor Response: Relevant supporting documents evidencing that fee was negotiated with the top three firms selected were not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-39  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects  
Federal Award Nos.: Fiscal Years 1993 and 1996 - 2009 Appropriations Act  
Federal Award Period: Available Until Expended  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$226,103

Criteria: In accordance with Section 5-103 (2) of the CNMI Procurement Regulations, before adding significant new work to existing contracts, the agency shall thoroughly assess whether or not it would be more prudent to seek competition. Change orders on construction and A&E contracts, which exceed 25 percent of the cumulative contract price, shall automatically be procured through competitive procedures pursuant to Section 3-101, except when the procurement of the additional work is authorized without using full and open competition under Section 3-104.

Condition: Of twenty-eight contracts tested, we noted change orders (CO) related to one contract (Contract No. 311-OS, CO No. 2 for \$525,000) in which the amount of the change order exceeded 25 percent of the cumulative contract price. Although a justification was noted regarding the additional work to be performed, we did not note the justification for sole source procurement. The fiscal year 2009 expenditures tested relating to these change orders amounted to \$226,103 (BU 5219 for \$54,473, BU 5237 for \$80,000 and BU 5238 for \$91,630).

Cause: The cause of the above condition is the failure to justify sole source procurement.

Effect: The effect of the above condition is the lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation and questioned costs of \$226,103.

Recommendation: We recommend that the Division of Procurement and Supply review contract change orders to ensure justifications are properly documented, filed and maintained.

Prior Year Status: The lack of compliance with Section 5-103 (2) of the CNMI Procurement Regulation was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Mr. Joseph M. Inos, Jr., Director of TSD/DPW

**Corrective Action:** DPW complied with Procurement & Supply Regulations over changes exceeding the 25% change order contract amount.

**Proposed Completion Date:** Completed

Auditor Response: As stated in the condition, we did not note the justification for sole source procurement for contract no. 311-OS, change order no. 2.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-40  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act  
Federal Award Period: Available Until Expended  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$-0-

Criteria: Grantee and subgrantee contracts must include, among others, provisions for: 1) termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement; 2) compliance with the Equal Employment Opportunity Act; 3) compliance with the Copeland "Anti-Kickback" Act; 4) compliance with Sections 103 and 107 of the Contract Work Hours and Safety Standards Act; 5) compliance with all applicable standards, orders, or requirements issued under Section 306 of the Clean Air Act; and 6) federal access to contractor's records.

Condition: Of twenty-eight contracts relating to expenditures of Capital Improvement Projects, we noted the following:

- Seven (7) contracts (Nos. 311-OS, 372-OS, 375-OS, 433-OS, 436-OS, 460-OS and 461-OS) did not contain provisions of compliance under Section 306 of the Clean Air Act.
- Twenty-four (24) contracts (Nos. 311-OS, 372-OS, 375-OS, 416-OS, 420-OS, 431-OS, 433-OS, 436-OS, 440-OS, 460-OS, 461-OS, 464-OS, 468-OS, 472-OS, 474-OS, 477-OS, 478-OS, 479-OS, 480-OS, 482-OS, 484-OS, 487482-OC, 489-OS and 500-OS) did not contain provisions of federal access to contractor's records.
- Six (6) contracts (Nos. 372-OS, 416-OS, 433-OS, 436-OS, 460-OS and 461-OS) did not contain provisions for compliance with Section 103 and 107 of the Contract Hours and Safety Standards Act or its equivalent.
- One (1) contract (Nos. 372-OS) did not contain provisions indicating compliance with requirements of the Equal Employment Opportunity Act (Executive Order 11246).

Cause: The cause of the above condition is the lack of procedures in place to ensure that contracts include required clauses.

Effect: The effect of the above condition is noncompliance with required federal contract provisions.

Recommendation: We recommend that the CNMI ensure that contracts funded by federal awards specify compliance with all applicable federal laws.

Prior Year Status: The lack of compliance with the federal regulations relating to contract provisions was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-40, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects  
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act  
Federal Award Period: Available Until Expended  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Mr. Joseph M. Inos, Jr., Director of TSD/DPW

**Corrective Action:** Recommendation accepted. We will ensure that all contracts we process which are funded in whole or in part by U.S. Capital Improvement Funds contain provisions of Section 305 of the Clean Air Act, provisions of federal access to the contractor's records, compliance with Sections 103 and 107 of the Contract Hours and Safety Standards Act and EEO/Executive Order 11246. It is recommended that the Office of the Attorney General review the types of contract formats and provisions used in the Government to ensure that the agencies use the proper contract forms when executing contracts. The CIP Program Office under the Office of the Governor is in the process of hiring a Contracting Officer to ensure performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the Government of the Commonwealth of the Northern Mariana Islands in its contractual relationships. A new contract template was issued by Mr. James Stump, AAG (AGO Office) to conform to the recommendations.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-41  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects  
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act  
Federal Award Periods: Available Until Expended  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: Total outlays reported to the grantor should correspond to amounts reported in the underlying books and records.

Condition: Of twenty-seven business units for the Capital Projects Fund tested, one business unit (BU 5426) with fiscal year 2009 expenditures incurred, was not reported to the grantor agency as projects related to the grant (Ref. No. INIT-2005-2) were closed in prior years. Fiscal year 2009 expenditures for the above business unit amounted to \$12,008.

Cause: The cause of the above condition is the lack of communication between the CIP office and the Department of Finance to ensure that closed projects are no longer charged.

Effect: The effect of the above condition is lack of compliance with reporting requirements. The \$12,008 is not questioned as no drawdown was made.

Recommendation: We recommend that the Department of Finance establish policies and procedures to ensure compliance with reporting criteria are met.

Prior Year Status: The lack of updating federal financial reports submitted to the grantor was reported as a finding in the Single Audits of the CNMI for fiscal years 2000 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance & Accounting

**Corrective Action:** We will review the one exception with appropriate staff. There are policies and procedures in place.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-42  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects and Fiscal Year 2009 Compact Impact  
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1  
Federal Award Periods: Available Until Expended  
Area: Subrecipient Monitoring  
Questioned Costs: \$-0-

Criteria: Pass-through entities must establish and implement subrecipient monitoring policies and procedures. Further, in accordance with OMB Circular A-133, Part III Compliance Requirements - Subrecipient Monitoring, a pass-through entity is responsible for:

- At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- 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 \$500,000 or more in Federal awards during the subrecipient's fiscal year, as provided in OMB Circular A-133, have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Condition: During tests of compliance with subrecipient monitoring requirements, the following were noted:

1. Of \$4,329,048 in nonpayroll expenditure tested under the Fiscal Years 1996-2009 Appropriations Act, \$1,031,506 related to subrecipient expenditures. A subrecipient agreement was not executed for the pass through grants. Further, for one subrecipient tested, the narrative reports evidencing that CNMI obtained and reviewed the project status for three projects (business unit #s 5220, 5228 and 5615) administered by the subrecipient were not provided.
2. Of \$5,171,914 fiscal year 2009 Compact Impact grants, \$2,440,000 were for subrecipients. However, the CNMI did not execute a subrecipient agreement for the pass through grants.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-42, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects and Fiscal Year 2009 Compact Impact  
Federal Award Nos.: Fiscal Years 1996 - 2009 Appropriations Act and CNMI-CI-2009-1  
Federal Award Periods: Available Until Expended  
Area: Subrecipient Monitoring  
Questioned Costs: \$-0-

Cause: The cause of the above condition is failure to enforce strict compliance with subrecipient monitoring requirements.

Effect: The effect of the above condition is the lack of compliance with subrecipient monitoring requirements. No questioned costs result from this finding as the related subrecipient costs were allowable under the grant award terms and conditions.

Recommendation: We recommend the CNMI ensure compliance with subrecipient monitoring requirements.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Virginia Villagomez, CIP Coordinator

**Corrective Action:** We will review current procedures regarding subrecipient monitoring and revise where needed. We will begin executing subrecipient agreements. Current subrecipients are component units of the CNMI and are required to have A-133 audits performed annually. Grant funds are not passed through to subrecipients but paid to them upon submission of contracts, invoices, receipts and other supporting documentation.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-43  
 Federal Agency: U.S. Department of the Interior  
 CFDA Program: 15.875 Economic, Social, and Political Development of the Territories - Capital Improvement Projects  
 Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act  
 Federal Award Period: Available Until Expended  
 Area: Special Tests and Provisions  
 Questioned Costs: \$1,085,494

Criteria: Grant terms and conditions specified under grant awards/agreements should be complied with. The grant award agreements provide for the following terms and conditions:

- a. The scope of work and project budget shall be certified by an architect or engineer.
- b. Grantee shall present evidence to the Office of Insular Affairs (OIA) that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land upon which new capital improvement projects are to be constructed.
- c. The appointment of personnel and or consultants under grant award, No. CNMI-Water/Wastewater 2006-1, is subject to prior written approval by OIA and the Environmental Protection Agency (EPA; EPA is specified in the grant award).

Condition: Of twenty-seven CIP projects tested, we noted the following:

1. Evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land for eleven projects constructed was not provided. Details are as follows:

| <u>BU #</u> | <u>FY 2009<br/>Federal<br/>Expenditures</u> | <u>Costs<br/>Questioned in<br/>Other Findings</u> | <u>Finding No.</u> | <u>Remaining<br/>Costs<br/>Questioned</u> |
|-------------|---|---|--------------------|---|
| 5178        | \$ 67,493                                   | \$ -  | -                  | \$ 67,493                                 |
| 5210        | 69,723                                      | 18,129  | 2009-37            | 51,594                                    |
| 5218        | 294,537                                     | 45,429  | 2009-38            | 249,108                                   |
| 5227        | 26,631                                      | -   | -                  | 26,631                                    |
| 5237        | 80,000                                      | 80,000  | 2009-39            | -   |
| 5238        | 91,630                                      | 91,630  | 2009-39            | -   |
| 5612        | 304,020                                     | -   | -                  | 304,020                                   |
| 5619        | 81,505                                      | -   | -                  | 81,505                                    |
|             | <u>\$ 1,015,539</u>                         | <u>\$ 235,188</u>                                 |                    | <u>\$ 780,351</u>                         |

Total costs of \$780,351 are questioned in this condition.

2. The written approval from OIA for the appointment of personnel/consultant pursuant to two contracts (Contract Nos. 471-OS and 466-OS), funded under Grant Award No. CNMI-Water/Wastewater-2006-1, was not provided for examination. In addition, EPA's written approval for the appointment of personnel was not provided for one contract (Contract No. 466-OS). The related fiscal year 2009 expenditures incurred under these contracts amounted to \$305,143 (BU No. 5228) and are questioned.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-43, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects  
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act  
Federal Award Period: Available Until Expended  
Area: Special Tests and Provisions  
Questioned Costs: \$1,085,494

Cause: The cause of the above condition is the lack of systematic filing of certified project budgets and scope of work, evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land and written approval from the grantor.

Effect: The effect of the above condition is questioned costs of \$1,085,494.

Recommendation: We recommend that the Department of Finance ensure that projects are supported with certified project budgets and scope of work, evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land, required grantor approvals, and other relevant documents.

Prior Year Status: The lack of systematic filing of the Authorization to Proceed, certified project budgets and scope of work, and evidence that the CNMI has clear title, a leasehold agreement, or other legal authority for use of the land was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Mr. Joseph M. Inos, Jr., Director of TSD/DPW

**Corrective Action:**

Condition No. 1: DPW needs to research title documents of contracts related to DPW and copies to be provided to your office are forthcoming.

**Proposed Completion Date:** July 30, 2010

**Name of Contact Person:** Abe Utu Malae, Acting Executive Director, Commonwealth Utilities Corporation (CUC)

**Corrective Action:**

Condition No. 2: CUC disagrees with the finding. OIA provided the funding to hire a Deputy Director and a Chief Engineer. They did not involve themselves in the hiring process. We had provided job descriptions and statements of what qualifications an applicant would have to possess, but nothing on the individual applicants. EPA on the other hand was provided with the resumes of all the applicants and participated to a degree in the selection discussions for the hiring of the Deputy Director (466-OS). They did not have formal approval authority and did not make or formally approve the selection.

**Proposed Completion Date:** Completed

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-43, Continued  
Federal Agency: U.S. Department of the Interior  
CFDA Program: 15.875 Economic, Social, and Political Development of the Territories -  
Capital Improvement Projects  
Federal Award No.: Fiscal Years 1996 - 2009 Appropriations Act  
Federal Award Period: Available Until Expended  
Area: Special Tests and Provisions  
Questioned Costs: \$1,085,494

Auditor Response: As specified in the grant award (award # CNMI-Water/Wastewater 2006-1), the appointment of personnel and/or consultants is subject to prior written approval by OIA and EPA. Written approvals by OIA and EPA were not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-44  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas  
- Program Support  
Federal Award No.: M-00915609-0  
Federal Award Period: 10/01/08 through 09/30/13  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Criteria: In accordance with 40 CFR Section 31.32, a State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures.

The CNMI Property Management Policies and Procedures requires the Division of Procurement and Supply 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.

Further, property records must be maintained that include the following:

- Description of the property
- Manufacturer's serial and model numbers, federal stock number, national stock number, or other identification
- Acquisition source of the property, including grant or agreement number and method of procurement
- Whether title is vested with the CNMI or U.S. Government
- Percentage (at the end of the budget year) of U.S. participation in the project or program for which the property was acquired
- Location, use, condition, and the date the information was reported
- Unit Acquisition Cost
- Date of disposal and sale price method used to determine fair market value where the CNMI compensates the agency for its share

Condition: The following were noted during our examination of the Division of Environmental Quality (DEQ) and Division of Procurement and Supply (P&S) compliance with the above requirements:

- a. Property records maintained by DEQ have incomplete information as to acquisition cost and percentage of federal share and one item did not have a property number. Further, DEQ's listing did not include the acquisition date or location of the property.
- b. Property records maintained by P&S contain incomplete information as to acquisition cost and did not include the location of the property and the percentage of federal share.
- c. Although an annual inventory was performed, a reconciliation of property records maintained by DEQ and P&S has not been completed. The property records maintained by DEQ are \$166,317 and 264 items less than the property records maintained by P&S.
- d. The P&S property records also include 251 items that cannot be located.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-44, Continued  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas  
- Program Support  
Federal Award No.: M-00915609-0  
Federal Award Period: 10/01/08 through 09/30/13  
Area: Equipment and Real Property Management  
Questioned Costs: \$-0-

Condition, Continued:

We are unable to assess the overall cumulative monetary value of the deficiencies above. However, total capital outlays for fiscal years 2009, 2008 and 2007 were \$27,678, \$55,029 and \$72,218, respectively.

Cause: The cause of the above condition is the lack of adherence to established policies and procedures regarding physical inventory of property and equipment and the lack of reconciliation of property records between DEQ and P&S.

Effect: The effect of the above condition is that the CNMI is not in compliance with applicable equipment and real property management requirements.

Recommendation: We recommend that the CNMI ensure compliance with applicable property rules and regulations.

Prior Year Status: The lack of adherence to established policies and procedures regarding physical inventory of property and equipment and the lack of reconciliation of property records between DEQ and P&S was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frank M. Rabauliman, Director, Division of Environmental Quality

**Corrective Action:** DEQ has tried to maintain complete records on all the property, but DEQ does not have records for many items that are more than ten (10) years old. DEQ's document retention policy is to retain program documents for eight years. DEQ has requested complete information on the property records from Procurement & Supply (P&S), but P&S has not provided the needed information. DEQ is working with P&S to reconcile inconsistencies in property records, and with this in mind, DEQ has requested P&S to determine a reasonable baseline for equipment required to have detailed ownership information. Reconciliation of property records maintained by DEQ and P&S should be completed by August 2010, as part of DEQ's annual inventory.

**Proposed Completion Date:** August 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-45  
 Federal Agency: U.S. Environmental Protection Agency  
 CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas  
 - Program Support  
 Federal Award No.: M-00915609-0  
 Federal Award Period: 10/01/08 through 09/30/13  
 Area: Procurement and Suspension and Debarment  
 Questioned Costs: \$9,550

Criteria: In accordance with the CNMI Procurement Regulations Section 3-105 the following requirements exist:

- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Bidding is not required for procurements under \$2,500.
- Bidding is also not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented and submitted to the Procurement and Supply Director for approval.

Moreover, administrative conditions of the grant award state that the grantee will follow their own procurement policies and procedures provided that the procedures conform to EPA regulations, namely that all procurement transactions will be conducted in a manner providing full and open completion.

Therefore, for procurement transactions in excess of \$2,500, we will test for compliance with local procurement regulations, and for transactions below \$2,500, we will test for compliance with full and open competition in accordance with EPA administrative conditions.

Condition: Of sixteen non-payroll expenditures tested aggregating \$37,690, there was no evidence that price quotations were obtained from an adequate number of qualified sources, as required under small purchase procedures, for the following:

| <u>Document Type</u> | <u>Document No.</u> | <u>General Ledger Date</u> | <u>General Ledger Amount</u> |
|----------------------|---------------------|----------------------------|------------------------------|
| PV                   | 763582              | 10/20/08                   | \$ 3,023                     |
| PV                   | 781438              | 04/29/09                   | 1,913                        |
| PV                   | 782852              | 05/18/09                   | 2,937                        |
| PV                   | 226132              | 06/11/09                   | 1,458                        |
| PV                   | 812788              | 09/16/09                   | 219                          |
|                      |                     |                            | <u>\$ 9,550</u>              |

Cause: DEQ management believes it can strictly follow existing applicable local procurement regulations, which do not require any bidding or quotation solicitation for procurements under \$2,500.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-45, Continued  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas  
- Program Support  
Federal Award No.: M-00915609-0  
Federal Award Period: 10/01/08 through 09/30/13  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$9,550

Effect: The effect of the above condition is noncompliance with applicable procurement regulations and questioned costs of \$9,550, since the projected questioned costs exceeded \$10,000.

Recommendation: We recommend that the Program comply with applicable procurement regulations related to small purchase procedures.

Prior Year Status: The lack of policies and procedures in place within the requesting departments to ensure compliance with applicable procurement regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Frank M. Rabauliman, Director, Division of Environmental Quality

**Corrective Action:**

Document Nos. 763582, 781438, 782852 and 812788

DEQ ordinarily tries to get multiple quotations for purchases of goods and services. In making the above-referenced purchases, however, DEQ followed the CNMI procurement regulations and policies in place, which do not require obtaining quotations for travel. Transportation is not specifically addressed in the CNMI Procurement Regulations. The CNMI Department of Finance uses established, written, Department of Finance policies when procuring government travel. In accordance with EPA's February 8, 2010 letter, EPA approved all the travel referenced, except # 812788, which was travel with the CNMI. Travel within the CNMI does not require EPA approval.

Document No. 226132

DEQ ordinarily tries to get multiple quotations for its purchases not subject to bid requirements, but in this case DEQ followed the CNMI Procurement Regulations on Small Purchases. The CNMI Procurement Regulations do not require multiple quotations for purchases under \$2,500. In this instance, DEQ needed a laptop immediately and therefore only contacted Saipan Computer Services. DEQ followed the CNMI Procurement Regulations, but did not include its justification for not obtaining multiple quotes in the file, as the purchase was made prior to the agreement between EPA and DEQ that requires a justification for not obtaining multiple quotes, as set forth in EPA's February 8, 2010 letter.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-46  
Federal Agency: U.S. Environmental Protection Agency  
CFDA Program: 66.600 Environmental Protection Consolidated Grants for the Insular Areas  
- Program Support  
Federal Award No.: M-00915609-0  
Federal Award Period: 10/01/08 through 09/30/13  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: 40 CFR Section 31.40 requires grantees to submit annual performance reports unless the awarding agency requires quarterly or semi-annual reports. Annual reports shall be due ninety days after the grant year, quarterly or semi-annual reports shall be due thirty days after the reporting period. In addition, a financial status report (SF-269) is required within ninety days of the end of the budget period and a semi-annual Federal Cash Transaction Report (SF-272) is required fifteen days after the end of the period. Further, total outlays reported to the grantor should correspond to amounts recorded per the general ledger.

Condition: Based on our examination of program reporting requirements, we noted the following:

1. The SF-269 for the year ended September 30, 2009 reported total accumulated expenditures that were \$64,124 more than the total accumulated expenditures recorded in the general ledger.
2. The SF-272 covering the period January 1, 2008 to December 31, 2008 was not submitted to the grantor.

Cause: The cause of the above condition is that the amounts reflected on the SF-269 did not reflect actual accumulated expenditures. Further, the SF-272 was not submitted to the grantor due to turnover in CNMI personnel.

Effect: The effect of the above condition is the lack of compliance with grant reporting requirements.

Recommendation: We recommend that the CNMI Department of Finance adhere to grant reporting requirements.

Prior Year Status: The lack of compliance with reporting requirements was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance and Accounting

**Corrective Action:** Federal award no. M 00915609-0 has only three business units (P5600B/D/G) assigned. Our SF-425 filed on September 30, 2009 has expenditures totaling \$2,302,872 (base: \$1,876,646, IAG: \$170,000 and IPA: \$256,226) and the general ledger has expenditures totaling \$2,321,880 (base: \$1,895,654, IAG: \$170,000 and IPA: \$256,226). A difference of \$ 19,008 is underreported, which is due to PPE # 22/09 covering period 09/27/09 thru 10/10/09, entered on 10/23/09 and posted on 08/31/09 covering 09/27-30/09 (three days) for the end of the fiscal year 2009. Corrections were made on the federal financial report for the quarter ended 12/31/09.

**Proposed Completion Date:** Ongoing

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-47  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$2,043

Criteria: Part 3 of the Revised Operation Plan, delineates types of services that are allowed under the Medicaid Program. Part 4 establishes the basis for determining propriety of rates by service providers.

In addition, recorded expenditures should be authorized, be supported by certified accounts payable vouchers, invoices and other relevant documents, and be approved prior to incurrence.

Condition: Of total program expenditures of \$6,184,138 for the year ended September 30, 2009, professional services of \$5,564,722 and other program expenses of \$521,030 were tested. Of seventy-five items tested, forty-five items totaling \$1,435,867 were not completely reviewed for propriety of rates charged and/or accuracy of billings prior to payment. Based on our tests, the eligibility of services was in accordance with Part 3 of the revised Operational Plan; therefore, no questioned costs result from this condition. Details follow:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>General Ledger Amount</u> | <u>Federal Share</u> |
|----------------------------|-------------------------------|----------------------|------------------------------|----------------------|
| 12/19/08                   | 22706                         | 770456               | \$ 835                       | \$ 418               |
| 05/14/09                   | 22706                         | 782653               | \$ 5,766                     | 2,883                |
| 04/02/09                   | 22706                         | 778982               | \$ 7,277                     | 3,639                |
| 05/14/09                   | 22706                         | 782655               | \$ 8,050                     | 4,025                |
| 03/10/09                   | 22706                         | 777130               | \$ 8,516                     | 4,258                |
| 01/16/09                   | 22706                         | 772771               | \$ 8,934                     | 4,467                |
| 09/16/09                   | 22706                         | 812834               | \$ 9,135                     | 4,568                |
| 09/16/09                   | 22706                         | 812833               | \$ 10,119                    | 5,060                |
| 12/29/08                   | 22706                         | 771158               | \$ 11,017                    | 5,508                |
| 05/14/09                   | 22706                         | 782644               | \$ 21,465                    | 10,732               |
| 12/09/08                   | 22706                         | 769305               | \$ 27,443                    | 13,722               |
| 05/14/09                   | 22706                         | 782649               | \$ 27,917                    | 13,958               |
| 01/16/09                   | 22706                         | 772762               | \$ 28,268                    | 14,134               |
| 08/18/09                   | 22706                         | 809271               | \$ 30,347                    | 15,174               |
| 08/03/09                   | 22706                         | 807014               | \$ 31,352                    | 15,676               |
| 04/02/09                   | 22706                         | 778972               | \$ 31,484                    | 15,742               |
| 06/24/09                   | 22706                         | 796052               | \$ 32,187                    | 16,094               |
| 10/28/08                   | 22706                         | 764659               | \$ 32,589                    | 16,294               |
| 06/08/09                   | 22706                         | 784384               | \$ 33,281                    | 16,641               |
| 08/03/09                   | 22706                         | 807005               | \$ 34,009                    | 17,004               |
| 03/10/09                   | 22706                         | 777128               | \$ 34,842                    | 17,421               |
| 03/10/09                   | 22706                         | 777127               | \$ 35,958                    | 17,979               |
| 12/18/08                   | 22706                         | 770444               | \$ 22,323                    | 11,162               |
| 04/30/09                   | 22706                         | 781578               | \$ 35,647                    | 17,823               |
| 07/29/09                   | 22706                         | 806479               | \$ 38,547                    | 19,274               |
| 06/24/09                   | 22706                         | 796065               | \$ 43,737                    | 21,869               |
| 04/30/09                   | 22706                         | 781573               | \$ 26,746                    | 13,373               |
| 06/23/09                   | 22706                         | 795277               | \$ 29,459                    | 14,730               |
| 07/28/09                   | 22706                         | 806579               | \$ 40,660                    | 20,330               |
| 03/04/09                   | 22706                         | 776614               | \$ 43,042                    | 21,521               |
| 08/12/09                   | 22706                         | 808238               | \$ 60,927                    | 30,463               |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-47, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$2,043

Condition, Continued:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>General Ledger Amount</u> | <u>Federal Share</u> |
|----------------------------|-------------------------------|----------------------|------------------------------|----------------------|
| 04/30/09                   | 22706                         | 781572               | \$ 66,107                    | 33,053               |
| 06/16/09                   | 22706                         | 790466               | \$ 3,205                     | 1,603                |
| 07/28/09                   | 22706                         | 806469               | \$ 3,537                     | 1,769                |
| 07/28/09                   | 22706                         | 806461               | \$ 4,794                     | 2,397                |
| 07/28/09                   | 22706                         | 806455               | \$ 6,205                     | 3,103                |
| 09/08/09                   | 22706                         | 811701               | \$ 10,441                    | 5,221                |
| 09/22/09                   | 22706                         | 813686               | \$ 14,600                    | 7,300                |
| 09/22/09                   | 22706                         | 813684               | \$ 20,932                    | 10,466               |
| 02/24/09                   | 22706                         | 775837               | \$ 13,579                    | 6,790                |
| 02/24/09                   | 22706                         | 775838               | \$ 5,195                     | 2,598                |
| 09/21/09                   | 22706                         | 813443               | \$ 32,916                    | 16,458               |
| 09/30/09                   | 62060                         | 165434               | \$ 578,575                   | 578,575              |
| 09/30/09                   | 62060                         | 165435               | \$ 140,338                   | 140,338              |
| 09/30/09                   | 62060                         | 165580               | \$ 220,259                   | 220,259              |
|                            |                               |                      |                              | <u>\$ 1,435,872</u>  |

Additionally, for some items, the lack of complete rate verification and review of billing accuracy resulted in either double charges or incorrect rates paid. Details are as follows:

- a. For two prescription and pharmacy claims totaling \$15,885, the rate charged and paid by Medicaid exceeded the Estimated Acquisition Cost (EAC) per the service provider agreement. Details are as follow:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>Amount Paid</u> | <u>EAC</u> | <u>Excess</u> |
|----------------------------|-------------------------------|----------------------|--------------------|------------|---------------|
| 05/14/09                   | 22706                         | 782653               | \$ 218             | \$ 208     | \$ 10         |
| 09/16/09                   | 22706                         | 812833               | \$ 230             | \$ 220     | 10            |
|                            |                               |                      |                    |            | <u>\$ 20</u>  |
| Federal Share (50%)        |                               |                      |                    |            | <u>\$ 10</u>  |

- b. For one expenditure, totaling \$18,133, the rate charged and paid by Medicaid was higher than the established Medicare rate for similar service as follows:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>Amount Paid</u> | <u>Medicare Rate</u> | <u>Excess</u> |
|----------------------------|-------------------------------|----------------------|--------------------|----------------------|---------------|
| 08/28/09                   | 22706                         | 810353               | \$ 172             | \$ 57                | \$ 115        |
| Federal Share (50%)        |                               |                      |                    |                      | <u>\$ 58</u>  |

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-47, Continued  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Allowable Costs/Cost Principles  
 Questioned Costs: \$2,043

Condition, Continued:

- c. For eleven expenditures, totaling \$206,189, rates could not be verified as the services were not included in the established Medicare rates. We were informed that payment is based upon whatever rates are charged the program. Details are as follow:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>General Ledger Amount</u> | <u>Amount Tested</u> |
|----------------------------|-------------------------------|----------------------|------------------------------|----------------------|
| 04/30/09                   | 22706                         | 781578               | \$ 35,647                    | \$ 139               |
| 04/30/09                   | 22706                         | 781573               | \$ 26,746                    | 466                  |
| 06/23/09                   | 22706                         | 795277               | \$ 29,459                    | 302                  |
| 09/16/09                   | 22706                         | 812834               | \$ 9,135                     | 187                  |
| 08/03/09                   | 22706                         | 807005               | \$ 34,009                    | 857                  |
| 02/24/09                   | 22706                         | 775837               | \$ 13,579                    | 602                  |
| 11/17/08                   | 22706                         | 767074               | \$ 6,925                     | 250                  |
| 06/18/09                   | 22706                         | 792802               | \$ 7,612                     | 300                  |
| 03/23/09                   | 22706                         | 778090               | \$ 9,748                     | 205                  |
| 02/13/09                   | 22706                         | 774953               | \$ 15,903                    | 300                  |
| 04/21/09                   | 22706                         | 780302               | \$ 17,426                    | 248                  |
|                            |                               |                      |                              | <u>\$ 3,856</u>      |
|                            |                               |                      | Federal Share (50%)          | <u>\$ 1,928</u>      |

- d. For four CHC claims totaling \$42,285, the billing amount did not agree with the amount paid by Medicaid. We were informed that there was a misapplication of rates used for one service. Details are as follows:

| <u>General Ledger Date</u> | <u>General Ledger Account</u> | <u>Reference No.</u> | <u>Amount Paid</u>  | <u>Amount Per Bill</u> | <u>Over (Under) Payment</u> |
|----------------------------|-------------------------------|----------------------|---------------------|------------------------|-----------------------------|
| 09/30/09                   | 62060                         | 165435               | \$ 15,315           | \$ 15,567              | \$ (252)                    |
| 09/30/09                   | 62060                         | 165434               | \$ 10,817           | \$ 10,800              | 17                          |
| 09/30/09                   | 62060                         | 165434               | \$ 8,309            | \$ 8,301               | 8                           |
| 09/30/09                   | 62060                         | 165434               | \$ 7,844            | \$ 7,852               | (8)                         |
|                            |                               |                      |                     |                        | <u>\$ (235)</u>             |
|                            |                               |                      | Federal Share (50%) |                        | <u>\$ (118)</u>             |

- e. A medical referral form for off-island care (Reference No. 761952), with a federal share of \$165 was not made available.

Cause: The cause of the above condition is the lack of clearly defined and communicated procedures for verification of billings prior to reimbursement. Further, while the program is required to perform a complete review of claims, only random reviews were performed.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-47, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$2,043

Effect: The effect of the above condition is a control weakness over allowable activities and costs reimbursable and possible misuse of federal expenditures, the possible use of federal funds for unsupported, unauthorized, and unallowed expenditures and questioned costs of \$2,043.

Recommendation: We recommend that control procedures be clearly defined and communicated over verification of services charged the Program and review of accuracy of billings shall occur prior to payment and that the Medicaid office and Department of Finance obtain all necessary approvals/authorizations prior to payment of expenditures and ensure that supporting documents are on file.

Prior Year Status: The lack of clearly defined and communicated procedures for verification of billings prior to reimbursement was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2008 and failure to obtain appropriate approvals and authorizations prior to incurring expenditures and failure to have all supporting documents on file was reported as a finding in the Single Audits of the CNMI for fiscal years 2005 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Administrator

**Corrective Action:** We disagree with the finding. Due to a high volume of claims and limited resources, the staff randomly reviews the claims. I have instructed the staff to initial the claims once they have review rates and eligibility date. If the drugs were not included in the list of Average Wholesale Price list that we maintained to compute EAC or any CPT codes for other services that are not available as per what our negotiated rate on our contract that we will only pay 50% of charges.

- a) The pharmacy have an online system where they follow the Estimated Acquisition Cost (EAC) rate and occasionally changes from time to time and what we are using is a print out Estimated Acquisition Cost (EAC) rate where any changes of the rate changes will occur and will have some discrepancies. Therefore, we should follow the online system rate that the Pharmacy uses because that is the most accurate rate that we should follow and once our Medicaid system Phase II is completed, we will be able to follow the online system where the Estimated Acquisition Cost (EAC) will be accurate.
- b) Please see attachment 2 to CNMI Medicaid Provider Agreement Supplemental Payment Agreement we have signed and agreed with the provider.
- c) We disagree with the finding. We have a listing of the Medicare rate that the staff use when verifying the claims. If rates could not be verified in the established Medicare rates that we maintained, we will only pay 50% of charges.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-47, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$2,043

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

- d) We disagree with this finding. We met with CHC Billing Personnel, the auditor and myself and the CHC Billing Personnel explained what happened. Therefore, they have corrected the billing and so the amount we paid is the corrected amount. Please see attached corrected billing.

**Proposed Completion Date:** N/A

Auditor Response: Evidence of review of billings accuracy and completeness was not evident in the claims tested and noted in the finding. The Medicaid Revised Operational Plan requires that Medicaid reimbursements are claimed based on established CHC rates or that should not exceed combined payments the provider receives from beneficiaries and carriers or intermediaries for providing services under comparable circumstances under Medicare. Complete rate verifications should be performed on claims to ensure that rates paid are in accordance with CHC or Medicare rates.

The Medicaid Office was able to provide a list of pharmacy rates used to calculate EAC only upon requesting a copy from the service provider. Further, our EAC and Medicare rate calculations for pharmacy claims and optometrist services, respectively, based on the list of rates provided were lower than actual rates paid.

The corrected billings were determined and provided to us only after the discrepancies were noted between the original billings and the amount paid during the audit. The amount paid by Medicaid was based on the original CHC billings from which we determined the discrepancies and was already recorded as program expenditure and included in the amount requested for reimbursement as of September 30, 2009.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-48  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$9,433

**Criteria:** In accordance with Part 2 of the Medicaid Revised Operational Plan, applicants must be eligible based on the criteria set forth in the Revised Operational Plan prior to receiving Medicaid assistance.

**Condition:** Tests of sixty-two eligibility files noted the following:

- a. Computation of income and resource determination for one recipient (Case File No. 11-10580) indicated no evidence of review by the Program Director. Additionally, the eligibility card of one recipient (Case File No. 15-23303) was not approved by the Program Director. Our tests indicated the recipients were eligible in accordance with Part 2 of the Medicaid Revised Operational Plan. Thus, no questioned costs result from this condition.
- b. Eligibility folders for the following two recipients with amounts paid to service providers were not available:

| <u>Case No.</u> | <u>Service/Visit Date</u> | <u>Cost</u>      |
|-----------------|---------------------------|------------------|
| 16-01633        | 03/02/06                  | \$ 11,484        |
| 15-19791        | 02/12/06                  | <u>7,381</u>     |
|                 |                           | \$ <u>18,865</u> |
|                 | Federal Share (50%)       | \$ <u>9,433</u>  |

**Cause:** The cause of the above condition is the lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance.

**Effect:** The effect of the above condition is noncompliance with eligibility requirements pursuant to the Medicaid Operational Plan and the possible use of federal funds for ineligible individuals and questioned costs of \$9,433.

**Recommendation:** We recommend that the CNMI Medicaid Office establish strict procedures to ensure that only eligible individuals receive Medicaid assistance and benefits.

**Prior Year Status:** The lack of adequate procedures to ensure that only eligible recipients receive Medicaid assistance was reported as a finding in the Single Audits of the CNMI for fiscal years 2007 and 2008.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-48, Continued  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Eligibility  
Questioned Costs: \$9,433

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Administrator

**Corrective Action:** We disagree with the auditor's findings.

- a) Attached are copies of the computation sheets and eligibility card for Case File No. 11-10580 and Case File No. 15-23303. The Acting Secretary of Health, Mr. Pete Untalan signed the eligibility card since I was not available. However, I have reviewed and initial the eligibility card and computations sheets that Mr. Untalan signed.
- b) We did inform the auditor that the files were available for her review.

**Proposed Completion Date:** N/A

Auditors' Response: Evidence of review for the aforementioned case files was not evident. In addition, a document to support the delegation of authority was not provided.

Eligibility files for two recipients listed in condition b were not provided.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-49  
 Federal Agency: U.S. Department of Health and Human Services  
 CFDA Program: 93.778 Medical Assistance Program  
 Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
 Federal Award Period: 10/01/08 through 09/30/09  
 Area: Period of Availability  
 Questioned Costs: \$82,841

Criteria: Pursuant to grant terms and conditions, program funds are available for obligation over the grant period and any unused funds may be used in the subsequent period.

Condition: At December 31, 2009, the fiscal year 2009 grant had remaining unused funds of \$132,998 but no subsequent expenditures have been incurred or charged. Our tests noted overdrawn amounts as follows:

| <u>Business Unit</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>Excess</u>    |
|----------------------|-----------------|---------------------|------------------|
| H9778A               | \$ 172,799      | \$ 170,039          | \$ 2,760         |
| H9778B               | \$ 4,762,792    | \$4,682,711         | <u>80,081</u>    |
|                      |                 |                     | \$ <u>82,841</u> |

Cause: The cause of the above condition is the lack of control procedures to ensure that grant funds are monitored and used in a timely manner.

Effect: The effect of the above condition is the failure to maximize available grant funds and questioned cost of \$82,841.

Recommendation: We recommend that CNMI Medicaid implement adequate control procedures to ensure that available funds are monitored and maximized for program operations.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Administrator

**Corrective Action:** We disagree with the auditor's finding. We have adequate internal control procedures to ensure that available funds are constantly monitored and maximized for program operations. We even revised our FY09 4<sup>th</sup> quarter CMS-64 report to include additional MAP expenditures. Attached please find the revised FY09 4<sup>th</sup> quarter CMS-64 report and an email message from Grantor Agency - Ms. Linda Gee, CMS/San Francisco that she informed us that we have over claimed by \$1 for MAP expenditures and \$273 for ADM expenditures that was over the ceiling.

**Proposed Completion Date:** N/A

Auditors' Response: The receipts were obtained from the drawdown report provided by the CNMI Finance Office. Likewise, expenditures above were based on the expenditures recorded in the general ledger which was provided by the CNMI Finance Office. The CNMI Finance Office and the Medicaid Office should coordinate on a regular and timely basis to ensure that funds are constantly monitored.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-50  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Reporting  
Questioned Costs: \$-0-

Criteria: Section 4.4 of the CNMI's Revised Medicaid Operational Plan requires the Medicaid Agency to submit required reports on an accrual basis, based on financial records maintained by the centralized accounting office (Department of Finance).

Condition: Based on total expenditures reported to the grantor for the period ended September 30, 2009 using the CMS 64 Certification, total federal expenditures reported amounted to \$6,587,836. The actual expenditures per the general ledger amounted to \$6,184,138 resulting in a variance of \$403,698.

Cause: The cause of the above condition is adjustments made subsequent to the submission of the CMS 64.

Effect: The effect of the above condition is noncompliance with Section 4.4 of the Medicaid Operational Plan. The funds drawn down, however, correspond with expenditures recorded in the general ledger. Therefore, no questioned costs result from this condition.

Recommendation: We recommend that steps be taken to ensure that information reported to the grantor is based on actual financial records.

Prior Year Status: Noncompliance with Section 4.4 of the Medicaid Operational Plan was reported as a finding in the Single Audits of the CNMI for fiscal years 2002 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Administrator

**Corrective Action:** We disagree with the finding. Every end of each quarter, we request the detail expenditures report from Department of Finance and therefore, the information reported to the Grantor is based on the CNMI's financial records. The auditor should look at that report instead when they are going to conduct the audit since it's based on an accrual basis. We have revised our FY09 4<sup>th</sup> quarter CMS-64 report to include additional MAP expenditures. Attached please find the revised FY09 4<sup>th</sup> quarter CMS-64 report and an email message from Grantor Agency - Ms. Linda Gee, CMS/San Francisco that she informed us that we have overclaimed by \$1 for MAP expenditures and \$273 for ADM expenditures that was over the ceiling.

**Proposed Completion Date:** N/A

Auditors' Response: Expenditures recorded in the general ledger provided by the CNMI Finance Office did not agree with expenditures reported in the CMS-64 submitted by the Medicaid Office to the federal agency. The CNMI Finance Office and the Medicaid Office should coordinate on a regular and timely basis to ensure the accuracy of expenditures recorded in the general ledger and reported to the federal agency.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-51  
Federal Agency: U.S. Department of Health and Human Services  
CFDA Program: 93.778 Medical Assistance Program  
Federal Award Nos.: 05-0805CQ5028, 05-0805CQ5048 and 05-0805CQ1935  
Federal Award Period: 10/01/08 through 09/30/09  
Area: Special Tests and Provisions  
Questioned Costs: \$-0-

Criteria: The Medicaid Program 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.

Condition: The Medicaid Office performs weekly and quarterly backups of the ADP system; however, regular backups were not performed throughout the fiscal year. The backups were not stored in an off-site location. Further, back up files are stored on flash drives, which have limited capacity. Thus, some back up files were deleted when flash drive memory was no longer sufficient, resulting in incomplete back up files for the fiscal year. Additionally, periodic risk analyses are not performed.

Cause: The cause of the above condition is the lack of required policies and procedures.

Effect: The effect of the above condition is the potential loss of data.

Recommendation: We recommend that policies and procedures be established for system security, which would address and reduce risks involved with the ADP system. We further recommend that periodic risk analyses be performed.

Prior Year Status: Lack of required policies and procedures regarding ADP was reported as a finding in the Single Audits of the CNMI for fiscal years 2003 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Administrator

**Corrective Action:** We disagree with the auditor's findings. Attached are the policies and procedures regarding ADP System and the log sheet of the quarterly backups that proofs that we have stored backups in an off-site location. We do daily, weekly and quarterly backups of the ADP system. We have agreed that only the quarterly backups of the ADP system will be stored in an off-site location. Also, Phase 1 of the Medicaid System was installed on Thursday, June 17, 2010 for our Eligibility Section and therefore, the server (backups) will be stored in an off-site location the first week of July 2010.

**Proposed Completion Date:** N/A

Auditors' Response: Documentation evidencing that periodic risk analyses are performed on the EDP system is not evident. Further, the weekly and quarterly backups performed in a flash drive were not completely made through the fiscal year and were not stored in an off-site location. The Medicaid Office should consider other backup facilities to ensure that complete backups of program records are stored and maintained for at least three years.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-52  
CFDA No.: All Major Programs  
Area: Allowable Costs/Cost Principles  
Questioned Costs: -0-

Criteria: In accordance with applicable allowable costs/cost principles requirements, employee certifications are required from employees working for one federal program.

Condition: Our tests of employee activities noted that required certifications are not being obtained for employees working for one federal program. Although employees are signing off on timecards or timesheets evidencing hours worked on a Federal program, the sign off does not indicate if the employee actually performed activities solely for the one Federal program.

Cause: The cause of the above condition is the lack of awareness regarding required employee certifications.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principle requirements. No questioned cost results from the finding due to our inability to assess the time spent by employees, if any, on nonfederal related activities.

Recommendation: We recommend that the CNMI require certifications from employees on a semi-annual basis evidencing that employees' are certifying time charged for federal related activities only.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Bernadita C. Palacios, Acting Director, Finance & Accounting

**Corrective Action:** We will inform our departments and agencies that employee certifications are required for those employees paid by federal grants.

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-53  
CFDA No.: All Major Programs  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$1,336,000

Criteria: In accordance with OMB Circular A-87, costs, to be allowable under federal awards, should be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

Condition: On March 11, 2009, Public Law 16-32 was enacted which provided for employer retirement contributions of 11% for all government employees, including autonomous agencies and public corporations.

The CNMI accrued employer contributions at the actuarial rate of 36.7727% for employees under the defined benefit plan. However, salaries and wages funded from the general fund and locally generated revenue sources were remitted to the Northern Mariana Islands Retirement Fund at 11% pursuant to Public Law 16-32. The employer retirement contributions attributable to employees whose salaries and wages are federally funded were charged to the federal awards at 36.7727% except for CFDA 10.551 (Supplemental Nutrition Assistance Program) which was charged at 11%. During fiscal year 2009, the total employer retirement contributions charged federal awards amounted to \$1,970,246. The estimated difference in employer retirement contributions should 11% be charged to federal awards is \$1,336,000. Federal funding was drawn and was paid to the Retirement Fund at the higher rate.

Cause: The cause of the above condition is the enactment of Public Law 16-32 and inadequate cash flow to meet current obligations.

Effect: The effect of the above condition is noncompliance with applicable allowable costs/cost principles requirements and questioned costs of \$1,336,000.

Recommendation: We recommend compliance with the criteria.

Prior Year Status: Charging federal awards amounts in excess of remittances and inadequate cash flows to meet current obligations was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Robert A. Schrack, Secretary of Finance

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-53, Continued  
CFDA No.: All Major Programs  
Area: Allowable Costs/Cost Principles  
Questioned Costs: \$1,336,000

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action:** We disagree that that the difference between the actuarial rate and the budgetary rate should be questioned costs. The issue is a prospective one as new grant agreements are negotiated. P.L. 16-32 and previous laws that budgeted less than the actuarial rate for locally funded employees have always specified that the difference remains a liability of the CNMI government. The retirement fund has not allowed employees to retire and receive an annuity unless their employer retirement contributions have been paid in full. For employees funded under federal grants, we have expensed, drawn down and paid the retirement fund the employer contributions based on the actuarial rate. We have discussed this issue with our grantor agencies and NAP has been the only agency that has included less than the actuarial rate in their new grant agreements. This means that under the retirement fund's current rules, NAP employees will not be allowed to retire and receive an annuity without the deficient employer contributions being paid. This would transfer the obligation from the Federal agency to local funding. We feel the issue of non uniformity in this case is NAP or other Federal agencies if they choose to go the same route.

**Proposed Completion Date:** None

Auditor Response: Federal regulations require that costs charged to federal awards should be consistent with policies, regulations and procedures that apply uniformly to both federal awards and other activities of the governmental unit. The difference in retirement contributions paid from federal grants and local funds represents inequality and thus, noncompliance with federal requirements exists.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-54  
CFDA No.: All Major Programs  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$-0-

Criteria: Federal regulations state that all procurement transactions will be conducted in a manner providing full and open competition. Grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations provided that the procurements conform to applicable federal law. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Condition: The CNMI Procurement Regulations Section 3-105 states the following:

- Any procurement not exceeding the amount established herein may be made in accordance with small purchase procedures. However, procurement requirements shall not be artificially divided so as to constitute a small purchase.
- Bidding is not required for procurements under \$2,500.
- Bidding is not required but is encouraged for procurement over \$2,500 and under \$10,000. The individual with the expenditure authority must obtain price quotations from at least three vendors and should base the selection on competitive price and quality for procurement valued at \$2,500 to \$10,000. Any price quotations must be written, documented and submitted to the Procurement and Supply Director for approval.
- Purchase orders may be utilized for small purchases subparagraphs (2) and (3).

It appears that the absence of competitive procurement for items less than \$2,500 does not conform to the federal requirement. Additionally, it does not appear that funding agencies approved such a threshold. As a result, the above requirement does not appear to conform to federal requirements.

Further, the CNMI procurement regulations do not include procurement procedures relating to airfare. Currently, the CNMI's travel policies are based on directives and memorandums, which do not require competitive procurement when acquiring transportation services.

Cause: The cause of the above condition is the lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations.

Effect: The effect of the above condition is lack of full and open competition on federal funded purchases. Expenditures tested that are less than \$2,500 and lack competitive procurement are questioned at Finding Nos. 2009-26 and 2009-45.

Recommendation: We recommend that the CNMI review its current procurement regulations to ensure conformity with applicable federal laws.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-54, Continued  
CFDA No.: All Major Programs  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$-0-

Prior Year Status: The lack of awareness and incorporation of federal regulations within the CNMI's Procurement Regulations was reported as a finding in the Single Audits of the CNMI for fiscal years 2004 through 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Herman Sablan, Director of Procurement & Supply

**Corrective Action:** We do not agree with the auditor's finding that CNMI provide for competitive procurements in procurements under \$2,500 in order to comply with Federal regulations. The Common Rule Section .36 "Procurement", Subsection (a) "States" says "When procuring property and services under a grant, States will follow the same policies and procedure it uses for procurement from its non-Federal funds." The Common Rule Section .3 "Definitions" defines "State" as "any of the several states of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States....." Clearly the CNMI is a "State" under the Common Rule and should follow its standard procurement policies for procurements under Federal grants.

Even in Federal procurement it is practice to avoid obtaining quotes on procurements under \$2,500 (\$2,000 where the Davis-Bacon Act applies). Such procurements are defined as "Micro-Purchases in the Federal Acquisition Regulations (FAR) Subpart 2.1 "Definitions". A micro-purchase is one that does not exceed these dollar limitations. The purchase guidelines for such purchases at FAR Subpart 13.2 state at Subpart 13.202(a)(2) that "Micro-purchases may be awarded without soliciting competitive quotations if the contracting officer appointed in accordance with 1.603-3(b) considers the price to be reasonable", or (a)(3) "The administrative cost of verifying the reasonableness of the price for purchases may more than offset potential savings from detecting instances of overpricing. Therefore action to verify price reasonableness need only be taken if-

- (i) The Contracting Officer or individual appointed in accordance with 1.603-3(b) suspects that the price may not be reasonable (e.g. comparison with the previous price paid or personal knowledge of the supply or service); or
- (ii) Purchasing a supply or service for which no comparable pricing information is readily available.

The CNMI procurement regulations conform to the FAR in regard to the treatment of procurements of \$2,500 or less.

It is also worth noting that the National Association of State Purchasing Officials (NASPO) in its 4<sup>th</sup> Edition of "State and Local Government Purchasing Handbook" reported that "The current survey indicates that in 42 of the states, only small purchases over a specified amount require obtaining competitive quotation." See the letter from DEQ's legal counsel in this regard also.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-54, Continued  
CFDA No.: All Major Programs  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$-0-

Auditee Response and Corrective Action Plan, Continued:

**Corrective Action, Continued:**

We disagree with the auditors that separate travel procurement procedures should be included in the CNMI Procurement Regulations or that the CNMI follow Federal travel regulations. We are unaware of any set of procurement regulations which include provisions expressly dealing with expenditures for airline tickets or lodging. For example, the Federal Acquisition Regulations and Model Procurement Code (used in 23 states) do not. The purchase of airline tickets is a procurement which follows the general rules for methods/types of procurement and is therefore not specifically treated in the CNMI Procurement Regulations. Travel policy and per diem rates are typically addressed under separate policies, rules and regulations such as the Federal Travel Regulations (administered by the General Services Administration) or a State Travel Manual. As noted by the auditors, CNMI does have travel policies in place. It should also be noted that in regard to travel funded by Federal grants, most programs require approval of travel the Federal agency.

The auditors cite the travel policies in place for not requiring competitive procurement. CNMI travel policies are similar to other travel policies we are aware of. CNMI travel policies provide for limits on per diem rates that use Federal per diem rates for the most part and place limits on other types of travel expense (e.g. car rental, ground transportation, etc.). Airfare is limited to economy class tickets and travelers are required to select the lowest airfare that meets their travel requirements. Competition between airlines for ticket prices is very limited for the CNMI as only two U.S. based airlines (Continental and Northwest) provide air service. The CNMI government has negotiated a 15% discount with Northwest Airlines for government travel. U.S. cabotage laws prohibit non U.S. airlines from carrying passengers between two U.S. points. A large percentage of travel procurements are under \$2,500 and would fall under the small purchase requirements as discussed in the previous finding.

**Proposed Completion Date:** Ongoing

Auditor Response: Grantees and subgrantees may use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal laws and regulations. We have not been able to locate a State that utilizes a \$2,500 threshold for determining when competition should be present in a procurement and believe that the CNMI should change its procurement rules to conform to the federal requirement.

Federal regulations require that procurement transactions be conducted in a manner providing full and open competition. This does not exclude transactions relating to airfares. Since multiple airlines service the CNMI and since multiple travel agents do business within the CNMI, it is incumbent on the CNMI to ensure that travel is undertaken at the lowest reasonable fare. Even though 2 airlines service the CNMI, multiple airlines provide service after reaching Hawaii or other destinations. Procurement procedures relating to travel expenses should be addressed by the CNMI.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-55  
CFDA No.: Nonmajor Program - 93.767 State Children's Health Insurance Program  
Area: Period of Availability  
Questioned Costs: \$560,880

**Criteria:** The State Children's Health Insurance Program (SCHIP) was established to provide funds to States to enable them to maintain and expand child health assistance to uninsured, low-income children, and, at a state option, low-income pregnant women and legal immigrants, primarily by three methods, one of which is to expand eligibility for children under the State's Medicaid Program.

The Medicaid Program's Operational Plan states that SCHIP funds are utilized to expand Medicaid coverage. As an extension to the Program, SCHIP funds can only be used when Medicaid funds have been exhausted.

**Condition:** Our examination of the schedule of expenditures of federal awards indicated SCHIP expenditures of \$1,400,009. However, our test of the Medicaid Program indicated that \$560,880 in program funds remain unspent as of September 30, 2009.

**Cause:** The cause of the above condition is lack of control procedures to ensure that grant funds are monitored.

**Effect:** The effect of the above condition is noncompliance with the Operational Plan and questioned costs of \$560,880 corresponding to the amount of unspent funds under the Medicaid Program.

**Recommendation:** We recommend that CNMI Medicaid implement adequate internal control procedures to ensure that available funds are monitored.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Helen C. Sablan, Medicaid Administrator

**Corrective Action:** We disagree with the auditor's finding. We have spent almost all the State Children's Health Insurance Program (SCHIP) funds. We only have a balance of \$121. Attached is a fund status report from Department of Finance for Federal Account No. H9767C that still indicates a balance of \$121 for the SCHIP funds.

**Proposed Completion Date:** N/A

**Auditors' Response:** As mentioned in the above criteria, SCHIP funds can only be used when Medicaid funds have been exhausted.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Schedule of Findings and Questioned Costs, Continued  
Year Ended September 30, 2009

Finding No.: 2009-56  
CFDA No.: Nonmajor Program - 15.615 Cooperative Endangered Species Conservation Fund  
Area: Procurement and Suspension and Debarment  
Questioned Costs: \$152,439

Criteria: Recorded expenditures shall be subjected to CNMI Procurement Regulations and be properly supported with complete procurement and contract files.

Condition: Of forty-three nonmajor program nonpayroll expenditures tested aggregating \$2,629,604, the relevant procurement documents (i.e., bid invitations, bid summary, bids received, evidence of public notice) supporting the procurement for the following contract procured through competitive sealed bid was not provided:

| <u>CFDA #</u> | <u>Business Unit No.</u> | <u>Contract No.</u> | <u>Document Ref. No.</u> | <u>General Ledger Amount</u> |
|---------------|--------------------------|---------------------|--------------------------|------------------------------|
| 15.615        | I8615D                   | 438401 OC           | 781292                   | \$ 152,439                   |

Cause: The cause of the above condition is the lack of proper and systematic filing of relevant documents supporting procurement.

Effect: The effect of the above condition is incomplete procurement files and questioned costs of \$152,439.

Recommendation: We recommend that the CNMI's Procurement and Supply Division ensure that all relevant procurement documents are maintained and filed accordingly.

Prior Year Status: The lack of proper and systematic filing of relevant procurement documents was reported as a finding in the Single Audit of the CNMI for fiscal year 2008.

Auditee Response and Corrective Action Plan:

**Name of Contact Person:** Herman Sablan, Director of Procurement & Supply

**Corrective Action:** Consolidated filing of contract documents has been a continuing problem due to the multiple locations contract information is filed. Procurement should have all pertinent documents in file. We are in the process of developing a checklist to be reviewed on contract completion to insure all related documents are included

**Proposed Completion Date:** 2010

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Unresolved Prior Year Findings and Questioned Costs  
Year Ended September 30, 2009

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, 2009:

|   |                      |
|---|----------------------|
| Questioned costs as previously reported           | \$ 14,414,795        |
| Questioned costs of fiscal year 2009 Single Audit | <u>4,817,031</u>     |
| Unresolved questioned costs at September 30, 2009 | \$ <u>19,231,826</u> |

Unresolved Findings

The status of unresolved findings is discussed in the Schedule of Findings and Questioned Costs section of this report (pages 17 through 117).



## Office of the Secretary Department of Finance

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### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Status of all audit findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2008:

#### **FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

- Finding No. 2008-1 - Not corrected. See corrective action plan to Finding No. 2009-1.
- Finding No. 2008-2 - Not corrected. See corrective action plan to Finding No. 2009-2.
- Finding No. 2008-3 - Not corrected. See corrective action plan to Finding No. 2009-5.
- Finding No. 2008-4 - Not corrected. See corrective action plan to Finding No. 2009-6.
- Finding No. 2008-5 - Not corrected. See corrective action plan to Finding No. 2009-7.
- Finding No. 2008-6 - Not corrected. See corrective action plan to Finding No. 2009-8.
- Finding No. 2008-7 - Not corrected. See corrective action plan to Finding No. 2009-9.
- Finding No. 2008-8 - Not corrected. See corrective action plan to Finding No. 2009-10.
- Finding No. 2008-9 - Not corrected. See corrective action plan to Finding No. 2009-11.
- Finding No. 2008-10 - Not corrected. See corrective action plan to Finding No. 2009-12.
- Finding No. 2008-11 - Not corrected. See corrective action plan to Finding No. 2009-14.
- Finding No. 2008-12 - Not corrected. See corrective action plan to Finding No. 2009-15.
- Finding No. 2008-13 - Not corrected. See corrective action plan to Finding No. 2009-16.
- Finding No. 2008-14 - Corrective action was taken.
- Finding No. 2008-15 - Not corrected. See corrective action plan to Finding No. 2009-17.
- Finding No. 2008-16 - Not corrected. See corrective action plan to Finding No. 2009-19.

#### **FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

- Finding No. 2008-17 - Not corrected. See corrective action plan to Finding No. 2009-53.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT, CONTINUED**

- Finding No. 2008-18 - Corrective action was taken.
- Finding No. 2008-19 - Not corrected. See corrective action plan to Finding No. 2009-29.
- Finding No. 2008-20 - Corrective action was taken.
- Finding No. 2008-21 - Not corrected. See corrective action plan to Finding No. 2009-30.
- Finding No. 2008-22 - Corrective action was taken.
- Finding No. 2008-23 - Corrective action was taken.
- Finding No. 2008-24 - Not corrected. See corrective action plan to Finding No. 2009-47.
- Finding No. 2008-25 - Not corrected. See corrective action plan to Finding No. 2009-47.
- Finding No. 2008-26 - Not corrected. See corrective action plan to Finding No. 2009-31.
- Finding No. 2008-27 - Corrective action was taken.
- Finding No. 2008-28 - Not corrected. See corrective action plan to Finding No. 2009-48.
- Finding No. 2008-29 - Not corrected. See corrective action plan to Finding No. 2009-33.
- Finding No. 2008-30 - Not corrected. See corrective action plan to Finding No. 2009-34.
- Finding No. 2008-31 - Not corrected. See corrective action plan to Finding No. 2009-26.
- Finding No. 2008-32 - Corrective action was taken.
- Finding No. 2008-33 - Not corrected. See corrective action plan to Finding No. 2009-36.
- Finding No. 2008-34 - Not corrected. See corrective action plan to Finding No. 2009-37.
- Finding No. 2008-35 - Not corrected. See corrective action plan to Finding No. 2009-38.
- Finding No. 2008-36 - Not corrected. See corrective action plan to Finding No. 2009-39.
- Finding No. 2008-37 - Not corrected. See corrective action plan to Finding No. 2009-45.
- Finding No. 2008-38 - Not corrected. See corrective action plan to Finding No. 2009-56.
- Finding No. 2008-39 - Corrective action was taken.
- Finding No. 2008-40 - Not corrected. See corrective action plan to Finding No. 2009-20.
- Finding No. 2008-41 - Corrective action was taken.
- Finding No. 2008-42 - Corrective action was taken.
- Finding No. 2008-43 - Corrective action was taken.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT, CONTINUED**

- Finding No. 2008-44 - Not corrected. See corrective action plan to Finding No. 2009-21.
- Finding No. 2008-45 - Not corrected. See corrective action plan to Finding No. 2009-25.
- Finding No. 2008-46 - Not corrected. See corrective action plan to Finding No. 2009-44.
- Finding No. 2008-47 - Not corrected. See corrective action plan to Finding No. 2009-54.
- Finding No. 2008-48 - Corrective action was taken.
- Finding No. 2008-49 - Not corrected. See corrective action plan to Finding No. 2009-22.
- Finding No. 2008-50 - Not corrected. See corrective action plan to Finding No. 2009-40.
- Finding No. 2008-51 - Not corrected. See corrective action plan to Finding No. 2009-27.
- Finding No. 2008-52 - Not corrected. See corrective action plan to Finding No. 2009-41.
- Finding No. 2008-53 - Not corrected. See corrective action plan to Finding No. 2009-46.
- Finding No. 2008-54 - Not corrected. See corrective action plan to Finding No. 2009-50.
- Finding No. 2008-55 - Corrective action was taken.
- Finding No. 2008-56 - Not corrected. See corrective action plan to Finding No. 2009-28.
- Finding No. 2008-57 - Not corrected. See corrective action plan to Finding No. 2009-51.