

June 23, 2010

Mr. Robert A. Schrack  
Secretary of Finance  
Department of Finance  
Commonwealth of the Northern Mariana Islands:

In planning and performing our audit of 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 (on which we have issued our report dated June 23, 2010) and 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, 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, we considered the CNMI's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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 was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the CNMI's internal control over financial reporting and other matters as of September 30, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Honorable Benigno R. Fitial, also dated June 23, 2010, on our consideration of the CNMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management of the CNMI and the Office of the Public Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of the CNMI for their cooperation and assistance during the course of this engagement.

Very truly yours,

*Deloitte & Touche LLC*

**SECTION I - CONTROL DEFICIENCIES**

We identified, and have included below, control deficiencies involving the CNMI's internal control over financial reporting as of September 30, 2009.

(1) Revenue/Receipts

During tests of cash receipts of the Division of Revenue and Taxation, the following exceptions were noted:

- a. Three transactions (Ref. 12/05/08, 12/11/08 and 12/12/08) from location 201 were not uploaded into the JD Edwards system. This condition has been corrected at year end as book reconciling items in the 09/30/09 bank reconciliations.
- b. For one transaction (Ref. receipt #2052476), the related tax return was not filed by the taxpayer and remains pending to-date.
- c. For two transactions (Ref. 04/30/09 batch 4270 and 04/30/09 batch 4268), the collections indicated in the Cashier Deposit Reconciliation Summary Report (CDRSR) did not match the amounts on the deposit slips. The difference, however, is not material to the financial statements.

We recommend the Division of Treasury strengthen controls over uploading of collections. Further, we recommend the Division of Revenue and Taxation ensure that all tax returns are properly filed and maintained. These matters were discussed in our previous letters dated June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006 and March 1, 2006.

(2) Revenue/Receipts

During tests of Commonwealth Health Center (CHC) cash receipts, we noted the following:

- a. One collection (Ref. receipt #2062637, dated 11/02/08) was lower by \$202 than final fees billed due to the lack of adequate procedures to timely settle final billings.
- b. One transaction (Ref. receipt #2113861, dated 02/12/09) differs from the amount billed and the amount collected by \$19. The variance was not reconciled by CHC in a timely manner.
- c. Two transactions (Ref. receipt #2122367, dated 03/02/09 and receipt #2148532, dated 04/17/09) represent partial collection. As of September 30, 2009, CHC was unable to provide support that efforts were made to collect the remaining balance.
- d. Cafeteria sales on 02/12/09 were recorded in the general ledger on 03/21/09 and deposited on 02/27/09.
- e. Two transactions (dated 04/17/09 and 09/22/09) indicated some voided receipts due to double entries. Voided receipts, however, were not attached to the cash reports.
- f. Three transactions (dated 02/12/09, 08/16/09 and 09/22/09) were deposited after more than three business days from collection date.
- g. For one transaction (dated 05/06/09), the validated deposit slip was not provided.

We recommend CHC investigate billing and collection variances on a timely manner. Further, we recommend CHC ensure that collections are deposited on a timely basis. We also recommend CHC ensure that long outstanding billings are followed up.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(3) Revenue/Receipts

a. During tests of cash receipts, the following were noted:

- i. The Cashier Deposit Reconciliation Summary Report (CDRSR) for the following did not indicate evidence of review or verification by a supervisor or personnel independent of the cashiering function:

<u>Location Number</u>	<u>Transaction Dates</u>	
1	08/25/09	
2	10/07/08	11/25/08

We recommend that all CDRSRs be examined by a supervisor or by Treasury personnel independent of the cashiering function. This matter was discussed in our previous letters dated June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

b. During tests of Special Revenue Funds cash receipts/revenues, the following were noted:

- i. The CDRSR for the following did not indicate evidence of review or verification by a supervisor or personnel independent of the cashiering function:

<u>Location Number</u>	<u>Transaction Dates</u>			
2	10/03/08	10/15/08	10/24/08	11/05/08
	11/17/08	11/26/08	12/09/08	12/18/08
	12/30/08	01/21/09	01/30/09	03/12/09
	04/14/09	04/23/09	06/03/09	06/23/09
	07/14/09	10/22/08	02/25/09	

- ii. The following CDRSR were not initialed by the cashier or by the reviewer.

<u>Location Number</u>	<u>Transaction Dates</u>			
2	01/09/09	02/10/09	02/20/09	03/03/09
	03/23/09	04/02/09	05/04/09	05/13/09
	05/22/09	06/12/09	07/02/09	07/23/09
	08/03/09	08/12/09	08/21/09	09/01/09
	09/11/09	09/22/09	06/24/09	02/02/09
	06/02/09	09/28/09		

- iii. We noted instances in which total cash and check collections per CDRSR did not agree to the amount deposited. In most instances, the variances were not documented or accounted for. Also, the revenue postings to the general ledger were not timely corrected or adjusted for the shortages or overages. Details are as follows:

<u>Location</u>	<u>Transaction Date</u>	<u>Overage (Shortage)</u>
2	01/09/09	\$ 350
2	02/10/09	\$ (2)
2	03/23/09	\$ 50
2	04/14/09	\$ 1
4	09/16/09	\$ (15)

**SECTION I - CONTROL DEFICIENCIES, CONTINUED**

(3) Revenue/Receipts, Continued

We recommend that cash overages and shortages be investigated and addressed in a timely manner. Additionally, cash overages and shortages should be documented with corrective actions. Further, we recommend that cashier errors be reviewed and timely acted upon. This matter was discussed in our previous letter dated June 15, 2009.

- iv. We noted instances in which collections were not uploaded to the general ledger. This condition was corrected at year end during bank reconciliation procedures. Details are as follows:

<u>Location</u>	<u>Transaction Date</u>	<u>Total Collections</u>
2	11/05/08	\$ 27,143

We recommend that collections are recorded to the general ledger on a timely manner.

(4) Revenue/Receipts

During tests of game of chance revenues (fund 1010; account #41620), the general ledger balance at September 30, 2009 is lower by \$108,000 than the balance per audit expectation. The variance is due to an uncorrected \$54,000 double entry payment and \$162,000 not being uploaded to the general ledger at transaction date. This condition was corrected at year end as a result of bank reconciliation procedures. We recommend that cash receipts are recorded in the period in which they are received.

(5) Purchases/Disbursements

During tests of purchases/disbursements, the following items related to prior year:

<u>Business Unit</u>	<u>Account</u>	<u>Document Ref. #</u>	<u>Amount</u>
1120	62060	521940	\$ 1,210
1690	62060	540865	\$ 3,039
1275	62080	520963	\$ 592
1170	62300	515493	\$ 500
1979	62500	529235	\$ 18,676
1976	62660	514880	\$ 76
4637	64300	768590	\$ 8,434
4633	64300	792786	\$ 119,067
3735	64430	767690	\$ 3,296
3747E	64430	764680	\$ 4,950
T5205K	64670	771212	\$ 30,768
5147	64300	784072	\$ 3,500
5500	64300	784072	\$ 17,741
E9126F	62760	783449	\$ 12,065
J6540C	63040	763207	\$ 500
3379A	64430	770363	\$ 19,148
1950A	62500	763195	\$ 525
3380A	63040	764489	\$ 960
2082	63050	762454	\$ 3,567

The above amounts were not considered material to the financial statements. We recommend that the CNMI Department of Finance ensure that expenditures are recorded in the correct fiscal year. This matter was discussed in our previous letter dated June 15, 2009.

**SECTION I - CONTROL DEFICIENCIES, CONTINUED**

(6) Receivables

As of September 30, 2009, CHC receivables from the Worker's Compensation Commission (WCC) of \$114,974 did not agree to the balance confirmed by WCC of \$-0-. A reconciliation of the difference was not available. The difference was not considered material to the financial statements. We recommend CHC perform regular receivable reconciliations. This matter was discussed in our previous letters dated June 15, 2009 and June 27, 2008.

(7) Payables

At September 30, 2009, the general ledger balances for the following payables were not reconciled to the subsidiary ledger:

<u>Fund</u>	<u>Object Acct. #</u>	<u>Per GL</u>	<u>Per SL</u>	<u>Variance</u>
1010	20100	\$ 150,250,856	\$ 150,424,650	\$ (173,794)
1012	20100	\$ 1,231,133	\$ 1,156,330	\$ 74,803
6062	20100	\$ 1,425	\$ -	\$ 1,425
7400	20100	\$ 54,973	\$ 53,386	\$ 1,587
2020	20100	\$ 2,316,497	\$ 2,604,723	\$ (288,226)

The differences are not material to the financial statements. We recommend that periodic reconciliation of general and subsidiary ledger payable balances be performed.

(8) Payables

Of \$9,608,275 in the payable subsidiary ledger, \$1,215,109 represents payables that have been outstanding for more than three years. Details are as follows:

<u>Fund</u>	<u>Voucher Balance Per Subsidiary Ledger (Excluding Debit Balances)</u>	<u>Outstanding for More Than Three Years</u>
General	\$ 4,435,810	\$ 887,058
Federal Grants	2,634,785	38,511
DOI Capital Projects	1,310,602	31,230
Special Revenues - Nonmajor	425,813	11,119
Capital Projects - Nonmajor	<u>801,265</u>	<u>247,191</u>
	<u>\$ 9,608,275</u>	<u>\$ 1,215,109</u>

We recommend the CNMI investigate long outstanding payables and ensure that they are valid. This matter was discussed in our previous letter dated June 15, 2009.

(9) Security Deposits

At September 30, 2009, approximately \$2,078,661 was held by the CNMI representing monies received for bail, restitution, child support and other related funds received in a fiduciary capacity. The Division of Treasury is not a signatory to the related bank accounts. This condition could result in unrecorded bank accounts. Further, related cash transactions throughout the fiscal year were not recorded in the JDE. The year end balances of these cash accounts are adjusted only at year end through proposed audit adjustments. We recommend that all bank accounts be established through the Division of Treasury unless legislation requires otherwise. Further, we recommend the Department of Finance coordinate with the Superior Court in recording related cash transactions into the JDE. This matter was discussed in our previous letters dated June 15, 2009, June 27, 2008, June 18, 2007 and June 16, 2006.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

(10) Compensated Absences

Of sixteen accrued leave balances tested, the following were noted:

- a. Variances exist between amounts accrued and expectations due to leave transactions for PPE 09/26/09 not considered in determining accrued leave:

<u>Employee No.</u>	<u>Per Expectation</u>	<u>Per Subledger</u>	<u>Variance</u>
100198	\$ 5,252	\$ 5,149	\$ 103
101287	\$ 10,288	\$ 10,096	\$ 192
101684	\$ 2,659	\$ 2,548	\$ 111
102744	\$ 5,429	\$ 5,318	\$ 111
103203	\$ 4,332	\$ 4,625	\$ 293
159752	\$ 3,976	\$ 3,925	\$ 51
171681	\$ 3,706	\$ 3,606	\$ 100
310916	\$ 21,581	\$ 21,061	\$ 520
402142	\$ 700	\$ 638	\$ 62
418316	\$ 4,953	\$ 4,878	\$ 75
517641	\$ 2,123	\$ 1,932	\$ 191
591730	\$ 12,385	\$ 10,944	\$ 1,441

- b. Approved annual leave forms were not provided for the following:

<u>Employee No.</u>	<u>Pay Period Ended</u>	<u>Leave Taken with No Approved Leave Forms (in hours)</u>
102744	05/23/09	16
310916	08/29/09	6
517641	04/25/09	16

- c. For one employee (employee # 591730), manual adjustments in earned leave of 24 hours was not updated in the subsidiary ledger.
- d. Accrued leave exists for the following employees who were already separated, retired or resigned at September 30, 2009:

<u>Employee No.</u>	<u>Accrued Leave at 09/30/09</u>
100748	\$ 1,246
102439	\$ 29,330
232348	\$ 5,106

During tests of accrued leave debit balances of \$131,963 as of September 30, 2009, one \$6,808 item (employee #1 02642) was for an employee who retired effective December 9, 2005. The amount was not considered material to the financial statements.

We recommend that annual leave hours taken are supported by approved leave forms. Further, we recommend the CNMI perform periodic reviews of accrued leave balances. These matters were discussed in our previous letters dated June 15, 2009, June 27, 2008 and June 18, 2007.

**SECTION I - CONTROL DEFICIENCIES, CONTINUED**

(11) Encumbrances - Capital Projects Fund

Our tests of Capital Project Funds encumbrances noted the following:

- a. Of twenty-three Capital Project funds encumbrances tested aggregating \$13,600,635, the following exceptions were noted:

1. The obligating/encumbering documents for the item below were not located:

<u>Fund/Business Unit</u>	<u>Obligating Document Number</u>	<u>Encumbrance Amount</u>
4042.4633	390-OS	\$ 39,430

2. Variances detailed hereunder exist between amounts encumbered and expectations. The variances occurred either due to untimely updating of encumbrances for actual expenditures or due to fiscal year 2009 expenditures not being accrued at year end.

<u>Fund/Business Unit/Account #</u>	<u>Obligating Document Number</u>	<u>Encumbrance Per General Ledger</u>	<u>Encumbrance Per Expectation</u>	<u>Variance</u>	<u>Document Reference</u>
4042. 4637. 64300	469-OS	\$ 345,065	\$ 169,008	\$ 176,057	817259
4043. T3205G. 64670	503660-OC	1,339,640	1,333,213	6,427	819581
4043. T4205D. 62060	498955-OC	373,400	341,052	32,348	820854
4043. T5205I. 62060	504887-OC	506,683	472,885	33,798	819583
4043. T5205K. 64670	487609-OC	630,889	402,329	228,560	819158
4041. 4197. 64580	495-OS	42,990	-	42,990	817436
4043. T3205G. 62060	498959-OC	167,186	154,303	12,883	819580
4043. T5205H. 62060	504677-OC	<u>57,870</u>	<u>-</u>	<u>57,870</u>	818957
		\$ <u>3,463,723</u>	\$ <u>2,872,790</u>	\$ <u>590,933</u>	

The \$590,933 variance was corrected through a proposed audit adjustment.

3. The following Capital Projects Funds encumbrances have been outstanding or did not indicate any activity for more than five years. Details are as follows:

<u>Fund</u>	<u>Business Unit</u>	<u>Obligating Document Number</u>	<u>Encumbrance Amount</u>
4043	T85164	333747-OC	\$ 669,480
4043	T85164	333747-OC	\$ 210,227
4043	T02051	33-OS	\$ 6,038
4043	T2205K	384927-OC	\$ 49,483
4046	5643	70356-OS	\$ 24,389

- b. An aging of the reserve for encumbrances by fiscal year indicates encumbrances of \$1,076,695 have been outstanding for five years or more.

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 be examined to ensure validity. These matters were discussed in our previous letters dated June 15, 2009 and June 27, 2008.

**SECTION I - CONTROL DEFICIENCIES, CONTINUED**

(12) Encumbrances - Special Revenue Fund

Of eight Special Revenue Fund encumbrances tested aggregating \$475,834, the following exceptions were noted:

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

<u>Fund</u>	<u>Obligating Document Number</u>	<u>Encumbrance Amount</u>
2043.3391B	509374-OM	\$ 251,754

- b. The following variance between the amount encumbered and our expectation is due to cancellation of the encumbrance subsequent to year-end and this was corrected through a proposed audit reclassification:

<u>Fund/Business Unit/General Ledger Account</u>	<u>Obligating Document Number</u>	<u>Encumbrance Per General Ledger</u>	<u>Encumbrance Per Expectation</u>	<u>Variance</u>
2043.3391B.64610	509374-OM	\$ 251,754	\$ -	\$ 251,754
2080.2082.62470	457855-OC	\$ 35,138	\$ -	\$ 35,138

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 encumbrance cancellations/deletions. This matter was discussed in our previous letter dated June 15, 2009.

(13) Fund 1016 - Department of Public Land (DPL) Balances

DPL is a special revenue fund of the CNMI. DPL transactions throughout the fiscal year relating to cash receipts and disbursements, receivables, revenues and other liabilities were not recorded in the JDE. The balances of the affected accounts are adjusted only at year-end through proposed audit adjustments. We recommend the Department of Finance coordinate with the DPL in recording all DPL transactions into the JDE.

(14) Recording of Transactions

The CNMI did not record related transactions throughout the fiscal year for the following funds:

<u>Fund #</u>	<u>Fund Name</u>
3210	Debt Service
7062	Tinian Land Condemnation
7066	Security Deposit
9090	General Long-Term Debt
9091	Capital Assets

September 30, 2009 balances were corrected through proposed audit adjustments. We recommend the Department of Finance establish policies and procedures for the timely recording of transactions related to the above funds.

**SECTION I - CONTROL DEFICIENCIES, CONTINUED**

(15) Computer Processing Environment

During our understanding of the entity's computer processing environment, the following were noted:

- a. There is no segregation of duties between the test and production environment. Programmers have access to modify code or production data directly in the production environment for financial applications. Also, programmers have access to migrate their own changes into the production environment. Further, EDP programmers have super level access to the application system. We recommend that segregation of duties be maintained if programmers work in the test environment only and the migration of modified code to the production environment is performed by EDP personnel other than programmers. If segregation of duties cannot be maintained due to resource constraints, we recommend that CNMI EDP Department consider limiting programmer access rights in the production environment. The EDP manager and/or division heads should closely monitor what the programmers performed in the production environment (e.g. review the audit trails of JDE on a regular basis). The version control should also be established to prevent unauthorized changes.
- b. There is no documentation of network modifications. We recommend that all significant network modifications (e.g. changes of network settings, update of network software, installation of new network components) be documented in change forms before the modifications are implemented. The forms should be approved by EDP management and/or division management.

These matters were discussed in our previous letter dated June 15, 2009.

**SECTION II - OTHER MATTERS**

We identified, and have included below, other matters involving the CNMI's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

(1) Revenue/Receipts

During walkthrough of the cash receipts/revenue transactions for one Division of Customs (transaction for 11/03/08) collection, the supporting Declaration of Entry (DOE) forms for two of five DOE collections were not provided. We were unable to verify if the DOE forms were reviewed by an officer from the Division of Customs. We recommend that the Division of Customs ensure that daily cash reports and relevant customs documents are filed and maintained. This matter was discussed in our previous letter dated June 15, 2009.

(2) Purchases/Disbursements - Bank Charges

During tests of account 62240 (bank charges), the Division of Treasury was unable to provide an explanation for \$14,049 of bank charges dated 04/20/09 in the credit card bank account. Further, the charges had not been investigated by the Division of Treasury on a timely basis. We recommend that bank charges be timely reviewed and verified for validity.

**SECTION II - OTHER MATTERS, CONTINUED**

(3) Purchases/Disbursements - Inventory Issuance

During tests of purchases/disbursements, we noted incorrect recording of inventory issuance for one transaction. Instead of 382 units, CHC Materials Management recorded it as 832 units resulting in an \$8,150 overstatement. Details follow:

<u>Fund</u>	<u>General Ledger Date</u>	<u>Document Reference #</u>	<u>GL Amount</u>
1012	06/09/09	3031 IA	\$ (15,068)

We recommend that the CHC Materials Management ensure that inventory issuances are recorded properly.

(4) Purchases/Disbursements

During tests of nonpayroll expenditures, the supporting accounts payable voucher, invoice and relevant documents for the following were not made available:

<u>Reference No.</u>	<u>General Ledger Date</u>	<u>Amount</u>
761845 PV	10/07/08	\$ 988
775920 PV	02/24/09	\$ 1,070
765649 PV	10/31/08	\$ 631
811148 PV	09/02/09	\$ 865

We recommend that all expenditures recorded in the general ledger are properly supported by certified accounts payable vouchers, invoices and other relevant documents. Further, we recommend the Department of Finance ensure that all accounts payable vouchers are properly filed and maintained.

(5) Payroll

Our walkthrough of the payroll and personnel flow of transactions noted the following for one employee selected (employee #100882):

- a. Employee authorization for the following allotments/deductions for pay period ended 07/18/09 were not provided:

<u>Allotment Reference</u>	<u>Amount</u>
3200	\$ 21
3270	8
3335	222
3400	118
3528	<u>33</u>
	\$ <u>402</u>

We recommend that the Department of Finance ensure that all relevant payroll documents and reports should be filed and maintained. This matter was discussed in our previous letter dated June 15, 2009.

**SECTION II - OTHER MATTERS, CONTINUED**

(6) Payroll - General Fund

Of sixty-seven general fund payroll items tested, we noted the following:

- a. Approved personnel action forms for the following employees were not available:

<u>Pay Period Ended</u>	<u>Employee Number</u>
09/26/09	101818
10/11/08	339350
04/25/09	103233

- b. The payroll distribution or equivalent report supporting the following general ledger postings were not provided:

<u>Object Account #</u>	<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Per General Ledger</u>
61090	1062	08/31/09	\$ 424
61100	1283	08/31/09	\$ 577

We recommend that the Department of Finance ensure that relevant payroll documents and reports are filed and maintained. Further, we recommend the Payroll Division investigate differences between general ledger and payroll distribution reports. This matter was discussed in our previous letters dated June 15, 2009 and June 27, 2008.

(7) Payroll - Federal Grants Fund

Of seventeen federal grants fund payroll items tested, we noted the following:

- a. Variances were noted between the general ledger and payroll distribution report for the following for which no reconciliation was provided:

<u>Object Account #</u>	<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Per General Ledger</u>	<u>Per Payroll Distribution Report</u>	<u>Variance</u>
61090	A8664H	12/20/08	\$ 644	\$ -	\$ 644
61100	C9419D	01/31/09	\$ 1,734	\$ 861	\$ 873
61100	H8150B	02/28/09	\$ 240	\$ 216	\$ 24
61100	H8994B	03/28/09	\$ 3,744	\$ 3,652	\$ 92
61100	I96110	06/06/09	\$ 5,430	\$ 4,804	\$ 626

The variances are not material to the financial statements. We recommend the Department of Finance Payroll Division investigate differences between general ledger and payroll distribution reports.

(8) Payroll - Special Revenue Funds

Of seventeen Special Revenue Fund payroll items tested, variances were noted between the general ledger and the payroll distribution report for the following and no reconciliation was provided:

SECTION II - OTHER MATTERS, CONTINUED

(8) Payroll - Special Revenue Funds, Continued

<u>Object Account #</u>	<u>Business Unit</u>	<u>General Ledger Date</u>	<u>Per General Ledger</u>	<u>Per Payroll Distribution Report</u>	<u>Variance</u>
61090	1950	11/22/08	\$ 16,315	\$ 15,343	\$ 972
61090	1950	02/28/09	\$ 16,166	\$ 15,160	\$ 1,006
61090	1950	06/06/09	\$ 16,815	\$ 16,704	\$ 111
61090	1950	09/12/09	\$ 17,495	\$ 17,793	\$ (298)
61100	1950	11/08/08	\$ 32,316	\$ 33,288	\$ (972)
61100	1950	01/03/09	\$ 29,064	\$ 29,998	\$ (934)
61100	1950	02/14/09	\$ 38,463	\$ 39,543	\$ (1,080)
61100	1950	03/28/09	\$ 33,843	\$ 33,550	\$ 293
61100	1950	05/23/09	\$ 37,604	\$ 37,727	\$ (123)
61100	1950	07/04/09	\$ 33,115	\$ 33,174	\$ (59)
61100	1950	08/29/09	\$ 36,791	\$ 36,915	\$ (124)
61100	3042D	09/26/09	\$ 5,342	\$ 4,552	\$ 790

The variances are not material to the financial statements. We recommend the Department of Finance Payroll Division investigate differences between general ledger and payroll distribution reports.

(9) Accounts Receivable

At September 30, 2009, the General Fund recorded the following accounts receivable that indicated little or no movement from the prior year:

<u>Account No.</u>	<u>Description</u>	<u>Amount</u>
12020.1010	General Account Receivables	\$ 140,699
12022.1010	AGO/Dept. of Labor W/SL	500
12030.1010	A/R Travel Agents	37,364
12110.1010	A/R Vendor Overpayments	22,371
12111.1010	A/R Vendor Overpayments W/ SL	40,641
12150.1010	A/R Funeral Services	52,416
12350.1010	A/R Medical Referral Patients	(1,400)
12360.1010	Government Health Insurance Advances	24,943
12490.1010	Allow for Uncoll - Intra Gov	59,139
12510.1010	Employee Accts Receivable	<u>(1,887)</u>
		\$ <u>374,786</u>

In addition, the General Fund also recorded advances (A/c # 12100.1010) of \$31,621 at September 30, 2009 that have not changed since the prior year. An allowance for doubtful accounts of \$282,952 was recorded in the General Fund to provide for these accounts. Although the difference of \$123,455 is not material to warrant a proposed audit adjustment, we recommend that the Department of Finance review these accounts to determine their collectability. This matter was discussed in our previous letters dated June 15, 2009 and June 27, 2008.

(10) Receivables

As of September 30, 2009, the General Fund has a fully allowed outstanding receivable from the Tinian Casino Gaming Control Commission (TCGCC) (A/c # 12340-1010, totaling \$3,103,610). This balance should have been paid in full during fiscal year 2001 in accordance with a Memorandum of Agreement between the Office of the Governor and TCGCC. We recommend the Department of Finance ensure that receivables are collected in accordance with established repayment plans. This matter was discussed in our previous letters dated June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005 and in our previous reports on the internal control over financial reporting dated October 14, 2003 and August 13, 2002.

**SECTION II - OTHER MATTERS, CONTINUED**

(11) Receivables

Tests of receivables noted credit card error receivables (GL 1010.12028) of \$594,175 pertaining to remaining credit card collections not credited to the CNMI's bank account for fiscal year 2007 collections. This condition was due to a bank system upgrade. While CNMI's daily closing of cash machines indicated online connectivity and gives authorization codes for cards swiped and provides settlement summaries, some transactions were not properly processed by the bank. The total discrepancy identified by the CNMI is \$2,306,975 of which \$1,712,800 was resolved in fiscal year 2007. At September 30, 2009, the receivable is fully allowed for. We recommend that the CNMI continue its efforts to resolve the remaining discrepancy of \$594,175. This matter was discussed in our previous letter dated June 15, 2009.

(12) Inventory

In fiscal year 2002, ServMart suspended its operations. Inventory of \$154,233, representing old and expired items, remains in the general ledger at September 30, 2009. We recommend the Division of Procurement and Supply take action to dispose of these items and adjust the general ledger. This matter was discussed in our previous letters dated June 15, 2009, June 27, 2008, June 18, 2007 and June 16, 2006.

(13) Inventory

Of three CHC inventory items price tested, invoices and relevant supporting documents for one item (Ref. location BG2AC index 030147) were not available. Further, we were advised that these items are old and non-moving inventory. We recommend CHC ensure that all invoices/supporting documents be properly filed and maintained. Further, we recommend the Management Supply Office take action to identify and account for all old and non-moving inventory items. This matter was discussed in our previous letter dated June 15, 2009.

(14) Payables

At September 30, 2009, the general fund payable subsidiary ledger includes invalid debit items aggregating \$4,021,177. While the fiscal year 2009 general ledger had been adjusted, the debit items have not been deleted from the subsidiary ledger. We recommend the CNMI ensure that invalid debit items are deleted from the payable subsidiary ledger. This matter was discussed in our previous letter dated June 15, 2009.

(15) CNMI Local Noncompliance

Pursuant to Public Law (PL) No. 13-42, Section 3, the Solid Waste Management Revolving Account (SWMRA), the Commonwealth Treasury should establish and maintain a SWMRA which shall be accounted for separately from the General Fund. As of September 30, 2009, the SWMRA Fund was not established. We have been advised that such a fund has not been established due to the timeframe in which revenues are received and disbursements are processed. We recommend the Department of Finance ensure that funds relating to the SWMRA are separately accounted for as required by PL 13-42. This matter was discussed in our previous letters dated June 15, 2009, June 27, 2008, June 18, 2007, June 16, 2006, March 1, 2006 and May 23, 2005.

**SECTION II - OTHER MATTERS, CONTINUED**

(16) CNMI Local Noncompliance

Public Law 12-61 requires that all deposits of public funds be 100% collateralized by U.S. Government securities. As of September 30, 2009, compliance with the collateralization requirement for deposits with one bank of \$823,672 was unable to be verified. We recommend the Department of Finance ensure that sufficient documentation is obtained and is periodically updated to demonstrate compliance with Public Law 12-61 requirements. This matter was discussed in our previous letters dated June 15, 2009, June 27, 2008, June 18, 2007 and June 16, 2006.

**SECTION III - DEFINITIONS**

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *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 and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

**MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

**Management's Responsibility**

The CNMI's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

**Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

**Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.